

CARIBBEAN DEVELOPMENT BANK

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COUNTRY STRATEGY PAPER 2012-15

MONTSERRAT

The attached Country Strategy Paper (CSP) outlines the assistance strategy of the Caribbean Development Bank (CDB) for Montserrat over the period 2012-15. In shaping the CSP, discussions were convened with key country officials, as well as principal development partners, in an effort to sharpen focus, avoid duplication and strengthen synergistic relationships.

2. The support programme rests on two broad outcome areas that are in concert with CDB's own priorities. These are: facilitating sustained economic growth and development effectiveness; and increasing resilience and reducing vulnerabilities. The strategy will help the Government of Montserrat to deliver a range of outcomes including: strengthening human capital; improving livelihoods in at-risk communities; broadening economic opportunities; and safeguarding development gains through improved disaster risk management practices. Gender will be a cross-cutting theme in the strategy. The CSP, therefore, reflects carefully considered interventions in critical sectors which offer significant poverty reducing or income generating potential.

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CARIBBEAN DEVELOPMENT BANK

**COUNTRY STRATEGY PAPER 2012-15
MONTSERRAT**

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Considered at the Two Hundred and Fifty-Second Meeting of the Board of Directors on July 18, 2012.

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CURRENCY EQUIVALENT

Dollars (\$) throughout refer to Eastern Caribbean dollars (XCD) unless otherwise stated.

XCD1.00 = USD0.37

USD1.00 = XCD2.70

ABBREVIATIONS

ANT	-	Antigua and Barbuda
BMCs	-	Borrowing Member Countries
BNTF	-	Basic Needs Trust Fund
BOML	-	Bank of Montserrat Limited
CARTAC	-	Caribbean Regional Technical Assistance Centre
CBO	-	Community-based Organisation
CDB	-	Caribbean Development Bank
CG	-	Central Government
CPA	-	Country Poverty Assessment
CSP	-	Country Strategy Paper
CSEC	-	Caribbean Secondary Education Certificate
CTCS	-	Caribbean Technological Consultancy Services
°C	-	degrees Celsius
DfID	-	Department for International Development
DMCA	-	Disaster Management Coordination Agency
DRM	-	Disaster Risk Management
EC	-	European Commission
ECCB	-	Eastern Caribbean Central Bank
ECCU	-	Eastern Caribbean Currency Union
ECD	-	Early Childhood Development
EDF	-	European Development Fund
EOV	-	Evaluation and Oversight Division
EU	-	European Union
FDI	-	Foreign Direct Investment
FSI	-	Financial Soundness Indicators
FY	-	Fiscal Year
GDP	-	Gross Domestic Product
GOM	-	Government of Montserrat
HD	-	Human Development
HRD	-	Human Resource Development
HLS	-	Hazard Level System
ICT	-	Information and Communication Technology
IDB	-	Inter-American Development Bank
IMF	-	International Monetary Fund
km	-	kilometres
MCC	-	Montserrat Community College
MDC	-	Montserrat Development Corporation
MDGs	-	Millennium Development Goals
M&E	-	Monitoring and Evaluation
MfDR	-	Managing for Development Results
MGRE	-	Multidisciplinary Group of Regional Experts
mn	-	million

MOE	-	Ministry of Education
MSME	-	micro, small and medium-sized enterprises
MTB	-	Montserrat Tourist Board
NAC	-	National Advisory Council
NCCAP	-	National Climate Change Adaptation Policy
NGOs	-	Non-Governmental Organisations
NPLs	-	Non-Performing Loans
OECS	-	Organisation of Eastern Caribbean States
OTs	-	Overseas Territories
%	-	per cent
p.a.	-	per annum
PDP	-	Physical Development Plan
PFM	-	Public Financial Management
PIU	-	Project Implementation Unit
PPA	-	Participatory Poverty Assessment
PSD	-	Private Sector Development
PSIP	-	Public Sector Investment Programme
PRAP	-	Poverty Reduction Action Plan
RBM	-	Results-based Management
SDP	-	Sustainable Development Plan
sq. m	-	square miles
TA	-	Technical Assistance
TDD	-	Terminal Disbursement Date
TIPA	-	Trade and Investment Promotion Agency
UK	-	United Kingdom
USD	-	United States dollars
UWI	-	University of the West Indies

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FIGURE 1

MAP OF MONTSERRAT

COUNTRY DATA: MONTSERRAT

Item	2007	2008	2009	2010	2011
PER CAPITA GDP (current market prices; \$)	30,558	32,135	32,288	31,056	34,011
GROSS DOMESTIC PRODUCT (GDP)					
GDP at Current Market Prices (\$mn)	147.3	156.7	162.7	155.9	167.4
Demand Components:					
Consumption Expenditure	187.5	224.0	196.8	198.7	233.9
Gross Domestic Investment	33.4	37.8	43.2	40.0	13.2
Exports of goods and non-factor services	48.1	48.5	40.6	33.1	35.5
Imports of goods and non-factors services	121.8	153.6	117.9	115.9	115.2
Gross domestic savings ratio (%)	(27.3)	(43.0)	(21.0)	(27.5)	(39.7)
Sectoral distribution of current GDP (%)					
Agriculture	0.9	1.0	1.2	1.0	1.2
Mining & Quarrying	1.3	1.2	0.9	0.2	1.0
Manufacturing	1.2	1.4	1.4	1.4	1.4
Utilities	3.0	2.9	2.8	3.0	3.0
Construction	7.1	7.5	8.2	7.9	9.9
Transport & Communication	11.0	9.6	8.6	8.1	9.0
Hotels & Restaurants	2.2	2.1	1.6	1.8	1.3
Wholesale & Retail Trade	6.6	7.8	7.6	6.1	6.1
Financial & Business Services	23.6	23.2	22.2	23.2	23.0
Government Services	41.1	41.5	44.1	45.1	42.5
Other Services	3.0	2.8	2.5	3.6	3.1
Less Imputed Service Charge	1.0	1.0	1.1	1.4	1.5
GDP at Current Factor Cost (\$mn)	132.5	139.1	145.7	140.5	150.6
GDP at constant 1990 Prices (\$mn)	131.7	135.5	136.8	129.2	134.2
Annual rate of growth in GDP (%)	4.9	2.9	1.0	(5.6)	3.9
MONEY AND PRICES (\$ mn)					
Consumer prices (av. annual % change)	2.7	4.9	2.8	2.1	...
Money supply (M1; annual % change)	12.9	(6.9)	(3.4)	(7.7)	13.9
Total domestic credit(net)	(0.1)	12.1	10.0	15.1	(5.1)
Private sector (net)	39.8	46.1	53.2	61.8	68.4
Public sector (net)	(40.6)	(34.1)	(43.2)	(46.7)	(73.5)
Non-bank financial institutions (net)	0.7	0.1	0.0	0.0	0.0
Estimated Tourism Expenditure (USD mn)	7.4	7.0	6.1	5.9	6.0
CENTRAL GOVERNMENT FINANCES (\$ mn)					
Current Revenues	35.8	40.2	40.1	38.6	41.2
Current Grants	58.0	56.7	60.3	47.5	76.3
Current Expenditures	92.3	96.8	97.3	88.1	93.2
Current Account Surplus/ (Deficit)	1.5	0.1	3.1	(2.0)	24.3
Capital Revenue and Grants	18.0	22.0	39.9	34.4	24.2
Capital Expenditure and Net Lending	26.6	35.5	37.1	29.8	27.8
Overall Surplus/ (Deficit)	(7.1)	(13.4)	5.9	2.6	20.7
BALANCE OF PAYMENTS (USD mn)					
Merchandise Exports (f.o.b)	3.1	4.1	3.2	1.0	1.8
Merchandise Imports (c.i.f)	26.1	33.5	26.1	25.8	25.9
Trade balance	(23.0)	(29.4)	(22.9)	(24.8)	(24.1)
Net Balance on services account	(4.3)	(9.5)	(5.8)	(5.8)	(5.4)
Income (net)	(3.7)	(4.4)	(3.6)	(3.8)	(3.6)
Transfers (net)	20.6	23.7	19.5	14.7	17.2
Current Account Balance	(10.4)	(19.6)	(12.8)	(19.7)	(15.9)
TOTAL PUBLIC DEBT (USD mn)					
Total public debt	4.2	4.1	3.5	3.3	2.8
Domestic debt outstanding	0.6	0.7	0.2	0.2	...
Long term	...	...	...	...	...
Short term	...	...	...	...	...
External debt outstanding	3.6	3.4	3.3	3.1	2.8
Debt Service	0.3	0.3	0.2	0.0	...
Amortisation	0.2	0.2	0.1	0.0	...
Interest Payments	0.1	0.1	0.1	0.0	...
External debt service as % of exports of goods and services	0.4	0.3	0.4	0.3	...
Total debt service as % of current revenue	3.4	0.5	0.5	0.5	...
AVERAGE EXCHANGE RATE					
Dollar(s) per US dollar	2.7	2.7	2.7	2.7	2.7

Data for 2011 are provisional.

COUNTRY DATA: MONTSERRAT

	2007	2008	2009	2010	2011
POPULATION					
Mid-Year Population ('000)	4.8	4.9	5.0	5.0	4.9*
Population Growth Rate (%)	3.5	1.2	3.4	(0.4)	(2.0)
Crude Birth Rate	8.9	14.8	9.9	12.4	...
Crude Death Rate	9.1	9.2	8.7	8.0	...
Infant Mortality Rate	23.3	0.0	0.0	16.1	...
EDUCATION					
Net School Enrollment Rate (%)	...	...	...	...	...
Primary	...	...	...	...	...
Secondary	...	...	...	...	...
Pupil-Teacher Ratio	...	...	...	...	...
Primary	...	...	...	...	...
Secondary	...	...	...	...	...
	1970	1980	1991	2001	2011
INDICATORS OF HUMAN DEVELOPMENT					
HEALTH AND EDUCATION					
Life Expectancy at Birth (years)	...	71.8	70.4	77.6	...
Male	...	73.1	69.8	75.8	...
Female	...	70.7	73.4	79.7	...
Age Dependency Ratio (per 100 persons)	102	80	66	54	51
Male	48	38	32	27	26
Female	54	42	34	26	25
Human Development Index					
HOUSING AND ENVIRONMENT					
Households with piped water (%)	51.3	78.6	91.1	85.1	98.3
Households with access to flush toilets (%)	25.5	49.4	69.9	87.3	95.8
Households with electricity (%)	...	72.1	86.4	95.3	97.6
Environmental strategy or action plan (year prepared):					

Source(s): Statistics Department, MONTSERRAT

... not available

* Census population count

Data as at July 3, 2012

EXECUTIVE SUMMARY

1. Montserrat is one of five United Kingdom (UK) Overseas Territories (OTs) in the Caribbean. Ravaged by a series of volcanic eruptions since 1995, the Montserrat economy had virtually collapsed due to the destruction of much of the country's social and physical capital. Sixty per cent (%) of the island's land area has now been abandoned, while the country's population has dwindled to just under 5,000 persons, about one half of its count before the crisis. What had been a relatively prosperous society fell into relative poverty.

2. Rebuilding the economy has been slow and difficult, challenged by many unique constraints and risks, not the least of which has been the ongoing threat of living in close proximity to an active volcano. Notwithstanding the challenges, the people of Montserrat continue to show resolve and the country's progress is commendable. The Government of Montserrat (GOM), in partnership with UK, has played the lead role in the redevelopment of Montserrat, reconstructing necessary infrastructure in the habitable northern third of the island where a new commercial centre is under construction. Key road networks and a community college have been rebuilt and in 2005 a new airport was opened. GOM has also provided housing solutions, along with access to health and education, to the many dislocated, as well as social welfare services for the poor and vulnerable. Thirty-six per cent of the population was estimated, in 2009, to be living below the poverty line.

3. The county's redevelopment process has been guided since 1997 by a series of rolling medium-term Sustainable Development Plans (SDPs) geared at charting the phased recovery and transformation of the economy by 2020. The Plan is articulated around five strategic pillars: economic management; human development (HD); environmental management and disaster mitigation; governance and population. Reconstruction and recovery has been a recurring emphasis of past SDPs. Increasingly, GOM's strategic focus has broadened in pursuit of self-sustaining development. Currently, GOM is the major driver of economic activity and is heavily reliant on external aid to fund its operations. GOM is only able to raise approximately 40% of its recurrent budget. The UK Government provides budgetary aid to close Government's funding gap. Investment funding is provided on a grant basis through UK's Department for International Development (DfID). Budget support is also derived through the European Union's (EU) European Development Fund (EDF), currently in its 10th cycle.

4. Government aims to graduate from aid dependency for recurrent operations by promoting private enterprise as the main economic driver, and has devised medium-term plans and milestone targets toward attaining this outcome by 2020. National goals include, *inter alia*, the attainment of a stable and diversified economy with sustained economic growth; a well developed and effective education and training system; and equipping graduates to function effectively in the job market. Related targets include: (i) increasing the contribution of agriculture, tourism, mining and quarrying to Gross Domestic Product (GDP) by at least 100%; (ii) producing 60% of national electricity requirements from renewable resources; (iii) a population of 9,000; and (iv) reducing the population that lives below the poverty line to 6%, all by 2020. The progress to date towards achieving these outcomes has been mixed. Those related to increasing the population, tourism contribution, and reform of the public services have lagged. The current emphasis, however, remains on facilitating a viable, export-oriented economy, implementing initiatives to support the strengthening of the private sector, including the creation of an enabling business environment and the promotion of social and human well-being.

5. Montserrat's current SDP and its associated fiscal sustainability roadmap for 2010-14 is being supported by the European Commission's (EC) General Budget Support programme (an indicative amount of fifteen point six million Euros [€15.6 mn]) under its EDF 10th cycle. For its part, DfID is assisting through investments that are also well aligned with Montserrat's SDP. DfID proposes to undertake feasibility studies for geothermal energy, sand mining development, and improving access to the island, in

support of tourism development. Caribbean Development Bank's (CDB) strategy proposes to harmonise within this framework to complement EU resources, and to partner with DfID through a joint financing arrangement. CDB's strategy co-ordinates with EU's assistance strategy by supporting select policy actions in GOM's medium-term programme whose implementation will facilitate the disbursement of resources under the EU's General Budget Support programme. EU's budget support funds are expected to be provided in three instalments corresponding to fiscal years 2012/2013, 2013/2014 and 2014/2015, and are to be disbursed upon policy actions in GOM's development program in the areas of growth and private sector development; public sector reform; and public financial management. CDB's strategy for Montserrat supports the implementation of two of GOM's medium-term priority policy actions.

6. Montserrat's Country Strategy Paper (CSP), which covers the period 2012-15, is underpinned by country analysis and the assessment of past cooperation and lessons learnt. The CSP is consistent with CDB's commitment to sustainable development and addressing poverty. It identifies two broad strategic outcomes the Bank proposes to support over the next three years and follows the rationale of moving increasingly to a more results-oriented approach. The resource envelope will comprise USD2.8 mn in grants and a loan amount to be determined upon the conclusion of SDF8 negotiations. Montserrat will further benefit from participation in CDB's regional assistance programs.

