

# TABLE OF CONTENTS

<b>INTRODUCTION .....</b>	<b>1</b>
<b>ECONOMIC CONTEXT .....</b>	<b>2</b>
<b>INTERNATIONAL AND REGIONAL ISSUES .....</b>	<b>2</b>
<b>THE DOMESTIC ECONOMY .....</b>	<b>3</b>
<i>Output .....</i>	<i>3</i>
<i>Prices .....</i>	<i>4</i>
<i>Domestic Credit .....</i>	<i>4</i>
<i>International Trade .....</i>	<i>4</i>
<i>Construction .....</i>	<i>4</i>
<i>Agriculture .....</i>	<i>5</i>
<i>Tourism .....</i>	<i>5</i>
<i>Prospects .....</i>	<i>5</i>
<b>2003 BUDGET CONSIDERATIONS .....</b>	<b>5</b>
<b>PROMOTING POPULATION GROWTH .....</b>	<b>6</b>
<b>ENCOURAGING ECONOMIC GROWTH AND FINANCIAL STABILITY .....</b>	<b>9</b>
<i>Airport .....</i>	<i>10</i>
<i>Sea Port .....</i>	<i>11</i>
<i>Road Networks .....</i>	<i>11</i>
<i>Water and Power .....</i>	<i>12</i>
<i>Agriculture .....</i>	<i>13</i>
<i>Tourism .....</i>	<i>14</i>
<i>Trade, Industry And Commerce .....</i>	<i>15</i>
<b>PROMOTING SOCIAL DEVELOPMENT .....</b>	<b>17</b>
<i>Social Policy .....</i>	<i>17</i>
<i>Housing .....</i>	<i>17</i>
<i>Education .....</i>	<i>18</i>
<i>Health Service .....</i>	<i>19</i>
<i>Welfare Services .....</i>	<i>19</i>
<b>STRENGTHENING PUBLIC ADMINISTRATION SYSTEMS AND THE ROLE OF CIVIL SOCIETY .....</b>	<b>20</b>
<b>IMPROVING EXTERNAL RELATIONSHIPS .....</b>	<b>22</b>
<b>PROMOTING ENVIRONMENTAL SUSTAINABILITY, RISK AND DISASTER MANAGEMENT .....</b>	<b>23</b>
<b>PUBLIC FINANCE .....</b>	<b>24</b>
<b>RECURRENT REVENUE .....</b>	<b>24</b>
<b>RECURRENT EXPENDITURE .....</b>	<b>24</b>
<b>DEVELOPMENT EXPENDITURE .....</b>	<b>25</b>
<b>ALLOCATION BY STRATEGIC OBJECTIVES .....</b>	<b>26</b>
<b>AID FRAMEWORK 2003-2006 .....</b>	<b>26</b>
<b>PUBLIC DEBT .....</b>	<b>27</b>
<b>FINANCIAL POLICIES .....</b>	<b>27</b>
<i>Property Tax .....</i>	<i>27</i>
<i>Customs Reform .....</i>	<i>28</i>
<i>Micro-Finance Facilities .....</i>	<i>29</i>
<b>CONCLUSION .....</b>	<b>29</b>

## **BUDGET STATEMENT**

### **“Towards a new era...getting the fundamentals right”**

Mr. Speaker, I rise to move a motion for the second reading of a Bill shortly entitled the Appropriation Act 2003.

#### **INTRODUCTION**

- 1.** The members of my government wish first to thank Almighty God for his continued blessings on our homeland. We also wish to recognize the efforts of Montserratians both here on island and abroad for their continued faith in the future of this island. And thirdly, we are grateful for the support of the various individuals, governments and organisations that have supported us at this time of need.
- 2.** As I stand before you today, Mr. Speaker, I recognise that this budget is presented in an atmosphere of global uncertainty. At the international level, there is uncertainty about global peace, economic stability and social security. This situation is aggravated by the fact that multilateral institutions such as the World Trade Organisation (WTO) and the Organization for Economic Cooperation and Development (OECD) are introducing new measures that marginalize us in markets in which we have so far benefited.
- 3.** At the regional level, there is uncertainty about our fiscal stability and our ability to survive in an increasingly competitive world. The circumstances are such that the Governor of the Eastern Caribbean Central Bank is encouraging its members to implement voluntary structural adjustment programmes.
- 4.** Now, Mr Speaker, at the national level, there is uncertainty surrounding the volcano. We need to confront this issue and seek to restore confidence in the island's future.
- 5.** In this environment, we in Montserrat must renew our commitment to regional cooperation; we must seek to forge new economic alliances; we must begin to adopt new approaches to our economic development; and we must create and develop systems and policies that would lead to a secure future for our children and for all those who choose to make this lovely island their home.
- 6.** In other words Mr. Speaker, we must recognize the imperatives of this new era and establish the right foundation for the future development of Montserrat.

## **ECONOMIC CONTEXT**

7. Mr Speaker, it is necessary for our people to understand the economic conditions that influence our budgetary policies. Before I look at the local economy, I want to point to some more specific issues arising from the international and regional situation.

### **International and Regional Issues**

8. Mr. Speaker, the global economic recovery that began in the first quarter of 2002 showed signs of weakness as the year progressed. This came mainly as a result of developments in the United States (US) economy. Growth in the global economy was estimated at 2.8% compared to 2.2% in 2001. Economic activity in the US rose by approximately 2.4% in 2002, up from 0.3% in the previous year.

9. Two factors impacted negatively on the US economy towards the end of the year. One was the level of unemployment; the other was concern about a possible military invasion of Iraq. Both these factors adversely affected consumer confidence. As a result, real growth in the US which had risen by 6.1% in the first quarter, slowed to a mere 0.7% in the last quarter of 2002.

10. There can be no doubt that this situation will have an impact on Montserrat. It makes it more challenging for us to attract foreign investment and to increase the number of tourists visiting the island. In addition, the World Trade Organisation is insisting that import duties be substantially reduced within the next few years. This is one of our main sources of revenue.

11. Furthermore, the Organisation for Economic Cooperation and Development and others have found a new reason to attack offshore financial services. Their efforts to curb the financing of terrorist activities would negatively affect our ability to expand the financial services industry. If we resist these changes we will either become less competitive or our access to major financial markets will decrease.

12. At the regional level, economic activity in CARICOM countries in 2002 was affected by the prevailing uncertainty in the international environment. This includes pressure on the operations of the international business sector in the Caribbean. However, the region was able to benefit from recovery in the agricultural sector following adverse weather conditions in 2001. There were also improvements in manufacturing and a pick-up in tourism activity in the last quarter of 2002.

13. In the OECS region, our countries continue to carry large fiscal deficits increasing from about EC\$10 million in 2000 to almost EC\$100 million in 2002.

As a result, the International Monetary Fund (IMF) is becoming involved in some countries.

**14.** The economic outlook for the Caribbean region is highly dependent on external conditions, including developments in the Middle East and Venezuela. The situation has already begun to affect oil prices. We have seen the impact of this on local electricity rates. The situation in the Middle East is also affecting our efforts to revive the vital tourism industry. At best, the outlook for the region is challenging.

