

THE SHAMUEN

2010



**Presented by the Hon Chief Minister
& Minister of Finance, Economic Development
Tourism, Culture and Information
Mr. Rueben T Meade
Delivered in the Legislative Council
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Table of Contents

1	INTRODUCTION	4
2	ECONOMIC AND FISCAL CONTEXT	6
3	INSTITUTIONAL FRAMEWORK.....	9
4	POLICY DIRECTION AND PRIORITIES FOR 2010	10
	4.2.1 Economic Regeneration and Financial Stability	10
	4.3.1 Governance Framework And Public Service Management.....	15
	4.4.1 Environmental And Emergency Management	19
	4.5.1 Social Development and Safety Nets.....	21
	4.6.1 External Relations.....	24
5	PUBLIC FINANCIAL MANAGEMENT.....	25
	5.1 Overall Budget Consideration.....	26
	5.2 Ministry and Departmental Allocations.....	28
6	ACKNOWLEDGEMENTS.....	30
7	CONCLUSION.....	31

ABBREVIATIONS

BOLT	-	Build Operate- Lease Transfer
CDB	-	Caribbean Development Bank
DFID	-	Department for International Development
DMCA	-	Disaster Management Co-ordination Agency
ECCB	-	Eastern Caribbean Central Bank
ECCU	-	Eastern Caribbean Currency Union
EIA	-	Environment Impact Assessment
FRA	-	Fiduciary Risk Assessment
GDP	-	Gross Domestic Product
HMG	-	Her Majesty Governor
ICT	-	Information Communication Technology
MCAP	-	Movement for Change and Prosperity
MCC	-	Montserrat Community College
MDC	-	Montserrat Development Corporation
MMC	-	Montserrat media Corporation
MSS	-	Montserrat Secondary School
NGO	-	Non Government Organisation
OECS	-	Organisation for Eastern Caribbean States
PEFA	-	Public Expenditure and Financial Accountability
PPP	-	Public Private Partnership
PSIP	-	Public Sector Investment Programme
TIAS's	-	Tax Information Agreement
UK	-	United Kingdom

2010 BUDGET STATEMENT

THE PATH TO SUSTAINABLE DEVELOPMENT

Mr. Speaker, I rise to move the second reading of a Bill shortly entitled the Appropriation Bill 2010.

1 INTRODUCTION

- 1.1** Mr Speaker, I shall commence this presentation by expressing our gratitude to the people of Montserrat who have demonstrated their confidence in team MCAP by giving us the mandate to lead our country at this time in our history. It is a period that is conditioned by major economic and social challenges and uncertainties that requires urgent attention. As a result, there is a call from all corners of the globe for courageous and visionary leadership. We intend to respond to this call and guide this island along the difficult path towards sustainable development.
- 1.2** A fundamental concept in shaping future policy is one's perception of the role of government. Economists and leaders all over the world continue to debate the pros and cons of government's role in development and in the daily lives of people. There are those who promote the philosophy that government knows best and therefore should direct what, where, when and how goods and services should be produced in a country. On the other hand, there are those who believe in the individual and collective skills of the private sector. These economists and leaders, expect the private sector to be creative and to be in the forefront making choices that will lead to economic growth and development, with government providing the enabling environment and producing only those things that are necessary but which the private sector cannot or will not produce. We endorse the latter view with respect to the individual and collective skills of the private sector and the streamlining of Government's role. Consequently, the underlying strategy of this Government in pursuing sustainable development is to systematically increase the contribution made to economic growth by private individuals and firms.

1.3 Mr Speaker, this budget document is guided by: the OECS/ECCU Eight Point Stabilisation Programme, the Sustainable Development Plan, the Economic Sustainability Road Map and the Business Plans of the various ministries and departments. These have all been made available for the consideration of members of this Honourable House and will be placed on the government website for public information and discussion.

1.4 Our Administration's plans for fiscal year 2010/11 will therefore reflect and be guided by the concepts and contents of the documents list above. These plans will be considered under the following key policy areas:

- Economic Regeneration and Financial Stability;
- Governance;
- Environmental and Disaster Management;
- Social Development and Safety Nets; and
- External Relations.

1.5 We began this journey six months ago in September 2009. We have listened to the suggestions made by the people of Montserrat both at home and those residing overseas, and Mr Speaker, as a team we have worked together and I am proud to say that to date we have made significant progress in this short period of time.

- We have addressed the access problem – we now have a ferry and two airlines servicing the island;
- We have resolved bottlenecks in project implementation – we have established a Project Implementation Unit to provide a greater degree of focused management of projects.
- We have responded to the critical issues of managing the volcano by balancing the comfort of residents with our responsibility for their safety;
- We have invested in sports and repositioned culture as a national asset in a framework that will support and sustain our tourism industry;

- We have liberalized the telecommunication sector and have taken steps to advance the use of technologies that would improve how government does business. This new technological approach will be showcased in an ICT road show to be held here in April 2010 that will demonstrate the use of a variety of technologies that can be used to improve service to the public.
 - We have signalled our commitment to keeping the world safe. We have adopted international best practices in compliance with accepted standards for sound financial governance and enacted legislation that will deter terrorists from using our systems to perpetuate crime;
 - We have re-built a strong relationship with the UK Government. This is confirmed by the number of visits from senior officials who have not only provided resources, but together we have discussed and crafted a way forward for Montserrat.
- 1.6** The activities listed above are simply done to provide some insight into the work that we have begun to create the necessary enabling environment. In short, it demonstrates that we have begun the work of laying the foundation for our individual and collective success.
- 1.7** Having said this, Mr Speaker, the path to Sustainable Development will not be an easy one. Therefore, to facilitate greater understanding of the environment in which we operate, I will describe the context in which this budget is crafted and provide the rational for the design of government's policies.