7. With respect to the first outcome area ***Facilitating Sustained Economic Growth and Development Effectiveness***, the CSP proposes to assist GOM to (i) develop the physical infrastructure required to facilitate tourism and international trade through enhanced port facilities at Little Bay (jointly with DfID); (ii) develop feasible sources of renewable energy through the establishment of a regulatory framework for the energy sector; (iii) undertake an assessment of the labour market trends to better align education programmes and delivery to labour market needs; and (iv) better align SDP strategic objectives with budgeting priorities and programmes through further progress on results monitoring frameworks. Within the second outcome area ***Increasing Resilience and Reducing Vulnerabilities***, the emphasis is two-fold. CDB's operations envision assisting GOM, on the one hand, to reduce income vulnerability at the household and firm level through the Bank's Basic Needs Trust Fund (BNTF) and Caribbean Technological Consultancy Services (CTCS) initiatives to (i) enhance the productive capabilities of the poor and improve their livelihoods through initiatives that will better equip them to mitigate the risk of falling into poverty; (ii) improve access by the poor to basic community infrastructure and services; (iii) enhance human development through more effective education and training systems; and (iv) facilitate the resilience of productive micro, small and medium-sized enterprises (MSME) to diversify the economy and boost employment by supporting strengthened operational and managerial skills at the enterprise level, and generally improving business environments. The other area of emphasis focuses on strengthening the country's capacity to safeguard its limited natural resources by improving natural hazard resilience and consolidating gains in disaster risk management (DRM).

8. CDB recognises the many constraints and risks facing GOM as it seeks to rebuild a vibrant, self-sustaining economy, and the CSP is articulated within that context. Key risks include the deepening of the Eurozone crisis that could have adverse effects on the economy, capacity constraints that could impact strategy implementation, and on-going seismic activity. It is the Bank's intention to work closely with Montserrat to harmonise initiatives, and ensure that the limited available resources are utilised to have the greatest impact toward aiding the achievement of Montserrat's long-term strategic development goals.

COUNTRY STRATEGY PAPER RESULTS MATRIX

Country Development Goals	Key Sector Constraints	Country Strategy Paper Outcomes	Outcome Indicators	CSP Outputs/Indicators	Risks and Mitigation Measures
Caribbean Development Bank Strategic Objectives: Promoting Broad Based Growth and Inclusive Social Development Promoting Good Governance					
Country Strategy Paper Strategic Outcome 1: Facilitating Sustained Economic Growth and Development Effectiveness					
<ul style="list-style-type: none"> Improve the business environment. 	<ul style="list-style-type: none"> Inadequate external transport links. 	<ul style="list-style-type: none"> Increased tourism and trade activity. 	<ul style="list-style-type: none"> Increase in amount of cargo and passenger throughput at Little Bay port by December 2015. 	<ul style="list-style-type: none"> Development of new port facilities at Little Bay. <i>Commercial port and breakwater under construction by December 2013</i> 	<ul style="list-style-type: none"> Project not executed due to insufficient financial resources. Mitigated by cost-sharing arrangement
<ul style="list-style-type: none"> Develop feasible sources of renewable energy. 	<ul style="list-style-type: none"> Inadequate institutional framework for energy sector. High dependency on non-renewable energy. Uncertainty by investors in the viability of renewable energy 	<ul style="list-style-type: none"> Strengthened institutional framework to support renewable energy. 	<ul style="list-style-type: none"> Number of proposals formally submitted for renewable energy development by June 2015. 	<ul style="list-style-type: none"> Formulation of a regulatory framework for energy <i>Regulatory framework completed by December 2013</i> 	<ul style="list-style-type: none"> Ongoing /intensification of seismic activity by volcano. Unavailability of suitably qualified personnel at reasonable costs and on a timely basis to develop framework. Low/no private sector interest in the development of the geothermal resources.
<ul style="list-style-type: none"> Improve the quality of the labour force consistent with the country's development goals. 	<ul style="list-style-type: none"> Lack of labour market information. Inadequate work-force preparation for key economic sectors. Inadequate alignment of education system with labour market needs. 	<ul style="list-style-type: none"> Improved alignment of education programmes to labour market needs. 	<ul style="list-style-type: none"> Number of education programmes revised or introduced consistent with labour market needs by December 2015. 	<ul style="list-style-type: none"> Conduct of a labour market survey. <i>Labour market survey completed by March 2013.</i> 	<ul style="list-style-type: none"> Economic activity not realised to create jobs. Changes in strategic focus. Emigration of trained persons. Curriculum reforms take inordinately long time.

Country Development Goals	Key Sector Constraints	Country Strategy Paper Outcomes	Outcome Indicators	CSP Outputs/ <i>Indicators</i>	Risks and Mitigation Measures
Caribbean Development Bank Strategic Objectives: Promoting Broad Based Growth and Inclusive Social Development Promoting Environmental Sustainability and Disaster Risk Management					
Country Strategy Paper Strategic Outcome 2: Increasing Resilience and Reducing Vulnerabilities					
<ul style="list-style-type: none"> • Reduction in percentage of persons living below the poverty line. 	<ul style="list-style-type: none"> • Low educational attainment. • Low level of employment opportunities in viable economic sectors. • Low level of community participation in development activities. 	<ul style="list-style-type: none"> • Enhanced resilience of poor households. • Improved employment that contributes to improved living standards. • Increased participation of communities in decision making at the community level. • Improved effectiveness and sustainability of development interventions at the community level. 	<ul style="list-style-type: none"> • Increase in number of graduates with employable skills, by sex, by December 2016. • Increase in number of targeted community members working in viable economic sectors, by sex, by December 2016. • Increase in members' participation in functioning CBOs, by sex, by December 2016. 	<p><u>BNTF</u></p> <ul style="list-style-type: none"> • Conduct skills training activities to enhance the productive capabilities of the poor. • Support activities implemented that improve access to basic community infrastructure. • Conduct of training in participatory community development methods. • <i>Skills training programs completed by September 2015.</i> • <i>Community action plans developed by December 2014.</i> • <i>Community resource centres completed by December 2015.</i> <p><u>CTCS</u></p> <ul style="list-style-type: none"> • Conduct TAs for MSMEs. • <i>TAs completed by December 2015</i> 	<ul style="list-style-type: none"> • Limited community participation. • Limited or no behavioral change. • Low or no economic growth

Country Development Goals	Key Sector Constraints	Country Strategy Paper Outcomes	Outcome Indicators	CSP Outputs/ <i>Indicators</i>	Risks and Mitigation Measures
Caribbean Development Bank Strategic Objective: Supporting Environmental Sustainability and Disaster Risk Management					
<ul style="list-style-type: none"> • Improved disaster risk management. 	<ul style="list-style-type: none"> • Limited human, technical and financial resources. 	<ul style="list-style-type: none"> • Disaster risk management capacity improved at district/community level. 	<ul style="list-style-type: none"> • Increase in functional district/community level disaster teams by December 2014. • Increase in community DRM projects by June 2015. 	<ul style="list-style-type: none"> • Capacity strengthening of the DMCA in community level disaster risk management and support for resilience building of vulnerable groups to natural hazards at district level. • <i>Training completed by September 2014.</i> • <i>Number of DRM projects developed by January 2015.</i> 	<ul style="list-style-type: none"> • Post intervention training not applied

1. DEVELOPMENT CONTEXT: KEY ISSUES AND DEVELOPMENT CHALLENGES

Country Profile

1.01 Montserrat is small and vulnerable to shocks, including natural disasters, and climate change. A mountainous volcanic island, Montserrat has a total land area of 103 square kilometers and is located about 43 kilometers (km) southwest of the island of Antigua (ANT). The climate is tropical, (averaging between 24 and 32 degrees Celsius (°C) with a well distributed annual rainfall ranging between 1,250-2,000 millimeters. Situated within the tropical hurricane belt, precipitation tends to be slightly higher between the months of July and November.

1.02 Since 1995, Montserrat has endured catastrophic volcanic activity. Major eruptions associated with its Soufrière Hills volcano have resulted in the destruction of the country's social and physical capital unlike that witnessed with any other natural disaster within the Region in recent history. After springing to life in 1995, intermittent eruptions, accompanied by ash and mud flows literally buried the capital city, Plymouth. The island's only airport, seaport, electricity generating plant, commercial and productive activities (rice-processing, electronic assembly and hotel plant), public buildings and residential properties within its southern environs were all destroyed or abandoned. The southern two-thirds of the island, where most of the economic activity was concentrated, has been rendered uninhabitable and has been officially demarcated as a dangerous and unsafe, exclusion zone (see map). The trauma brought about by the destruction of personal property and losses to livelihoods, forced two-thirds of the island's population to flee abroad. Since then, this number has gradually increased as persons have resettled in the northern "safe zone" of the island where the main hub of economic activity is now located.



1.03 Montserrat is one of five self-governing UK OTs in the Caribbean, whose executive authority is vested in her Majesty's Government. Since 1998, GOM has received substantial financial grant-aid assistance from UK (through DfID and the EC) for supporting its recovery and rehabilitation. Guided by Government's rolling SDP,^{1/} this assistance has been channeled into restoring social and physical capital. A new commercial centre and seaport is being constructed at Little Bay, the new capital city in the north of the island, in close proximity to the new airport which was opened in 2005. Government has also provided housing and serviced lots to facilitate resettlement. Prior to the opening of the airport, access was primarily through helicopter operations by air, and ferry services by sea.

1.04 On September 27, 2011 Montserrat adopted a new constitution which: (i) reshaped its internal governance architecture to devolve new powers to GOM; and (ii) redefined fundamental rights and freedoms to reflect the European Convention on Human Rights and the International Covenant on Civil and Political Rights^{2/}. A parliamentary democracy, the country is governed by a Cabinet of four elected

^{1/} GOM has elaborated SDPs for the periods 1998-2002, 2003-07, and 2008-2020.

^{2/} Montserrat is currently bound by five UN human rights treaties: International Covenant on Civil and Political Rights (ICCPR), International Covenant on Economic, Social and Cultural Rights (ICESCR), Convention on the Rights of the

ministers led by a Governor-appointed Premier, and is presided by a British-appointed Governor. A Legislative Council, composed of nine elected ministers, and a National Advisory Council (NAC), whose membership extends to the Leader of the Opposition, constitutes other main governance arms of Montserrat. The new constitutional order established an Office of the Complaints Commission, a restructured Public Service Commission, an Integrity Commission and a National Security Council to enhance democracy and good government. General elections were last held in 2009 and brought a change in government.

1.05 Montserrat is a full member of the Caribbean Community, CARICOM, as well as the sub-regional Organisation of Eastern Caribbean States (OECS).^{3/} These member states share a single supreme court, the Eastern Caribbean Supreme Court, as well as a single monetary authority, the Eastern Caribbean Central Bank (ECCB).

Economic Context

1.06 The volcanic activity severely disrupted the Montserratian economy causing substantial declines in all sectors. The tourism sector was the main engine of growth before the volcanic crisis, contributing 30% of GDP. The sector collapsed in ensuing years having lost two vital pillars – air access and accommodation. Total GDP, at current prices, fell from \$171.6 mn in 1994 to \$101.4 mn in 1998, and by 2002 had fallen by 40.2% of its 1994 value. In the ensuing years, large public investments to reconstruct critical infrastructure have supported the reactivation of economic activity and stabilised the country's GDP. Growth between 2000 and 2010 averaged 2% per annum (p.a.) reflecting, in large measure, the implementation of Government's capital development programme. In 2011, nominal GDP had not yet returned to pre-crisis levels.

1.07 Today, the structure of the recovering economy has changed significantly from what obtained pre-1995. Montserrat's economy relies heavily on government spending. Public Administration, Defence and Compulsory Social Security, contributes the single, largest share (36%) to GDP (see Appendix 1.1). The public service also provides the single largest source of employment. Tourism (1.8% of GDP) and Agriculture (0.8% of GDP) value-added have remained low, and have shown little signs of recovery. Agriculture's contribution (primarily the production of cash crops) has fallen by around 40% since 2000 due to the relative scarcity of agricultural land in the north, and intermittent crop damage sustained due to volcanic ash falls.

1.08 Montserrat imports virtually all of its consumer and capital goods, while export businesses deal primarily in the selling and shipping of aggregate for construction. With a narrow base, Montserrat's economy is characterised by inherent structural weaknesses that are manifest in deficits on external trade and income positions. The country's overall balance of payments position has, nonetheless, remained positive due to high levels of official grant inflows.

1.09 Montserrat's per capita GDP of \$34,011 (2011) is well above the Eastern Caribbean Currency Union (ECCU) average (see Appendix 1.2) and ranks the country as an upper middle-income country. Notwithstanding the country's economic collapse following the volcanic devastation, the high per capita income reflects a peculiar characteristic of Montserrat, an extremely small population. GDP is generated, in large measure, by grant-funded, Government-led economic activity. The per capita indicator is therefore

Child(CRC), Convention against Torture (CAT) and Convention on the Elimination of Racial Discrimination (CERD). As an OT, it has not yet had the Convention on the Elimination of Discrimination against Women (CEDAW) extended to it. The European Convention on Human Rights (ECHR) also applies to Montserrat and individuals have the right to bring cases to the European Court of Human Rights where no other remedy exists in Montserrat.

^{3/} The OECS is a grouping of the Leeward and Windward Islands of: Antigua and Barbuda (ANT), The Commonwealth of Dominica (DOM), Grenada (GRN), St. Kitts and Nevis (SKN), St Lucia (STL), St. Vincent and the Grenadines (SVG), Anguilla, The British Virgin Islands (BVI) and Montserrat.

not representative of Montserrat's economic strength, progress or its development status. Neither is it a useful representation of the welfare status of the average citizen.

1.10 The focus of Government's development strategies has, in the recent past, broadened from one of recovery, to the strategic restructuring of the Montserrat economy with a view to strengthening private-sector led operations and reducing the role of Government in economic activity. The recommencement of air services with the opening of the airport and the building of docking facilities were two priority initiatives aimed at the resuscitation of tourism development, and the regeneration of private sector-led economic activities. In agriculture, efforts have focused on supporting the use of greenhouse technology, improvements to the stock of animals and greater involvement by homeowners in traditional subsistence agriculture to boost food production and productivity towards improving self-sufficiency and enhancing the food security of the nation.

1.11 Montserrat's fiscal performance (exclusive of grants) has been characterised by fiscal deficits. In spite of a small tax base, recurrent revenue yields have averaged about 26% of GDP since 2000, with import duties and income tax generating the bulk of Government's receipts. At this rate, Montserrat's revenue intake is above the average (23%) for OECS countries, but remains well below Government's large spending needs. Revenue growth has averaged 2% p.a. between 2000 and 2010, in sharp contrast with a 5.2% average annual growth of recurrent expenditure. Of the total expenditure budget (recurrent and capital), only 35% is typically financed from own resources and the balance from external sources, including DfID and EC. Total expenditure as a per cent of GDP has averaged just over 80% since 2000, with recurrent spending accounting for the larger share, outstripping revenue intake and generating sizable recurrent deficits in the order of 35% of GDP^{4/}. The overall deficit (exclusive of grants) has been higher.

1.12 UK budgetary support over the past 15 years has funded GOM's large financing needs and allowed Government to expand public expenditure at a time of crisis. Capital expenditure is based on the annual programme allocations agreed between DfID and GOM. In more recent times, at the height of the global economic crisis when most countries in the Region sharply scaled down capital spending, Montserrat was able to sustain levels of 22.7 and 22.8% of GDP in 2008 and 2009, respectively. Further, because of the grants received to balance the fiscal position, GOM has not accumulated significant public sector debt. As such, external debt service payments have remained negligible. CDB remains the only external creditor to GOM.

