

Department for International Development

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- halve the number of people living in extreme poverty and hunger
- ensure that all children receive primary education
- promote sexual equality and give women a stronger voice
- reduce child death rates
- improve the health of mothers
- combat HIV and AIDS, malaria and other diseases
- make sure the environment is protected
- build a global partnership for those working in development.

Each of these goals has its own, measurable, targets.

DFID works in partnership with governments committed to the Millennium Development Goals, with civil society, with the private sector and with the research community. It also works with multilateral institutions, including the World Bank, United Nations agencies, and the European Commission.

DFID works in 150 countries worldwide, with an annual budget of some £4 billion. Its headquarters are in London and East Kilbride, near Glasgow.

WHAT ARE COUNTRY POLICY PLANS?

Country Assistance Plans are prepared for all countries where we provide development assistance programmes. For Overseas Territories these take the form of Country Policy Plans (CPPs). CPPs set out how the UK will contribute to achieving policy objectives and promote development in the Territory concerned. These are usually produced every three years and are reviewed annually with the relevant Territory by a joint DFID/Foreign and Commonwealth Office team.

Montserrat: Country Policy Plan 2004/05 – 2006/07

Contents		Page
Part 1:	Context	3
	Introduction	3
A	Summary	3
B	The Challenge	4
	Overview	4
	Reducing dependence	4
	Coping with the volcano	5
	Maintaining high governance standards	5
	Handling regional issues	6
	Supporting a small, vulnerable population	6
	Maintaining Montserrat's environment	7
	Developing local capacity	7
	Montserrat's development strategy and agreed governance actions	7
C	Risks	10
Part 2:	UK assistance plans	11
D	UK assistance for Montserrat	11
	Preamble	11
	DFID assistance	11
	Other UK assistance	13
Part 3:	Management and Monitoring	15
E	Monitoring and implementation	15
Annex 1	Use of DFID funds since 1995/96 and key achievements	16
Annex 2	Summary of planned DFID and other external assistance	18
Annex 3	Summary of Montserrat's sector development priorities*	
Annex 4	Map and photographs*	

* Available on line only at www.dfid.gov.uk

Introduction

This Country Policy Plan (CPP) sets out the strategy for the United Kingdom's (UK) support to its Overseas Territory of Montserrat, to help the island achieve its objectives during the period 2004/05 to 2006/07. This is set in the overall context of the UK's evolving constitutional and governance relationship with Montserrat, and in relation to Montserrat's own development plans.

A. Summary

- A1. The partnership between Montserrat and the UK reflects the wider relationship between the UK and its Overseas Territories, as expressed in UK Government White Papers published in 1997 and 1999. The UK Government will continue to support and promote the development of all its Territories, including Montserrat. The UK will retain overall responsibility for good governance of the Territories, whilst at the same time expecting high standards of local governance, democratic accountability, probity and law and order. Further modernisation of the constitutional relationship between the UK and Montserrat is anticipated during the Country Policy Plan period, through mutual discussion and agreement between the UK and Montserrat.
- A2. The UK fully recognises Montserrat's unique and difficult development situation. The island suffered greatly from devastating volcanic activity during 1995–1997, which destroyed much of its infrastructure and decimated its economic and social structures. Much has been achieved since then to re-establish 'normal' life in the habitable northern third of Montserrat, with support primarily from the UK Department for International Development (DFID) and the European Commission (EC) totalling well over £200 million. The challenge now is for Montserrat to move on to build a sustainable future and reduce its dependence on external support. With continuing support primarily targeted on revenue-generating investments, within ten years Montserrat should not require any external support to meet its government's running costs.
- A3. Current and planned activities will contribute much towards making Montserrat more sustainable. In particular, the UK and Montserrat have agreed a programme of development support prioritised within the broader framework of the island's Sustainable Development Plan. This programme includes a new airport and major investments in tourism and private sector development that, together with the Little Bay new capital town development and an anticipated increase in Montserrat's population, should help greatly in achieving the goal of self-sufficiency. DFID will provide development assistance of £40 million during the period 2004/05 to 2006/07. The UK will also assist through support from the Foreign and Commonwealth Office (FCO) and through helping Montserrat to access resources from other sources, notably the EC and the Caribbean Development Bank (CDB).

B. The Challenge

Overview

B1. The key challenges facing Montserrat at present are:

- **reducing the island's unsustainable dependence** on external financial support, particularly support for its recurrent budget deficit;
- **coping with a 'persistently active' volcano**, that can and does negatively affect perceptions of the island, investment prospects etc;
- **maintaining high standards of governance**, including democratic accountability, transparency, probity, and law and order, modernising the Constitution, meeting international standards on human rights etc;
- **handling regional issues**, including participation in regional agencies, competition for tourism revenues etc.;
- **supporting a small but vulnerable population**, including many (e.g. amongst the elderly) who rely to varying extents on government assistance;
- **maintaining Montserrat's unique natural environment** and ensuring future developments, such as increased tourism, do not spoil it; and
- **developing local capacity and skills** to handle the above issues and to support Montserrat's future development.