2 ECONOMIC AND FISCAL CONTEXT

- 2.1** Mr Speaker, between 2007 and 2009, many countries in the world experienced the greatest recession since the 1930's. Across the globe unemployment remains a challenge. Public debt is increasing as nations and territories battle the global economic downturn. Notwithstanding, there are glimmers of hope in various countries although there is general agreement that difficult hurdles remain to be crossed. Hence amidst the challenges, there are opportunities.
- 2.2** While there were signs of recovery in the developed economies during 2009, in the Eastern Caribbean Currency Union (ECCU) economic

activity contracted by 7.4% in first nine months of 2009 compared to a growth of 2.4% in the first nine months of 2008. This trend is likely to continue with national disposable income decreasing as credit levels decline and consumer confidence remain low globally. The effect of this contraction in disposable income will be felt mainly in the reduction of remittances from abroad, tourism as discretionary spending dwindle and construction as foreign investments are put on hold.

2.3 Regionally, we continue to see declines in value added recorded for construction, mining and quarrying, hotels and restaurants, manufacturing, wholesale and retail trade, transport and communications, which together accounted for 57.9 per cent of real GDP. Within the currency union, most countries experienced contractions in economic activity ranging from 1.1 per cent in St Vincent and the Grenadines to 22.6 per cent in Anguilla.

2.4 Despite the adverse global economic climate, economic activity in Montserrat is estimated to have expanded during the first nine months of 2009. Real GDP increased by 1.2 per cent compared to growth of 3.8 per cent in the first nine months of 2008. This performance reflected expansions in most sectors including agriculture 32.5%, construction 9.8%, government services 2.1%, real estate and housing 2%., mining and quarrying 1.3%, other services 1%, electricity and water 0.9% and banks and insurance 0.5%. In contrast to the sharp decrease in economic activity in the construction sector in the other member countries of the ECCU, construction activity in Montserrat increased by 9.8%. The positive growth rate was fuelled by public sector construction associated with government's reconstruction efforts, the continuation of the Little Bay Development Project and housing for vulnerable persons. Private sector construction activity also increased during the review period and focussed mainly on residential and commercial buildings.

2.5 The economic performance was not positive in all the sectors. Declines were recorded for hotels and restaurants 25.3%, wholesale and retail trade 9.2%, transport 6.5%, manufacturing and communications 1%, respectively.

2.6 Montserrat continued to experience Current Account deficits during 2009. The total value of imports for 2009 was approximately \$80m. This is 22% lower than the imports of 2008. The high costs of fuel imports in 2008, was a major contributor to the high import bill in 2008.

Total exports were \$8.5m in 2009, which was also 22% lower than total exports in 2008. Domestic exports declined by 31.5% in 2009 over 2008. With the closure of the Trants Bay Area in October 2009, this negative impact on the domestic exports for 2009 was expected. The forecast has been made much worse with the unfortunate loss in February of this year of three of the mining plants at Trants. We would need to look again at how to support the rebuilding of this sector, which sustained the livelihood of so many workers.

2.7 Information taken from the Consumer Price Index showed an inflation rate of 4% for 2007, 4.5% for 2008 and 2.4% for 2009.

2.8 Visitor arrivals to Montserrat have been declining since 2005. As of November 2009, visitor arrivals to Montserrat were 14% lower than the corresponding 11-month period for 2008. The recessions being experienced in the major tourist markets have also had negative impacts on Montserrat. However it must be noted that although the tourist arrivals were down by 14%, excursionist arrivals were up by 6%. Our plans for a day-tour schedule connecting our ferry directly with cruise ships docking in Antigua should help us push the excursionist sector upwards for the benefit of our taxis, tour guides and retail outlets.

2.9 Mr Speaker, the performance of the economy has been mixed over the past two years, with a negative impact on local revenue collections. In any event, with a population size of approximately 5,000 people, there is a limit to the amount of local revenue which government can realistically collect through direct taxation. This continues to show why the development of private sector ventures is absolutely necessary.

2.10 Any sustainable development strategy must therefore involve the introduction of programmes that will significantly expand the private sector. This will also generate increased levels of economic activity in the medium to long term.

2.11 Budgetary aid is still the major contributor to government revenues. However, Mr Speaker, HMG has made it clear that Government of Montserrat must take steps to reduce its reliance on budgetary aid. Therefore, while there is a commitment to continue to provide grants to fund recurrent expenditure; Government of Montserrat must apply prudent fiscal management policies to reduce the budget deficit.

3 INSTITUTIONAL FRAMEWORK

3.1 Mr Speaker we recognise that it is one thing to say we will move the country on a path to sustainable development; it is another to ensure that we have the strategies to do so.

3.2 Clearly, the civil service is a vital institution in the process of moving Montserrat forward. There are therefore some fundamental things that are necessary in the management of the Public Service:

- It must be organised to deliver its services in the most efficient, economical and effective way.
- It must have the right skills and competencies in the areas where they are needed.
- It must also have the attitude and philosophical grounding that is consistent with what needs to be achieved.
- It must be transparent in the use and accountable for the public resources allocated.

3.3 The second and most critical institution for economic transformation is the private sector. Among other things, we need to consider the capacity of the private sector to make the best use of investment opportunities. We need to consider how it organises itself, its composition and the barriers and challenges to its development. Government must therefore ensure that it responds to their issues and provide the enabling environment for their growth and development.

3.4 The third group of institutions needed for our continued growth and development is civil society. We need therefore to consider how social institutions such as NGOs including churches, charitable and uniformed organisations help to shape our economic landscape, foster national pride, and shape individual and collective mindsets and attitudes. Clearly, if the overall mindset is positive and supportive, then there will be a greater level of confidence, willingness to take risks and to find individual and collective solutions in the face of challenges and uncertainty.

3.5 In summary, Mr Speaker, the context in which this budget is cast is one of global economic challenges. It is challenging because the global economy is struggling and the fallout will affect our own progress. This period requires us to build external relationships, prepare for and encourage external participation in our development. Notwithstanding the gloom, there are opportunities and where there are opportunities, there is hope. We must however, continue to reform and re-engineer our institutions to meet the challenges that lie ahead.

4 POLICY DIRECTION AND PRIORITIES FOR 2010

4.1 I want to preface this section, Mr Speaker, by stating that this Administration understands that economic development, social development, and environmental protection are all connected. Therefore the policies, programmes and activities considered in this budget looked at a number of factors including policy linkages, affordability and sustainability issues and impact of programmes on various economic agents.