Social Context

(a) Population and Demography

1.13 Montserrat's population had been on the decline for some time, but since the start of volcanic activity in July 1995 the numbers reduced dramatically. The 1980 census reported a population of 11,606. This had reduced to 10,639 in 1991, a trend consistent with the steady decline from the all-time high of 14,300 in 1946. However, the 1995 volcanic eruption triggered a mass emigration that resulted in such a massive population decline, that by 1997, the population was reduced to 3,338, less than one-third of the 1991 population. A voluntary evacuation programme introduced in 1997 further accelerated the population decline to a low of 2,726 by 1998. The population stabilised at 3,390 in 1999 and 2000 and since then it has been growing gradually. The 2001 census recorded the population to be 4,491 and the most recent census puts it at 4,922.^{5/} The population density is around 330 persons per square mile (sq.m).

^{4/} In contrast, in the five years prior to the volcanic crisis, GOM maintained a small current account surplus averaging 1.1% of GDP p.a.

^{5/} *Census 2011, Montserrat at a Glance*, Statistics Department of Montserrat.

1.14 In conjunction with the dramatic population decline, the mass emigration induced changes to the demographic profile including the age structure, sex ratio and working population. The population sex ratio^{6/} changed from equal numbers of males and females to one where males were in the majority. In 1998, the sex ratio changed to 127 and then to 162 in 1999. This change is attributed to the voluntary evacuation programme that resulted in many females and their children leaving the island for safe havens elsewhere, while more of the men stayed behind. However, many citizens and former residents started returning to the island from 2000 and as a result the sex ratio stabilised at 116:117 in 2000-02 and then reduced to 109 in 2011.

1.15 The 2011 Census indicated that 19% of the population was less than 15 years old, and 12% was between 15-25 years old. These percentages are small in comparison to other Caribbean countries, suggesting that large numbers of school leavers are emigrating to either obtain tertiary education or employment overseas. On the other hand, the population age structure depicts a significant bulging in the productive age range, that is, between the ages of 25 and 64. This group, which accounts for 54% of the population, is quite large as it comprises significant numbers of non-nationals employed in construction, agriculture, and other related areas on the island. There were no major changes in the elderly population. In 2011, the proportion of persons 65 years and over returned to the 14% pre-volcano level recorded in 1991 – two percentage points below that of 2001.

(b) Poverty and Human Development

1.16 The socioeconomic changes that have occurred as a result of the volcano have impacted poverty, social vulnerability and the ability of the poor to sustainably improve their life chances. A Participatory Poverty Assessment (PPA) conducted in 2000 provided some insight into the type of hardships experienced by the residents and revealed how they viewed their socioeconomic circumstances and coping since the volcano. This was followed by a Country Poverty Assessment (CPA)^{7/} conducted in 2009. Data from the CPA summarised in Table 1.1, shows that 36% of the population was estimated to be living below the poverty line. This includes 3% that were indigent or extremely poor.^{8/} The CPA report also shows that poor households accounted for 25% of all households and indigent households were 2%, an additional 20% of the population was deemed vulnerable^{9/} to poverty in the event of a major economic shock or natural hazard. Income inequality as depicted by the Gini Coefficient was at a moderate level of 0.39.^{10/}

**TABLE 1.1: POVERTY ESTIMATES 2009
COUNTRY POVERTY ASSESSMENT**

Socioeconomic Status	%
<u>Households</u>	25
Poor	
- Indigent	2
- Poor but not indigent	23
- Vulnerable	19
<u>Population</u>	
Poor	36
- Indigent	3
- Poor but not indigent	33
- Vulnerable	20
<u>Gini Coefficient</u>	0.39

^{6/} The population sex ratio is represented by the number of males for every 100 females.

^{7/} Information quoted throughout the CSP is obtained from the draft CPA report which has not yet been endorsed by GOM.

^{8/} The poverty line was set at \$14,400 (USD5,333) per individual p.a. and the indigence line was \$4,738, based on the Headcount Index. The Headcount Index is the most commonly quoted statistic in reference to poverty in a country. It represents the percentage of the total population that belongs to households with adult equivalent adjusted per capita consumption that falls below the poverty line.

^{9/} This is based on a consumption level of 25% above the poverty line. This measure represents the percentage of the population that was likely to be severely impacted if there were a deterioration in economic conditions such that those who fall just above the poverty line were sunk into poverty.

^{10/} Gini Coefficient is a measure of income distribution in a population or income inequality based on a range from 0 to 1. The upper bound of 1 represents absolute inequality while the lower bound of 0 represents absolute equality.

1.17 Poverty in Montserrat is associated with three main demographic characteristics, *viz*, low educational attainment, large family size and children. The CPA indicated that of the 33% of the population educated only at the primary level, 48% of these comprised the poor households. This is almost twice that of household heads among the poor who had some secondary, vocational or university level education. The CPA also established “an unambiguous correlation between household size and poverty”, meaning that the larger the household, the greater the likelihood of it being poor. Households with three or more persons accounted for about 60% of poor households as compared with 34% of all households. When population rather than households is examined, the relationship of household size to poverty is depicted even further. Over 80% of the poor population lived in households with more than three persons. With regards to children, the CPA indicated that children under 15 years that are poor are over-represented in the population. Forty-five percent of persons in this group were poor, despite constituting 26% of the population. They also accounted for over one-third of the poor population. The proportion of female headed households is relatively large (38%) but poverty rates are similar for both female and male headed households. Although the CPA shows no significant difference in the incidence of poverty between males and females, other gender-related issues associated with immigrant workers and incidence of domestic violence have emerged. These matters along with other aspects of gender equality will be explored in some detail as part of a Country Gender Assessment to be conducted by the Bank in 2013.

1.18 Aside from widespread poverty, the unavailability of decent employment also contributes to hardship in Montserrat. Approximately 14% of the population was unemployed in 2006; it is likely to be higher now given the contraction of the economy. Employment opportunities on the island are very limited and this has resulted in under-employment. Employment is not necessarily an escape route from hardship as the adequacy of wages is being eroded by high prices for imported food and fuel, and high utility charges. High and increasing cost of living has negatively affected coping mechanisms.

1.19 Montserrat does not have a Millennium Development Goals (MDGs) report that monitors progress on its achievement of the MDGs, but selected MDG indicators are monitored by the Ministry of Education (MOE), Ministry of Health and Statistics Department. The island has surpassed the MDGs targets relating to child mortality, maternal health and combating the Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome in the face of infrastructural redevelopment and chronic human resource shortages. Mortality has remained low, at levels below 10 per 1000 persons in 2007-08. The leading cause of death amongst men and women between 1999-2009 was non-communicable diseases with the top three factors being diabetes, hypertensive diseases, and cardiovascular diseases. The island has the highest number of tuberculosis cases in the EC, a disease that was controlled in the Region some decades ago. Average life expectancy, one of the key development indicators of population well-being, is amongst the highest in the Caribbean. However, it has declined in recent times from an average of 78.8 years in 2004 to 72.9 years in 2010.

Recent Macroeconomic Performance

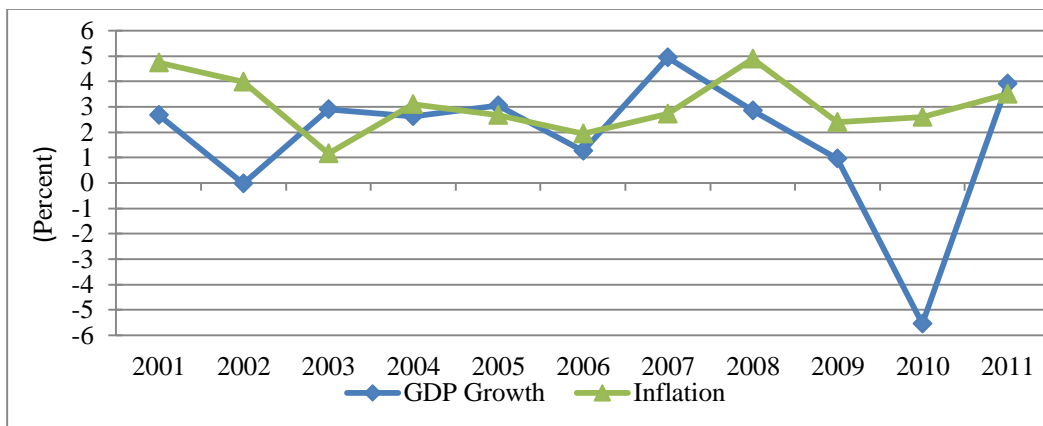
(a) Output and Prices

1.20 Montserrat recorded a sustained period of growth averaging 2.7% between 2003 and 2009. After peaking at 4.9% in 2007, however, growth progressively slowed to 2.9 and 1% in 2008 and 2009, respectively, before contracting by 5.6% in 2010 due to the effects of the global financial and food crises, combined with a renewal in volcanic activity. The agriculture, mining and quarrying, construction and wholesale and retail trade sectors (16.2% of GDP) were particularly hard hit with output in the group declining within a range of 10.9% (construction) and 74% (mining and quarrying). The mining and quarrying sector contracted following the volcanic eruption during the early part of the year which severely damaged most of the equipment used in the industry. Real output growth in excess of 2.5% was recorded

for hotels, restaurants, electricity and water. The relatively small size of these sectors (4.9% of GDP) would have, however, restricted their impact on overall output. The reintroduction of a regular ferry service between Antigua (the main gateway to the island) and Montserrat in December 2009 assisted with a turnaround in tourism performance in 2010, with real output increasing by 9.3%.

1.21 A rebound in the level of economic activity in 2011 was evidenced and preliminary estimates are that growth reached 3.9% for the year. The construction sector rebounded, as domestic demand for housing picked up in line with increased commercial bank lending. Similarly, mining activities recovered following strong demand for construction materials as private residential activity regained momentum. A decline in visitors in 2011, however, saw the tourism sector contracting by 32.7%, as both arrivals and average expenditure were adversely affected. Overall, inflationary pressures subsided since increasing to 5% in 2008. During 2009-10, average inflation moderated to 2.1 and 2.8%, respectively (see Chart 1).

CHART 1: SELECTED ECONOMIC INDICATORS, 2001-2011



Source: GOM

(b) Fiscal Operations and Debt

1.22 Fiscal operations in Montserrat have been impacted by the global economic downturn. Current revenue, increased by 12.3% (in nominal terms) in 2008. Rising import prices, particularly for fuel, largely contributed to this strong revenue performance. Revenue, however, declined slightly in 2009 before slipping by 3.7% in 2010 due to a fall-off in tax revenue. Government derives as much as 82% of total revenues from taxation. Of this, taxes on international trade and transactions and personal income tax account for the bulk (about 95%) in any given year (see Table 1.2 and Appendix 1.3).

1.23 Current expenditure, on the other hand, continuously increased during the 2007-09 period before contracting by 9.4% in 2010, reflecting smaller outlays on goods and services and transfers and subsidies. Expenditure on goods and services and on transfers and subsidies fell as Government implemented measures to trim expenditures in that year. By contrast, spending on personal emoluments rose, reflecting an increase in public employment. Almost one-half of current expenditure is directed towards wages and salaries reflecting, in part, the size of government in relation to the economy. Higher budgeted expenditures in recent years also reflect high pension payments.

1.24 The current balance (before grants) recorded an average deficit of \$54.4 mn (34.5% of GDP) over the 2007-2011 period, highlighting the magnitude of the task confronting GOM in its efforts to balance the current account. In 2009, the current deficit peaked at \$57.2 mn, and has since fallen to \$51.2 mn. Capital expenditure remained high, increasing to 22.8% of GDP in 2009 as GOM undertook infrastructure work relating to the new town centre at Little Bay and to other public infrastructure projects. Notwithstanding

the adverse global context, external grants exhibited an increasing trend over the 2007-2011 period (with the exception of 2010), resulting in overall surpluses being recorded in 2009 to 2011. The large surplus projected for 2011 reflects a lag in actual spending relative to grant allocation, and focused efforts to realise cost savings and restrain current expenditure growth. (see Table 1.2 and Appendix 1.3).

1.25 The level of public debt and debt service payments made by GOM are both well within the debt sustainability thresholds defined by ECCB. Over the past few years, the outstanding public sector debt continued on a downward trajectory to reach \$8.2 mn (5% of GDP) at the end of December 2011, from \$12 mn (8.5% of GDP) at the end of 2006. This downward trend reflects the financing of the deficit from grant resources rather than from loans. The bulk of the outstanding debt (96.3%) is external, and is all owed to CDB. Montserrat's outstanding debt was equal to 0.2% of CDB's portfolio as at March 31, 2012.

TABLE 1.2: CENTRAL GOVERNMENT OPERATIONS
(*\$ mn*)

Item	2007	2008	2009	2010	2011
Revenue and Grants	111.7	118.8	140.3	120.5	141.7
Current revenue	35.8	40.2	40.1	38.6	41.2
Tax revenue	31.6	34.4	35.8	33.6	36.6
Nontax revenue	4.2	5.7	4.3	5.0	4.6
External Grants	76.0	78.6	100.2	82.0	100.5
Current	58.0	56.7	60.3	47.5	76.3
Capital	18.0	22.0	39.9	34.4	24.2
Expenditure	118.9	132.3	134.4	117.9	121.0
Current	92.3	96.8	97.3	88.1	93.2
Capital	26.6	35.5	37.1	29.8	27.8
Current balance (before grants)	(56.6)	(56.6)	(57.2)	(49.5)	(51.9)
Current balance (after grants)	1.4	0.1	3.1	(2.0)	24.3
Primary balance (after grants)	(7.0)	(13.4)	6.0	2.7	20.8
Overall balance (after grants)	(7.2)	(13.5)	5.9	2.6	20.7
GDP (market prices)	147.3	156.5	162.6	155.8	161.2

Source: ECCB

(c) External Sector

1.26 The current account of the balance of payments remained in deficit, at an average of 27% of GDP over the 2007-2011 period. The country imports mineral fuel, electrical machinery and appliances, and food products, while only exporting small quantities of volcanic sand and aggregate for construction purposes. Exports of goods averaged 4.5% of GDP over the period; as opposed to a 47.4% of GDP for imports. The net services balance also remained in deficit as tourism no longer contributes significantly to the services account. Current transfers, primarily to Government, averaged \$58.5 mn p.a. (37.4% of GDP) and largely reflected a declining trend in line with efforts by DfID to gradually reduce dependency of the OTs. The deficit on the current account was mostly financed by official inflows. The average overall surplus for the period was 1.1% of GDP, suggesting a small level of asset accumulation by GOM.

(d) Financial Sector

1.27 The Montserrat onshore financial sector consists of two commercial banks, one credit union, and one building and loan society. Commercial banks – an indigenous bank and a foreign-owned branch of a bank based in Antigua and Barbuda – dominate the financial landscape of Montserrat and at December 31, 2011, total assets amounted to \$439.8 mn. There were \$70.4 mn in loans and advances outstanding at the same date. Credit by commercial banks to the public and private sector is provided in Table 1.3, which shows that the overall public sector, including Central Government (CG), is a net provider of financial resources to the banking system.

TABLE 1.3: NET DOMESTIC CREDIT AT DECEMBER 31, 2007-2011

Item	2007	2008	2009	2010	2011
Net credit to CG	(25,466)	(19,312)	(21,042)	(27,522)	(54,618)
Net credit to other Public Sector	(15,113)	(14,750)	(22,221)	(19,163)	(18,837)
Net credit to Private Sector	40,464	46,180	53,192	61,760	68,357
Net Domestic Credit	(116)	12,118	9,928	15,074	(5,099)

Source: ECCB

1.28 ECCU Financial Soundness Indicators (FSI) point to a steady deterioration in financial conditions of the banking sector since 2009. The FSI at Table 1.4, indicate a non-performing loans (NPL) ratio that is higher than the ECCB Prudential Guidelines standard of 5%. These statistics show that the banking sector is very liquid, with liquid assets to total assets at 78.1%, almost four times the 22.9% average of ECCU. As asset and deposit growth has slowed since 2008, the loan-to-deposit ratio has increased, but remains well below the ECCB benchmark of 75 to 85%. With this excessive net liquidity position, earnings are being negatively affected. The sector’s strong capital adequacy position has weakened over time, from 48% in 2009 to 28% in 2010. Although a more updated position is not available, further asset impairment is likely to have impacted this rate during 2011 and 2012.