Actions on governance issues agreed between the UK and Montserrat are set out in paragraph B29.

Reducing dependence

- B2. The volcanic crisis of 1995 – 1997 destroyed much of the social and economic fabric of the island, devastated nearly all its key infrastructure, and caused substantial population exodus. Montserrat's gross domestic product (GDP) fell from £38.7 million in 1994 to £24.2 million in 1998. The population dropped from 11,500 to 3,000, but has since stabilized at around 4,500. Many on the island are vulnerable. A high volume of DFID assistance (over £206 million from the start of the crisis to the end of 2003/04¹) has been required to restore basic infrastructure, and to maintain essential public services for the remaining population.
- B3. As a result, Montserrat's current GDP relies very heavily on government spending. This in turn is heavily dependent on external budgetary and development support, mainly from DFID. The present situation is therefore not sustainable, and the skewed structure of the economy will continue to place heavy demands on limited public finances. In order to achieve balanced and sustainable growth, Montserrat needs rapid private sector development. A vibrant export oriented private sector will not only reduce demands on public expenditures, but also help to generate much needed tax revenues. However, initiatives to develop the private sector face many challenges, including: the volcano, a limited local market, difficulties in accessing finance and attracting inward investment, and limited local capacity and skills.
- B4. Tourism, one of the main contributors to the economy before the volcanic crisis (25% of GDP), has not fully recovered from the fall in numbers since that time. The Montserrat Government has identified tourism as its central focus for future economic growth, and a new strategy is being implemented to re-position Montserrat in the tourist market. The absence of fixed-wing air access, a key constraint on tourism, is currently being addressed through the construction of a new airport. This will also reduce the Government's recurrent budget deficit, by approximately 25%, through removal of transport subsidies.

¹ See Annex 1 for outline details and key achievements

- B5. Attracting inward investment will also be critical for Montserrat's future sustainability. Key challenges are ensuring that investors are provided with accurate information about the negligible volcano risks to the north of the island, and encouraging insurance companies to provide cover. Several external investors are currently exploring options, including mining and quarrying of volcanic material. Inward investment prospects will be enhanced by a new airport, an increase in tourism, development of the proposed new capital town at Little Bay, enhanced Information Communication Technology and anticipated population growth.

Coping with the volcano

- B6. Although Montserrat has now emerged from the initial stages of the volcanic crisis, the volcano still remains active, and is expected to remain so for the period of this Policy Plan. This poses a number of challenges to the development of the island as it discourages investors and complicates rebuilding the population.
- B7. The volcano is classified by expert scientists as 'persistently active'. Major volcanic events during 2003 were an unwelcome reminder of the impact the volcano can still have, even on the 'safe' northern third of the island, parts of which received heavy ash fall. Through the Montserrat Volcano Observatory, the Government has in place an effective organisation for managing this environmental hazard. The FCO additionally funds a Scientific Advisory Committee that advises on longer-term risks. But both require significant resources, to ensure the continuing safety of the island's inhabitants
- B8. Conversely, if and when the volcano quietens down, this will pose the challenge for Montserrat and the UK of how to handle the potential reoccupation of areas that were formerly unsafe to live in, such as the former Day Time Entry Zone (DTEZ) – see paragraph D6.

Maintaining high governance standards

The governance framework

- B9. The principles of partnership between the UK and Montserrat are laid out in the 1999 White Paper² on the Overseas Territories. These principles cover a range of issues fundamental to both the UK and Montserrat: the constitutional link; citizenship; the environment; financial standards; good governance; and human rights.
- B10. The UK's international priorities, which are set out in the Foreign and Commonwealth Office's new strategy in December 2003³, note that the security and good governance of the Overseas Territories are the responsibility of the UK Government as a whole. The UK will aim to promote Montserrat's quality of life and support its long-term development. In turn the UK expects that Montserrat will observe high standards of probity, law and order and good governance and also that it will observe international commitments to which it is bound by virtue of its relationship with the UK.

The constitutional relationship

- B11. Nearly five years on from the 1999 White Paper, the UK/Montserrat relationship needs to take account of new challenges and changes taking place in the world at large. A key vehicle for meeting these challenges is the process of constitutional modernisation on which Montserrat is now embarked.
- B12. The challenge will be to strike the right balance between Montserrat's desire for greater autonomy and the UK's need to meet her international obligations and responsibilities as well as to protect against contingent liabilities. It is envisaged that the Governor and the elected Government will work in close partnership to ensure the highest standards of governance and democracy.

