

## **BUDGET STATEMENT 2004**

**“Rising from the ashes ... promoting growth and stability”**

# **BUDGET SPEECH 2004**

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## BUDGET STATEMENT

### “Rising from the ashes ... promoting growth and stability”

Mr. Speaker, I rise to move a motion for the second reading of a Bill shortly entitled the Appropriation Act 2004.

### INTRODUCTION

1. Mr Speaker, I wish to first thank the almighty for his continued blessings on our beautiful island. Also, it pleases me to say that in spite of the challenges our people continue to grow and are no doubt stronger as a result of his guidance and grace.
2. This is my fourth budget in three (3) years. Over this period, my Government has sought to rebuild the economy in a systematic and structured way. We recognised from the onset that given the peculiar circumstances that face Montserrat that this would be an extremely difficult and challenging task.
3. In my first budget address, we chose the theme “***Building self-sufficiency and earning the right to choose***”. My Government had to take decisions that may have appeared difficult but which gave us the greatest chance of supporting ourselves in the future. We saw this as the only way that we will ever be able to choose our destiny. Mr Speaker, this paid off because in that same year, we regained the critical element of local decision making on key developmental issues that were hitherto taken in London.
4. Mr Speaker, in my 2002 budget, the theme chosen was “***Securing sustainability in a constraining and dynamic global environment***”. We saw the need then to promote a sustainable economy but recognised the constraints resulting from our small size, volcanic risks, inappropriate infrastructure and the adverse changes in the international environment in response to World Trade Centre tragedy.
5. We did not introduce any new revenue raising measures but negotiated an increase in budgetary aid to support the construction and government sectors to ensure that the economic conditions did not become unbearable for our people. We also made a deliberate attempt to choose those projects (such as the Gerald’s airport) that would provide the basis for economic recovery and sustainability.
6. Last year, my budget was presented under the theme “***Towards a new era...getting the fundamentals right***”. My Government’s aim was to enhance the legal environment in which we operate, strengthen public administration

systems especially in the area of planning and information technology and to move systematically towards an output-focused system. We are still in the process of taking these systems forward.

7. Mr Speaker, the stage is now set for my 2004 budget address in which we want to declare to the world that **Montserrat is Ready to Rise from the Ashes** and to become the place of choice for those who value **Safety, Peace and Tranquillity**. I feel a greater sense of optimism today than I felt when my Government took office in 2001. We have struggled in the stormy waters of uncertainty for eight years and are more optimistic that we will reach the land of success safely. But Mr Speaker, you will recall that in my first budget address, I promised to steer this ship to prosperity albeit in an increasingly hostile and dynamic economic environment.

## **ECONOMIC CONTEXT**

8. Mr Speaker, we live in an open economy. The external environment therefore greatly influences the performance of our economy and if the impact is sufficiently large can create significant benefits or serious dislocation for all who live here. Consequently, we need to bear this mind in our planning.

9. Let us now examine this environment.

### **International and Regional Environment**

10. Mr. Speaker, the increased threat of war in the fourth quarter of 2002 and the first quarter of 2003 led to volatility in the financial markets around the world and further depressed consumer confidence. The coordinated reduction in interest rates in the G7 countries, which was implemented towards the end of 2002, prevented a more serious deterioration in global growth. However fundamental factors, such as low consumer and business confidence, problems in the international currency and capital markets, increased security risks and costs, high corporate and sovereign debt overhangs, conflict in the Middle East, the related increase in the price of oil and the emerging threat of a Severe Acute Respiratory Syndrome (SARS) epidemic have conspired to place significant constraints on global growth.

11. The expectation is for world economic growth in 2003 to average 2.4% rising to 3.0% in 2004, with the United States (U.S) economy growing by 2.8% in 2003 and 3.3% in 2004. Canada is however, expected to experience a decline in growth in 2003 from the appreciation of the Canadian dollar and contractions in auto sales, auto production and the housing market.

12. In the Euro area, growth is expected to improve, moving from 1.6% in 2003 to 2.8% in 2004. In the case of Japan, the prospects for growth in the near future remain low.