1.29 The sectoral distribution of commercial bank lending over the period 2007-2011 indicates that the personal property sector consistently receives the highest allocation of credit which stood between 77.9 and 81.2% over the last five years. This observation is true for most ECCU members, except SKN, where public sector lending is dominant. Lending to the productive sector – agriculture, mining and quarrying, manufacturing, tourism, entertainment and professional and other services – accounted for 6.7%, on average over the same period, thus, indicating that the productive sectors are not substantial in the scheme of credit.

1.30 Montserrat’s financial landscape also includes St. Patrick’s Cooperative Credit Union, the sole credit union, and Montserrat Building Society. As at December 31, 2010, membership of these institutions exceeded 4,500 and 2,000 members, respectively, made up of both residents and the wider diaspora of Montserratians. The total assets of these institutions were estimated at \$45 and \$28 mn, while loans outstanding estimated at \$36 and \$4.5 mn, respectively.

**TABLE 1.4: FINANCIAL SOUNDNESS INDICATORS FOR MONTSERRAT
AND EASTERN CARIBBEAN CURRENCY UNION
AS AT DECEMBER 2011**
(%)

Item	Montserrat	ECCU
Capital Adequacy (Total Qualifying Capital to Adjusted Risk Weighted Assets)	n.a	18.91
Liquid Assets to Total Assets	78.11	22.91
Liquid Assets to Deposits + Liquid Liabilities	87.56	30.45
Cash Reserves to Deposits	15.44	10.38
Total Loans to Total Deposits	25.07	86.38
(Pre-tax) Return on Average Assets	0.2	0.14
Profit before Tax/Average Equity	0.97	1.19
NPLs to Total Loans	8.57	12.79
Provision for Loan Losses/Total Loans	3.37	3.71
Provision for Loan Losses/NPLs	39.36	29.03
Loans to Private Businesses/Total Loans	14.81	39.54
Gross Government Exposure/Total Assets	11.75	12.35

Source: ECCB

Medium-term Outlook

1.31 The economic outlook for Montserrat continues to hinge on several factors, including: (i) the state of dormancy of the Soufrière Hills volcano; (ii) the resolution of the Eurozone debt crisis and its impact on the fragile recovery of developed economies including the UK; and (iii) the extent to which GOM's policies are successful in catalysing the reconstruction of a viable economy. In the near-term, economic growth prospects remain largely contingent on developments in the construction sector. GOM is projecting growth of 4.2% in 2012, based mainly on the large number of construction projects in progress or expected to commence shortly. Government's capital works programme will continue to provide the main impetus to growth and this will be buttressed by private sector residential construction and renovation activities resulting from increased bank lending. The associated spill-off from construction activity is expected to add momentum to other sectoral growth, including mining and quarrying, and wholesale and retail trade. Prospects for stepped-up nature-based tourism activities within the "exclusion zone" deteriorated in the first quarter of 2012 following a resurgence of seismic activity by the volcano following a 2-year period of relative calm. However, the mining of sand and gravel extruded by the volcano continues to offer good potential for foreign exchange earnings.

Development Challenges

1.32 Montserrat confronts a unique and difficult development situation. Prior to the volcanic eruption, Montserrat depended heavily on its natural resources to spur its economic development. Subsistence agriculture, fisheries, and tourism were primary means of livelihoods. All of these sectors have been adversely affected by the volcanic activity and access to 70% of arable land has been lost. GOM has a stated long-term goal of self-reliance, and the people of Montserrat have determinedly embarked on the task of rebuilding. Government hopes for a gradual shift in reliance on development aid and from government services as the lead sector in the economy to investments in private enterprise in areas such as tourism, agriculture, energy and mining.

1.33 The enormity of destruction caused by the volcano, the limited resources (financial, physical, natural and institutional), and the related dependency that this has brought, however, presents peculiar

issues for stimulating the economy and returning to a vibrant self-sustaining nation. Beyond the vulnerabilities, uncertainties, and risks associated with the presence of an active volcano, and the implications and challenges for maintaining the momentum of development, the country faces a number of development bottlenecks which need to be tackled if Montserrat's strategic objectives are to be realised.

(a) Sustaining Economic Growth

1.34 One of several major challenges is creating a platform for sustained private sector-led growth. Private sector activity, currently mainly of a merchant and service delivery nature, remains weak, and markets are small. The ongoing threat from the Soufrière Hills volcano, presents a formidable hurdle. The fear of another major eruption and the unavailability of or limited insurance coverage are of grave concern to potential foreign investors. GOM has already embarked on the ambitious task of improving infrastructure and enabling the reactivation of the productive sector. Notwithstanding the progress to date, there are major limitations and gaps hindering progress.

1.35 The level of external access to the island is one such constraint. Access is as important to facilitating tourism and trade development, as it is for promoting confidence in Montserrat as a viable place to live, invest and visit. DfID reviews have shown the lack of adequate access to Montserrat as a significant constraint to growth in tourism. The opening of the John Osbourne Airport in 2005 was expected to provide a much needed boost to the development of the tourism sector and offshore financial and other services. However, the current length of the runway at the airport limits the size of aircraft that can operate and the flights which currently do are susceptible to strong wind currents on approach and take-off. This has virtually eliminated the movement of goods by air and partly contributes to the high cost of air travel to and from the destination. In addition, the benefits of the airport have been stymied by periods of heightened volcanic activity.

1.36 While there is a scheduled ferry service between ANT and Montserrat, its functioning is at times determined by weather conditions. The size and type of vessel currently in use is unsuitable to the rough seas that often prevail around Montserrat. The ferry and other cargo vessels are unable, at times, to berth in the port at Little Bay because of its openness to sea swells and storm surges. Further, the sole docking facility is shared by the ferry, cargo vessels, and barges awaiting the export of construction materials. Circumstances like these have hampered business facilitation, constrained business operations, and increased the cost of doing business in Montserrat, negatively impacting the country's competitiveness. The combination of issues affecting the ports of entry has also translated into fewer visitor arrivals than expected and, at times, has had an adverse effect on trade activities.

1.37 Narrowing infrastructural and other resource gaps (and enabling private investment) is itself constrained by interrelated challenges. GOM is challenged by the availability of space and associated competing demands by the various economic sectors within the "safe zone", as well as by public sector capacity constraints. There has been a failure to attract, deploy and retain required specialised skills along with inadequate succession planning in public administration given the scarcity of financial resources. In the area of public financial management (PFM), for instance, the lack of adequate accounting and auditing skills is constraining operations. Strengthening public services is largely dependent on the availability of resources to facilitate their provision. The narrow economic, and by extension, tax base in Montserrat, however, limits revenue generation on the one hand, and results in a high per capita cost for the provision and maintenance of all state services, on the other. Government is also heavily dependent on external budgetary support, and is confronted with the prospect of declining budget aid. Budget revenues will not grow in any significant way unless there are opportunities for the private sector to thrive and be at the forefront of development initiatives. The development of the new town centre at Little Bay is intended to help create the enabling environment for private investment, thus, spurring economic development. Indeed, the upscale development plans at Little Bay suggest that there may be a potential to target high-end tourism.

Even while these opportunities are emerging, the ever present threat of an active volcano could undermine their successful realisation.

1.38 Scarce financial resources in Montserrat give urgency to the need to seek renewable energy sources to reduce the impact of high energy costs on development. Electrical system reliability has been diminishing in recent times. Additionally, high operating costs, resulting from high and volatile fuel prices, combined with the use of high-speed generator sets to meet base demand, have partly diverted resources for energy development into current consumption. The medium-term demand for electricity is being addressed through construction of a new power station with assistance from CDB. Over the long term, however, the presence of an active volcano indicates some potential for exploiting geothermal, the export of which could provide a steady source of foreign exchange to fuel further economic development in Montserrat, while reducing dependence on imported fossil fuel to meet energy needs. Recurring seismic activity could hinder any significant foreign investment in geothermal, given the associated risks. Such an investment, however, could provide the catalyst needed to provide the necessary growth momentum and contribute significantly to the transformation and sustainability efforts. The overall impact of successful geothermal development in Montserrat would mean significant improvement in energy security, cheaper electricity generation, and reduced dependency on diesel.

(b) Fiscal Sustainability and Public Financial Management

1.39 Since 1996, GOM has been unable to raise sufficient revenue to finance its recurrent and capital expenditures, and has had to rely on UK budget support. In recent years, UK has provided around 50 to 60% of GOM's budget, with the remainder raised from GOM's own tax and revenue sources. The bulk of the cost of public investment is covered by contributions from two donors - DfID and EU through project aid. The fiscal projections indicate a declining schedule of recurrent budget aid in the period 2011/12 to 2014/15.

1.40 Given Montserrat's current economic context, there is limited scope to raise additional revenues or to reduce public expenditure, including service subsidies being provided by Government. Because of the very small tax base, this limits the scope to increase tax revenue without overburdening the economy. On the expenditure side, as much as 80% is classified as non-discretionary costs related to Government's delivery of a range of public services, including subsidised housing and transport services, external access links, and a social security system to support the poorest and health benefits. A failure to maintain these services risks critical deterioration in development outcomes. These conclusions were noted within GOM's Fiscal Sustainability Roadmap (2010-15) policy paper prepared in response to a British request, during 2009, for the preparation of a medium-term fiscal plan to address concerns about fiscal deterioration. The study supported the need for continued budget support in the foreseeable future, but also proposed initiatives to seek operational efficiency savings in the delivery of public services through measures that are planned as an element of GOM's Public Service Reform and public sector outsourcing plans, improve tax collection through the use of online services and address deficiencies in PFM processes.

1.41 A PFM assessment^{11/} conducted jointly by the DfID OT Department and the Caribbean Regional Technical Assistance Centre (CARTAC), concluded that the PFM "system works reasonably well in terms of budgeting practices and control systems." At the same time, the report alluded to deficiencies – most notably human resource capacity constraints in areas such as auditing and supporting areas, such as procurement requiring legislative strengthening in order to bring Montserrat in line with international best practice. The report also noted a concern related to the strategic alignment of SDP medium-term development objectives and budget policy and programmes, and pointed to the need for strengthening these linkages through a medium-term fiscal framework and programme budgeting to ensure efficient allocation and effective use of budget resources. An MfDR perspective through the mainstreaming of results-based

^{11/} UK OT of Montserrat – Updated PFM Performance Report (draft), September 2009.

management (RBM) would also assist to enhance budget effectiveness. Since the report, GOM has developed a PFM reform action plan and implementation of some key elements is well underway.

(c) Human and Social Development Constraints

1.42 The size of Montserrat's population is a major constraint to the country's economic development. Natural population growth on the island is unlikely as crude birth rate (8.9%) is less than the crude death rate at 9.1% (2007 figures), resulting in a negative natural rate of increase. Aging of the population is an area of grave concern; approximately 16% of the population is over 65 years old and dependent on the state for support through pensions and social welfare. The level of assistance provided to the elderly is way below the amount needed to support basic living expenditure. Further, the country suffers from severe skill shortages in almost all social and economic sectors. These skill shortages are among the factors that have adversely affected Montserrat's ability to attract foreign direct investment (FDI) and have also been linked to slower than expected implementation of the Public Sector Investment Programme (PSIP).

1.43 Having achieved universal access to basic education with gender parity in participation, the education sector priorities in Montserrat are mainly concerned with increasing access to Early Childhood Development (ECD) opportunities and improving the quality of education with specific focus on improving student learning and aligning both secondary and tertiary education programmes to labour market needs. With gross enrolment in ECD for the 0-2 age cohort around 26%, a significant proportion of children in Montserrat do not receive the early stimulation required to make a successful transition to pre-primary and primary education. In basic education, key dimensions of education quality are suboptimal as reflected in the inputs, processes and outputs of the sub-sectors.

1.44 One of the severe impacts of the last volcanic eruptions was significant attrition of trained teachers via migration and reassignment within the public service. Consequently, from pre-volcanic eruption levels of 82% trained staff in basic education, the proportion of trained teachers in 2011 was the lowest in the English-speaking Caribbean at 33 and 40% for primary and secondary education, respectively. The effect of this deficit in teacher quality has been evident in student underachievement. From 2006-2010, over 40% of students failed to attain the pass mark in Mathematics in the Grade Three and Grade Five National Standards Tests. While performance in English is better, about 40% fail to attain the minimum standard. In secondary education, an average of only 23% of students in the cohort achieve passes in the Caribbean Examinations Council's Caribbean Secondary Education Certificate (CSEC) examinations, and over the past five years, less than 20% of students have passed five or more CSEC subjects, including Mathematics and English Language. As reflected through the Region, the performance of boys is generally poorer than girls.

1.45 The low end-of-secondary attainment levels threaten the human resource capacity development of the country with a significant proportion of each cohort, and more so boys, failing to achieve job-market readiness and to satisfy the matriculation requirements for access to tertiary level education. While the labour market has changed, there has not been a review of labour market needs and the programmes in secondary and tertiary education, although the Montserrat Community College (MCC) has attempted to respond to current employment opportunities. A building construction course was recently introduced and pre-med courses are being offered. MOE has signalled plans to implement Caribbean Vocational Qualifications Level 1 courses, but this has to be informed by a strategic approach to reconfigure the programmes of the education system, consistent with current and emerging labour market needs and opportunities.

1.46 Insufficient human resources and inadequate financial resources are the main constraints hindering Montserrat from adequately addressing its other social challenges, many of which are a result of increasing welfare needs and the challenges of redeveloping newly formed communities, especially:

- (i) the re-establishment of a well equipped hospital facility for the provision of secondary and tertiary health care on the island;
 - (ii) enhancing the targeting and delivery of social welfare schemes;
 - (iii) advancing its child protection agenda despite an emerging urgency for active programmes to ensure that there is care and protection of vulnerable children and young people;
 - (iv) adopting minimum standards for decent housing; and
 - (v) establishing a legal and regulatory framework for housing development that facilitates access to decent affordable housing to vulnerable households.
- (d) Environmental Challenges and Disaster Risk Management

1.47 Since the volcanic eruptions, GOM has increasingly faced major challenges to maintain balance between economic growth and environmental sustainability. A significant focus for development over the next 10 years will be in the Little Bay area where GOM has approved a master plan for development. Limited natural, technical and financial resources and the urgent need to expand the economy to create productive employment opportunities for the current population residing within the relatively arid northern tip of the island is placing great pressure on the natural resource base. Accessibility of the north reef system, less affected by the volcanic activity and migration of the population to the north, has led to overfishing and some damage to the reef. The adverse effects of the volcanic activity on the island's terrestrial and marine biodiversity have also reduced tourism activities that were primarily eco-based. An estimated 60% of Montserrat's natural forest cover was destroyed. Efforts to revitalise tourism and agriculture have focused on the Centre Hills, the largest intact forest area and the last viable habitat for the critically endangered Montserrat Oriole and other endemic and threatened species remaining on Montserrat and the marine ecosystem of the northern reefs.