² 'Partnership for Progress and Prosperity: Britain and the Overseas Territories', 1999

³ 'UK International Priorities: A Strategy for the FCO', 2003

Internal security and safety

B13. The key challenges are:

- ensuring that adequate resources are devoted to appropriate monitoring of the volcano so as to provide for the continuing safety of the population and the maximum safe use of the island's land and capital resources;
- developing well-thought-out and rehearsed disaster management plans and mitigation policies;
- ensuring that the new airport and port at Little Bay are equipped and resourced to meet the appropriate international safety and security standards;
- ensuring Montserrat's relatively low crime rate, along with a low incidence of drugs and HIV and AIDS, is maintained. These are major assets in promoting tourism and other economic development; and
- ensuring proper regulation of financial services.

Human rights

B14. The key challenges are to ensure that Montserrat meets and respects international standards on human rights, and that the UK's and Montserrat's international reporting obligations are met.

Financial management

B15. As with all Overseas Territories, the UK expects Montserrat to meet high standards of financial management, accountability, transparency and probity. Because Montserrat relies on UK budgetary aid to meet the running costs of government, the UK recognises a particular responsibility to support Montserrat's efforts to achieve and maintain appropriate financial management standards.

Handling regional issues

B16. Many challenges for Montserrat are similar to those of other small islands in the Caribbean region; or they are influenced by regional trends. Responses to the challenges facing Montserrat will therefore often need to take account of, or be part of, regional activities. Key regional challenges include: economic diversification and integration, including the effects of proposed membership of the Caribbean Community (CARICOM) single market and freer movement of people within the region; co-operation and competition for tourism revenues; competition for skilled staff; HIV and AIDS; and illicit drugs. As a full member of both the Organisation of East Caribbean States (OECS)⁴, including the Eastern Caribbean Central Bank (ECCB), and the Caribbean Community (CARICOM)⁵, Montserrat expects to play a full part in regional affairs. The UK Government encourages Montserrat to obtain maximum benefits from regional integration, including, where appropriate, through their membership of CARICOM and the OECS. Montserrat requires prior UK Government approval, in the form of an entrustment, before undertaking international commitments.

Supporting a small and vulnerable population

B17. Although it is not possible to quantify the full social impact of the volcano crisis, the 2001 census indicated a population of 4,491, a decline of 42% since 1991. The Montserrat Government carried out a Participatory Poverty Assessment (PPA) survey in 2000, which showed that the level of vulnerability (particularly for elderly and mentally challenged people) had increased significantly after the volcanic crisis. A significant proportion of the island's current population is elderly or vulnerable for other reasons.

⁴ OECS comprises Antigua and Barbuda, Dominica, Grenada, Montserrat, St Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines. The British Virgin Islands and Anguilla are associate members.

⁵ CARICOM comprises Antigua and Barbuda, The Bahamas (The Bahamas is a member of the Community but not the Common Market), Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, and Trinidad and Tobago. Anguilla, British Virgin Islands, Bermuda, Cayman Islands, and Turks and Caicos Islands are associate members.

B18. The Government faces critical social challenges over its aims to reduce dependency and promote equity and access to public services in an affordable way. In addition, important social issues such as domestic violence, child abuse and tensions against non-Montserradians are increasingly evident and need tackling. The Government has explicitly undertaken to improve equitable access to education, health and housing, all of which are important public services for the poor. Improved targeting, cost-sharing arrangements, and outsourcing of public services warrant closer examination.

Maintaining Montserrat's environment

B19. Montserrat's natural resource base – despite the volcano – remains substantial and unique. A clean and peaceful environment is a key selling point in the island's tourism development strategy. If tourism and other developments take off as planned, then effective and sustainable environmental management, including appropriate solid and liquid waste management, will be a key challenge.

Developing local capacity and skills

B20. Human resources capacity in Montserrat as a whole, including both government and the private sector, is a key constraint. Many government posts remain unfilled, and there is a serious lack of manpower support for the few, well-qualified and experienced individuals at the strategic level. Development and strengthening of government staff is a high priority and critically needed if Montserrat's strategic objectives are to be realised.

B21. There is a wider problem of a limited skills base on Montserrat, particularly given the lack of access on-island to higher level education and vocational training since the volcanic crisis. The Montserrat Community College, currently under construction, should help address this issue.

Montserrat's development strategy and agreed governance actions

The Government's long-term vision, objectives, development strategy and priorities

B22. The Government sets out its long-term development strategy and priorities in its Sustainable Development Plan for 2004 – 2007. The long-term vision is:

“the rebuilding of a healthy and wholesome Montserrat, founded upon a thriving modern economy with a friendly, vibrant community in which all of our people through enterprise and initiative can fulfil their hopes in a truly democratic and God fearing society”.