**15.** Mr Speaker, this means that we need to see increased cooperation within the Caribbean. Success with the formation of a single market and economy would enhance trade and development. It facilitates the sharing of resources, including technical expertise. Also the Eastern Caribbean Securities Exchange (ECSE) will mobilise capital for investment throughout the region.

**16.** Montserrat stands to benefit from these initiatives but it will require a change in the way we see ourselves and the way we do business. More specifically, they would assist us in re-establishing a more viable population, in attracting the skilled workers that we need, and in making it easier for Caribbean companies and individuals to invest in our economy.

**17.** Notwithstanding, the assurance of budgetary support from the United Kingdom, we in Montserrat should not be complacent but instead must make a conscious effort to use our scarce financial resources to leverage greater economic benefits

### **The Domestic Economy**

**18.** Mr Speaker, performance in the Montserrat economy during 2002 was encouraging. The economy continues to be driven by construction and government services and these are funded largely by external aid. It was in recognition of this that Government's efforts remained focused on increasing the rate of project implementation and on securing higher levels of funding from the United Kingdom (UK) government to finance economic recovery programmes.

### **Output**

**19.** Preliminary data suggests that the economy grew by more than 4% in 2002. In comparison with 2001, this would be a marked improvement. In that year, there was a negative growth rate of about 3%. The main areas of growth in 2002 were Construction, Government Services, Banking and Insurance and, I am very pleased to say, Agriculture.

## **Prices**

**20.** During 2002 the retail price index rose by 3.5%. There were increases in the prices of Food and Non-alcoholic Beverages and in Clothing and Footwear. Government is closely monitoring movements in the international price of fuel and the resulting impact on electricity rates. We are actively seeking ways of reducing the potential impact of any further increases in fuel on the overall price level.

## **Domestic Credit**

**21.** In 2002, liquidity at the commercial banks remained very high. Private sector lending by the commercial banks fell by 6.9% to \$22.2 million. A high proportion of the borrowing was for purchase of houses and land. Over the year, interest rates on savings and time deposits fell by 1.0 percentage point. The rate on savings is now 3%. This was influenced by the Monetary Council's decision to reduce the minimum rate on savings deposits.

**22.** Mr Speaker, I want to encourage the local lending institutions to find innovative ways to make borrowing easier especially for the purchase of property. Government continues to make substantial grants available for housing. However, many people are finding it difficult to secure the remaining funds required to complete the construction of their homes. This is partly because they find the conditions set by lending institutions to be somewhat inflexible.

## **International Trade**

**23.** The level of imports in 2002 was \$68.7 million. This represents a 30% increase over 2001. The main item of increase was fuel, particularly gasoline and LPG. The level of exports for the year was \$4 million. The trade deficit is still much too large, and further efforts need to be made to attract export-oriented businesses.

## **Construction**

**24.** In 2002, the construction sector continued to play a central role in the performance of the domestic economy. House construction in both the public and private sectors remained buoyant. Other government-funded projects contributed significantly to construction activity during 2002. These include the Montserrat Volcano Observatory, the Public Works Department workshop, the Government Headquarters Extension and the road-building programme. Construction for commercial establishments was also strong during the year.

**25.** Statistics from the Physical Planning Unit indicate that the number of new building starts in 2002 was ninety-two (92) at an estimated completion value of \$29 million. The corresponding figures for 2001 were seventy-one (71) and \$25 million respectively. Overall, it is estimated that the construction sector contributed 23% to GDP during last year. There is still the need to boost private sector construction as public sector projects come to an end.

### **Agriculture**

**26.** Following the long drought of 2001, Government decided to provide a number of incentives to this sector. These have resulted in a very significant increase in agricultural output. Local producers of fruit and vegetables were able to supply almost twice as much as they did during the previous year. There was also a large increase in egg production. Despite the increases, agriculture contributed only 2% to GDP in 2002. Government's efforts will aim to increase this sector's share of output during the next few years.

### **Tourism**

**27.** There was a decline in performance in the tourism sector in 2002. The extension of the exclusion zone in October to include areas of tourist accommodation led to a decrease in tourist arrivals last year in comparison to 2001. However, there are indications of resurgence in the number of day tours to the island. The start of the new airport project is an encouraging sign and this is expected to bring about a significant turnaround in the industry.

### **Prospects**

**28.** The economy is expected to grow at an annual rate of 5% over the next three years. This will be influenced largely by the airport project and its spin-offs, resurgence in tourism, and increased activity in the small business sector resulting from more flexible credit arrangements.

## **2003 BUDGET CONSIDERATIONS**

**29.** Mr. Speaker, it is against this background that my Government presents the 2003 budget and the aim of this budget is to do the following: -

- i. To lay the right foundation for future budgets by ensuring that we get the basic concepts and principles of our development right;
- ii. To develop, in collaboration with the private sector, programmes that would promote population growth including the return of Montserratians and the retention of existing residents;

- iii. To encourage economic and financial stability through programmes aimed at stimulating economic activity and growth in key sectors while reducing budgetary aid;
- iv. To promote Social Development and enhance the quality of life for all people on the island;
- v. To promote good government and governance by strengthening public administration systems and expanding the role of civil society in national decision-making.
- vi. To improve and expand external relationships to facilitate the achievement of national political and economic objectives.
- vii. To promote environmentally sustainable activities, as well as programmes that encourage prudent risk management, disaster preparedness and mitigation.

**30.** With the focus on our approved development objectives, this budget will also serve to demonstrate our shift towards a performance-oriented budget. In addition, it will demonstrate the integration of Government's fiscal policies into the overall economic recovery programme.

### **Promoting Population Growth**

**31.** Mr Speaker, one of the foremost objectives of this Government is to increase the population of Montserrat. The Chamber of Commerce in its paper, '*Towards a viable population,*' has also emphasized this as a condition for economic viability.

**32.** The current population is estimated to be just under five thousand (5,000). The current view is that we need to double that number within the next five to ten years. When we consider that the population of Montserrat up to 1996 was more than ten thousand (10,000), it is clear that this is achievable. It means we have to find ways of bringing back many of those who left during the past five years, but this will take time and a concerted effort by all.

**33.** We recognise that several factors would influence the final decision of someone who is considering settling or returning home to Montserrat. These include the availability of accommodation; adequate educational facilities for those with children; health facilities; entertainment and sporting facilities; employment; easy access to and exit from the island and the uncertainty surrounding the volcano.

**34.** Mr Speaker, these factors have been examined by this Government and rapid improvements are being made. Over the past two years, Government has implemented a number of housing programmes. These include housing for the elderly, apartment blocks and self-help housing programmes for others.

**35.** Despite some difficulty, Government continues to try to acquire additional land to be made available to those who still need housing. We are also encouraging lending institutions to offer more flexible terms for home construction. The overall aim is to fulfil the needs of those living on island as well as to provide the right conditions and incentives for those wishing to return.