1.48 Prior to 1995, approximately 85% of domestic water supply came from springs and 15% from wells. Approximately 50% of springs, and all wells, were lost in the area impacted by volcanic activity, including some reservoirs and distribution lines. All potable water on Montserrat is currently derived from springs in the Centre Hills, which are heavily reliant on rainfall. There are also small reserves of groundwater. These reserves are untapped and are located close to the coast, making them susceptible to salt water intrusion resulting from sea level rise. Proposed expansion of the tourism and agriculture sectors, as well as residential use are likely to place increasing and competing demands on the existing water resources. Additional concerns have arisen as the potential impact of climate change on water resources which, if realised, will result in reduced water availability. There is uncertainty regarding the ability of the current water supply system to meet future demand as there is insufficient information regarding the impacts of the volcano, climate change and weather conditions on the watersheds.

1.49 Most sewage is being handled *via* individual septic tanks and soak-away systems. Some of the challenges associated with the use of sewage systems are land availability, steep topography and the costs associated with the development and operation of these systems. Sewerage outfalls are being considered for areas such as the Little Bay Town Centre. Some of the concerns associated with this, however, are the inadequate distance of the outfall from the shore and control of quality of effluent, both from the microbial and nutrient content levels, because of the potential to foul the western marine areas and beaches in the "safe zone" and adversely impact coral reefs and sea grass beds. These marine areas are important for local recreation, tourism, fishing and marine biodiversity.

1.50 GOM recognises the importance of supporting and developing the mining sector through private sector participation, as one of the key drivers of economic growth. Volcanic rocks, pumice, sand and gravel are quarried and processed for use as aggregate in construction. Mining of volcanic deposits for the local and regional markets is, however, proceeding largely without proper environmental assessment and environmental monitoring plans, resulting in severe soil erosion.

1.51 As GOM implements its development plans, economic pressures will result in an intensification of land use. Associated with these pressures are environmental quality problems, including land degradation, driven mainly by unsustainable land management practices and an increase in feral livestock. The consequences of land degradation include reduced soil fertility and productivity which is a major impediment to agricultural production growth and food security, and loss of biodiversity through changes to habitats. Climate change is expected to be an additional stress on rates of land degradation. Concern about land degradation and its implications for climate change mitigation and adaptation is therefore increasing.

1.52 Montserrat was not an active participant in the first generation of regional programmes for planning for adaptation to climate change. National action on climate change is governed by the Montserrat National Climate Change Adaptation Policy (NCCAP). Montserrat has acknowledged that, given the current economic climate, there is an insufficiency of financial resources to fully implement NCCAP. There is no legislation that specifically addresses climate change. Oversight of policy implementation will likely be undertaken by a National Climate Change Committee to be established. The policy anticipates that ministries, departments and agencies are all responsible for advancing climate change activities within their respective sectors. Existing national and sector policies and plans do not currently include climate change considerations.

1.53 Like other CDB Borrowing Member Countries (BMCs), Montserrat is predicted to be quite vulnerable to the effects of global climate change. A 2008 assessment of the cost of Global Inaction on Climate Change^{12/} suggests that the cost to Montserrat, as a percentage of its 2004 GDP, would be 21.7, 34.6, and 49.5% respectively, by the years 2050, 2075 and 2100. Montserrat's specific climate change forecast information is sparse. Increased seasonality in rainfall is anticipated as a result of climate change, with projected increases in December to February being offset by decreases in June to August. These seasonal changes may amount to +/- 40%. This scenario would put Montserrat at risk to seasonal drought, variable water supply and diminishing water resources.

1.54 Montserrat remains prone to the devastating impact of a range of natural hazards, including, but not restricted to, earthquakes, tropical storms, hurricanes and floods. It is expected that climate change will aggravate such impact. Systems for the monitoring, assessment, warning and management of the volcanic hazard have been reasonably well-resourced and developed. Sensitisation in respect of DRM remains high on the political agenda and it is regarded as an important facet of national development. This level of recognition is, likely, highly correlated to the reality that the country has been living with an active volcano for the past 16 years.

1.55 The southern two-thirds of the island is now designated a Special Vulnerable Area. GOM, the Disaster Management Coordination Agency (DMCA) and the Montserrat Volcano Observatory have adopted a Hazard Level System (HLS), which has been used at the Soufrière Hills Volcano since August 1, 2008, for management of both the ongoing eruption and for public safety. The HLS classifies the location of volcanic activity and the threat level, as well as identifying a range of both marine and terrestrial access

^{12/} Bueno, R., Herzfeld, C., Stanton, E.A., Ackerman, F. (2008): The Caribbean and Climate Change – The Costs of Inaction.

restrictions. Access restriction categories range from unrestricted access, daytime access, daytime transit, controlled access and access by essential workers only.

1.56 In the move to establish new settlements and key infrastructure in the north of the island, a significant opportunity exists for such development to be proactively planned, designed and laid out; informed by demographic projections, anticipated social impacts, appropriate hazard mapping, climate change and vulnerability assessments. This process would be best informed through capacity development in support of physical planning, DRM and spatial information management systems for decision-making. The existing Physical Development Plan (PDP), 2000-09, to guide development planning in Montserrat is now out of date. DfID is assisting with the preparation of a new PDP for 2011-20. DfID has also committed to supporting the future development of the new sea port area.

1.57 An overall challenge is increasing the practical level integration of disaster risk and climate change considerations into development planning and programming, at all levels, building on and consolidating recorded past progress. While institutional commitment has been reportedly attained, achievements are still not considered comprehensive. Work to further advance, achieve and consolidate the strategic interventions of: (i) streamlining hazard risk reduction into sector policies; (ii) building institutional and individual capacities to manage risk; (iii) empowering and mobilising communities to mitigate, respond to, and coordinate the management of risk; (iv) establishing a hazard risk reduction information system; (v) accessing financial resources; and (vi) undertaking hazard and vulnerability assessments, enforcing the building code, and revising and implementing the national disaster management plan, continues. Comparatively, work to advance and mainstream sector adaptation of climate change lags behind gains already made in DRM.

2. GOVERNMENT'S DEVELOPMENT STRATEGY

(a) Sustainable Development Plan and Policy Agenda

2.01 The national vision and guide for the long-term development of Montserrat is encapsulated in its SDP 2008-20.^{13/} In guiding the development of SDP, GOM has articulated its vision and core values as “*a healthy and wholesome Montserrat, founded upon a modern thriving economy, with a friendly, vibrant community, in which all our people through enterprise and initiative can fulfill their hopes in a truly democratic and God-fearing society.*” SDP has evolved from its focus on stabilisation and rehabilitation strategic objectives since the volcanic devastation towards a forward-looking focus on returning the country to a vibrant, self-sustaining one. A visioning aspect encompassing five strategic goals viz: (i) economic management; (ii) HD; (iii) environmental management and disaster mitigation; (iv) governance; and (v) population was therefore incorporated in SDP in pursuit of this objective. The Strategic Framework for the SDP 2008-2020 is at Appendices 2.1 and 2.2.

2.02 The overall objective of GOM is to return the economy to one of self-sufficiency, supported by a population of approximately 9,000 persons. In this regard, SDP articulates strategies to increase the role of private sector-led activity in the development process while, at the same time, reducing the role of the state to be more a facilitator than a provider of goods and services. GOM is hoping to rebalance the economy by targeting investments which will significantly increase the contribution of agriculture, tourism, mining and quarrying to total national output. This shift, in turn, is expected to create enough diversification of the tax base as a means towards fiscal sustainability. At the same time, GOM will be seeking to improve human and social capital within the country to better support the attraction and retention of adequate skills to assist in the economic management process. Eventually, it is envisaged that the creation of such opportunities will lead to a reduction in dependence on the state.

2.03 Environmental management and disaster mitigation are placed centrally within SDP given the critical role they need to play in the redevelopment of a micro state such as Montserrat. Their importance may even be elevated given the limited financial resources and habitable land space. The long-term development strategy is therefore focused on increasing the population of endangered/protected species, enforcement of environmental management legislation and limiting the damage caused by natural disasters to less than 2% of GDP.

(b) Medium-Term Objectives and Policy Priorities

2.04 The medium-term development objectives of GOM cascade from the five strategic goals of SDP. For the current planning cycle, 2008-2012, 28 objectives are identified, along with the activities necessary to support their implementation. DfID has committed, through the signing of a MOU with GOM, to support these growth initiatives. GOM's medium-term objectives and activities in relation to the various strategic goals are discussed below and presented in tabular format at Appendix 2.3.

(i) *Economic Management*

2.05 It is GOM's intention to put in place most of the physical infrastructure, the legislation, policies to promote private sector-led growth, and institutional arrangements that will provide the framework for the development of a diversified economy; the facilitation of sustained growth; the generation of employment opportunities and the prudent management of the economy. GOM is receiving substantial development assistance from DfID to implement reforms under its medium-term programme that will improve the business environment; develop Montserrat as a tourist destination; and strengthen GOM's capacity to

^{13/} SDP 2008-2020 was developed in 2007 out of a consultative consensus-building process involving stakeholders locally and in the UK, including DfID staff with responsibility for Montserrat.

facilitate growth. As part of these reforms, GOM is seeking to develop an investment promotion strategy and improve its immigration and tax policy regimes towards creating this enabling environment for private sector led growth. GOM is also focusing on the implementation of its long-term PSD strategy, as well as its Tourism Development Strategy and Plan to support tourism redevelopment. Infrastructure development for the town centre at Little Bay is complete and there is continuing work to improve the safety of the road network in the north of the island. Projects are also currently ongoing to address the need for more reliable power generation and to help propel the exploration and subsequent production of geothermal energy. A number of preliminary studies have been completed aimed at evaluating the geothermal potential of the island. In 2012, a Memorandum of Understanding was signed with DfID for the funding of an exploratory well drilling programme. The funding is expected to cover site preparation and access works, drilling, supervision and well testing costs, as well as the technical assistance (TA) required by the GOM to manage and implement the project successfully. Additionally, plans are underway to conduct an economic and financial appraisal of proposed investments in the development of Little Bay town and its port development^{14/}.

2.06 One significant aspect of the drive to enhance economic management is the establishment of the Montserrat Trade and Investment Promotion Agency (TIPA) to replace the Montserrat Development Corporation (MDC). TIPA will have responsibility for development, promotion and facilitation of: (i) private sector growth; (ii) FDI; and (iii) trade and import substitution activities. Part of its mandate will be to assist in the development of entrepreneurship and provide support to MSMEs.

(ii) *Human Development*

2.07 Medium-term objectives for HD revolve around the formulation and implementation of policies, plans, programmes and standards, as well as the strengthening of relevant legislation and institutions that will provide the framework for improving the quality of life for all persons resident in Montserrat. GOM has articulated a number of initiatives to improve access to quality education and health services and provide improved housing solutions. Under the goal of supporting social and economic development and producing globally competitive citizens GOM proposes (through the 2011-14 Education Strategic Plan), to implement interventions to meet critical HRD needs. These include:

- (a) improving the quality of teachers through teacher training which addresses both short-term and long-term professional development needs. CDB has provided TA to address the short-term needs and the Montserrat Community College (MCC), in collaboration with the University of the West Indies (UWI), Cave Hill, will be reintroducing a teacher education programme to certify teachers;
- (b) expanding opportunities for tertiary education which is aligned with labour market needs. This requires a review of labour market requirements and the implementation of a reconfigured secondary and tertiary education programme consistent with those needs;
- (c) improving access to quality ECD services to provide the appropriate early stimulation for learner success throughout the education cycle; and
- (d) improving management and governance in the sector at the institutional and central levels.

2.08 To help mitigate the effects of poverty, GOM implements a number of social assistance programmes which include a monthly allowance of \$600 to the heads of very low income households and

^{14/} Significant progress across all reform areas in GOM's medium term programme is a precondition for UK investment funds in Little Bay town, Carr's Bay port and for sea and air access.

an additional \$350 per person to these households with children, elderly and disabled dependents. In addition, a rental assistance of 40% of the household's residual income is provided to qualified persons occupying government housing. These allowances are adjusted periodically in keeping with increases in the cost of living. Despite these measures the uncertainties associated with the volcano, have caused levels of social and economic vulnerability to remain high – especially for men and women from low income households.

2.09 The annual Cost of Living Report produced by the Social Services Department highlights the widening gap between the assistance provided by the Department and the actual cost of purchasing either a 'typical' or a 'nutritional' food basket. In 2010 (latest available data) the benefit levels for a single person were falling short by between \$474.56 and \$710.56 per month, even while excluding essential costs such as transportation, telephone, special medication and clothing. DfID is facilitating a comprehensive review of the social protection system to improve targeting of the system to those most in need.

2.10 Limited financial resources continue to be a militating factor against GOM's efforts to reduce the high rate of overall poverty but invaluable assistance is provided through a number of local Non-Governmental Organisations (NGOs) that assist mainly by providing meals and homecare to the elderly. CDB's BNTF programme also supports reducing poverty and hardships through community-based participatory activities that focus on supporting initiatives which increase access to social infrastructure for vulnerable groups. BNTF also provides opportunities at the household level for poor men and women to benefit from both skills training and income generating type activities.

(iii) Environmental Management and Disaster Mitigation

2.11 SDP (2008-20) includes a number of environmental and disaster management medium-term objectives and actions related to: (i) institutional capacity enhancement; (ii) policy and legislation enactment and enforcement; (iii) protection and conservation of biodiversity and other natural resources; (iv) strengthening national and community level capacities for mitigation, management and coordinated response to natural and technological hazards; and (v) the development of a comprehensive disaster management framework. The SDP also identifies a number of environmental management and DRM targets for each medium-term objective and action. These targets include: (i) the implementation of an environmental management and DRM capacity strengthening programme; (ii) design and implementation of a comprehensive environmental impact assessment process; (iii) development of a protected areas systems plan; (iv) development and implementation of a solid waste management programme; (v) development and implementation of a sewerage master plan; (vi) publication of building codes; (vii) integration of DRM into sector policies; (viii) establishment of an institute of disaster management; (ix) construction of appropriate multi-purpose hurricane shelters; and (x) completion and implementation of the National Disaster Management Plan and enhanced community resilience, for example, through safer building techniques.

2.12 Progress has been made in relation to some of the medium term objectives and actions specified in the SDP. To facilitate cohesiveness among the disparate sectoral environmental policies, laws and regulations GOM developed a Draft Environmental Management Bill which provides for the integrated and comprehensive management of the island's environment. GOM intends to enact the Bill during the first quarter of 2013. A key requirement of the Bill is the preparation of a protected areas systems plan. In an effort to increase capacity for sustainable land use, GOM has also formulated a PDP for the entire accessible northern area. Additionally, GOM is currently in the process of rationalising the Ministry of Agriculture Lands, Housing and Environment as part of its public sector reform activities to ensure more effective use of the limited human resources within the Ministry

2.13 There has also been progress with the development of DRM policy, legislation, plans, multi-sector coordination mechanisms, early warning systems, multi-hazard mapping and vulnerability assessment, public awareness and training. Although significant capacity is in place for specific management of the volcanic hazard, and despite an annual budget specifically voted for DMCA, the availability of both skilled human and financial resources for the broader sector advancement, policy implementation, systematisation and routine entrenchment of the DRM agenda remains a challenge, particularly in the context of other known hazards.

(iv) *Governance*

2.14 GOM's medium-term governance objective is to put in place legislation, regulations, institutional arrangements and bilateral and multilateral agreements that will provide the framework for greater accountability among public servants; modernise the delivery of public services; enable full participation of Montserrat in the OECS Economic Union; and facilitate the effective management of crime and delinquency.