B23. In order to achieve this vision, the Government has set itself the following strategic objectives:

- To promote the retention of the present population and encourage the return of Montserradians from overseas.
- To promote prudent economic management, sustained growth, a diversified economy and the generation of employment opportunities.
- To promote human development and well-being and enhance the quality of life for all people on island.
- To ensure good governance by strengthening public administration and promoting civil society.
- To improve and expand external relationships to facilitate Montserrat's integration into the regional and global environment.
- To ensure that Montserrat's development is environmentally sustainable and includes appropriate strategies for disaster mitigation.

B24. To deliver against these objectives, the Government has designed a detailed series of sector action plans. These development plans are set out in the Sustainable Development Plan. The key features of Montserrat's long-term development strategy are:

- A commitment to improved self-sufficiency, to be demonstrated by reduced dependence on budgetary aid over the next ten years.

- Promoting economic growth through effective measures to increase tourism and to encourage inward investment and private sector development leading to less reliance on the government sector as the leading sector of the economy.
- A positive population policy, which promotes population growth, yet is sensitive to the social and governance impact.
- Maintenance and development of efficient, effective and affordable public services.
- Protecting the vulnerable and promoting social development.
- Appropriate management of risks and the environment, including the volcano.

B25. Within this framework, the Government's key development priorities for the period 2004 – 2007 are:

- Tourism development. The repositioning of the tourism sector will provide the basis for sustained economic growth, leading to increased self-sufficiency.
- Private Sector development, where the focus will be on developing the private sector to reduce the reliance on Government services as the lead sector in the economy.
- Housing development. The Government sees the provision of affordable housing solutions as the catalyst for retention and growth of the population.
- New capital town at Little Bay, to replace the former capital of Plymouth now lost to the volcano. At present, there is no town centre to provide a focus for social, commercial and tourism activity.
- Infrastructure improvements – The provision of efficient, reliable and affordable physical infrastructure will play a pivotal role in facilitating all development initiatives.
- Environmental management – The effective management of environmental resources is seen as critical to underpin the sustainability of national development.
- Social welfare and protection. The Government's aim is to protect the poorest and most vulnerable groups and to implement strategies that will empower them.

- Improved public information and publicity – The Government's aim is to enhance the transparency of Government operations through the development and strengthening of public and private information systems.
- Agricultural development – The development of the agricultural sector will promote food security and assist with strengthening and sustaining livelihoods.
- Improved skills, amongst government staff and the population more generally, will be a key factor in facilitating the total development process.
- Education. The Government's objective is to improve the quality of education to facilitate the development of the skill base necessary for redevelopment.
- Health. The Government will promote access to affordable, quality health care.

More detailed information against each of these areas is set out in Annex 4 (which is not included in the published CPP because of its length, but is available on line at www.dfid.gov.uk or on request from the Montserrat Government or DFID).

Montserrat's revenue sources

- B26. Achievement of Montserrat's long-term goals will depend critically on the level of resources available. Domestic revenues are hampered by the size of the population, the limited number of taxpayers and the heavy tax burden (by regional standards) they already face. Montserrat's opportunities for borrowing are constrained by the size of its budget deficit, although limited loan resources through the Caribbean Development Bank (CDB) are available. Likewise, Montserrat's recurrent expenditure plans are under tight control, and opportunities for rationalising expenditure are limited.

B27. Throughout and beyond the CPP period, therefore, Montserrat will depend critically on external sources for budgetary assistance (DFID) and development support (DFID, EC, CDB). In 2004, for example, 64% of government recurrent expenditure is directly financed by DFID; and Montserrat's development programme is entirely funded by external assistance. Without substantial external support there is no likelihood of Montserrat achieving its ambitions, the population would probably decline further, and more people would become more heavily dependent on public services that the Government would increasingly struggle to fund and implement. This would lead inexorably to the collapse of the island's social, economic and governance structures.

Development strategy assessment

B28. Montserrat's development strategy scores well against DFID's standard assessment criteria. The plan was developed entirely locally and has strong local ownership; it is a comprehensive approach, covering all sectors; and it involves development of the Government's partnerships with non-government bodies such as the Chamber of Commerce. The plan also locates prioritised short-term objectives in a longer-term perspective.

Agreed governance actions

B29. In order to handle some of the critical governance challenges facing Montserrat (paragraphs B9 – B16), the UK and Montserrat have agreed that:

- they will jointly discuss the findings of a recent Constitutional Commission for Constitutional change, when Montserrat is ready. Montserrat and the UK hope that this process can be completed and implemented within the time frame of this Policy Plan;
- any future changes in the Constitution must continue to protect the key values of good governance. These include the independence of the judiciary, political impartiality of the public service including the police, and integrity in the administration of justice. The UK needs to retain certain powers, including for the Governor, in order to protect its interests;

- the Government will continue to commit itself to support the development of comprehensive disaster planning beginning with the production of a National Disaster Plan, with contingency provision for any further volcanic and other natural and man-made disasters;
- appropriate resources for the police force and educational programmes should be maintained, to help sustain Montserrat's low crime and HIV and AIDS rates;
- the establishment of the new Financial Services Commission, to regulate offshore finances, is welcomed;
- the formation of a Human Rights Reporting Committee should be encouraged; and
- The costs and benefits of Montserrat's participation in Caribbean regional organisations should be assessed carefully. Montserrat requires prior UK Government approval, in the form of an entrustment, before undertaking international commitments.