**36.** Educational facilities up to six form level have now been reinstated to a satisfactory level. The fact that our students are performing as well as those in neighbouring islands supports this assertion. In fact, it is as a result of the foundation they receive here that these students continue to excel when they travel to more developed countries to further their education.

**37.** I am also pleased to say that later this year we will start construction of a Community College. When completed, the overall project will cost over \$6 million. This will include construction of the facility as well as the provision of equipment and technical assistance. It would cater to those young people wishing to acquire particular technical and other skills without them having to leave the island.

**38.** Our health facilities are being developed as I speak. Within the next two months we would be commissioning our new operating theatre facilities and dental clinic. By the end of the year a new health centre will be opened in St. Peters. Clearly, we are making vital progress.

**39.** Mr Speaker, by July this year, the construction of a new cultural centre will begin. This modern facility will provide a venue for displays of culture and other art forms. This will allow people to enjoy a greater variety of entertainment.

**40.** The Montserrat Football Association must be complimented on the construction of an impressive football field at Blake's. There is still need to construct spectator stands, change rooms and other auxiliary buildings, but they have made a very useful start. It is my hope that persons who are interested in this sport would return to participate and assist in the development of this sport.

**41.** Mr Speaker, employment at this time is predominantly in construction and government services. Well-targeted programmes in key sectors are expected to increase employment in other sectors. Again, we are making sensible choices with scarce resources to obtain optimal economic results.

**42.** Construction of an airport at Gerald's has begun. The terminal building is presently under construction and the runway is expected to start by September this year. By 2004, we will have a more sustainable form of transportation to and from the island.

**43.** Mr Speaker, there is the expressed fear of the volcano and the associated risk and uncertainty surrounding the volcano. It is now accepted and well known

that we have a world class, state of the art volcano monitoring facility with a highly qualified team of experts. The scientists have continued to stress that there is minimal risk to persons living in the northern part of the island.

**44.** Mr Speaker, my government is taking care of the fundamentals and the island is now poised to launch its comeback. We welcome those who wish to be a part of the process of shaping Montserrat's future, be they Montserratians, Caribbean citizens or citizens of any other country.

**45.** Also, it is anticipated that our recent decision to support the free movement of labour within the CARICOM region will continue to lead to an increase in the current population. We are particularly interested in those possessing skills that are required for the island to fully launch its comeback. Those who wish only to experience the pristine, peaceful and unspoilt environment we have to offer are also welcome.

**46.** But, Mr Speaker, we must focus on Montserratians and this is our first priority. A returning Montserratian at this moment is entitled to:

- i. import new and used household and personal effects to furnish his or her family residence as per the approved list and such other items that the Comptroller may deem reasonable free of customs duty, consumption tax and service tax;
- ii. import a new motor vehicle free of customs duty, consumption tax and service tax whether purchased locally or imported. This must be purchased or imported within three (3) months of arrival on island;
- iii. import tools of trade free of duty and consumption tax provided they have been in the possession of the applicant for a reasonable period.

**47.** Notwithstanding the above:

- i. no person or family shall benefit more than once from the benefits outlined above;
- ii. any person or family who was accorded an exemption under this provision and returns abroad for more than 3 months shall be liable to pay all the taxes waived although in exceptional circumstances the Government may waive this requirement.

**48.** In addition to all this, the Government of Montserrat will extend the policy in 2003 to exempt from customs duty, consumption tax and service tax, on a one off basis, any equipment, furniture or specialized supplies imported by a returning

Montserratian for a business that does not currently exist on island or would employ not less than five (5) persons for a period of not less than one (1) year.

**49.** My Government recognizes the need for an office to be established to coordinate all activities relating to returning Montserratians, to serve as a focal point for providing information, and ensure that returning Montserratians are received and welcomed with the least possible frustration. This office will also work with financial institutions to secure land and arrange for the construction of homes for Montserratians who are in a position to meet the mortgage payments while still living abroad. It is our intention to work through the Chamber of Commerce to achieve this objective.

**50.** Finally, Mr Speaker, further population growth is expected as we implement our tourism and foreign direct investment strategies. It is important to state that the Montserrat immigration legislation permits persons who invest substantial sums of money on island to apply for a permit of economic residence. Government intends to use this provision to attract suitable persons to the island.

### **Encouraging Economic Growth And Financial Stability**

**51.** Mr Speaker, it is the intention of this government to formulate and implement what some might describe as a stabilisation policy. I have chosen not to call it that because of certain things normally associated with that description. But we must recognise the difficult economic and financial position in which we find ourselves and do something about it.

**52.** Our plan is to adopt a number of strategies to revitalise the local economy and to improve the state of Government's finances. I will outline these in detail later, but at this point, I want to refer briefly to some of them.

**53.** Firstly, we want to complete the infrastructure needed to facilitate a greater level of private sector activity. We shall provide as much assistance as possible to help the local private sector re-establish itself. We shall also increase our involvement in the promotion of foreign investment. The private sector must assume its position as the engine of growth for this economy.

**54.** Secondly, we will consider privatising a number of government activities. Again, the idea is to encourage the private sector to become more involved in the economy and to increase the efficiency of government. We shall ensure that those government workers currently engaged in these activities have the opportunity to become involved in the ownership and operation of these businesses.

**55.** Also, we want to target resources into key sectors such as tourism that can generate economic activity and thereby create employment. It is imperative

too, for us to reduce the leakages from the economy without necessarily creating barriers to trade.

**56.** We must reform and improve the efficiency and effectiveness of the revenue agencies such as Inland Revenue, Customs and the Treasury. Much work has been done and more work is planned in this area over the next two years. This would ensure that we are efficient in the collection of revenue generated from increased economic activity. Already, we have begun to review our budget monitoring systems with a view to meeting revenue and expenditure targets. I believe this approach would reduce transaction costs and create the kind of fiscal stability that would enhance investor confidence and economic growth.

**57.** Mr Speaker, it is with these approaches in mind that I turn now to look at some of the specific activities planned for this fiscal year.

### **Airport**

**58.** Mr Speaker, the airport at Gerald's is a major infrastructure project. Most of us now agree that we need an airport facility to enhance our tourism product and to increase tourism activity. We also need reliable, safe and efficient air transportation to encourage business investment in Montserrat.

**59.** I am pleased to report that the contract for construction of the terminal building has been signed and work has actually started already. By the end of the year the new terminal building would have been completed. Furthermore, tenders for construction of the runway will be received by May and actual work will start by September this year.

**60.** But we are not just concerned with building an airstrip and a terminal building. Since we want to attract international investors and tourists we must ensure that the entire facility meets international standards. These include standards for fire fighting, security, air-traffic control and airport management. New employment would be created for support staff at the airport and they will also be trained to international standards.

**61.** During construction, many jobs will become available. Owners of trucks and heavy equipment will benefit. At least one new quarry operation will open to supply aggregate to the project. These and all the other direct benefits will lead to more spending in the economy. Total expenditure is expected to be as high as \$42.6 million with a possible EC\$17 million being spent this year alone. It is the single largest investment in Montserrat in the past ten years. I am proud to say that my government has finally made it a reality.