4.2 As we enunciate the specific activities and programmes that will be funded under the five strategic priority areas, we want everyone to see and seize the opportunities. Of course, we can complain and do nothing but life is tough everywhere.

4.2.1 ECONOMIC REGENERATION AND FINANCIAL STABILITY

4.2.2 As pointed out earlier, Government policies will be guided generally by the Sustainable Development Plan, the OECS Eight Point Stabilisation Plan and more specifically, by the Roadmap for Fiscal Sustainability and the Business Plans of various ministries and departments. This cohesive approach will also require Statutory Bodies and Government owned Corporations to submit their three year business plans to the Legislative Council before 31 December 2010. Planning and implementation of plans will be a critical management tool of this administration.

4.2.3 Mr Speaker, the prospect for economic growth for Montserrat in the short to medium term remains positive. Economic activity in Montserrat is expected to continue to expand during the period 2010 to 2011

averaging 2.1% provided programmes are implemented within the relevant deadlines. This performance is expected to be influenced by increased value added for all sectors led by output in government services and construction, the two largest contributors to GDP.

4.2.4 Government Services contribution to GDP should begin to fall over the period 2010 – 2014 as public sector reforms are implemented and private sector development initiatives begin to take root in the economy.

4.2.5 Economic regeneration will be achieved through the private sector. In the 2010 fiscal year, arrangements will be made for the following services to be delivered by the private sector. These are:

- Cleaning services throughout government with the exception of the hospital for the time being;
- Security Services including services provided by watchmen.
- Vehicle and tractor Maintenance; plant propagation and grounds maintenance within the Ministry of Agriculture, Lands, Housing and the Environment.
- Maintenance of government buildings to ensure that the quality standards of government accommodation are assured.
- Provision of school lunches

4.2.6 Mr Speaker, there will be a tendering process for persons wishing to provide these services. A critical component of any tender submission must demonstrate how the business intends to develop the private market so the government will become merely one of its customers. Government will ensure equity of opportunity. There will be other services outsourced, but we will move slowly and learn from the experience. Also, we do not want to go at a pace faster than the Montserrat Development Corporation can give the necessary business development support to help those new businesses provide the services efficiently.

4.2.7 The second aspect to private sector regeneration programme is the task of attracting foreign direct investment. There are several critical components of this plan. The first is that we must ensure that there is a 'one-stop' arrangement for all investors. This will be the role of the MDC. Proper resourcing and management of this institution is therefore critical.

To ensure that we can track the rate of success, we will introduce a recording, monitoring and reporting system to monitor progress with periodic reports to the Minister of Finance and Economic Development who will in turn report to the Legislative Council. The business of private sector development and the creation of investment opportunities must be handled urgently and decisively.

4.2.8 Mr Speaker, foreign direct investment should not compete in areas where local small business have the competence and are capable of providing the level and quality of services necessary. Therefore, attempts to attract foreign investment will be in targeted areas. These targeted areas will include but not limited to:

- Property development particularly in the facilities for high end tourism
- Education facilities with global reach
- Manufacturing of products from volcanic materials for export
- Agro processing facilities

4.2.9 We will also be working with the Montserrat communities overseas to ensure that they are well informed of the business opportunities in Montserrat and invite them to be part of the process.

4.2.10 Another instrument of growth within the economy is the Public Sector Investment Programme (PSIP). Mr Speaker, I will now describe the Government projects that will be implemented within the fiscal year although several may last for more than one financial year.

4.2.11 The Ministry of Communications and Works is completing the documentation for a \$14.9m road project which includes the resurfacing and upgrading of the main road from Salem to St. John's. A major component of this project will be the upgrading of the Asphalt Plant, which will commence in the second quarter of fiscal 2010. This will generate significant employment and it is Government's intention to organise and arrange the work in such a way that we obtain good value for the money and that maximum benefits accrue to the local economy.

4.2.12 The Project Implementation Unit will start to implement a \$12m government accommodation project in the first quarter of fiscal year 2010/11. The detailed designs for two of the four buildings are being

finalised and tender documents for the first site will be issued this month. This will eliminate the health and safety issues associated with current public service accommodation over the last ten years and provide a working environment that is conducive to the delivery of high quality services. The second building is being issued to another local architectural firm for final design and preparation of tender documents.

4.2.13 In order to expedite the accommodation programme and encourage private investment in public projects, the Ministry of Finance is exploring the use Public Private Partnerships (PPP) in Build-Operate-Lease-Transfer (BOLT) arrangements aimed at allowing credible private businesses to build accommodation for the public services which will be transferred to Government at the end of the contract period. This will create investment opportunities and income for private capital. This approach will create additional funds by mixing aid funds with local capital for greater economic growth.

4.2.14 Mr Speaker, the long awaited port development project with an anticipated total cost in excess of \$75m is now in the design phase. Phase 1, “Early Works” has commenced and includes land reclamation and hard surfacing of the fore-shore works starting from the existing security offices to the ramp on the southern berth of the temporary jetty at Little Bay Port. This will create additional storage in the first instance and maneuvering space when the permanent breakwater and jetty is being constructed. We will be using local management and equipment for these initial foreshore works thus allowing a greater level of local participation in this major project.

4.2.15 The Little Bay Town Centre phase one is now completed. Mr Speaker, the project provides the infrastructure to encourage further development in the area by the private sector. The land has been vested in the Montserrat Development Corporation and detailed work on the design and development packages is progressing. In order to open up more land for high income housing and villa development we have allocated a further \$4.5m – for interim works- to develop the infrastructure on the Davy Hill side and around Dogger Hill, behind the Cultural Centre. These works are also locally managed to allow for increased use of local plant with the attendant economic benefits. These actions, Mr Speaker, are consistent with our overall private sector development strategy.

4.2.16 The use of local management and plant on the port foreshore and the interim works at Little Bay was made possible as a result of the prudent management put in place for completion of the Little Bay Phase One project.

4.2.17 We will therefore continue to vigorously pursue the implementation of the Phase 2 elements of the Little Bay Project. This will, in the first case, open up new lands for development around the Town Centre and later expand the infrastructure and development into the Gerald's and Drummond's Communities which will also open up private lands for development.