13. In the Latin American region, continuing problems in Argentina and Venezuela will continue to restrain the region's growth, in spite of improvements in Mexico and Brazil. Argentina continues to be hampered by an unresolved banking sector crisis and corporate defaults, in spite of improvements on the fiscal front and a deceleration in inflation. In Venezuela, the depreciation of the currency and the resulting high inflation have caused a collapse in private consumption, but the price of oil has been relatively buoyant.

14. Real Gross Domestic Product (GDP) in the Caribbean Community (CARICOM) region improved modestly in 2003. Trinidad & Tobago and Belize achieved robust growth, while Guyana realized moderate growth. The economies of the Eastern Caribbean Currency (ECC) area, Suriname, Barbados and the Bahamas registered much weaker levels of growth in 2003.

15. In Trinidad & Tobago, the major impetus for growth was derived from the performance of the natural gas sub-sector. Output in this sector rose as several of the newly gas fields discovered increased production. Firmer prices for natural gas, petroleum and urea, together with expected increases in production levels, should bolster growth levels in 2004.

16. The acceleration of the globalisation and liberalisation process, the steady erosion of trade preferences, and the increasing competition for foreign capital will present formidable challenges to Caribbean economic and development policy in 2004 and beyond. Where the region's productive capacity cannot be expanded then fiscal and budgetary management must be greatly improved.

17. Unfortunately, Mr Speaker, while there is much liquidity within the Organisation of the Eastern Caribbean (OECS) Monetary System, structural weaknesses within the regional financial market and high cost of borrowing will continue to inhibit financial flows to key sectors.

### **The Domestic Economy**

18. Mr Speaker, preliminary indications reveal that the Montserrat economy experienced small growth last year. This performance is commendable considering global trends and the negative influences and impacts associated with crises such as war in Iraq and increasing oil prices. However, delays in public projects also reduced our growth prospects for 2003.

### ***Output***

19. In 2003, Montserrat's economy experienced moderate growth following on from the previous year's trend. Preliminary data reveal an increase of 1.2% in real output for 2003 compared to 4.9% growth in 2002. There was an increase in the level of output for 2003. The Bank & Insurance, Transport, Real Estate &

Housing, Utilities and Government Services sectors contributed to the positive growth in output for 2003. Economic activity continues to be dominated by Government Services and Construction activity together they combine to account for over 50% of GDP.

## **Prices**

**20.** Inflation rates remained rather low for 2003. At the end of the year, the retail price index increased by 1.2%. The highest increase experienced for the year was 1.6%. There was a significant increase in the cost of renting, but prices for household goods, food and non-alcoholic beverages experienced an overall decline.

## **Domestic Credit**

**21.** In 2003, there was negligible increase in domestic credit in Montserrat and 0.4% increase in the Eastern Caribbean Currency Union bringing the total domestic credit to \$5.9 billion. Much of this increased credit relate to activities in St Vincent and the Grenadines and St Kitts and Nevis.

## **International Trade**

**22.** The value of imports for 2003 was EC\$ 75.2 million, reflecting an increase of 9.5% over 2002 imports of good. While declines were recorded for some categories of imports, inflows of Machinery and Transport Equipment rose by 40.1%. This increase is directly attributable to the construction of the Gerald's airstrip as heavy machinery and equipment, required for this venture had to be imported. Export receipts increased from EC\$4 million to EC\$5 million.

## **Construction**

**23.** The Construction sector continues to be one of the major sectors driving the Montserrat economy. Preliminary data suggests an approximate 22.5% contribution to GDP from this sector, despite a 3% contraction in output for 2003. Although the Gerald's Park airstrip was the major project influencing construction activity, other public sector sponsored projects, such as the Health Development Programme, Operating Theatre, the Montserrat Volcano Observatory, Government Headquarters extension, Road Rehabilitation, Alignment and Pavements, significantly contributed to the value of output from economic activity in this sector. Public and private sector housing forged ahead as a result of residents' determination to be housed in more permanent accommodation, and government's resolved to meet individuals' needs for accommodation. Activity related to Self-build Housing - Phases II and III also served as major generators of value added in this sector. As reported by the Physical Planning Unit the value

of new construction activity more than doubled in 2003 relative to 2002, heavily propelled by the public sector.