**62.** Mr. Speaker, permit me to make one further point. As we all know, last year we had to include the subsidy for the ferry and helicopter services in the

recurrent budget for the first time. The total cost of providing these services is almost \$12 million. The subsidy included in this year's budget is estimated to be about \$8 million. My government looks forward to the completion of the airport when this \$8 million can be reprogrammed to other critical projects.

### **Sea Port**

**63.** Mr Speaker, the importance of the seaport to economic recovery cannot be over emphasized. If we are to see increased economic development, we must continue to improve and expand this facility. Improvements are needed to accommodate more ships and a larger throughput of cargo. Since we are promoting tourism, it must also provide for the security and comfort of a larger number of passengers.

**64.** The level of activity that we are seeing at the port justifies such improvements. For example, in 2002 there was an increase of 5% in containerised cargo in comparison to 2001. There were also increases in the volume of other items handled last year – lumber increased by 80% and cement by 13%. There is a general upward trend and this is forecast to continue.

**65.** A new warehouse is now under construction and its completion would significantly increase the level of efficiency at the port. The building will provide much needed storage as well as office space for customs and port officials.

**66.** In addition, sea defences are being established for the protection of the port. A ramp for use by the fishermen will also be constructed. This would greatly assist the fishermen in their daily operations. When completed the overall project will cost over \$6 million.

**67.** Additional funds for improvements on the marine side are needed. This will include further work on the jetty and possibly a breakwater as well. Together with the Port Authority, Government will be taking a close look at available options for financing.

### **Road Networks**

**68.** Mr Speaker, the upgrading of the road system remains an important aspect of public expenditure. During 2002, Government spent approximately \$1.7 million on the general maintenance of the road system including drain cleaning, verge cutting, minor patching, resealing and repairs.

**69.** One of the main projects started in 2002 that will continue in 2003 is the improvement of the road from St John's to Gerald's. One of the main components of the project is the redesigning of the junction next to the Hospital. The improvements will allow easier access and reduce risks to other road users. It is also Government's intention to improve the road in Drummonds.

**70.** The rehabilitation of the road from Forgathy to Salem is also continuing. The work being undertaken this year includes the resurfacing and widening of the road in the area of the culvert north of the St. Augustine School. When all the road works are completed on this stretch of road we would have spent over \$2 million.

### **Water and Power**

**71.** Mr Speaker, Government's aim with respect to the supply of these essential services is three-fold. Firstly, all households must have adequate and reliable access to utilities at an affordable price. Secondly, the supply to commercial enterprises should be adequate, reliable and reasonably priced in order to facilitate private sector investment and development. Thirdly, the agencies that supply these services must operate more efficiently, they must provide for private sector participation and government subsidies must be reduced.

**72.** There are still some communities that are without the quality of water supply that they should have. These include sections of Mars Hill, Cudjoe Head, Forgathy and St John's. The difficulties experienced relate to inadequate storage, undersized mains and low water pressure. It is our intention to continue negotiating with DFID for funding of the Water III project, a project which is designed to relieve some of these problems.

**73.** Let us now turn our attention to the provision of electricity. Efficient, reliable and cost effective electricity generation is essential to the overall development of Montserrat. Urgent funding is needed for this purpose. Under the present aid framework there is little scope for allocating UK grant funding for the development of a new power generating plant. This being the case, my government intends seek a guarantee from Her Majesty's Government (HMG) to obtain a loan for this project. We believe that Montserrat would be able to access up to US\$4 million from the Caribbean Development Bank (CDB) for self-financing projects. Mr Speaker, while this Government is wary with borrowing at this time, we recognize that the provision of this infrastructure is critical and it is a project that can pay for itself.

**74.** One of the important factors affecting the supply of electricity is the price of fuel. This has an impact on the price of electricity to the consumer. Government intends to review this situation and to examine possible ways of delivering this product at reasonable rates.

**75.** In 2002, Government took the decision that the two utility companies will be restructured. As a result of this decision, a management company - Montserrat Utilities Limited (MUL) - was established. A Management Board was also put in place. Government intends to accelerate the pace of this restructuring exercise this year.

## **Agriculture**

**76.** Mr Speaker, this is one sector on which Government has to place more emphasis. Montserrat is spending too much money on importing food that can be grown on island. This is money that can and should be spent here instead of some other country.

**77.** The drought in 2001 seriously affected production, but I am happy to report improvements in 2002. Our farmers produced 157,000 pounds of fruit and vegetables compared to a mere 87,000 pounds in 2001. Some of the main items were cucumber, carrots, onions, cabbage, sweet peppers, tomatoes, potatoes and onions.

**78.** The Department of Agriculture must be commended for its efforts. It was able to implement an irrigation project under which five irrigation dams were built at a cost of \$330,000. This will provide farmers with up to 800,000 gallons of water. In addition, sixty persons engaged in backyard gardening were provided with irrigation tanks. This is a project that will continue during this fiscal year. It is an important project especially in light of the drought conditions, which affected farmers so badly in 2001.

**79.** Another very useful activity is the Extension project, which provided training, advice and other assistance to farmers. Some farmers have actually been sent overseas for training so that they could return home and assist others. The department is identifying and training prospective farmers and arranging to get them involved in production. This is a very important strategy and will continue during the course of this year. Overall, this project is estimated to cost \$500,000.

**80.** During last year also, government assistance was provided to egg producers. This came in the form of an Egg Promotion and Marketing Project. As a result of this project, egg production in 2002 jumped to 50,000 dozens. This compares with 13,000 in 2001. This is clearly one area in which we have been able to reduce imports and egg producers need to be given all the encouragement and assistance possible.

**81.** Mr Speaker, Government remains committed to the building of a public market in the Little Bay area. Design work has already started. This will be a facility to accommodate farmers, fishermen, meat producers and others. The project is estimated to cost \$1.5 million, and it is anticipated that it will commence by the end of 2003.

**82.** With agriculture production increasing, the next step would be to establish an agro-processing unit on island. This would increase the year round availability of agricultural produce and would represent another future business opportunity. The ministry will initiate discussions on the best way to take this project forward.

## **Tourism**

**83.** Mr Speaker, the process of stabilization and growth will depend on our success in redeveloping the tourism sector. Government's economic strategy views tourism as becoming a lead sector in the economy over the next few years.

**84.** By the end of November 2002, Montserrat had recorded a total of 12,400 visitor arrivals. This is a 10 per cent decrease on the 13,700 recorded for the same period in 2001. This is largely attributable to the extension of the Volcano Exclusion Zone, which made many villas and the Vue Pointe Hotel unavailable.

**85.** Nevertheless, one of the most encouraging signs is the number of tourists coming by boat on day tours from Antigua. Up to November last year, the number had reached 4,300 – a figure similar to that for the same period in 2001. This has now become an established feature of Montserrat tourism and we must begin to develop the package into a well-organised one.

**86.** We have just received the National Tourism Strategy and Plan captioned '*Repositioning Montserrat's Tourism Sector*'. The consultancy is being funded by the government of the Republic of Ireland at a cost of \$445,000. The results of this will provide a framework for redefining our tourism product.