4.2.18 Mr Speaker, the geotechnical and geophysical studies associated with the development of geothermal energy project were done during the latter half of last year and areas for drilling were identified. Efforts are at present being made to secure the financing required for proceeding to the drilling phase where the plan is to drill a production well.

4.2.19 In the meantime, electricity continues to be produced from inefficient containerized high-speed diesel generators. This is a very unreliable and a high cost way of operating. A country cannot develop with such inefficiencies. In seeking to speedily resolve these issues, a Power Station project is being developed. The main components of the project are the procurement of a generator set and the construction of facilities to house generators and other equipment. The project is estimated to cost in the order of \$21m We expect that the project will be approved by CDB by the end of the second quarter of the fiscal year 2010/11 to allow for procurement shortly thereafter.

4.2.20 Mr Speaker, I am therefore publicly thanking the staff at the Montserrat Utilities Limited for their professionalism and hard work in keeping us supplied with both water and electricity with little disruption in service to the general public.

4.2.21 We have a credible programme for economic re-generation given the current investment climate. What we need now is the delivery of donor funding as planned and a public service that delivers.

4.3.1 GOVERNANCE FRAMEWORK AND PUBLIC SERVICE MANAGEMENT

- 4.3.2 The foundation of any great organisation Mr Speaker is its regulatory framework that governs systems and processes both internally and externally. It is also about the relationship that exists between people. Those that provide goods and services and those that consume them. Nothing happens without people and everything that we do must also be for the benefit of all of the people. It is said that, "...people may forget what you said, but they will never forget how you made them feel". Our aim is to create a professional, highly motivated and customer-focused business environment in which people are encouraged to participate in our development.
- 4.3.3 The best place to start is with our relationship with the United Kingdom and the modernisation of this relationship. There are many aspects to this relationship and we will continue to build on each of these aspects. In 2010, we will continue the process of negotiating constitutional reform. There are still some outstanding issues that we hope to agree and have in place before the end of the year. There are a number of new provisions aimed at improving the legislature, enhancing the human rights chapters, and chapters on public service standards. The new constitution introduces the Ombudsman and a National Advisory Committee which provides advice to the Governor, especially when it becomes necessary to use those powers that have been reserved. The document will be included on the government's website making it accessible to all.
- 4.3.4 The next priority under the governance framework is the revision and upgrading of current legislation, as far as practicable, to international standards. This is to ensure that a legal framework exists that takes into account developments in technology, new methodologies in fighting crime, protection of vulnerable persons and to ensure that we comply with the regulatory framework for us to do business with the international community.
- 4.3.5 Mr Speaker, already the Public Finance Regulations have been upgraded to encourage higher levels of accountability and transparency in all areas of government. These regulations will strengthen the reporting requirements in the public service and incorporate as far as practical international best practices. We have also undergone, Fiduciary Risk Assessments (FRA) and Public Expenditure and Financial Accountability

Assessments (PEFA) by Crown Agents and the PEFA Secretariat in the World Bank. In April, a workshop will be held to look at the results and to prepare an action plan to take forward the recommendations that are relevant. This would lead to a more effective governance system. These regulations are complemented by the passage of the Integrity in Public Life and the Proceeds of Crime legislations.

4.3.6 We have also been working through and with Her Majesty's Treasury to sign twelve Tax Information Agreements (TIEAs) as required by OECD Countries. Mr Speaker, to date we have signed agreements with the Netherlands, Belgium and the United Kingdom and requests have been made or negotiations have commenced with the Nordic Countries, Ireland, Australia and France. Some 38 countries have been selected and approached. This however is a slow process and unfortunately, it appears that signing TIEAs with Montserrat is not a priority for several of these countries. We were therefore surprised when we learnt that Montserrat appeared on France's Blacklist in February, one month ahead of the agreed deadline.

4.3.7 Mr Speaker, the Reform of the Public Service is continuing. Under Phase 2 of the Public Service Reform we will continue to strengthen the Public Sector Management System to encourage efficient and effective delivery of public services and policy actions. The Reform of the service is being approached in a holistic manner, ensuring that the policy, planning, regulations and performance are combined to produce greater quality and efficiency in service delivery across the Public Sector.

4.3.8 The Office of the Deputy Governor, which was formalised in September when our team took over the management of the government, is working with Senior Managers to develop regulations, systems and procedures which enable greater management flexibility but monitors and measures performance throughout the Public Service. These include: the new General Orders; the Human Resource Management Procedures Manual; the New Public Service Commission Act; the incorporation of a Code of Ethics and Integrity for Public Servants; and a Code of Public Consultation.

4.3.9 Government is also taking a more integrated approach to the preparation and monitoring of business plans to ensure the highest efficiency standards. This process will ensure that Government's National priorities outlined in the SDP are cascaded through to the Business Plans of the ministries and departments and individual work plans in line with

budgetary resources. In this way Government's policies will be made very clear at every level of the Public Service.

4.3.10 Mr Speaker, these new systems and processes will allow the Ministries to better relate the strategic outputs to the financial allocations provided to them by the Legislature. We will also be introducing a new Performance Management System making each public officer accountable for delivering defined outputs in the Business Plans.

4.3.11 The Government will extend its investment in civil servants through the establishment of a Capacity Development Fund to ensure that the relevant competencies for the delivery of the required services are provided for. In addition to this, work on a succession planning policy has also begun and is expected to be completed and implemented during this fiscal year.

4.3.12 The drive for efficiency will be developed through a comprehensive E-government strategy to target our resources in the most effective manner. Ultimately our aim is to encourage Ministries and departments to use the available technology as a means of improving service delivery. In that regard, we can applaud the work being done by the Government Information Service in moving towards e-government. We will remain focused on this objective and efforts will be made in the coming year to make more services available on-line for use internally and for the general public.

4.3.13 A necessary part of these changes will include adjustments to the structure of the Public Service. The focus will be on improving the efficiency of the public service by deploying activities which are best and more economically done to the private sector. The ideal situation will be a net increase in employment as a consequence of moving some government workers to the private sector.