## **Agriculture**

**24.** During 2003, no real growth was realized for this sector, and as recorded for 2002, Agriculture's contribution to GDP remained at 2%. Crop production managed a 10.5% increase despite the adverse effect of the July 12th ash fall on some crops. The returns of the material and storage housing incentives which farmers received for onions was seen in the more than 100% increase in onions produced in 2003. Other crops such as watermelons which experienced an almost 90% increase in production responded favourably to improved irrigation systems and better quality seeds. Demand for some crops such as pachoï also encouraged increased production efforts by backyard and commercial farmers.

**25.** The quantity of fish landed rose by 7.2% due to an increase in deep-sea fishing activity attributed mainly to the dedication of a large boat for this purpose.

**26.** Livestock production benefited from the Agriculture Department's advice to farmers. This, coupled with Government's incentives to livestock producers, has led to better quality produce and greater consumer confidence in local meat supplies.

## **Tourism**

**27.** Performance in the tourism sector has weakened considerably for 2003. Provisional data shows a 31.6% contraction in the Hotels & Restaurants sector (compared to a revised 2.2% real growth rate for 2002) which is an indicator of economic activity within the tourism industry. This sector's contribution to Gross Domestic Product remains small - an estimated \$0.7m in 2003 (or 1.1% of GDP) relative to \$1m in 2002 (or 1.6% of GDP).

**28.** Total visitor arrivals for 2003 declined by 8.4% compared to 2002. The effect of the 13% fall in the number of stay-over visitors outweighed the effect of the marginal 0.2% increase in day visitors to the island. The lack of accommodation on island, due to the closure of villas and one of our major hotels for the greater part of 2003 (due to its being located in the exclusion zone), is certainly a primary factor accounting for the decline in the number of stay-over visitors. Day tour figures are encouraging however, as there has been a 77.6% increase in the number of persons visiting the island for this purpose in 2003 relative to 2002. This is evidence that we have a marketable product, and we are very aware of the fact that more energy needs to be directed at finding innovative means of increasing tourism receipts, as we realized a 14.5% decline in visitor expenditure for 2003.

## **Prospects**

29. Increase in economic activity on Montserrat is expected to generate, on average, an estimated 5% increase in GDP. This, in my view is a very conservative estimate. My government is optimistic about the future and has no reason to revise this figure downwards in 2004. In the Construction sector alone, activity such as the airport project (which will dominate economic activity during 2004), the Community College project and road works will certainly make a significant contribution to growth in GDP. Also expected to come on stream is the Little Bay Infrastructure project, as well as the construction of the Public Market. Self-build housing as well as Lookout Phase II project are also expected to continue into the year. Some growth is anticipated in the Agriculture sector as the Ministry of Agriculture is actively encouraging the production of crops such as sweet potato and pumpkin, and fishing activity increased as it is now possible to fish in previously restricted waters. In the Mining and Quarrying sector, the establishment of an additional quarrying company will promote significant growth in that sector. We expect increase growth in the number of stay over visitors given the recent re-opening of the Old Towne/Isles Bay area, and this will in turn generate an increase in our tourism receipts. In addition the Tourism project due to take off in April of this year should also influence the economy in a positive fashion, fuelling growth in a number of sectors.

## **BUDGET CONSIDERATIONS AND PERSPECTIVES FOR 2004**

30. Mr. Speaker, it is against this background that my Government presents the 2004 budget. We will continue to pursue the strategic objectives outlined in my 2003 Budget speech. These are population growth, economic and financial stability and growth, quality of life enhancement, efficiency within the public service, external relations and environmental and risk management.

31. As promised we will continue to focus on outputs and a gradual shift towards a performance-oriented budget. You will note Mr Speaker, that for the first time the budget covers a period of three (3) years and we have circulated corporate plans that cover a similar period. This will greatly enhance our medium term financial and economic planning and conforms to best practices at the international level.

### **Population Growth**

32. Mr Speaker, in my last budget address we recognised that the increase in population growth could not be achieved through any single strategy. We pointed out that housing, employment, health, post secondary education facilities, sports and cultural activities and growth in investment in the key economic sectors were essential ingredients in making this objective a reality.

**33.** Mr Speaker, we are anticipating a minimum of 4% increase in the population for 2004 as a result of the investments being undertaken in the various sectors. We will also continue to support the Montserrat Chamber of Commerce and its programmes to bring about a more viable population.