**87.** Using this Strategy and Plan as a guide, we will focus on product development and diversification during the coming year. Potential nature trails and heritage sites around the island will be improved and made more accessible. These include the Trail Network, which will encompass The Cot, Duck Pond, Runaway Ghaut, Centre Hills and Silver Hills. A trail map is being developed to assist hikers in getting the best out of their hikes and utilizing the network more extensively. A viewing platform is also being constructed at Jack Boy Hill to facilitate viewing of the volcano. Overall expenditure on the Tourism Development Programme is estimated at \$615,000 for this year but will have to be increased to reflect the estimated amount for the tourism repositioning strategy now under review.

**88.** This Government stands ready to support any reasonable proposal contained in the report.

**89.** Mr Speaker, during 2003 Government will be exploring the possibility of attracting UK and other European pensioners to invest in the building of vacation homes in Montserrat. This matter will be discussed with the Foreign and Commonwealth Office and Her Majesty's Treasury to see what incentives may be provided to pensioners willing to invest in such a scheme. Success with this idea would increase the number of accommodation facilities on island and lead to an increase in the number of tourists visiting the island.

**90.** Another area of growing interest is cruise tourism, including yachting. This is an area with potential and Government will ensure that basic yachting and cruise ship facilities are included in the sea-side development of the Little Bay port facilities.

**91.** Further, the operation of an airport facility means that whereas currently visitors are unable to book flights directly to Montserrat, after the airport is built they will be able to book their flights to Montserrat from major cities around the world. This would assist in our drive to promote tourism.

**92.** Government will continue to encourage investment in tourist accommodation such as small guesthouses and hotels. We also recognise the need for new training and retraining in the industry.

**93.** The successful promotion of Montserrat as a tourist destination is perhaps the biggest challenge. Through the kind auspices of the Caribbean Development Bank, a grant was made available to the Caribbean Tourism Organization (CTO) so that Montserrat could participate in a television advertising campaign currently being run in the United States.

**94.** We will need to allocate more resources to promotion and marketing activities in order to ensure that positive and accurate information is disseminated in the marketplace.

**95.** Government remains convinced that tourism could become a major industry again. Prior to the volcanic eruptions, tourism contributed up to 25% of GDP with visitors spending up to \$54 million annually. Montserrat played host to as many as 21,000 tourists a year. With this level of potential, the redevelopment of tourism is crucial to the economic development of Montserrat.

### **Trade, Industry And Commerce**

**96.** Mr Speaker, during the past year, Government has been working very closely with the Chamber of Commerce and Industry and other private sector interests. Our aim is to get the private sector more fully involved in the economic development of the island.

**97.** During the year Government will implement Phase II of the Support to Private Sector Development Consultancy. The overall goal of the project is to generate economic growth through increased private sector activity. The aim is also to reduce reliance on imported goods, to increase Government's tax base, increase employment opportunities and stimulate domestic and foreign private investment.

**98.** The project will create two funds – a Challenge Fund and a Development Fund. The Challenge Fund will provide small grants and interest free loans to

clients wishing to start a micro business. The Development Fund will make limited funding available to established businesses that wish to expand.

**99.** In addition, the project will provide support to institutions such as the Chamber of Commerce and the National Development Foundation. It will formulate strategies for promoting and attracting investment and will target particular sectors of the economy for development. The total project cost is expected to be about \$3.5 million.

**100.** With the assistance of Government, the Chamber of Commerce and Industry has also started the Montserrat First project. This project utilizes the expertise of a UK based consultant. It will seek to develop ties between local and foreign-based investors as a means of creating investment opportunities on Montserrat. A Memorandum of Understanding was signed in December 2002 between the London Chamber of Commerce and the local chamber to formally establish the project.

**101.** It was as a result of this that a joint public and private sector promotional trip to Denver in the United States was undertaken in February this year. As a result, business links are being established with the Denver City Council and the Denver Chamber of Commerce. Furthermore, a trade mission from the United Kingdom will be undertaken to Montserrat in May this year. These and similar ventures are expected to lead to an increase in inward investment.

**102.** The lack of factory shell space has up to now hindered government's ability to adequately promote and expand the industrial and manufacturing sector. A few factory shells would significantly enhance our efforts in this area. Initially this will be achieved by restoring the vacated emergency shelters at Brades into small industrial units.

**103.** Government has agreed an overall master plan for the development of Little Bay. It is anticipated that this area will be developed mainly as a tourist and entertainment area. There will be civic and commercial buildings along with middle and high-income housing. In an effort to facilitate private sector development, government is willing to allocate lands at Little Bay for investment. These allocations will be based on private sector led proposals (including concepts and drawings) given that government's finances are limited.

**104.** Work is also on the way in subdividing lands at Look Out for commercial enterprise.

## **Promoting Social Development**

### **Social Policy**

**105.** The principles on which our social policies are based can be defined as providing access to the basic necessities of life that is, housing, education, health, welfare services; reducing marginalization and social exclusion; promoting social justice and equity; promoting the empowerment of our people and ensuring that an appropriate balance is maintained between social expenditures and expenditures on economic development.

**106.** Government's commitment to these principles is unwavering. This is evidenced by the \$4.9 million from the recurrent budget and \$4.4 million from the development budget allocated for education. Government intends over the next two years to focus on the development of post-secondary education through the construction and operation of a Community College and expansion of the library services.

**107.** Mr Speaker, expenditures on health and community development services include \$10.5 million from the recurrent budget and \$5.1 million from the development budget. These are aimed at expanding health services at the hospital and district level. A further \$10 million is budgeted for public assisted housing.

**108.** This means Mr. Speaker that a total of approximately \$35 million has been allocated to social infrastructure and programmes. Therefore my Government is committing 26% of the total budget to social development and welfare programmes.

### **Housing**

**109.** Housing still remains one of Government's priority areas, and we have therefore allocated approximately \$26 million to be spent over the next 3 years as part of our Comprehensive Housing Strategy. The amount of \$14 million has been made available under the Serviced Lots Development, the Materials Grant and the Direct Build Housing scheme funded by DFID. A further \$12 million has been directed towards the servicing of thirty-three (33) lots and the construction of direct build houses on all of these lots. The funding is being provided by the European Union.

**110.** As part of Government's plans to construct an Airport at Gerald's Park, it was necessary to find immediate housing solutions for the forty-five (45) households to be affected. To date, twenty-four (24) households have been relocated, and an additional seven (7) have been given Materials Grants. The

houses are now under construction, and the needs of the remaining fourteen (14) households are currently being addressed.

**111.** During 2002 Government constructed fifty (50) warden-assisted units to cater to the needs of the elderly. In addition, two (2) Apartment Blocks containing eighteen (18) Studio Apartments were constructed. These will be used to accommodate households that are to be finally moved out of shelters.

**112.** The Materials Grant Scheme continued throughout 2002 and is continuing in 2003. An additional 87 persons were able to access funds under this scheme in 2002. This brings the total number of persons who have benefited from scheme to date to 519 households. There are currently 219 on the waiting list, of which 112 have qualified for assistance.