4.3.14 Redundancy packages will be developed and made available for those who are interested or become affected as a result of these policy adjustments. Hopefully, this will provide part of the start up capital for those who wish to get into their own businesses.

4.3.15 Mr Speaker, within the Ministry of Finance the process of streamlining government business has begun. The merger of Customs and Inland Revenue into the Montserrat Revenue and Customs Service (MRCS) will

streamline tax administration, offer a wider range of career choices and offer opportunities to improve levels of service. The change will require a more strategic review of the current tax system to try and balance its role as a revenue earner and as a policy instrument to foster development. There will be no loss of jobs as a result of this merger.

4.3.16 The merger between the Philatelic Bureau and Post Office will soon be implemented. This should result in cost savings, management efficiencies and additional revenue to the Post Office. There will be no loss of jobs although there may be reassignment of responsibilities.

4.3.17 Mr Speaker, in the Office of the Chief Minister, Radio Montserrat and the Government Information Unit will be amalgamated into an autonomous agency, the Montserrat Media Corporation (MMC). The MMC will spearhead the evolution of a virtual Montserrat to include Montserratians in the Diaspora. Critical to this decision will be the use of the internet as a marketing tool for Montserrat globally.

4.3.18 Commencing in the first quarter of the new financial year, we will assign the management of company registrations and trademarks to the Financial Services Commission. The idea is to reduce the time necessary to register a company or intellectual property and link into systems that will allow the necessary background checks and due diligence reports to be completed expeditiously.

4.3.19 Mr Speaker, Healthcare is quite expensive. In a small territory such as ours, recruiting and maintaining professionals is extremely difficult. It is this Government's view that we should:

- Look at the various management options for delivering health care services. We will examine the prospects for a Health Authority commencing the studies in this fiscal year;
- Examine options and opportunities for professional development of health teams;
- Make arrangements for the establishment of standards and continuous monitoring of medical and critical care staff;
- Examine the financing of health care within the context of a redesigned Social Security Scheme to create a medical benefits type scheme.

4.3.20 In support of this administration's thrust to improve access to and from the island and to enhance the governance arrangements in this area, an Access Coordinator has been appointed and the move towards a single Ports Authority has been included in the economic sustainability roadmap for implementation. This will not only create efficiencies but ensure that security standards are uniformly applied across both air and sea ports. These decisions are also aimed at improving the planning and integrated development of both ports.

4.3.21 Mr Speaker, as part of the new governance arrangements, we have expressed our commitment to enacting legislation in June 2010 that will fundamentally change how pension is accrued within the public service. The legislation will include Public Servants, Police and Legislators. This approach is being proposed to ensure that we are able to maintain our ability to make future payments from a scheme that is sustainable. We plan to continue the dialogue with the public service unions on the proposals.

4.4.1 ENVIRONMENTAL AND EMERGENCY MANAGEMENT

4.4.2 The management of our natural environment will receive the attention that is required. Mr Speaker, our environment remains beautiful but fragile. This government will provide the kind of strategic leadership that is necessary to implement the projects and programmes that will promote the sustainable use and protection of all of our natural resources. Specifically Government will:

- Maintain protected areas and protect flora and fauna and associated eco systems;
- Enhance inter-agency linkages that will sustain adequate supplies of high quality water, protect the coastline and our water-shed areas
- Retain the requirement for Environmental Impact Assessment (EIAs) as critical requirement for development proposals including all government projects. This strategy will include the development of environmental management plans prior to the commencement of the various projects. Government projects cannot be exempted from these environmental requirements.

- Continue strategic partnerships with regional and international organisations that will support us in our efforts to achieve globally recommended standards of environmental management.

4.4.3 The volcanic situation sometimes creates the impression that our entire emergency management programme is directed solely at that hazard. We wish to make it clear that Montserrat fully embraces the comprehensive approach to Disaster Management in which there is:

- A focus on all major hazards both natural and human-caused;
- Involvement of all sectors of society;
- Consideration of all phases of the Disaster Cycle.

4.4.4 Mr Speaker, we have taken the proactive step to examine the structure, role, functions, strategies and plans of the Disaster Management Co-ordination Agency (DMCA). We intend to make the DMCA a more streamlined, efficient and effective organisation.

4.4.5 The approach will enable us to maintain the necessary balance between effective management of the risks and sustainable development in that:

- We will update major contingency plans for hazards other than volcano.
- We will continue to improve the arrangements that will be required if an evacuation of Zones A and or B ever becomes necessary.
- We will be pragmatic and realistic. No country in the world is able to set aside social infrastructure such as housing and leave them unoccupied until required for an evacuation. That is why:
- We will continue to use a multifaceted approach to relocation.
- We will provide incentives to encourage homeowners to assist with the accommodation of relocated persons.
- We will provide assistance to enable homeowners to complete additional living spaces that can be made available for relocated persons.

- We will continue our efforts to increase the number of housing solutions through new home construction.
- We will create a regulatory environment that reduces the prospect of exploitation of relocated persons.

4.5.1 SOCIAL DEVELOPMENT AND SAFETY NETS

4.5.2 This policy area seeks to uphold human dignity and nourish the individual and collective spirit of this island. Mr Speaker, economic growth and development is useless unless it provides the opportunity for the development of all individuals in the society.

4.5.3 This Government endorses the principle of providing opportunities for people. We should not encourage dependency and we should provide the opportunity for all persons to make their contributions to the extent that they can. This could be done through the encouragement of persons to do simple tasks such as community cleanups and beautification.

4.5.4 We therefore encourage all our institutions in their planning to continue and expand programmes that will allow individuals to contribute to society as this not only build a strong sense of purpose and dignity but it rejuvenates the community spirit.

4.5.5 Our policies and programmes for the poor and vulnerable will not be affected in our bid to rationalise public services because we are committed to preserving their dignity and place in our society. In this regard, in 2009 we continued Social Welfare Financial Assistance to approximately 270 households or some 310 individuals. Additionally, 94 households received Rental Assistance and 13 children received Foster Care Allowances. Government spent about \$2.2m on the Social Welfare Financial Assistance Programme. We will continue similar support in the future.