**34.** The question now is how would we know when we have succeeded in taking forward this objective? Mr Speaker, the Government is working on several initiatives aimed at monitoring and identifying training and skills needed to make the workforce more effective. This labour market information will be necessary for more effective planning and to ensure that this vital resource is harnessed and utilised efficiently.

**35.** We will targeting the return of Montserratians overseas but at the same time we recognise that as a Member of the CARICOM our immigration policy must take account of the free movement of our brothers and sisters from the region. In addition, we will encourage persons from other countries with specific resources and skills to contribute to the redevelopment process.

**36.** In 2003, our direct investment in this objective was three hundred and eight four thousand nine hundred and forty dollars (\$384,940). It is our intention to increase this figure to one million and sixty thousand dollars (\$1,060,000) in order to intensify our efforts in this area.

**37.** Mr Speaker, as you can see we are fitting the pieces of the puzzle together to bring about the sustainable economy we have promised and we intend to deliver a viable economy with the support of our people.

### **Economic Growth and Financial Stability**

**38.** As stated in my last budget, the achievement of this objective is dependent on the provision of adequate and appropriate infrastructure, a strong private sector and well targeted public expenditure. I also underscored the need for improvements in the Customs, the Treasury and the Inland Revenue.

**39.** In 2003, we allocated sixty million six hundred and one thousand eight hundred and thirty dollars ( \$60,601,830) to this objective and for 2004 we have allocated directly through our budget sixty million two hundred and ten thousand seven hundred and ten dollars (\$60,210,710). Projects funded and paid directly from the European Union's budget such as part of the airport runaway, housing and the Community College will account for a further forty three million five hundred thousand dollars (\$43,500,000). The total sum to be spent on this objective is therefore, one hundred and three million seven hundred and ten thousand seven hundred and ten dollars (\$103,710,710).

**40.** The European Union (EU) under the European Development Fund (EDF) has also allocated 11 million Euros or (\$35 million) over the next five (5) years

and which will be used for the development of the Little Bay Area including the Sea Port. Clearly, Mr Speaker, the funds are available, what is required is the timely implementation and management of projects.

**41.** Let me now begin to examine our economic infrastructure programme and prospects in greater detail.

### ***Airport***

**42.** Mr Speaker, the contract for the major works was awarded to Lagan Holdings Limited, an Irish Construction Company and by early August, the contractors had begun the mobilization process. Significant advancement has been made on constructing the platform which will serve as the parking apron for the new airport. This will also serve as the landing pad for the helicopter while the runway is being constructed.

**43.** The new terminal building is almost completed and the new road and tunnel are well advanced. This will allow the rapid construction of the 540 metre strip on a 600 metre platform which meets the requirements of the Directorate of Civil Aviation for the operation of twin otter aircraft. Preliminary studies are being undertaken to determine the method and cost of future extensions to the runway.

**44.** It is anticipated that the new airport facility will enhance our tourism product and provide reliable, safe, efficient and reasonable air-transportation that will also encourage businesses to come to Montserrat. The Gerald's Airport will serve to enhance population growth and induce greater economic activity.

**45.** Mr. Speaker, we have sought to ensure that the airport project is developed in an environmentally consistent manner. A comprehensive Environmental Impact Assessment is being undertaken as part of the Airport Project.

**46.** Government has just completed a Future Operations Needs Study for the airport. This Study recommends the international staffing requirements and standards for fire fighting capability, security, air traffic control and management of the airport. Many of the recommendations especially those of staffing and safety will be fully implemented. This will mean additional employment for at least six security officers and other support staff at the new airport all of whom will be trained to international standards in time for the opening of the airport by the end of 2004.

**47.** The Gerald's Airport Project is budgeted to cost EC\$42.6 million dollars. This also Project represents the largest financial output of aid to Montserrat for the last ten (10) years. Most importantly, we ought to recognize that the implementation of the Airport Project is being coordinated and managed by our

local technicians through a Project Steering Group under the auspices of the Ministry of Communications and Works (MCW).

### ***Sea Port***

**48.** Mr Speaker, the port land based infrastructure project, which seeks to properly house, and safeguard imports, and which will also be utilized for the processing of passengers and proper accommodation of staff is nearing completion.