C Risks

- C1 There are two main external risks to achievement of Montserrat's long-term objectives and development strategy. Firstly, there is a risk that volcanic activity could extend beyond the areas already and previously affected directly. Current expert scientific opinion is that the volcano remains in a cycle of active dome growth and collapse, and that this cycle is likely to persist for at least another decade. However, expert opinion also remains that the north of the island is at negligible risk from the volcano and is effectively safe for 'normal' social and economic life, including inward investment, tourism etc. The risk of volcanic activity severely affecting the entire island is judged to be very low.
- C2 The other major external risk is that international developments significantly affect tourism and inward investment. Such developments, ranging from economic crises to sharp declines in tourism as a result of terrorism, would be likely to have a major effect on the number of tourists visiting Montserrat and the willingness of external investors to seek out new opportunities.
- C3 The major internal risk is that the Government fails to retain and develop sufficient human resources skills and capacity to lead the changes needed in order to achieve its objectives. As set out in paragraphs B20 and B21, action to ameliorate this risk is a priority during the CPP period.
- C4 All three risks have the potential to impact seriously upon the UK's financial provisions for Montserrat – especially the first two – and thus will be monitored closely during the CPP period.

D. UK assistance for Montserrat

Preamble

D1. The 1997 White Paper on International Development⁶ sets out the UK's commitment to poverty reduction and sustainable development. The UK maintains its White Paper commitment that the reasonable assistance needs of Montserrat and other Overseas Territories will be funded from the DFID budget.

DFID assistance

D2. The overarching framework for DFID's assistance to Montserrat during the CPP period, and for all other donor agencies including the EC, is the island's Sustainable Development Plan.

D3. The main aim of DFID assistance during the CPP period is to support Montserrat's objective of improved self-sufficiency and reduced (eventually fully removed) dependence on DFID for budgetary aid. This will be achieved through carefully targeted DFID support to help Montserrat develop an economy that can, in the longer term, ensure sustainability. In particular, DFID assistance will support tourism, private sector development and the Little Bay development. It will also help the Government to remove constraints on inward investment, access to finance and population growth.

D4. On this basis, and assuming tourism grows as planned and that the volcano does not affect seriously the north of the island, there is a reasonable prospect that Montserrat could be self-financing within ten years.

D5. The key underlying principles and assumptions on which DFID assistance during the CPP period will be provided to Montserrat are:

- the shared aim is for Montserrat sustainably to balance its budget as soon as possible;
- reduction of the annual budget deficit to £4 million by 2007, and further reductions beyond that, are expected as the Government's revenues increase following opening of the new airport and growth in the tourism sector;

- earlier reductions in the budget deficit will release additional resources for revenue-earning investment and development;
 - following opening of the new airport, which will free up resources for revenue generating investment, subsidies for helicopter and ferry passenger services will cease;
 - decisions about using DFID funds for development purposes or for the running costs of government will be made by the Montserrat Government within the framework of the annual allocations agreed with DFID and following consultation as appropriate with DFID;
 - the Government will prioritise calls upon the development budget. In order to promote greater self-sufficiency, income-generating activities (such as the airport, tourism, private sector development) will be the first calls on available funds;
 - modest but steady population increase will accompany the private sector growth that is expected to flow from productive investments (the airport, for example); and
 - budget figures assume timely release and disbursement for complementary development activities of European Development Fund (grant) and Caribbean Development Bank (loan) funds.
- D6. DFID's assistance is based upon Montserrat's development plans, which are focused exclusively on the northern third of the island. The rest of the island is the Exclusion Zone, for which it is not possible at present to consider financial provisions, as current scientific assessments are that the volcanic eruption is not over. However, during the CPP period, DFID will help the Government to assess the costs, benefits, and risks of reoccupying temporarily parts of the current Day Time Entry Zone (DTEZ), if scientific and legal advice suggests that this course could and should be followed.
- D7. On the basis of the above assumptions and principles, DFID will provide funds to Montserrat as follows:

⁶ Eliminating World Poverty: A Challenge for the 21st Century', 1997

UK financial years				
	2004/05	2005/06	2006/07	Total
DFID aid framework	£14.5 million	£12.5 million	£13 million	£40 million
Eastern Caribbean dollar equivalent*	EC\$62.4 million	EC\$53.4 million	EC\$55.9 million	EC\$171.7 million

* Estimated, at an assumed average exchange rate of EC\$4.3 = £1

The tables at Annex 2 relate these allocations to Montserrat's overall development plans. Provision of these funds remains subject to DFID's annual resource allocation procedures. In addition, Montserrat will continue to receive modest benefit from DFID's Overseas Territories regional budget.