**113.** During this financial year Government proposes to commence the sale of the houses at Look Out, Davy Hill and Shinn Lands. An important exception will be to those required by Community Services as public housing for the poor and indigent. The terms of sale will be as follows:

- i. The value of the houses will be those determined by the Ministry of Agriculture, Lands and Housing.
- ii. All rents paid to date will be deducted from the value of the property.
- iii. The property will be considered owned by the purchaser once the sale agreement is signed; however, the deed will not be delivered until the sale price of the house is fully paid.
- iv. No alterations would be allowed to properties until all payments are completed.
- v. Interest will be charged on the balance.

**114.** The funds from the sale of these houses will become the initial capital for the National Development Corporation. It is important that persons who wish to purchase these houses do so quickly so that the funds could become available to continue similar schemes.

### **Education**

**115.** Government of Montserrat is committed to the development of the island's skills base so as to promote economic growth. This will ensure that we are able to support and improve sustainable livelihoods. Government schemes will continue to provide training in traditional areas such as construction. We shall also provide for the acquisition of skills in information technology. This is a requirement for every modern economy, and is essential for attracting new investment. Young persons will be specifically targeted through the development of tertiary education. A youth training programme will also be introduced to promote vocational opportunities.

**116.** With respect to Early Childhood Education, the new Day Care Centre at Lookout was opened in September 2002. The St. John's Day Care Centre was also expanded. This is making it possible for more children to access early childhood education at minimal cost. Access to Primary Education was further increased with the addition of a fourth grade at the primary school in Lookout.

**117.** In the area of Tertiary Education, Government has made significant progress towards the re-establishment of the Montserrat Community College. The land has been purchased and construction of the access road and installation of the underground electrical and water services is being completed.

### **Health Service**

**118.** Mr. Speaker, the central aim of the Health Services is to deliver adequate, affordable and accessible health and welfare services to the people of Montserrat. This will protect them from health risks and maintain their general health and well-being. This Government is continuously embarking on programmes to improve the standard of health care at both the primary and secondary levels.

**119.** In 2002, the St. John's Health Centre was expanded to include consulting rooms, office accommodation, ancillary areas for both doctors and nurses, as well as a Mental Health Day Care Centre. The Operating Theatre building will soon be completed and will be fully equipped upon completion. This will reduce the need for Medivac services. Construction of a new mortuary building is ongoing and when completed will allow post mortem inspections to be carried out on island.

**120.** An expanded facility has been constructed for the new St. John's Health Centre. The building will now include two consulting rooms, a nurse's room, an administration area and a patient waiting area. Access to the Clinic will now be improved to allow for the safe unloading of ambulances and ingress by wheelchair-bound patients. Arrangements for the procurement of a new ambulance are now in place.

**121.** The St Peter's Health Centre is also being upgraded. This will ensure that basic health services are provided in an improved environment throughout the various communities. Overall, \$5.6 million is being spent on the development of health services this year.

### **Welfare Services**

**122.** Mr Speaker, we are currently providing social welfare assistance to an average of three hundred and twenty (320) persons. When we include those

receiving rental assistance, the figure reaches as high as 450 persons. In April 2002, we extended the Financial Assistance system and provided assistance to twenty-two (22) Montserratian households in six (6) Caribbean islands.

**123.** During 2002 also, Government increased Foster Care allowance in January from \$65.00 fortnightly to EC\$150.00. In addition, support was provided to seventy-seven (77) persons with medical cases costing over EC\$160,000. One hundred and fifty three (153) other requests for assistance were satisfied. These range from household items to food packages.

**124.** Mr. Speaker, the warden supported apartments were completed in August and fully occupied by October. Fifty-one (51) elderly and disabled persons are now comfortably housed and well cared for by the two resident wardens. This brings the number of elderly persons in institutionalised care to almost 200 persons.

**125.** Through the Ministry of Education, Health and Community Services, Government has continued to provide subventions to three institutions to improve the care of the elderly and vulnerable in our society. These are as follows.

- i. The Meals on Wheels Foundation, which provides a hot, cooked meal to an average of forty-five (45) persons in the community five days a week.
- ii. The Old People Welfare Association which provides home care services, such as laundry and cleaning, to the elderly and disabled persons in the community in an effort to maintain them in their homes for as long as possible.
- iii. The Golden Years Home that takes care of twenty-five residents viewed as the financial responsibility of the Government.

**126.** Mr Speaker, these programmes will continue in 2003. In total Community assistance programmes reach over 500 persons. As you can see we are determined that Montserratians must be able to live comfortably in their own country. However, given the current economic and financial situation, this is not a sustainable position.

### **Strengthening Public Administration Systems And The Role Of Civil Society**

**127.** Mr. Speaker, I want to emphasize the point that Government is fully committed to improving Governance and Government in Montserrat. It is in keeping with this that we want to ensure that public servants are suitably rewarded for the hard work they have been doing throughout the volcanic crisis.

**128.** But we will go further and provide appropriate training in public administration and related areas. This year we are allocating \$150,000 for

training in the public service. Most of the training would be short-term. However, we shall ensure that at least one scholar a year is trained from local revenue resources in a field that Government accords high priority. This is in addition to the amounts being provided by DFID.

**129.** As I said before, Montserrat has survived the volcanic crisis largely because of our hard-working public servants. This is why I was so pleased that we were able to offer an average 10% salary increase last year. And despite the financial state we face, Government will continue to seek ways to reward public servants appropriately. But I want to emphasize that they will be expected to maintain a high level of productivity. The overall aim is to provide 'value for money' in the public service. The taxpayers and all residents must be provided with the quality of service that they deserve.

**130.** Another initiative that will benefit public servants is the transfer from the present government pension scheme to the social security scheme. Government is committed to ensuring that no civil servant would be worse off. More importantly, the vast majority of public servants would be much better off as a result.

**131.** Public servants would now be able to access all the benefits offered by the social security scheme. These include sickness benefits, maternity benefits, funeral grants and a whole range of other benefits.

**132.** The current level of our fiscal deficit is presently at a high level. It is critical that government seeks to move away from its revenue dependent pension scheme to one that is backed by actual cash contributions and investment income that would be able to meet pension obligations when they become due. The draft proposal is currently being studied by the Civil Service Union.

**133.** However, to begin this process Government proposes that with effect from 1 July 2003, all new entrants to the civil service will go directly to the Social Security Scheme. The Department of Administration and the Social Security Board will be expected to implement this policy. It is hoped that a way forward for persons currently on the Civil Service Scheme can be agreed before the end of this year.

**134.** Mr. Speaker, it is the intention of Government to bring about a higher level of public *participation* in decision-making. We have regularly consulted with the Chamber of Commerce. The Community Affairs Department regularly arranges consultations with youth groups, women's groups and more recently, groups of men. The Department of the Legislature has organized a Youth Parliament to set the stage for formal involvement in national decision-making. The Poverty Assessment carried out by the Development Unit depended largely on the inputs of focus groups. In all instances, Government has received feedback and is acting on it. This approach is also being used in formulating the

Sustainable Development Plan, which has provided the framework for this budget presentation.