**49.** The Port Project is being implemented at a cost of EC\$1.8 million. The project consists of a large steel framed shed with associated two storey offices is expected to be completed by the end of April. The building will greatly assist the Montserrat Port Authority (MPA) with the storage and processing of all inbound and outbound freight and the office building will provide Montserrat Port Authority with a permanent headquarters.

**50.** A maintenance workshop was constructed to the rear of the Port warehouse. This project was completed at a cost of two hundred thousand dollars (EC\$200,000) and was handed over in August 2003. The building provides facilities for the maintenance of all port vehicles and equipment and provides accommodation for mechanics, electricians and other technical staff.

**51.** My Government considers the Port as one of the principal organs in Montserrat's redevelopment and the jetty extension is viewed as a critical project for the sustained economic development of the island. It is anticipated that this facility will serve to increase port vessel calls and throughput and most importantly will allow vessels to dock even in bad weather. Government has agreed to make funds available from the EDF 9 tranche to allow implementation of this project. Additional resources may be required and we will consider assisting the Authority in acquiring loan financing to deliver this facility.

**52.** Mr Speaker, we will also be allocating \$0.5 million in 2004 to construct a slipway at the Port to accommodate the boats of our fishermen. It will also be built to accommodate the Police launch and other similar crafts.

### ***Road Networks***

**53.** Mr Speaker, improving the island's road was one of this Government's main objectives for 2003. During that period, a total of one million four hundred thousand dollars (\$1,400,000.00) was allocated to the recurrent maintenance budget for roads. Of the recurrent road maintenance budget, seven hundred and five thousand six hundred and three dollars and thirty-nine cents (\$705,603.39) was spent on minor projects with the balance of the allocation being spent on recurrent works of drain cleaning and road patching. During the implementation of these works, the Ministry applied the policy of splitting road works projects into

sub-projects to allow as many persons as possible to remain in employment while ensuring that expenditure did not exceed projected amounts.

**54.** In 2003, the round-a-bout by the Hospital aimed at improving the movement of traffic in the area was re-designed and completed. The road while improving the three-pronged flow of traffic in this area, also reduced risks to other road users including pedestrians.

**55.** The Volcanic event of July 12<sup>th</sup> 2003 has contributed to the deterioration of the road and associated drainage infrastructure. In response, we are currently pursuing a project, at an estimated cost of approximately \$3.0 million which will rehabilitate road and drainage from Cheap End to the Belham Valley. This project when realized would significantly increase activity in the transport sector but more importantly enhance the quality of our roads.

**56.** Mr Speaker, Government is in the process of securing funding for maintenance works in other areas of the road network. The major concerns are the Carr's Bay Bridge and the bridge over Bottomless Ghaut, which are in need of urgent works to ensure the integrity of the main road network. Other areas targeted for priority consideration include the main route serving the communities between Cudjoe Head and St. John's through Barzeys and access to the Drummonds area.

**57.** Mr Speaker, this means continued employment for those people who want to work while we seek to implement programmes in other key sectors.

### ***Power and Water***

**58.** Mr Speaker, Montserrat Electricity Services Limited (MONLEC) ability to provide dependable power was severely affected during the last quarter of 2003, following the failure of its newest generator. Consequently, the company made arrangements to satisfy the immediate demand for power by purchasing two new packaged generating sets. However, a more substantial investment in generating plant will be made for the construction of a 1.8 Megawatt permanent power station, commencing late 2004.

**59.** In order to finance this power station project, the company anticipates that it will require a loan of approximately EC\$6.0 million, in addition to its own resources. This project is critical if we are to avoid the high cost and risks associated with supplying power using current emergency generating sets.

**60.** We will now focus our attention on the supply of water. Efficient, reliable and cost effective supply of water is essential to the overall development of Montserrat. Water is a basic need and the Montserrat Water Authority (MWA) will continue to upgrade the distribution network in the North in order to provide a better quality, reliable and efficient service to the populace.

**61.** Mr. Speaker in 2003 we upgraded the transmission main to Dick Hill Reservoir and installed a new 6" mainline from Collin Ghaut to St John's Centre. This improvement of the network will allow for increase flow of water into the Dick Hill reservoir in order to satisfy the growing demand for water in that area, in addition to solving some of the low pressure problems that consumers in the upper reaches of St Johns usually experience at peak time. This was completed at a cost of two hundred and thirty-three thousand dollars (\$233,000).