- D8. DFID support will be provided in the forms of budgetary aid and development assistance. The former will bridge the gap between reasonable and essential recurrent expenditure and maximum and reasonable locally generated revenues. It will ensure that the basic needs of Montserratians (such as health and education) are met by the Government. As there is a fixed envelope of resources available, the overall DFID budget will provide an incentive for Montserrat to reduce the budget deficit as far as possible, in order to free up resources for productive development.
- D9. DFID's development assistance will continue, as at present, to be provided through direct financial aid (for the local costs of key projects) and technical co-operation for expert support and advice to the Montserrat Government. DFID will continue to provide the island with technical support to ensure high quality development projects, focused on the priorities set out below. This includes DFID staff undertaking the functions summarized in paragraph E6. Where justified, DFID will also consider funding for advisers to the Government in strategically important positions.
- D10. Montserrat and the UK agree that the key priorities for DFID support during the CPP period will be:
- Gerald's Airport

The new airport, to replace the one lost to the volcano, is expected to have a major catalysing effect on Montserrat's economy, particularly through opening up the island to a much larger tourist market. DFID is contributing £6 million with the balance provided by the EC. Construction is well advanced, with an estimated completion date of October 2004. Air services at the new facility should commence early in 2005.

- Tourism development project

Tourism is Montserrat's top priority area for the CPP period, as it sees this industry as the key to a sustainable future. DFID funding of a £1.5 million project over three years has been approved. It aims to deliver the short-term objectives of the island's new tourism strategy, specifically to assist the Montserrat Tourism Board to effectively design and market the Montserrat tourism product, and to develop basic tourism infrastructure.

- Private sector development project

Preparation of a £1.8 million project is currently under way. The objectives are to promote inward investment into Montserrat, and develop the on-island private sector. It will address these objectives through improving access to finance and improving the capacity of local institutions to provide business advice, training and support. Concurrent with promoting inward investment and tourism, and consistent with the approach of building the population, DFID will assist the Government with positive publicity for the island, such as concerning the proposed new Cultural Centre at Little Bay.

- Little Bay and port development

Development of a new capital town for Montserrat, at Little Bay, is a high priority. It will provide an opportunity to contribute towards Montserrat's key objectives of private sector investment and development, new housing, and promoting tourism. The Government has approved the new town design; and a DFID project to fund the first phase of site infrastructure development will be a priority during the CPP period. The Government has made the Little Bay development the key project in its approach to the EC for the latest tranche of funding to be committed by 2007. DFID support will therefore assist the Government to facilitate release of EC funding. Additional DFID co-funding for the development will be considered by the Government and DFID during the CPP period.

The Government will also consider requesting DFID funds for further improvements to the port at Little Bay. Many of the inward investment proposals currently under consideration will make heavy demands on the island's port facilities, and it is prudent for the Government now to consider what port expansion and other improvements can be afforded and how, or if, it can be financed.

- Housing

Following a recent review of Montserrat's housing strategy, it is likely that the Government will wish to refresh its intention to provide sheltered accommodation for particularly vulnerable groups, especially people with mental health problems. It is also likely that the Government will wish to extend and enhance the materials grants scheme. DFID assistance in both areas is likely to be requested during the CPP period.

- Infrastructure

Adequate infrastructure provides the essential underpinning for economic growth and the future sustainability of the island. DFID will consider providing financing to complete an ongoing programme of enhancing the water distribution and storage network through a third phase of an earlier project. DFID will also consider proposals for road improvements, and further rehabilitation of the Government headquarters buildings.

- Social services

Development and improvement of the island's education, health and community services remains a key challenge during the CPP period. The focus is on improving effectiveness and efficiency of the services, as previous DFID funding has now re-established most of the key infrastructure required in these sectors. DFID will therefore continue to provide technical assistance support to the Government in this sector during the CPP period.

- Public administration

Skills gaps and human resources difficulties within government are identified above as a key issue. DFID will consider government requests for further direct support through long and short-term technical experts in strategically important areas, including the strengthening of financial management and policy implementation, and will continue to fund training programmes in order to develop the Government's human resources capacity. DFID will also fund, and will consider possible follow-up to, a proposed review of Montserrat's civil service.

Other UK assistance

FCO assistance

D11. Through its Good Government Fund (GGF) and Economic Diversification Programme Budget (EDPB), the FCO will continue to offer financial support to Montserrat, and until March 2007 to the joint DFID/FCO Overseas Territories Environment Programme (OTEP). The FCO will give priority to GGF fund applications in support of the joint objectives set out in this document and the Sustainable Development Plan. These budgets are competitive; therefore it is not possible to put a figure on the funding available to each Overseas Territory. Bids are judged on their merits against those from the other UK Overseas Territories. The Governor's Office will continue to advise on the current criteria and availability of these budgets.