**135.** The recent work of the Constitution Commission is further testimony to the concept and practice of participation in Montserrat. Their strategies included district meetings, radio “phone-in” programmes, conferences with voluntary organizations, private interviews and the study of letters and memoranda. This is precisely the type of participation that we encourage among Montserratians both at home and abroad.

**136.** Mr. Speaker, we shall study the recommendations of the Commission as a government. It is a process that we intend to take forward. I wish to publicly commend the Commission for its work and the way in which it was conducted.

**137.** With respect to **accountability**, we attach great importance to the work of the Public Accounts Committee. As you are aware, this is a parliamentary committee headed by the Honourable Leader of the Opposition. He has access to all of Government’s accounts and he has the power to demand explanations on Government accounts.

**138.** And this brings me to the issue of **transparency**. Mr. Speaker, every significant contract that we sign goes through a tendering procedure. It is public information. When duty concessions are granted, the names of the recipients are made public. Moreover, DFID require regular, accurate and up to date information in order to provide us with aid funding. As we move towards a more performance-based budget government ministries/departments will be required to produce an annual report on their work for the information of all members of the Legislative Council and the public.

**139.** Mr. Speaker, as you can see we understand what it takes to operate in this new era and we are laying a proper foundation for the future.

### **Improving External Relationships**

**140.** Mr. Speaker, in an environment of growing regionalism and globalisation, Montserrat cannot look within for economic and political power. We must learn to form strategic alliances that would promote our interests and lead to economic and social security.

**141.** At our doorstep, there is CARICOM/OECS with whom we share a common history and culture. There are the United Kingdom Overseas Territories with whom we share a similar political and constitutional structure. There is the United Kingdom who is our administering power. There is the European Union

(EU) with whom we are linked by virtue of our constitutional ties with one of its member countries. There are overseas territories of other EU members and there are other countries with which we have minimal or no relationship.

**142.** Mr Speaker, as a small island these countries can assist us with one or any combination of the following benefits: lobbying power, access to economic and financial resources, reduced costs and risks through sharing arrangements, access to markets for goods and services, access to information, technology and skills. It is vital that an external relations unit be established in the office of the Chief Minister to optimise the value of these relationships.

**143.** My Government has been criticised for the relationship we have had with the United Kingdom government. Nevertheless, we will continue to develop a constructive relationship that is based on mutual respect and trust. It is as a result of this improved relationship that we have been able to negotiate an increase in the Aid Framework with an additional £15 million for the next three years.

### **Promoting Environmental Sustainability, Risk And Disaster Management**

**144.** Mr. Speaker, one of the biggest challenges facing us today is to effectively communicate to the world that Montserrat is a safe place to live, to visit and to do business.

**145.** As you are aware, the new Volcano Observatory was opened just a few weeks ago. This facility was built at a cost of \$4.5 million. It is equipped with modern instruments and is staffed by some of the most experienced scientists in the field.

**146.** In light of the expertise available, my government is satisfied that we have been receiving sound advice. I am also confident that we can continue to invest in the North of Montserrat and that the risk associated with such investments is not higher than many other places in the world. The volcano has had little direct effect on the North of the island.

**147.** Along with the Montserrat Volcano Observatory, we have an Emergency Department that is as capable as those in other parts of the Caribbean. An officer with years of local, regional and international experience heads that department. I am also confident that the department is adequately prepared to deal with any emergency that may arise on the island. The allocation to the Department for 2003 is \$4.4 million. This includes an allocation for the contract for monitoring volcanic activity.

**148.** Every project that is executed on Montserrat must have a proper Environmental Impact Assessment done. Montseratians have seen the damage

that can occur to the natural environment and have come to appreciate our environmental resources highly. We are doing all we can to enhance our capacity for managing our natural resources. These include agricultural land, forests and marine resources. We have in place proper arrangements to ensure that we protect these resources and have them available for many years to come.

## **PUBLIC FINANCE**

**149.** Mr. Speaker, preliminary indications are that recurrent expenditure in 2002 amounted to about \$62 million and that local revenue was approximately \$28 million. As in previous years, the deficit was financed by budgetary aid from DFID.

**150.** Government of Montserrat has programmed \$133.2 million for recurrent and development expenditure for 2003. The major external contributors to the budget are the United Kingdom Government and the European Union.

### **Recurrent Revenue**

**151.** This year we estimate local revenue to be \$28.2 million. This is a figure similar to the 2001 estimate and higher than the revised estimate for 2002 by 9%. It is anticipated that the main revenue sources would be income tax collections resulting from increased employment and a higher level of import duties resulting from increased consumption.

### **Recurrent Expenditure**

**152.** Based on the programmes presented by the Ministries and Departments for the fiscal year 2003, I propose to spend \$69.8 million. The forecast budget deficit is therefore, approximately \$41.6 million. Her Majesty's Government has approved £10.5 million or \$44.1 million (£1 to \$4.2) for this purpose.

**153.** Having said this, I will now turn to the amounts allocated to the various Ministries and Departments: -

<b>Head</b>	<b>Votes &amp; Details</b>	<b>Estimate 2003</b>
01	Consolidated Fund Services	8,553,520
06	Emergency Department	4,415,940
20	Ministry of Finance	3,730,250
30	Agriculture	4,280,110
35	Communications & Works	14,197,060
40	Education	5,005,810
45	Health	10,502,420
	Other	<u>19,116,460</u>
		<u>69,801,570</u>

**154.** It should be noted that the recurrent expenditure is 33.6% more than that programmed for 2001 and 5.8% more than the revised estimates for 2002. Much of the difference in expenditure is as a result of the transfer of the transport subsidy - that is the cost of Helicopter and Ferry services - to the 2002 recurrent budget. The costs of the MVO are also included in this year's budget.

### **Development Expenditure**

**155.** Mr Speaker, the development programme for 2003 is valued at \$63.4 million. The UK Government contribution is £8.1million or \$34 million but excludes projects started before this fiscal year. Other contributors are the European Union, the Government of the Republic of Ireland, the Pan American Health Organisation, and the United Nations Development Programme. Savings transferred from recurrent budget for previous years are also included.