**62.** The 6" supply line from Hope Springs to Hope Reservoir was also replaced at cost of forty-five thousand dollars (\$45,000).

**63.** Spring yields have declined generally, over the years. In order to ensure that the daily spring production was captured and very little water was wasted the MWA spent eighty thousand dollars (EC\$80,000) from its local financial resources to effect improvements at the catchment points. These have led to some improvement, but the real issue is that springs are not recharging. This is a cause for concern and alternate sources of water must now be sought to

complement spring production. I wish through this medium to encourage Montserratians to change their water using habits; waste must be eliminated at all costs or the consequences could be serious.

**64.** During the third quarter of 2003 we conducted a Survey of Ground Water Resources on the island which was undertaken by British Geological Society. The survey confirmed the existence of ground water in the Belham Valley and Department for International Development (DFID) has provided approximately EC\$1.0 million dollars as part of the Water III Project to explore and develop this resource. To this end, Government has awarded a contract to Hydrosorce Associates Incorporated - a water drilling company using the most advanced drilling techniques, to explore and determine the amount of this resource. Once this proves successful we will go on to develop the resource. It is hoped that this will produce at least two hundred thousand (200,000) gallons per day.

**65.** As part of the Water III Project, DFID has also approved the procurement and erection of several water tanks as a means of improving water storage in the North. Contracts have been awarded and fabrication of the tanks is ongoing.

**66.** Mr Speaker, our high quality water also has significant investment potential. However, we have had to put on hold a multi-million dollar water bottling project pending the location of appropriate volume of water. The German company has already purchased land on Montserrat and if all goes well this project can have significant benefits for Montserrat in terms of skills transfer, employment, export earnings and the other usual economic benefits.

### ***Mining and Quarrying***

**67.** Mr. Speaker, it is ironic that the ash and other volcanic fallout that plagued us for eight years is likely to become our largest export. SELSI Limited has been operating from the Belham Valley area producing mainly sand and aggregate for the domestic construction industry. In 2004, the company plans to step up significantly its production levels and exports to regional markets utilizing the Plymouth Jetty.

**68.** Phoenix is a newly established quarrying company, jointly owned by local and foreign investors. The company is set up in the Little Bay area and will begin producing sand and aggregate mostly for export. Montserrat stands to benefit from revenues generated through increased exports.

**69.** Mr. Speaker, the Montserrat Chamber of Commerce and Industry (MCCI) and my Government have been involved in discussions with an Irish based company, Silverlock Management Resources Limited (SMRL), seeking to utilize their technology to exploit the fallout from the volcano. SMR Limited has been working with similar technology in areas close to the Caribbean region and is aiming to commence operations in the latter half of 2004. The company plans

to use the volcanic ash to make composite Slate products. This high-value, durable material, among other things, will be employed in the production of tiles and roofing material for local use and for export.

**70.** We are confident that these three companies will substantially contribute to employment, income, output and economic activity in general on Montserrat. It is my Government intention to facilitate these initiatives with appropriate incentives and the provision of factory space where possible.

### ***Agriculture***

**71.** Mr Speaker, the agricultural sector once again suffered a major set back in 2003. The volcanic eruption of July 12<sup>th</sup> left the agricultural sector devastated. Damage to the sector was estimated at approximately eight hundred and fifty eight thousand dollars (EC\$858,000.00). Government responded to the disaster by providing the sum of three hundred and thirty-five thousand six hundred and eighty-four dollars (EC\$335,684.00) to assist with implementing recovery action for the sector. To date all areas of the sector have rebounded significantly. It is especially important to note that approximately 50% of the crop acreage destroyed was replanted by September and all lands were in production by the end of November. Local produce of most of the major crops is presently on the market.

**72.** Emphasis in 2003 was once again placed on import substitution and food security as well as the implementation of a number of programmes and projects geared towards improving livelihoods.

**73.** The irrigation project is presently providing in excess of 2 million gallons of water to 30 farmers; 60 backyard gardeners have functioning roof collections systems and twenty persons (20) have been trained in soil and water conservation and irrigation techniques. The department expects to construct 2 more dams in 2004 with a total capacity of 1 million gallons.