D12. The FCO will continue to offer Montserrat technical advice and expertise, including from its Constitutional Adviser, Law Enforcement Adviser, Regional Financial Services Adviser, Prisons Adviser and others.

UK support for Montserrat's access to other funds

D13. As explained above the UK will assist Montserrat in its efforts to seek and access additional funding from multilateral donors, especially the European Commission (EC). During the CPP period, EC funds are expected to be a major source of finance for the Little Bay development. The Government has also regularised its relationship with the Caribbean Development Bank (CDB), which has earmarked resources for Montserrat from its Special Development Fund. The UK will work with the Government to help access CDB and other borrowing (for example from the European Investment Bank) for productive investments. The level of access to external borrowing will, however, inevitably depend on the level of debt servicing that Montserrat can sustain. The continued pursuit of a sound medium-term economic policy by the Government will ensure the level of debt servicing will facilitate growth rather than become a constraint on growth.

E Monitoring and implementation

Monitoring

- E1. Progress against the strategic priorities set out in this document will be reviewed annually through structured discussions between the UK and Montserrat. This will include annual joint monitoring of the level of budgetary aid, this being a key indicator of progress being made towards reducing Montserrat's dependency and improving its self-reliance, and budgetary aid targets are set out in paragraph D5. Joint Montserrat/DFID monitoring of individual projects and activities in support of that objective, and the other priorities set out in this document, will continue.
- E2. The Montserrat Government and DFID have also agreed on a more detailed set of indicators, in order to measure performance towards the overall key objective of economic sustainability. The indicators, which will be reviewed annually by the Government and DFID, are:
- the private sector employment/total employment ratio;
 - the amount of private sector credit, by sector;
 - the amount of private sector credit, by value;
 - the number of new business starts;
 - the social expenditure/local revenue ratio;
 - the social expenditure/total expenditure ratio;
 - the primary budget deficit/GDP ratio; and
 - the primary budget deficit/local revenue ratio.
- E3. Montserrat's Sustainable Development Plan sets out detailed indicators against each of the strategic objectives. The Government will review these annually in preparation for the discussions with the UK.
- E4. In addition, the Government has designed and implemented a system of annual corporate performance plans for each of its departments. Such plans incorporate sector level performance targets.

- E5. The UK welcomes and endorses Montserrat's strong commitment to close monitoring of progress of against its key objectives and activities, and remains ready to provide technical support to assist with this area.

Summary of implementation arrangements

- E6. The Montserrat Government will retain responsibility for design and delivery of its development strategy, as well as the prioritisation and design of projects to attain the objectives set out in that strategy. DFID will assist through the provision of expert advice and assistance with development project prioritisation, design, appraisal, project monitoring support, and through timely disbursements of funds.

Annex 1: Montserrat – Use of DFID funds 1995/96 to 2003/04

DFID's disbursements to Montserrat during and after the volcanic crisis (1995 – 1997) have been as follows:

All figures in £m

UK financial year	Total disbursed	Of which: 1 development assistance	2 Budgetary aid	3 Disaster-related assistance
1995/96	6.554	3.358	0.750	2.446
1996/97	14.441	2.929	5.758	5.754
1997/98	37.866	15.973	9.850	12.043
1998/99	31.096	15.056	8.340	7.700
1999/2000	22.640	9.091	8.232	5.317
2000/01	20.811	13.048	5.740	2.023
2001/02	24.412	15.421	7.605	1.386
2002/03	23.800	11.352	11.265	1.183
2003/04	24.810	11.882	12.451	0.477
<i>Total</i>	<i>206.430</i>	<i>98.110</i>	<i>69.991</i>	<i>38.329</i>

Data is taken from 'Statistics on International Development', published annually by DFID.

Key Achievements

Budgetary aid: has maintained essential public services, across all areas of the Government's activity, such as civil service salaries, schools, medical facilities, social welfare, police and fire services. DFID has also supported the costs of maintaining essential transport links to the island, while the new airport has been under consideration. Subsidies for the helicopter and ferry links will cease when the new airport is operational.

Education: this has involved construction of the secondary school at Salem and construction/rehabilitation of the primary schools at Lookout and Brades. Over 120 scholarships have been provided for regional or UK training. DFID has also helped the Montserrat Government devise a five-year education development plan, currently under implementation.

Emergency assistance: DFID has provided wide-ranging assistance with volcano monitoring and disaster preparedness. This has included establishment of the Montserrat Volcano Observatory (MVO), including an MVO building, plus funding of the long-term international experts required to monitor the volcano. DFID has also assisted with development of an emergency operations centre and a warehouse building for emergency supplies. Lastly, DFID has funded assistance for evacuees from the island, including relocation grants, together with welfare support, training and small business loans for those who relocated to other Caribbean islands as a result of the crisis. Montserrat is now funding welfare support for evacuees from its recurrent budget.