4.5.6 Mr Speaker, approximately 196 one-off grants were approved during 2009 with a total expenditure of approximately \$418,000. The bulk of which was used for Medical Referral costs totalling approximately \$301,000. Government also provided subventions to the Old People's Welfare Association, the Golden Years Home and Meals on Wheels programme for a total support to these mainly senior citizen support organisations of \$817,900. We care.

- 4.5.7 In 2009 we had a focussed community discussion on child safety. We will do whatever is necessary to ensure that our children are protected. In particular we must ensure that our children are not sexually abused and will put in place the necessary legislation to affect this.
- 4.5.8 We will also continue to build strategic alliances with regional agencies as together we advance the development of policies and programmes geared towards safeguarding and protecting the human and social health of Montserrat. We will maintain our engagement with the Caribbean Food and Nutrition Institute to review and develop the island's entire School Lunch Programme to ensure that the nutritional needs of our vulnerable children are met.
- 4.5.9 In 2010 we will continue to promote social cohesion and inclusiveness as we work together to achieve the goals and aspirations of our people. These goals include the provision of relevant education, housing, primary and secondary health care and other social support services.
- 4.5.10 Mr Speaker, we are also committed to improving the quality and the scope of education services offered by our local educational institutions. From 2010 onwards, our focus will be on grooming our graduates with skills for the workplace in response to the development needs of the island. This will include the development of financial and other support for relevant business start ups and expansions.
- 4.5.11 The children and staff at the Brades Primary School will soon benefit from a new two-storey building school building financed through the CDB's Basic Needs Trust Fund. The expansion works for the Lookout Primary School is in the planning process.
- 4.5.12 The Montserrat Community College (MCC) will continue to develop and strengthen its Technical and Vocational Training Programme in response to the range of skills and technical capabilities which are being demanded in support of the medium to longer term development needs of Montserrat. Through linkages with other regional and international institutions, we anticipate that the MCC will expand the educational services it now provides.
- 4.5.13 We also intend to support the consolidation of the Change Management systems and approaches currently introduced at the

Montserrat Secondary School (MSS). This new approach has encouraged the involvement of an increasing number of parents and guardians in both the education and welfare of our children. I applaud all of the teachers and support staff of the school who continuously strive to bring out the best in our children. The children of Montserrat are the future of our island and they need, indeed demand our constant protection and care.

4.5.14 In order to offer a comprehensive set of social support services, several new pieces of legislation will be brought before this Honourable House for consideration this year. These include:

- The Food Safety Act
- The National Housing Act
- The Health Professions Act
- Child Support and Safety Legislation

4.5.15 These will be complemented by a professional development programme for workers in the Health sector. The Ministry of Health will also develop a comprehensive programme for our critical care staff, ensuring that they remain proficient and motivated to continue to serve us.

4.5.16 The limitations imposed by our demographics require that we use new and innovative approaches in the development of our social services. Thus the Ministry of Health will continue to pursue the use of telemedicine and will explore partnerships and memoranda of understanding with overseas specialist medical facilities. We expect that this will eventually improve access to treatment which cannot be provided effectively on island.

4.5.17 The Government of Montserrat continues to struggle with the provision of specialist health services mainly due to the significant cost involved. Nonetheless, we have been able to maintain a programme for a visiting Ophthalmologist and Psychiatrist. The Government of Montserrat will continue to work with specialists who are willing to provide services in order to complement our short falls. To this end, the Government has already advanced discussions with numerous specialists and has already programmed a line up of visiting specialists for 2010. They will provide services on island in areas such as urology, gastroenterology, cardiology, obstetrics and gynaecology.

4.5.18 Mr Speaker, we have established a programme of closing the volcano-related communal shelters by June 2011. The construction and occupation of the Warden Supported Facility at Sweeney's, one apartment block at Lookout and three duplexes in 2009 gave some 25 persons the opportunity to be re-housed in decent permanent accommodation. In 2009 we also saw the largest number of persons being provided permanent housing since the suspension of the Materials Grants programme in 2004/5. We will continue to give priority to re-housing persons living in the Communal Shelters and other temporary wooden Family Units which were constructed since 2006.

4.5.19 We are committed to the Davy Hill Housing Regeneration Project. The shared equity programme brings home ownership within the reach of a significant number of people who require a helping hand. Again we are a caring government.

4.5.20 The Home Ownership Motivates Everyone (H.O.M.E.) Programme which was introduced in 2009 has also gained some momentum. We are making available approximately \$7m to this project which includes soft mortgages at rates of 3% and 5% to qualified persons and households. Selection will be done through the Housing and Land Allocation Committee within the Ministry of Agriculture, Lands, Housing and the Environment. This is all in support of the Vision 2020 Housing Strategy.

4.5.21 The Ministry of Agriculture prepared a National Food Production Strategy in 2009 as a cohesive framework to guide the development of a realistic policy of food import substitution. This strategy will guide Government's investment in the agricultural sector over the next three years. It places emphasis on increased production in the following areas: - arable crops, fishing, poultry and livestock. We will also take steps and introduce programmes to encourage the processing of local fruits and vegetables.

4.6.1 EXTERNAL RELATIONS

4.6.2 Mr Speaker, since taking over the reigns of government we have taken steps to enhance co-ordination of Montserrat's regional and international affairs, including the handling of Immigration policy issues. We have also put institutional arrangements in place for the participation of our people in the Diaspora in national activities.

- 4.6.3 Membership in regional organisations such as the OECS Economic Union, CARICOM, the Caribbean Development Bank and the Eastern Caribbean Currency Union will continue. Such relationships should ease our capacity constraints and assist us in our development initiatives.
- 4.6.4 Collective actions which continue to be taken to resolve the British American Insurance Company and the CLICO issues by the OECS and the ECCB are examples of the benefits of regional actions taken to ensure the safety of our domestic banking space and the support for the people and investors who are likely to be affected.
- 4.6.5 Many may wonder about the impact of non-signing of TIEA's, implementation of certain internationally required legislation relating to anti-money laundering, integrity and counter terrorism. The impact of being black listed could mean that our banks are not permitted to make certain transactions with international banks. The impact is not only on Montserrat but on regional institutions as well, for example the ECCB.