**156.** The development funds have been allocated to departments as follows:

Administration	456,450
Police	648,280
Ministry of Finance & Economic Development	6,364,490
Ministry of Agriculture, Lands & Housing	21,534,630
Ministry of Communication & Works	25,812,540
Ministry of Education	4,125,000
Ministry of Health & Community Services	<u>5,621,780</u>
Total	<u>63,366,070</u>

### **Allocation by Strategic Objectives**

**157.** Mr Speaker, my government has agreed a set of strategic objectives for the medium to long term. I find it both useful and necessary to indicate how the allocations for recurrent and development expenditure relate to those development objectives. These allocations by objectives are shown below:

No,	Detail	Allocation (\$)
1	To promote population growth.	384,940
2	To encourage Economic & Financial Stability.	60,601,830
3	To Promote Social Development & Enhance quality of life.	45,091,590
4	To strengthen Public Administration & Enhance good governance	18,681,470
5	To improve external relationships	1,237,930
6	To promote sustainable environment & Support risk and disaster management Programmes.	<u>7,169,880</u>
	Total	<u>133,167,640</u>

### **Aid Framework 2003-2006**

**158.** Mr Speaker, the Secretary of State for the Department for International Development in her letter of 11 February 2003 approved the following amounts over the next three years:

	<u>2003/4</u>	<u>2004/5</u>	<u>2005/6</u>
Budgetary Aid	£10.5 million	£9.55 million	£7.2 million
Development Aid	£ 8.1 “	£4.95 “	£5.3 “

**159.** The figures contained in this schedule are the results of negotiations I held earlier this year with the Secretary of State for Development. As a government, we are grateful that she was so responsive to our needs. It is our expectation that she will be equally responsive in the future if it becomes evident that additional funding is needed to bring us closer to achieving

sustainability. As you can see, the deficit of \$41.6 is within the prescribed limit set by the UK Government.

### **Public Debt**

**160.** Mr Speaker, I am pleased to inform this Honourable House and the public at large that during 2002 we managed to reduce Montserrat's foreign debt. A substantial portion of our debt to the Caribbean Development Bank was liquidated. These include the LIAT loan, a portion of the Students loan facility and approximately \$3million of the Port Loan. This resulted in a reduction of the Public Debt from \$20 million to \$15.8 million.

**161.** As you are aware from previous budgets, the \$4million due to domestic bondholders is adequately covered by a sinking fund. When the bonds mature, Government will be well placed to meet its obligation.

### **Financial Policies**

#### **Property Tax**

**162.** Mr Speaker, the property tax legislation requires government to undertake a new valuation of properties every five years. Notwithstanding this stipulation, the last time this was done was in 1988. Government therefore found itself in a position last year where it had no choice but to fulfil this legal obligation.

**163.** From the very beginning of the exercise, we realised that ways would have had to be found to provide appropriate relief to cushion the impact on taxpayers. By conducting the exercise, however, it meant that we would have a current and credible valuation list for the computation of property tax.

**164.** Aside from this, a number of anomalies developed over time in the existing list. These resulted from:

- i. Omissions of properties from the property tax register;
- ii. Change of use of some properties;
- iii. Rezoning of areas in the North;
- iv. A general increase in the value of properties since 1988.

**165.** The revaluation exercise addresses these anomalies. However, the exercise also resulted in a sudden and significant adjustment in property taxes. Government has therefore decided to grant an appropriate level of relief. It should be noted that under the current legislation, taxpayers already benefit from an allowance of EC\$50,000 on residential homes. Also, the owner of a newly constructed house does not pay any tax at all for the first three years.

**166.** The decision now is to grant owners of residential property a 50% reduction in the tax due for the fiscal year 2003. Any property that falls within the exclusion zone for more than two (2) months of a particular year will be exempt from property tax for that year. Undoubtedly, this is significant relief and shows that this government is sensitive to the needs of the people of Montserrat.

**167.** With respect to commercial buildings, those constructed between 1998 and 2002 already benefit from a 50% reduction in their property tax for the first five (5) years. As a further incentive to business and to encourage private construction, Government proposes to extend this policy to properties built up to to 31 December 2007.

### **Customs Reform**

**168.** My government is committed to building a strong foundation that is prepared and ready for external shocks that face small islands like Montserrat. With this in mind, Mr Speaker, we need to reform our public services. We need to reduce the cost and time it takes to do business on island. We hope to do this within a time frame of three (3) years. We will start with the customs service as follows:

- i. review customs charges with a view to bring them in-line with our regional and international obligations, to reduce the number of rates to a maximum of three (3) rates;
- ii. reduce the rates to levels that make Montserrat more competitive for investment purposes;
- iii. train personnel and modernise the procedures to reduce the processing time in clearing imports into Montserrat.

**169.** Mr Speaker, as a result of our public housing programme, many persons who have lost all they had and have used up their savings during the crisis, are now proud homeowners. They are however, struggling to furnish their homes. While I am mindful of my budget limitations, it is necessary to provide some relief to these people and recover at least some revenue from other areas.

**170.** Mr Speaker, a significant number of our current population including the very poor, purchases poultry (chicken) as the main meat. Neighbouring islands provide this product at a much cheaper rate and many persons are taking advantage of this. My government feels obliged to assist less fortunate by making it cheaper for them to purchase this product locally.

**171.** My Government therefore, proposes the following tariff adjustments:

- i. The removal of all duties, consumption tax and service tax on poultry. This means that all forms of chicken imported wholly or in parts will not attract any import duties and taxes.

- ii. A reduction of 13% on consumption tax on all furniture items imported. This is to provide relief to those who have now built their homes and are required to furnish them. This effectively means that all furniture will attract consumption tax of 10% instead of 23%.

**172.** The revenues foregone will however, be recovered through a 10% increase on alcoholic beverages and products of tobacco.

### **Micro-Finance Facilities**

**173.** In addition, this Government proposes to make available \$2 million dollars at low interest rates to the St. Patrick's Credit Union to provide micro finance to small businesses, small loans for land and housing. Priority will be given to those wishing to purchase the houses at Look Out, Davy Hill and Shinn Lands. The interest rates must not exceed 8%. The details on the terms will be agreed between with St Patrick's Credit Union and the Ministry of Finance. The funds will be raised through public companies and statutory boards. This approach is vital in ensuring that the economic benefits trickle down to the grassroots and would not otherwise qualify under more rigid commercial schemes.

### **CONCLUSION**

**174.** Mr Speaker, in concluding, I need to re-emphasise the fact that we are operating in a new era. At a policy level, the world environment is dominated by the influence of countries coming together to form large economic blocks. Country specific legislation is giving way to regional legislation. National barriers defined by customs and immigration policies are disappearing. It means that our power base cannot only reside within our national borders.

**175.** At the operational level, trade in goods and services are being facilitated more and more through the Internet. Everyone with a credit card can order almost anything they wish through the use of the World Wide Web. Money can be transferred in an instant to and from accounts in many cities of the world. Most business these days can be done from a small room with a telephone line and a computer. It means that business is fluid – here today gone tomorrow.

**176.** A small country like ours can easily become incompatible or out of step with systems that exist across the world. If we do not build the right platform on which to launch our economic future, it will become impossible for us to interact with global systems thereby isolating ourselves in the process.

**177.** In this environment, both the private and public sector employees must not only do the job assigned to them. It is imperative that they consider how their actions affect or influence other parts of the economy. Our systems must be flexible and responsive and produce timely results.

**178.** The Tax Commission, on their recent visit to Montserrat, concluded from their study of the international environment that Caribbean economies have a window of three to four years to restructure their economies to meet the imminent challenges that will confront us.

**179.** As one people, we must begin this difficult journey of change together. We must endure the anxiety of the uncertainty of this time, learning as we go along. Also, Mr Speaker, we must celebrate and record all our milestones, and most of all; we must believe that there is a special place for us in this complex world.

Mr Speaker, I so move.