Essential infrastructure: this has involved installation and upgrading of essential water storage and distribution facilities; installation and upgrading of new power generation and distribution facilities; upgraded and extended roads; a hot mix asphalt plant; a heliport; a jetty; the Little Bay port; and a new fuel depot.

Health: this has involved the establishment and refurbishment of critical infrastructure facilities, including St John's Hospital and clinics at St John's Cudjoe Head and St Peter's. In addition, strengthening of the Government's delivery of key health services has been achieved through technical assistance and a partnership with the Pan American Health Organisation. DFID has also supported projects to research and assess the potential threat to public health posed by the volcano.

Housing: DFID has provided funding for over 1,000 dwelling units through various schemes, such as direct build, materials grants, sheltered housing, institutional housing and soft mortgages. DFID also supported the development of a long-term housing strategy for Montserrat, which aims to restore housing market conditions and help the Government divest itself of its public housing stock.

Private sector development: this has included construction of a factory shell, together with training and loans to help stimulate small business development. More recent activities have included development of a private sector strategy plus assistance with basic tourism infrastructure (such as the provision of a viewpoint at Jack Boy Hill and signs for forest trails).

Public administration: this has involved construction of a new Government headquarters facility, together with construction of a remand centre, police and fire stations. In addition, substantial support has been provided to assist with strengthening of all government departments, through the provision of long-term on-island experts, training, etc.

Social development: DFID funded the provision of food vouchers for all, in the immediate aftermath of the crisis. This was replaced by social welfare assistance targeted on the most vulnerable, as part of a DFID-funded programme that supported the development of a comprehensive social welfare package for the vulnerable in Montserrat. DFID has also supported the development of warden-assisted sheltered housing for elderly and vulnerable groups, and the development of long-term strategies for meeting their needs.

Annex 2: Summary of planned DFID and other external assistance

DFID-FUNDED ACTIVITIES

All figures in Eastern Caribbean dollars

Sector/Project	Total estimated cost*	Forecasts for UK Financial Years:			Total
		2004/05	2005/06	2006/07	
Economic Development					
Tourism Development Project	6,700,000	3,400,000	2,500,000	800,000	6,700,000
Private Sector Development Project	6,500,000	1,300,000	3,200,000	2,000,000	6,500,000
Education, Health & Community Services					
Education Development Plan	1,900,000	380,000	380,000	380,000	1,140,000
Health Development Plan	2,000,000	250,000	400,000	400,000	1,050,000
Community Services Strengthening	1,500,000	250,000	400,000	400,000	1,050,000
Essential Infrastructure & Utilities					
Gerald's Airport - DFID portion	26,700,000	5,300,000	0	0	5,300,000
Water III	6,900,000	3,500,000	0	0	3,500,000
Port development/expansion	7,000,000	0	3,000,000	4,000,000	7,000,000
Roads (backlog maintenance programme)	5,500,000	1,000,000	2,000,000	2,500,000	5,500,000
Lands, Housing & Environment					
Development of Serviced Lots at Lookout II	9,507,000	2,600,000	0	0	2,600,000
Self Build Housing Phase III	11,070,600	2,300,000	0	0	2,300,000
Little Bay Development - DFID portion (phase 1)	2,000,000	1,500,000	500,000	0	2,000,000
Little Bay Development - DFID (future phases)	5,000,000		1,500,000	3,500,000	5,000,000
Sheltered Housing for mentally challenged	8,000,000	0	2,000,000	2,500,000	4,500,000
Future housing programmes	10,000,000	0	2,500,000	2,500,000	5,000,000
Abattoir/Slaughter House	900,000	900,000	0		900,000
Environmental Management	750,000	250,000	250,000	250,000	750,000
Public Administration					
Government HQ rehabilitation	2,400,000	1,200,000	1,200,000	0	2,400,000
Civil Service Review	1,000,000	500,000	500,000	0	1,000,000
Technical Assistance (TCOs)	5,000,000	2,000,000	1,500,000	1,500,000	5,000,000
Technical Assistance (UN Volunteers)	1,500,000	500,000	500,000	500,000	1,500,000
Training (ACTS/WISTS)	3,000,000	1,000,000	1,000,000	1,000,000	3,000,000
*at an assumed average exchange rate of EC\$4.3 = £1					

Summary of External Assistance

Total anticipated DFID assistance		28,130,000	23,330,000	22,230,000	73,690,000
Anticipated EC assistance (approx)		37,500,000	22,400,000	11,600,000	66,990,000
Total anticipated external assistance		65,630,000	45,730,000	33,830,000	140,680,000
% of external assistance DFID funded		43%	51%	66%	52%