5 PUBLIC FINANCIAL MANAGEMENT

- 5.1 Governments and people everywhere are forced to adjust their plans in an effort to bring their expenditure in line with their incomes. Montserrat is no different. Mr Speaker, those who borrow to fund deficits are finding it more difficult to do so without conditions and are now being forced to take on board significant policy shifts and budgetary adjustments.
- 5.2 The prudence principle requires us as a responsible Government to move towards a more sustainable budget. We must act decisively and quickly while Her Majesty's Government is willing to assist us in making the necessary changes rather than to do nothing and pay a greater price later.
- 5.3 It is critical for accounting officers to account and spend the taxpayers' money economically, efficiently and effectively. It is for this reason that we are strengthening the accountability and financial management systems that govern how taxpayers' funds are being spent and ensure that the public are treated fairly.
- 5.4 We are seeking to strengthen financial management within the public service by implementing the following initiatives:

- Auditing the financial regulations to ensure that where there are gaps, the legislation is amended to address these matters;
- Provide financial procedure manuals to help accounting officers interpret and understand the regulations;
- Establish standards for financial reporting across the public service; and
- Provide training generally and on request to ensure that the regulations are implemented efficiently and effectively.

5.1 OVERALL BUDGET CONSIDERATION

5.1.1 We will now examine the budgetary allocations. Mr Speaker, let us be mindful of the difficulties the economy faces at this time and therefore, we have not included any new revenue raising measures but will seek to collect a substantial portion of the arrears outstanding which stand at over \$14 million dollars.

5.1.2 The total budget allocation for the fiscal year 2010 is \$123,436,900. This represents a decrease of over \$16m from last year. Clearly, things are difficult all over and we need to use the little we have to invest in areas that grow the economy. This figure is however based on assistance from DFID pegged at an exchange rate of \$4.2 to the sterling. Any downward shift in this exchange rate will see us having even less to spend.

5.1.3 This year the estimated revenue from local sources is expected to yield \$45,095,100. Grants for funding the recurrent side of the budget is £12.6m or \$52,920,000 of which approximately \$2,520,000 will be used to subsidise transportation to and from the island. This means that the total funding available for recurrent expenditure is \$98,015,100 as long as the exchange rate fluctuations are favourable and revenue targets are met. This figure \$98,015,100 exceeds the 2009 approved budget by approximately 3%. However, this level of expenditure is not sustainable without steady growth in the activities of private sector with the consequential benefits to public revenues.

5.1.4 The expressed policy dictated by Her Majesty's Government is that Government of Montserrat must take steps to reduce its reliance on budgetary support. Consequently, grant funding is expected to fall in the

medium to long term. This inevitably requires Government of Montserrat to use the next two to three years to find alternate sources of funding or reduce expenditure to sustainable levels.

5.1.5 This means that Government must now introduce policies to rein in ballooning public sector costs while at the same time improve our sources of revenue and the revenue collection system. Past governments have known that this time would come and it has been included in a number of reports by consultants and expressed in many of our strategic documents. We are now facing the harsh realities of putting off decisive actions for fear of acting on them. We intend to implement the necessary decisive actions for reductions in public expenditure to coincide with job creation in the private sector.

5.1.6 Mr Speaker, over 80 percent of Consolidated Fund Services is used to fund pensions and gratuities. This figure is growing steadily. These are areas that will be reviewed this year and policies introduced that will be fair but allow for a more flexible and sustainable public expenditure programme. These will ensure that we retain the capacity to pay these benefits so that past, current and future civil servants will obtain their deserved benefits. Actuaries in ILO have already looked at current proposals and have deemed them to be very generous in light of current regional trends.

5.1.7 We recognise that there will be some concerns but, because we love Montserrat and want to ensure that our children enjoy similar benefits in the future. We must act decisively now!

5.1.8 Overall approximately 80% of the recurrent budget is fixed and over 60% relates to both staff costs and the Consolidated Fund expenditure (Statutory Expenditure). This means that only 20% of the budget is variable and to fund the growing needs of the poor, fund emergencies, provide for some of the additional programmes that are needed and basic things that the public should reasonably expect.

5.1.9 Tax revenues from income and trade account for approximately 80% of locally generated revenue. Fees, fines, permits, rents, interests and licenses will be expected to generate the remaining 20% or \$9m of the total revenue. In a situation where grants are fixed in the short term and reducing in the medium to long term reinforces the need to focus on private sector development.

- 5.1.10 Mr Speaker, the Estimates of Revenue and Expenditure presented is balanced but we will require every taxpayer to pay their taxes in a timely manner and those who have arrears to settle these as quickly as possible. We will demand fiscal discipline by Accounting Officers to meet the targets in the most economical and efficient manner so that the money received from you will be well spent.
- 5.1.11 With respect to the development budget, it is essential that projects are implemented as planned and those who are involved must make special effort to remove bottlenecks or resolve outstanding issues that may delay the relevant projects and programmes. Emphasis will also be placed on delivering the projects within cost.
- 5.1.12 This year's development expenditure is \$25,421,734. This is \$17.4m less than 2009. However this does not include the provisions for some projects which are currently with DFID for final approval and there is no guarantee that the benefits of these will accrue in this financial year. Indications are that financing available to Government for its capital programme will be limited and government may need to look at alternate sources of financing. Lack of funding for the capital programme will become more acute if the recurrent budget continues to consume a greater share of the overall allocation.
- 5.1.13 We propose to spend \$12,653,234 on infrastructural development; \$1,067,200 will be spent on the development of natural resources including geothermal energy development; \$6,826,700 will be spent on development of social services; and \$4,874,600 for miscellaneous projects across a range of areas including tourism, human development and development co-ordination and planning. The Development budget will be funded by several agencies and through local endeavours. The United Kingdom Government through DFID will finance 70% of the capital budget; the European Union 20% and the remaining 10% by CDB, the Trinidad and Tobago Government through the balances of the Petroleum Stabilisation Fund and the Government of Montserrat.