2.15 PFM reform commenced in 2009 with enactment of the Public Finance (Management and Accountability) Act which provided for the development of an economic and fiscal policy framework for Montserrat and for more transparent and efficient management of its finances. As part of its governance focus, GOM is implementing measures to strengthen PFM.

2.16 GOM continues to work with development partners in the implementation of a reform programme aimed at increasing transparency and efficiency within the public sector. In this regard, GOM recently invited the International Monetary Fund (IMF) to conduct an assessment of the economy and the current policies aimed at restoring growth and viability. Key findings of the mission were that there are promising opportunities to enhance growth, especially with respect to the unique characteristics of the island.

2.17 Implementation of several priority activities detailed in a PFM reform action plan has also begun. One of the most significant is the introduction of multi-year programme budgeting to better align the budget process with the medium to long-term view of activities outlined within SDP. CARTAC is facilitating the implementation of this activity which was introduced from Budget Year 2012-13.^{15/} GOM is also implementing the second phase of a Public Service Reform Programme (2011-14), to enhance performance management and efficiency savings in sector support while identifying improvements in service delivery. Capacity constraints to effectively manage and implement the programme and resistance to change have militated against previous reform attempts. As it develops, Montserrat may need to scale up existing institutions and set up new ones, while reforming service delivery systems to ensure an efficient institutional base for deploying public resources.

(v) *Population*

2.18 GOM is of the view that a population level of around 9,000 will be sufficient to provide an appropriate tax base for fiscal sustainability and has embarked on initiatives to retain the current population and facilitate further growth. Labour and immigration policies are being revised with a view to removing rigidities as a first step towards this objective. Housing and housing development incentives have also been initiated, as well as the development of public recreational facilities to enhance the well-being of residents.

(c) Analysis of Government Strategy – Challenges and Risks

^{15/} The fiscal year runs from April to March.

2.19 The medium-term objectives and policy priorities, as outlined in the SDP, represent a good point of departure for returning the Montserrat economy to one of sustainable growth and long-term viability. Active stakeholder participation during the planning stage was solicited and used to garner consensus on tackling the development challenges from a wide perspective. The strategy itself is comprehensive in scope, as it contains a vision statement, long-term strategy, medium-term objectives, action plans and implementation responsibility matrix. The inclusion of performance and development effectiveness targets will allow GOM to monitor its progress and assess effectiveness of policies and programmes.

2.20 While the SDP is considered a well-developed document, the rate of redevelopment articulated therein is ambitious in terms of objectives and outcomes. Major challenges are anticipated during its implementation given the numerous constraints and threats identified. While the support being provided by DfID and other development partners will be instrumental in bringing the plan to fruition, factors such as limited and costly access, human and institutional capacity constraints and limited financial resources have militated against the pace of implementation and GOM's ability to monitor reform. With these lags, Government will need to roll aspects of its current medium-term action plan over to the next medium-term planning cycle. Further, GOM may require a step-up in the provision of TA to overcome these hurdles.

2.21 The success of SDP to deliver growth and redevelopment expectations will hinge on GOM's ability to (i) realise the level of private sector involvement envisaged and (ii) retain and develop HR in view of the constraints and risks. The ever present threat of another major volcanic eruption can itself undermine the realisation of private sector-led growth, notwithstanding the Government's own efforts to achieve otherwise (production of a private sector development plan and improving the business environment). In addition, the sustainability of all reform action hinges ultimately on the success in attracting a more sustainable population base.

2.22 The high level of dependence on budget support to implement the plan will be a major risk going forward in view of the fact that the inflow of development resources could decline given the current fiscal challenges facing the UK and other donors. The reliance on development partners for the provision of financial resources to fund some activities may not always proceed as planned and deviations in any programme will affect overall implementation because of their inter-connectedness. In addition, low M&E capabilities present a risk of ineffective monitoring and, consequently, an inability to provide effective assessments of the implementation progress.

3. CARIBBEAN DEVELOPMENT BANK'S ASSISTANCE STRATEGY

(a) Previous Interventions and Lessons Learnt

3.01 CDB's lending activities in Montserrat were curtailed in the aftermath of the volcanic eruptions which occurred between 1995-1997. However, during the ensuing stabilisation and reconstruction period, the Bank spearheaded an initiative that drew on the expertise of regional and other institutions to provide technical support to GOM. This initiative saw the establishment of a Multidisciplinary Group of Regional Experts^{16/} (MGRE) to assist by providing expert advice, and critical skills needed during the initial rebuilding process.

3.02 GOM's first external borrowing since the volcanic eruptions started in 1995 was from CDB in 2011. The Bank's development assistance over the past 15 years has, therefore, been limited to small-scale infrastructure projects financed under BNTF and to the provision of local and regional TA for capacity building. Under the BNTF programme, TA grants are provided in a number of critical areas relevant to community upliftment and empowerment, intended to lead to the enhancement of social and human capital. Table 3.1 shows the grant amounts approved under the BNTF 5^{17/} programme within the various categories during the 2006-2011 period^{18/}. To date, some 97% of the resources allocated to Montserrat have been disbursed and it is expected that the balance, already committed, will be disbursed by the third quarter of 2012.

TABLE 3.1: BASIC NEEDS TRUST FUND GRANT FUNDING APPROVED TO MONTSERRAT 2007-2011
(USD'000)

Item	2007	2008	2009	2010	2011
Access – roads	180.6	180.2	-	82.2	-
Education facilities	-	-	336.0	26.5	-
Health facilities	-	-	230.1	-	-
Maintenance	8.0	-	8.0	-	-
Skills training	22.5	18.7	28.0	69.5	35.0
Water supply systems	-	149.5	-	48.0	-
TOTAL	211.1	348.3	602.1	226.1	35.0

Source: CDB

3.03 BNTF staff and key stakeholders benefitted from training in MfDR in March 2010, which introduced the specific application of MfDR concepts and approaches to the BNTF programme. In June 2012, CDB commenced a TA grant under BNTF to support community building in participatory community development methods, following a request from GOM. The outcomes of the TA are to increase participation of communities in the formulation of development projects, including BNTF sub-projects,

^{16/} Included agencies were: Caribbean Centre for Development Administration, Caribbean Community Secretariat; CDB; Caribbean Disaster Emergency Response Agency (now Caribbean Disaster Emergency Management Agency); Caribbean Tourism Organisation; ECCB; UWI; Caribbean Export Development Agency; and Economic Commission for Latin America and the Caribbean.

^{17/} BNTF 5 in Montserrat was scheduled to run from April 2002 to December 2007, but was initially extended until December 2011 as a result of additional funding received through the execution of a Contribution Agreement between CIDA and CDB on March 24, 2003. The Terminal Disbursement Date (TDD) has been further extended to September 30, 2012 due to additional resources becoming available from exchange rate gains.

^{18/} Six additional sub-projects were approved prior to the reporting period (one in 2004; four in 2005 – including the Little Bay Market; and one in 2005).

thereby improving effectiveness and sustainability of development interventions through strengthening community cohesion and ownership. The training will increase the skills of officers of the departments of Community and Social Services, BNTF staff and partner organisations including CBOs and NGOs.

3.04 The BNTF 6 Programme provides approximately USD1 mn effectively commenced in 4th Quarter of 2011. The pipeline of sub-projects identified by GOM in its Poverty Reduction Action Plan (PRAP) for BNTF 6 was informed by the SDP and findings of the CPA. The PRAP outlined that BNTF resources will be employed to support outcomes which (i) enhance the productive capabilities of the poor; (ii) improve access to basic community infrastructure; (iii) enhance human development through education and training; and (iv) facilitate the resilience of MSMEs to enhance the well-being of the vulnerable population. One approach taken to achieve these outcomes is to engage individuals and communities as stakeholders in the development process. The BNTF 6 project builds on the training conducted in participatory community development methods by using BNTF resources to promote and support institutional capacity of the BNTF office staff, participation and partnership capabilities of beneficiaries and stakeholders, and synergies towards more comprehensive, sustainable and strategic approaches to BNTF development interventions. Some activities already proposed include the development of two functioning community resource centres along with skills enhancement of NGOs and CBOs in methods for consideration of gender aspects in project development, developing and implementing community action plans, managing community resources, and participatory M&E. These activities will collectively complement resources which DfID has earmarked for broader community development activities.

3.05 Public servants in Montserrat have benefited from a CDB sponsored Project Cycle Management Training Programme designed to improve project administration capacity within the Bank's BMCs. In April 2011, representatives from Montserrat participated in a PSIP workshop, hosted by ECCB and funded by CDB, designed to build capacity in PSIP formulation, implementation and management. During the same month, country representatives also participated in training to enhance capacity for long-range economic planning. Montserrat has further benefited from other regional TA programmes sponsored or co-sponsored by CDB.

3.06 Between 2008 and 2010, CTCS sponsored in excess of 20 activities (see Appendix 3.1) in support of the development of MSMEs in Montserrat. Continuation of this kind of support will be vital in helping small business play a more pivotal role in providing employment and income-generating opportunities.

3.07 The Montserrat CPA commenced in 2009 under a programme of support provided by the Bank to its BMCs. A draft report of the CPA has already been reviewed through a series of community consultations and a national consultation in Montserrat. The final report is currently being prepared by the consultants.

3.08 In May 2011, the CDB Board of Directors approved a loan from its Special Funds Resources to GOM in the amount of USD2.5 mn for the construction of a power station to provide efficient, secure and reliable electricity services. This loan was accompanied by a TA grant of USD364,170 for institutional strengthening of the Finance and Accounting Division of Montserrat Utilities Ltd. The total cost of the project is estimated at USD13.4 mn with DfID providing a grant equivalent to 62% of the cost.

3.09 Weak technical and institutional capacity, resulting in poor project identification and evaluation, as well as a lack of understanding of CDB procedures have emerged as the most common problems underlying project implementation in Montserrat. A TA grant, approved in 2008, to acquire a Project Management Information System was cancelled as a result of these factors. CDB staff continues to respond to the findings of the audit and the deficiencies identified are being addressed through relevant training programmes. In addition, GOM took the initiative to place the BNTF Office staff within the Government's Project Implementation Unit (PIU), with the Project Manager reporting to the Coordinator, PIU. This action is to improve the performance of the project and to streamline the processes and activities of BNTF 5 with

other government projects. While progress to date has been slow, it is, nonetheless, improving even though the country is lagging others in project implementation. Notwithstanding the TDD December 31, 2012, CDB expects significant use of the allocated resources within the given timeframe through an improved implementation rate, including a greater focus on MfDR.

Caribbean Development Bank's Proposed Assistance Strategy

3.10 This is CDB's first formal strategy for Montserrat. The proposed assistance strategy is designed within the context of a number of parameters, including CDB's strategic objectives; the country's development needs; limited human, technical and financial resources in country; restricted country capacity to borrow; and limited availability of grant resources by CDB. Grant resources for Montserrat are to be sourced from the eighth cycle of the Bank's Special Development Fund (SDF 8), covering the period 2013 to 2016, that is yet to be replenished. Although there is a strong demand for implementation support for programmes and projects from the GOM, CDB's strategy for MON will need to be flexible to adapt to the size of the resource envelope that is eventually committed. Given the modest envelope anticipated, partnership with GOM's other development partners is a central component of this strategy.

3.11 Within the above-stated parameters, the Bank's strategy is narrowly scoped, supports capacity development, and aims to assist GOM in undertaking key policy initiatives within its medium-term economic programme that will unlock other development partner resources. CDB's strategy co-ordinates and harmonises with that of Montserrat's main development partners, the EU and DfID. It supports select policy actions by GOM in the areas of growth and private sector development; public sector reform; and public financial management whose implementation will facilitate the disbursement of EU resources under the EU's General Budget Support programme. CDB's strategy for Montserrat supports the implementation of two of these actions. The strategy also gives consideration to a joint financing arrangement with DfID.

3.12 The resource envelope over the 2012-2015 period will comprise USD2.8 mn in grants and a loan amount to be determined upon the conclusion of SDF8 negotiations. Further, the country will benefit from other regional assistance programmes including OECS Education Sector Reform, Sustainable Energy For a Competitive OECS, as well as initiatives in the areas of DRM and CTCS. The CSP's general objective over the strategy period is to support the implementation of Montserrat's SDP to encourage inclusive growth. Activities will be focused under the two strategic outcome areas of (i) facilitating sustained economic growth and development effectiveness and (ii) increasing resilience and reducing vulnerabilities. Consistent with the poverty reduction mandate of the Bank, gender equality issues will be incorporated as a cross-cutting theme in light of the disparities identified in the recent CPA.

Strategic Outcome Area 1: Facilitating Sustained Economic Growth and Development Effectiveness

3.13 *Outcome: Develop the physical infrastructure required to facilitate tourism and international trade.* A modern sea port and berthing facilities in Little Bay are a prerequisite for the successful re-development of Montserrat. A safe harbour would provide for the uninterrupted movement of cargo and passengers and remove the threat caused by the vagaries of the ocean during periods of bad weather. In light of the possibility of attracting high end tourism in and around Little Bay, GOM is currently undertaking a prefeasibility study of various port development options. Based on these and other appraisal findings, CDB may consider providing loan financing as part of a joint-financing arrangement with DfID, EU and the European Investment Bank in the development of port facilities.

3.14 *Outcome: Develop feasible sources of renewable energy.* Montserrat has the potential for geothermal electrical power generation. This was the conclusion of work undertaken by four geothermal consulting companies to assess the economic feasibility of generating electrical power from the island's geothermal resources. On the basis of these findings, Government of UK, through its strategic growth plan

for Montserrat, has committed to invest significant sums to help propel the exploration and subsequent production of geothermal energy in Montserrat. As it seeks to develop feasible sources of renewable energy, GOM has identified, as a next step, the need for the establishment of a regulatory framework for the energy sector towards a well-regulated and developed energy sector. The successful completion of this action is a trigger for disbursement under the EU budget support programme during 2013. CDB proposes to provide TA for formulating and establishing such a framework.

3.15 *Outcome: Align education programmes and delivery to labour market needs.* The misalignment of training and employment opportunities is of major concern to GOM as it seeks to reduce the size of Government while increasing private sector participation in the redevelopment process. CDB proposes to assist GOM to develop more effective education and training systems. This will be accomplished through TA to undertake an assessment of the labour market trends (within the context of CDB's Education and Training Policy and Strategy) to better align education programmes and delivery to labour market needs. Capacity of the Statistics Department in Montserrat is very limited and Montserrat will need TA to assist with the timely completion of a labour market survey. The completed labour market survey is a disbursement pre-requisite for EU budget support in 2012.

3.16 *Outcome: Improve results monitoring frameworks.* Montserrat is currently engaged in a challenging exercise of providing 'value for money', particularly with respect to the grant resources it receives from development partners. Public sector reform activities started since 2006 are being buttressed by initiatives to mainstream MfDR principles into daily operations. This paradigm shift will require resources to help establish baseline information in many areas, including the strengthening of statistical systems for M&E and reporting. To ensure sustainable and inclusive growth, Montserrat will need to strengthen institutional capacity to manage public resources, allocate its resources effectively among consuming/investing and in a manner that yields effective outcomes. Montserrat will benefit from any regional programs undertaken by CDB to help mainstream MfDR when resources become available.

Strategic Outcome Area 2: Increasing Resilience and Reducing Vulnerabilities

3.17 *Outcomes: Reduce income vulnerability; enhance productive capabilities of the poor; improve access by the poor to basic community infrastructure and services; enhance human development through education and training systems; and facilitate the resilience of productive MSMEs.* In line with the Bank's poverty reduction mandate, CDB is seeking to increase the resilience of vulnerable groups by supporting improved access to basic community infrastructure and services, and by augmenting opportunities for skills enhancement toward strengthening social capital. BNTF activities in Montserrat are targeted at the most vulnerable communities identified in the CPA and are demand driven to derive optimal allocation and gain maximum participation. BNTF resources will be employed to support outcomes which (i) enhance the productive capabilities of the poor; (ii) improve access to basic community infrastructure; (iii) enhance HD through education and training; and (iv) facilitate the resilience of MSMEs to enhance the well-being of the vulnerable population. Allocations under BNTF 7 will support human resource development, water and sanitation systems improvement and upgrading of basic transportation infrastructure.

3.18 CDB's involvement in the development of productive enterprise will continue as part of its mandate to promote broad-based economic growth and inclusive social development among its BMCs. CDB proposes to support private business institutions through the continued use of CTCS resources aimed at making MSMEs more efficient and effective, with a view to creating employment opportunities and increased income earnings, thereby contributing to improving and sustaining livelihoods.

3.19 CTCS interventions will be targeted primarily at the agricultural and tourism sectors, which are the two key priority sectors identified by GOM for development under its economic diversification policy. Discussions with the Department of Agriculture have determined that CTCS assistance would be required

in the areas of fishing, farming and agro-processing, particularly in respect of fish processing (filleting and packaging); long-line fishing; deployment of fish aggregating devices; aquaculture; greenhouse vegetable production; and in the development of cottage industries.

3.20 The recent development of a tourism strategy also underpins GOM's efforts to reposition the tourism sector as a major catalyst for sustainable economic and social development. Skills training within the tourism industry are a major aspect of the strategy and remain an ongoing activity, as a large number of previously trained persons have emigrated. In light of this, and coupled with the absence of a hotel trades school, CTCS will continue to play a critical role in support of the tourism development thrust by providing training in hospitality trades. In addition, assistance will be provided in areas related to eco-tourism products and services.

3.21 *Outcome: Strengthen capacity to safeguard natural resources and improve natural hazard resilience.* Montserrat is quite challenged to effectively manage potential environmental risks and respond to changes in environmental quality, despite the suite of laws to protect its natural resources, and a comprehensive long-term strategic framework linking environmental sustainability at the macro-policy level to sector policies, plans and projects. The country has made some strides with respect to DRM and climate change sensitisation, but achievements to date are not considered comprehensive. Work in areas such as streamlining hazard risk reduction into sector policies; building institutional and individual capacities to manage risk; empowering and mobilising communities to mitigate, respond to and coordinate the management of risk; and establishing a hazard risk reduction information system, still require additional effort. Within the framework of CDB's Environmental Policy, the Bank is proposing to partner with GOM and other development agencies in advancing work in the outstanding areas in order to consolidate the gains that have been made in strengthening DRM.

3.22 GOM has identified the need to devise a capacity strengthening programme for the DMCA in community level disaster risk management, as well as for support for community level entities and key personnel engaged in improving community resilience to natural hazards. CDB's strategy proposes TA for institutional capacity strengthening to enhance the capacity of the DMCA to undertake community level disaster risk management and for improving natural hazard resilience of vulnerable groups at the community level. It is expected that Montserrat will potentially benefit from DRM TA through: (a) DRM grant assistance materialising under SDF 8 (currently under negotiation); (b) access to the CDB implemented regional competitive community disaster risk reduction fund (CDRRF), expected to come on stream in 2013.

TABLE 3.2: INDICATIVE INTERVENTION PROGRAMME 2012-2015
(USD'000)

Proposed Activity	Estimated Cost
Strategic Outcome Area 1: Facilitating Sustained Economic Growth and Development Effectiveness	
• Capital project to assist in the development of a modern sea port and berthing facilities in Little Bay	2,000.0*
• TA grant to formulate and establish a regulatory framework for the development of renewable energy.	300.0
• TA grant to undertake an assessment of the labour market trends towards developing more effective education and training systems.	25.0
Strategic Outcome Area 2: Increasing Resilience and Reducing Vulnerabilities	
<u>BNTF:</u> (i) enhance the productive capabilities of the poor; (ii) improve access to basic community infrastructure; (iii) enhance HD through education and training; (iv) increase food security through increased agricultural food production; (v) improve operational capacity of tourism related entities; and (vi) enhance viability and facilitate the resilience of MSMEs.	2,500.0

* Amount dependent on loan allocation under SDF8, currently being negotiated.

Donor Coordination

3.23 Better aid effectiveness is crucial to achieving sustained development outcomes including poverty reduction. Coordination, harmonisation and alignment are key elements in this regard. CDB has worked to make its strategy more effective and efficient by initiating discussions with Montserrat's major development partner, DfID, with a view to coordinating funding interventions for the port at Little Bay. Discussions with other development partners, EU and United Nations Development Programme, have also taken place to ensure that interventions yield the maximum development impact. Current projects under implementation by development partners are listed at Appendix 3.2.

4. RESULTS MONITORING AND EVALUATION FRAMEWORK

Monitoring Results

4.01 A RBM framework will be utilised by CDB for monitoring implementation of the strategy in Montserrat. This framework will provide for an effective evaluation of the use of resources over the period, and importantly, will help in assessing the extent to which GOM strategic objectives are achieving the desired results. Baseline indicators will be agreed with GOM as it is currently analysing progress to date on the medium-term objectives of SDP. Baseline indicators not included in the document are to be agreed within six months of CSP approval. Data sources will comprise reports from the various implementing agencies (where applicable), or specified periodic reports furnished by the Cabinet Secretariat. Where appropriate, data will be disaggregated by sex to improve analysis. A mid-term review of CSP implementation progress is also planned, as well as a full evaluation at the end of the strategy period. The mid-term CSP Progress Report will provide an opportunity to assess progress and performance, and to revisit the results matrix to reflect changes in the Bank and Government's relationship and priorities. Montserrat has, as part of its SDP, articulated a M&E framework to track SDP implementation progress and challenges. The framework highlights the performance indicators and targets for each medium-term objective and strategic action and the lead organisation for implementing the strategic actions as the basis of the monitoring of the SDP.

4.02 In addition to the CSP progress reports that are intended to evaluate implementation progress, CDB Evaluation and Oversight Division (EOV) will engage in formal oversight of the strategy and its implementation in order to assist the Operations Area of the Bank in improving the development effectiveness of its activities. The structured approach by EOV is also designed to help improve overall Bank operations.

Risks and Mitigation Measures

4.03 Human resource constraints have persisted for some time and are not likely to be overcome easily given the small population base. With this constraint, strategy implementation will be challenging. An attempt has, however, been made to avoid concentration, and to spread the assistance broadly across functional areas and to have GOM prioritise the interventions. The continued financial and TA from UK will help to address this risk. Critical capacity gaps in the public service have been filled through a mixture of UK-funded technical cooperation and targeted longer term capacity development. The DfID-funded Annual Country Training Scheme was introduced in 1995 and has continued to provide longer term capacity development support for the public sector. CDB will continue to partner with GOM in the provision of training to enhance human resource capacity in an effort to mitigate this challenge.

4.04 The persistence of uncertainty surrounding a global recovery continues to have a direct impact on the prospects for sustained macroeconomic growth in Montserrat. The heavily weighted downside risks to a global recovery threatens the continued provision of grant resources provided by development partners which could impact CDB's strategy for Montserrat.

4.05 The level of activity of Soufriere Hills volcano and the possibility of severe tropical weather continue to pose risks to Montserrat. Responses to such emergencies may be assisted by the fact that the remaining population is distributed over a smaller spatial area, as restricted by the "exclusion zone" rather than across the entire island. This pattern, while advantageous in the context of relative ease of access, for emergency response purposes, may also however be constraining in the context of concentrating vulnerability and hazard exposure.

MONTSERRATT
GROSS DOMESTIC PRODUCT BY ECONOMIC ACTIVITY
[at basic prices, in current prices - (\$ mn)]

INDUSTRIES	2007	2008	2009	2010	Prel 2011	Proj 2012	Proj 2013
Agriculture, Livestock and Forestry	0.85	0.88	1.13	1.11	1.34	1.51	1.7
Crops	0.26	0.33	0.49	0.32	0.47	0.54	0.63
Livestock	0.53	0.48	0.58	0.73	0.81	0.9	1
Forestry	0.06	0.06	0.06	0.06	0.06	0.06	0.06
Fishing	0.34	0.44	0.54	0.35	0.48	0.53	0.58
Mining and Quarrying	1.69	1.62	1.34	0.34	1.46	1.55	1.64
Manufacturing	1.63	1.99	2.04	1.9	2.13	2.37	2.63
Electricity and Water	4	4.04	4.14	4.39	4.57	4.82	5.09
Electricity	2.45	2.46	2.49	2.5	2.6	2.73	2.87
Water	1.55	1.58	1.65	1.9	1.97	2.09	2.22
Construction	9.35	10.43	11.95	11.11	14.88	15.48	16.1
Wholesale and Retail Trade	8.78	10.91	11.08	8.59	9.2	9.76	10.35
Hotels and Restaurants	2.95	2.94	2.3	2.49	1.91	2	2.08
Hotels	1.87	1.74	1.1	1.24	0.64	0.67	0.7
Restaurants	1.08	1.19	1.19	1.25	1.28	1.33	1.38
Transport, Storage and Communications	14.52	13.37	12.47	11.44	13.51	13.85	14.21
Transport and Storage	5.9	5.86	5.64	4.6	6.53	6.7	6.87
Road	2.52	2.54	2.46	1.82	2.19	2.26	2.32
Sea	0	0.01	0.02	0.08	0.16	0.16	0.17
Air	1.08	1.14	1.26	1.13	1.3	1.28	1.26
Supporting and auxiliary transport	2.29	2.18	1.9	1.57	2.88	3	3.12
Communications	8.63	7.51	6.83	6.84	6.98	7.15	7.33
Financial Intermediation	13.58	14.3	14.32	14.52	16.11	16.7	17.31
Banks and Other Financial Institutions	11.06	11.89	12.12	12.29	13.86	14.42	15
Insurance and pension funding	1.95	2	1.9	1.92	1.94	1.96	1.98
Activities Auxiliary to Financial Intermediation	0.57	0.41	0.3	0.31	0.32	0.33	0.33
Real Estate, Renting and Business Activities	17.72	17.92	18	18.06	18.47	18.79	19.11
Owner Occupied Dwellings	7.76	7.81	7.86	7.93	8.04	8.16	8.28
Real estate activities	7.17	7.21	7.27	7.32	7.42	7.53	7.64
Renting of machinery and equipment	0.28	0.27	0.23	0.16	0.16	0.17	0.18
Computer and related activities	0.35	0.37	0.39	0.4	0.41	0.42	0.44
Business Services	2.17	2.26	2.24	2.25	2.43	2.51	2.58
Public Administration, Defence and Compulsory Social Security	42.39	45.19	51.53	50.38	50.75	51.76	52.8
Education	4.73	5.05	5.06	5.16	5.21	5.32	5.43
Public	4.25	4.55	4.47	4.55	4.58	4.67	4.77
Private	0.48	0.49	0.59	0.61	0.62	0.64	0.66
Health and Social Work	7.25	7.49	7.69	7.87	7.96	8.13	8.31
Public	5.94	6.15	6.4	6.62	6.67	6.8	6.94
Private	1.31	1.34	1.29	1.25	1.29	1.33	1.37
Other Community, Social and Personal Private Households with Employed	3.36	3.32	3.12	4.18	4.18	4.32	4.47
Less FISIM	1.32	1.43	1.64	2.02	2.22	2.3	2.4
Gross Value-added at Basic Prices	132.45	139.08	145.7	140.5	150.58	155.22	160.06

Source: ECCB

**ORGANISATION OF EASTERN CARIBBEAN STATES:
SELECTED STATISTICAL DATA 2007-2011**

Country	2007	2008	2009	2010	2011
<i>Gross Domestic Product at current Market Prices (\$ mn)</i>					
OECS	13,913.4	14,595.5	13,997.9	14,398.3	14,807.8
Anguilla	966.2	965.6	798.0	738.8	797.1
ANT	2,869.2	3,046.0	2,984.7	3,237.1	3,326.9
DOM	1,130.7	1,247.8	1,299.4	1,274.0	1,302.1
GRN	2,220.6	2,247.4	2,093.9	2,115.7	2,115.7
Montserrat	147.3	156.7	162.7	155.9	167.4
SKN	1,861.6	1,998.3	1,859.4	1,817.7	1,914.1
STL	2,869.2	3,046.1	2,984.7	3,237.1	3,326.9
SVG	1,848.7	1,887.7	1,815.2	1,822.0	1,857.6
<i>Mid-year Population ('000s)</i>					
OECS	605.1	610.2	616.4	622.3	629.3
Anguilla	14.9	15.6	16.0	16.4	17.2 ^e
ANT	85.9	87.5	89.1	90.6	92.1 ^e
DOM	71.4	71.8	72.3	73.7	75.2
GRN	109.0	109.7	110.4	111.8	112.8
Montserrat	4.8	4.9	5.0	5.0	4.9
SKN	50.6	51.3	52.0	52.7	53.5 ^e
STL	168.3	170.3	172.0	173.7	175.8 ^e
SVG	100.1	99.1	99.5	98.5	97.8 ^e
<i>Gross Domestic Product per capita (\$)</i>					
OECS	22,993	23,918	22,710	23,135	23,531
Anguilla	64,907	61,900	49,997	45,131	46,355
ANT	33,402	34,812	33,484	35,737	36,113
DOM	15,844	17,383	17,978	17,281	17,316
GRN	20,367	20,482	18,961	18,929	18,752
Montserrat	30,558	32,135	32,288	31,056	34,011
SKN	36,760	38,955	35,758	34,491	35,800
STL	17,044	17,883	17,349	18,636	18,925
SVG	18,463	19,043	18,242	18,501	19,003

Source: ECCB, CDB

^e - estimated

MONTSERRAT:
CENTRAL GOVERNMENT FINANCES, 2007-2014
(\$ mn)