5.2 MINISTRY AND DEPARTMENTAL ALLOCATIONS

- 5.2.1 The Recurrent Budget reflects a number of policies and programmes aimed at moving government towards fiscal sustainability. Mr Speaker,

\$16,662,200 will be spent on Consolidated Fund Services. 82% of this amount has been allocated to cover the costs of pensions and gratuities. The remainder will be spent on other statutory payments such as loan and interest repayments, remuneration for certain statutory posts and tax refunds.

5.2.2 Mr Speaker, \$81,352,900 is allocated for the programmes of the various ministries and departments.

5.2.3 The Ministry of Health will receive the largest allocation totalling \$16,638,300.

5.2.4 The Ministry of Communication and Works' allocation is thirteen million, two hundred and seventy two thousand, five hundred dollars (\$13,272,500) and will be expected to play a major role in the overall infrastructure development programme.

5.2.5 The Ministry of Education will receive \$8,269,200 to fund its programmes for this fiscal year.

5.2.6 The Ministry of Agriculture, Lands, Housing and the Environment \$5,936,800. This budget will be boosted by the budget and work being performed in the Land Development Authority in housing.

5.2.7 The other agencies of government will receive the following: Police (\$6,802,800). Disaster Management Agency – \$4,859,500) and the Office of the Deputy Governor –\$7,198,500). For ease of reference, the full set of allocations is attached to this Budget Speech and detailed in the Estimates of Revenue and Expenditure tabled in this Honourable House at its last sitting.

5.2.8 The public budget forecast remains positive with expenditure on projects such as Little Bay and Port development together with targeted investments in tourism, exploitation of geothermal energy, road infrastructure, government accommodation and housing projects. Several of these major infrastructure works will extend over the next two to three years.

5.2.9 Every effort will be made to progress these developments faster than originally planned so that the expected economic benefits would materialize more quickly.

5.2.10 Public debt is a major issue for many developed and developing countries. Government of Montserrat's total debt obligation stands at just over EC\$8.1m most of which is public guaranteed debt on behalf of the Montserrat Port Authority. Government of Montserrat's debt to GDP ratio is therefore less than 10%. Mr Speaker, this is well below the fiscal benchmark target of 80% set by the ECCB and those established by other international institutions. We want to keep it that way and therefore on the occasions when government deems it necessary to borrow, it will be done within an overall strategy with clear goals, outcomes and repayment plan.

6 ACKNOWLEDGEMENTS

- 6.1 Mr speaker, Life on Montserrat could have been much worse had it not been for so many people, institutions and governments that have all played a role in keeping this island as attractive and habitable as it is today.
- 6.2 I would first like to acknowledge the efforts of Her Majesty's Government in particular DFID and the Foreign Office in providing budgetary and technical support in taking forward our programmes. We face a major hurdle in advancing economic activity in the face of persistent volcanic activity but we have been able to manage with the help of the UK Government. We want to specially thank Ms. Sue Wardell, DFID Director and Mr. Samuel Sharpe Finance Director for their frank and open discussions and their willingness to recommend for consideration, assistance where it is sensible, pragmatic and lead to long term sustainability.
- 6.3 We also recognise the continued budgetary support received from the European Union. We acknowledge the efforts of the Commission to facilitate our needs and capacity issues. We look forward to working with the Delegation in progressing the much needed support in a more timely manner.
- 6.4 We also want to thank the Indian High Commissioner for arranging technical assistance support and the cultural contributions to our St. Patrick's week of activities.
- 6.5 We also want to express our sincere appreciation for the support of our regional organisation in providing a sense of stability and enabling greater policy coordination. In this regard, we thank CARICOM and the OECS Secretariat and Authority for their continued support. We applaud the

continued work and support of CDB and CARTAC in the provision of technical and policy support areas. Last but most importantly, we want to publicly acknowledge, endorse and commend the work of the Eastern Caribbean Central Bank through its Governor and staff in maintaining financial stability and fiscal policy support to the OECS region.

6.6 We want to acknowledge the role played by ATOS Consulting, MIND and the other individuals and institutions including the Cayman Islands Government who have been supporting us and our Public Sector Reform programme.

6.7 I wish to thank the entire public service for its support thus far and its willingness to be part of tackling the changes we are making together. Mr Speaker, as team leader we could not have achieved this much so soon without the continued support of the MCAP family and the recent converts.

7 CONCLUSION

7.1 Finally Mr Speaker, I will end with a quote “No one can go back and start a new beginning, but anyone can start today and make a new ending.”

7.2 Many of the problems we face at this point are the result of procrastination and indecision over the years. It is as a result of leaders not starting to take those small steps to make things right to create a new ending.

7.3 The foundation of our policies and programmes are simple but prudent:

- We are aware that our resources are dwindling and that the public service cannot continue to operate at its current levels but we are committed to implementing changes in ways that makes the private sector larger so that unemployment does not become an issue;
- We are committed to making the public service more efficient and accountable. As such programmes that merge units, use technologies efficiently, develop competencies, streamline procedures and improve the regulatory framework are supported.
- We appreciate the value of selected foreign investments in key sectors of the economy as a means of sustaining growth in those

sectors and driving economic activity in related areas. We therefore cannot tolerate delays in the handling of private investment proposals;

- We know employment is critical and therefore we will target the public sector programme in such a way that stimulates growth and create opportunities for employment;
- We are concerned about the vulnerable and therefore will protect the vulnerable and maintain social safety nets but only after having first ensured that persons are unable to participate in the opportunities available to them;
- We will manage the environment and emergencies in a sustainable and safe manner understanding that our eco systems are beautiful but fragile. We also understand that we co-habit this island with an active volcano and live in the path of hurricanes. The planning, monitoring and frequent improvement of our response systems must be an integral part of our daily lives;
- We are small but we will be aggressive in pursuing our place in the region and in the global community understanding that it is our right as a people to associate with others.

7.4 We are in this budget presentation, determining and defining what our new ending will be and whatever judgements history may record of this government, it must never be said that we did not act nor had not the courage to take the first step in providing solutions to the problems and challenges that confront us.

Thank you all and may God's richest blessing be with us all.