Item	Actual					Projected		
	2007	2008	2009	2010	2011	2012	2013	2014
Current Revenue	35.8	40.2	40.1	38.6	41.2	45.5	45.6	46.1
Tax Revenue	31.6	34.4	35.8	33.6	36.6	39.1	39.2	40.2
Taxes on Income and Profits	14.4	15.0	16.8	16.4	18.1	18.4	18.8	19.2
<i>Of which:</i>								
Company	1.7	2.1	2.7	1.9	3.1	n.a.	n.a.	n.a.
Personal	12.2	12.3	13.4	13.5	13.7	n.a.	n.a.	n.a.
Taxes on Property	1.4	1.0	1.1	1.0	0.8	1.2	1.3	1.3
Taxes on Domestic Goods and Services	3.4	3.7	3.7	2.7	3.2	4.0	4.0	4.0
<i>Of which:</i>								
Insurance and Company Levy	0.3	0.2	0.2	0.2	0.2	n.a.	n.a.	n.a.
Stamp Duty & Licenses	2.2	2.4	2.5	1.5	2.0	n.a.	n.a.	n.a.
Taxes on International Trade and Transaction	12.4	14.8	14.2	13.6	14.5	15.4	15.2	15.8
<i>Of which:</i>								
Import Duty	3.5	4.4	4.2	3.9	4.2	n.a.	n.a.	n.a.
Consumption Tax	5.1	6.2	6.3	6.3	6.5	n.a.	n.a.	n.a.
Customs Service Charge	3.1	3.9	3.5	3.3	3.6	n.a.	n.a.	n.a.
Foreign Currency Levy	0.5	-	-	-	0.0	n.a.	n.a.	n.a.
Non-Tax Revenue	4.2	5.7	4.3	5.0	4.6	6.5	6.6	5.9
Current Expenditure	92.3	96.8	97.3	88.1	93.2	101.3	101.6	102.0
Personal Emoluments	37.9	39.2	41.4	42.6	42.7	46.4	46.5	46.4
Other Goods and Services	30.8	31.5	23.9	18.3	19.8	n.a.	n.a.	n.a.
Interest Payments	0.1	0.1	0.1	0.1	0.0	n.a.	n.a.	n.a.
Domestic	0.1	0.1	0.1	0.1	0.0	n.a.	n.a.	n.a.
External	0.1	0.0	0.0	0.0	0.0	n.a.	n.a.	n.a.
Transfers and Subsidies	23.5	25.9	31.9	27.1	30.6	n.a.	n.a.	n.a.
Pensions	12.1	13.4	17.3	12.0	11.1	n.a.	n.a.	n.a.
Current Account Balance (before grants)	(56.6)	(56.6)	(57.2)	(49.5)	(51.9)	(55.8)	(55.8)	(55.8)
Current Grants	58.0	56.7	60.3	47.5	76.3	55.8	55.8	55.8
Current Account Balance (After grants)	1.4	0.1	3.1	(2.0)	24.3	0.0	(0.0)	(0.1)
Capital Revenue		-	-	-	-	-	-	-
Capital Grants	18.0	22.0	39.9	34.4	24.2	25.5	13.5	13.3
Capital Expenditure	26.6	35.5	37.1	29.8	27.8	n.a.	n.a.	n.a.
Capital Account Balance	(8.6)	(13.5)	2.8	4.6	(3.6)	n.a.	n.a.	n.a.
Primary Balance (before grants)	(83.0)	(92.0)	(94.2)	(79.2)	(79.7)	n.a.	n.a.	n.a.
Primary Balance (after grants)	(7.0)	(13.4)	6.0	2.7	20.8	n.a.	n.a.	n.a.
Overall Balance (before grants)	(83.1)	(92.1)	(94.3)	(79.3)	(79.7)	n.a.	n.a.	n.a.
Overall Balance (after grants)	(7.2)	(13.5)	5.9	2.6	20.7	n.a.	n.a.	n.a.
Financing	7.2	13.5	(5.9)	(2.6)	(20.7)	n.a.	n.a.	n.a.
Domestic	7.2	13.6	(5.7)	(2.5)	(20.6)	n.a.	n.a.	n.a.
ECCB (net)	(0.7)	(1.3)	(0.7)	(0.4)	(0.1)	n.a.	n.a.	n.a.
Commercial Banks (net)	(1.3)	7.4	(1)	(6.1)	(27)	n.a.	n.a.	n.a.
Other	9.1	7.4	(4.0)	3.9	6.5	n.a.	n.a.	n.a.
External	0.0	(0.1)	(0.1)	(0.1)	(0.1)	n.a.	n.a.	n.a.
Net Amortisation	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	n.a.	n.a.	n.a.
Disbursements		-	-	-	-	n.a.	n.a.	n.a.
Amortisation	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	n.a.	n.a.	n.a.
Change in Government Foreign Assets	0.1	-	-	-	-	n.a.	n.a.	n.a.

Source: GOM, ECCB

**FRAMEWORK FOR THE MONTSERRAT
SUSTAINABLE DEVELOPMENT PLAN, 2008-2020**

The National Vision				
<p>The rebuilding of a healthy and wholesome Montserrat, founded upon a thriving modern economy with a friendly, vibrant community, in which all our people through enterprise and initiative, can fulfill their hopes in a truly democratic and God-fearing society.</p>				
▼ ▼ ▼				
Strategic Goals				
<p>Economic Management An environment that fosters prudent economic management, sustained growth, a diversified economy and the generation of employment opportunities.</p>	<p>Human Development Enhanced HD and improved quality of life of all people on Montserrat.</p>	<p>Environmental Management and Disaster Mitigation Montserrat's natural resources conserved within a system of environmentally sustainable development and appropriate strategies for disaster mitigation.</p>	<p>Governance An efficient, responsive and accountable system of governance and public service.</p>	<p>Population A sustainable population.</p>
▼ ▼ ▼				
National Outcomes				
<p>Cascading from the five strategic goals are the national outcomes. The strategic goals, along with the national outcomes, present a true picture of what Montserrat will look like by 2020.</p>				
▼ ▼ ▼				
Medium Term Action Plan				
<p>The Medium-Term Action Plan sets out: medium-term objectives under each strategic goal; strategic actions for 2008-12; strategic actions that will be given the highest priority; quick wins; and targets. The achievement of the medium-term objectives, 2008-2012, will contribute substantially to the achievement of the five strategic goals.</p>				
▼ ▼ ▼				
Implementation and Monitoring				
<p>The implementation of the Plan will involve all stakeholders; public sector, private sector, church-based Organisations, NGOs and the Diaspora. The ongoing monitoring of the implementation of the Plan will be the responsibility of the Ministry of Economic Development and Trade.</p>				

Source: GOM, SDP 2008-20

KEY TARGETS TO BE ACHIEVED BY YEAR 2020
UNDER EACH STRATEGIC GOAL

<p align="center">Strategic Goal 1: Economic Management</p>	<ul style="list-style-type: none"> • Government services contributing no more than 22% of real GDP, while agriculture, tourism, mining and quarrying contribution to GDP increase by at least 100%. • 6% growth in GDP p.a. in real terms as of 2012. • GOM's recurrent budget financed totally from revenue intake. • Unemployment rate of less than 7%. • 60% of national electricity requirements produced from renewable resources. • Production of 50% of agricultural produce required for local consumption.
<p align="center">Strategic Goal 2: Human Development</p>	<ul style="list-style-type: none"> • No more than 6% of the population living below the poverty line. • 40% increase in the housing stock. • Reduction in percentage of single parent headed households as percentage of all households with children. • 100% increase in the range of curative and rehabilitative health care services available on island. • 20% of the population with tertiary level certification.
<p align="center">Strategic Goal 3: Environmental Management and Disaster Mitigation</p>	<ul style="list-style-type: none"> • 10% growth in the population of endangered/protected species. • Consistent enforcement of key elements of the environmental management strategy, policy and legislation. • Minimise damage caused by disasters to less than 2% of GDP.
<p align="center">Strategic Goal 4: Governance</p>	<ul style="list-style-type: none"> • Full compliance of public servants and elected officials with established accountability frameworks. • CG agencies consistently meeting established agreed service delivery targets and the needs of its customers. • A 25% reduction in the crime rate. • Montserrat enjoying net benefits from full membership in CARICOM and the OECS.
<p align="center">Strategic Goal 5: Population</p>	<ul style="list-style-type: none"> • A population of 9,000.

Source: GOM, SDP 2008-2020

MEDIUM-TERM STRATEGIC OBJECTIVES

<p><i>Strategic Goal 1: Economic Management</i></p>
<ul style="list-style-type: none"> • Develop and construct the physical infrastructure and transportation facilities required to facilitate tourism development, international trade and national well-being. • Develop and market the tourism product with the aim of laying the foundation for significant growth in high yield tourism. • Create an environment that promotes and supports private sector-led sustainable economic activities. • Assess and develop feasible sources of renewable energy. • Develop a sustainable agro-import substitution programme to ensure food security and economic diversification.
<p><i>Strategic Goal 2: Human Development</i></p>
<ul style="list-style-type: none"> • Provide better housing solutions through public/private partnerships. • Promote health, well-being and a national identity through education, culture and sports. • Establish programmes which will support the building of strong and caring family units and a God-fearing society. • Improve facilities and services for better healthcare delivery. • Increase access to and improve quality of formal and informal education. • Develop and implement policies and programmes to enhance the well-being of the vulnerable population. • Promote social integration and create a safer working environment.
<p><i>Strategic Goal 3: Environmental Management and Disaster Mitigation</i></p>
<ul style="list-style-type: none"> • Enhance the capacity of the Department of Environment, DMCA and other environmental management agencies and NGOs to function effectively. • Create, enact and enforce policy and legislation to ensure effective environmental and disaster management, education, and participation in decision-making. • Strengthen national and community level capacity for mitigation, management and coordinated response to natural and technological hazards, and to the effects of climate change. • Develop a comprehensive disaster management framework. • Protect and conserve biodiversity and other natural resources. • Develop and promote environment health programmes to reduce health hazards. • Identify, maintain and protect heritage sites and artifacts.
<p><i>Strategic Goal 4: Governance</i></p>
<ul style="list-style-type: none"> • Develop a transparent and effective accountability framework for Government and the public sector. • Strengthen and implement a comprehensive public information and communication strategy. • Maximise integration of Montserrat into the regional and global environment. • Modernise the relationship with Her Majesty's Government and strengthen the administration of justice system. • Modernise public administration to achieve excellence in the delivery of public services. • Develop and implement strategies to manage crime and delinquency.
<p><i>Strategic Goal 5: Population</i></p>
<ul style="list-style-type: none"> • Develop and implement population, labour and immigration policies which will enhance growth of the population. • Create initiatives to retain the current population. • Create initiatives which will facilitate the increase of the population.

Source: GOM, SDP 2008-2020

CARIBBEAN TECHNOLOGICAL CONSULTANCY SERVICES
TECHNICAL ASSISTANCE ACTIVITIES
IN MONTSERRAT, 2008-2011

Intervention	Requesting Institution/Company	Amount
2008 Activities		
• Development of a business plan for a proposed Small Business Incubator programme.	Montserrat Chamber of Commerce	7,554
• Diagnostic assessment of Julie's Enterprises. • Recommendations to increase output and quality of products in order to export.	Juliana Meade of Julies Enterprises - a company engaged in the manufacture of textile craft items	4,197
• Audit of all existing tourism products and services in Montserrat, as well as existing standards for these products and services. • Proposed amendments to existing standards for tourism products and services in Montserrat.	Montserrat Tourist Board (MTB)	7,775
• Workshop on Sewing Machine Maintenance.	Community Services Department	6,975
Total		26,501
2009 Activities		
• Assessment of the arts and craft sector	Montserrat Development Corporation (MDC)	5,554
• Assistance to 25 persons in finalising their business plans to facilitate access to finance under the Tourism Challenge Fund administered by the MTB.	MDC	15,069
• Training of Juliana Meade in textile craft through a training attachment at True Impressions Drapery in SVG.	Juliana Meade (Julies Enterprises)	4,196
• Development of proposed standards for tourism products and services in Montserrat.	MTB	3,750
• Training attachment of two officials of MTB to the St. Lucia Bureau of Standards. This was to obtain information to assist MTB in implementing a tourism standards programme.	MTB	12,253
• Training attachment of two employees of Tropical Mansion Suites in Front Office Operations and Spa Management.	Tropical Mansion Suites	16,549
• Training workshop on Business Plan Development.	MDC	4,801
• Workshop on Event Planning and Management.	UWI Open Campus	32,465
• Workshop on Guest Relations.	MTB	3,777
• Workshop on Food and Beverage Service.	MTB	3,776
• Workshop on Basic Food Preparation.	MTB	3,895
• On-the-job training in housekeeping.	MTB	9,412
Total		115,497
2010 Activities		
• Workshop on Paste and Pastry Making.	MTB	10,054
• Workshop on Long-line Fishing.	Department of Agriculture	20,177
• Workshop on packaging and labeling for arts and craft producers.	MDC	4,360
• Development of a technical plan for an agro-processing unit.	Department of Agriculture	6,059
• Diagnostic Assessment Arts and Craft Sector.	MDC	2,400
Total		43,050
2011 Activities		
• Development of a Strategic Plan for the Montserrat Small Business Association	Montserrat Small Business Association	6,900
• Training in housekeeping	MTB	9,205
Total		16,105

Source: CDB

DEVELOPMENT COORDINATION MATRIX
(AS AT JUNE 2012)

Item	Caribbean Development Bank	Department for International Development	European Commission	United Nations Development Programme
Macroeconomic Management		<ul style="list-style-type: none"> • Development Corporation – to create an enabling environment for Private Sector Development (PSD) and management of the Little Bay Development Project. • PSD Project – to implement an agreed long-term PSD strategy that will create an effective enabling environment for the private sector • Access Coordinator – to improve quality of air and sea access to Montserrat • Population and Housing Census – to provide accurate demographic and socioeconomic data for Montserrat. • Public Works Department Strategic Development – management advice and technical inputs to enable Ministry of Communications and Works to achieve its key business objectives and to strengthen local management capacity. • Restructuring of the Public Works Workshop 		<ul style="list-style-type: none"> • Capacity building in hazard mapping and vulnerability assessment using Geographical Information Systems tools and applications • Consultancy to undertake a comprehensive review of the Statistics Department with a view to establishing the department as an autonomous National Statistical Authority
Infrastructure	BNTF <ul style="list-style-type: none"> • Construction of slaughter house. • Agro processing unit. • Safe house for victims of gender violence. • Farm access road. 	<ul style="list-style-type: none"> • Road Reinstatement Project – to provide improved safety of vehicular and pedestrian access along 14 km of Montserrat’s A01 arterial road from Salem to St. Johns. • GOM Office Accommodation - to provide GOM with fit for purpose office accommodation 		
Education	<ul style="list-style-type: none"> • Teacher development – to improve the quality of teaching by providing training in effective pedagogy for teachers in primary and secondary schools. • BNTF skills training 	<ul style="list-style-type: none"> • Education Infrastructure – to meet education access needs and improve the overall quality of education provided in schools 		
Housing		<ul style="list-style-type: none"> • Housing Incentive Scheme – assist middle to low income households in the acquisition of new properties • Support to Housing Unit – capacity building support to Housing Unit and Housing Unit Director • Housing and Social Care for Mentally Challenged and Vulnerable – to provide appropriate housing and social care arrangements for all mentally challenged and vulnerable people currently awaiting long-term housing solutions 		
Governance	MfDR mainstreaming	<ul style="list-style-type: none"> • Public Service Reform (Phase 2) – to modernise public administration to achieve excellence in the delivery of public services 		

APPENDIX 3.2

Item	Caribbean Development Bank	Department for International Development	European Commission	United Nations Development Programme
Energy	<ul style="list-style-type: none"> Power Generation Improvement – GOM/Montserrat Utilities Ltd. to provide an efficient secure and reliable electricity service 	<ul style="list-style-type: none"> Power Generation Improvement – GOM/Montserrat Utilities Ltd. to provide an efficient secure and reliable electricity service 		
Tourism	CTCS: Skills training related to hospitality services.	<ul style="list-style-type: none"> Tourism Development Project – to increase the number of visitor arrivals and expenditure and to develop tourist attractions that meet international standards 	<ul style="list-style-type: none"> Tourism development – (i) to increase the number of visitor arrivals and expenditure and to develop tourist attractions that meet international standards; and (ii) to re-introduce Montserrat to the world as a safe eco-tourist destination and provide income generating opportunities for stakeholders involved in the tourism sector 	
Disaster Management				<ul style="list-style-type: none"> Improvement and harmonisation of alerting systems for all hazards through the use of an automated centralised system applying the Common Alerting Procedure. Provision of an efficient and resilient emergency telecommunications system.
ICT			<ul style="list-style-type: none"> Information and Communication Technology (ICT) – to assist with the liberalisation of the telecommunications market, preparation of the ICT strategy, and installing submarine cable (ICT infrastructure). 	
Agriculture	CTCS: Skills training related to agro-processing and fishing.			

FIGURE 1: MAP OF MONTSERRATT