**74.** The feral pig eradication project initiated in 2003 was aimed at reducing the number of feral pigs in the forests. 200 pigs have been destroyed to date but anecdotal evidence suggests that the remaining population is still quite large. This project will continue into 2004.

**75.** The owners of Mars chocolate company collaborated with the Department of Agriculture to test some new varieties of cocoa on island. As a result a cocoa project was also initiated in 2003. This project however, suffered a major setback during the July 12<sup>th</sup> eruption when fifteen hundred (1500) seedlings were destroyed. Replanting has since been done and to date three hundred (300) of the plants that survived have been transplanted in the Cassava Ghaut area.

**76.** 2003 saw the completion of an industry plan for the production, processing and marketing of cassava and cassava products from Montserrat. The objectives of the project are to increase significantly the cultivation of cassava, to increase productivity, to establish a viable cottage industry and to develop systems for utilizing cassava based products in livestock feed. The establishment of the industry is valued at approximately two hundred and fifty thousand dollars (EC\$250,000.00). The implementation phase of the project will be initiated in 2004.

**77.** The focus on backyard gardening continued in 2003. A small project for backyard farmers resulted in over 40 farmers being provided with fencing wire to assist them in securing their cultivation from loose livestock.

**78.** This Government once again is embarking on a drive to promote agriculture and agricultural production on island. For this two (2) new tractors have been purchased.

**79.** I am also pleased to report that the Department will be staging the National Agricultural Exhibition in April. This year's exhibition will showcase the island's finest in vegetables, fruits, flowers, livestock and value added products derived from the farming industry.

## **Tourism**

**80.** My Government continues to view the Tourism Sector as the lead sector for long term economic growth and transformation. The overall strategic objective of this sector is to “contribute to the economic well-being and enhanced quality of life for all Montserratians, consistent with the protection of their environmental assets, cultural heritage, human resources and lifestyle. Consequently, Government is pursuing an investment programme which will reposition the Tourism sector.

**81.** Government of Montserrat has earmarked over EC\$7m over the next 3 years to fund projects emanating out of this recently completed Tourism Repositioning Strategy.

**82.** A Technical Advisor will be attached to the Montserrat Tourist Board from April 2004 to assist with the implementation of the strategy.

**83.** It is anticipated that visitor arrivals will increase with this new focus on the sector, the completion of the airport, and increased marketing of Montserrat.

**84.** The re-occupation Old Towne, Isles Bay Hill areas and the relevant parts of Olveston has seen a modest increase in villa tourism. Further, the re-entry of the Vue Pointe Hotel on the market provides not only additional accommodation but also a venue for small to medium sized conferences.

**85.** The opening of some areas of the exclusion zone has allowed conducted tours into Plymouth. This has proven to be very successful and efforts will be made to extend these tours to Day Tour Visitors to afford them an experience of a lifetime.

**86.** The Jack Boy Hill Visitor Facility has been completed and will afford visitors and residents an excellent vantage point for viewing the volcano, with picnic tables and benches, restrooms, concession area and a mini-walking trail. The area has been enhanced with colourful plants and a parking apron for vehicles.

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

**87.** Montserrat’s sustainable economic development is the prime goal of the Government of Montserrat. Government is aware that to achieve this goal it must be and is committed to work in close collaboration with the Private Sector. Hence government’s continued budget support for the Montserrat Chamber of Commerce.

**88.** Mr Speaker, Government wants to encourage and facilitate locals investing in the economy. It is government’s intention to offer suitable incentive packages consistent with our Fiscal Incentive Ordinance, to this sector of the economy to stimulate growth. This is to be complimented by the revision of the

Small Enterprise Development Legislation. The revised legislation will help to stimulate growth in this vital sector.

**89.** Generally, new areas of investment are being targeted with special emphasis on those relating to the tourist industry. The water bottling plant is still seen as one of the many ways in which a local product can be utilized efficiently and effectively for particular niche markets. The exporting of aggregates has been given a boost with the rehabilitation and development of alternative port sites which will facilitate transporting of the product to external markets.

**90.** It is our intention to ensure that our beloved island and its investment opportunities reach at least over 40% of the Chief Executive Officers and investment managers in the Americas, Europe and Asia. That is why Government of Montserrat has placed an article in the **March 2004** issue of the ***Institutional Investor Magazine*** which targets readers in these continents. We are assured of this coverage Mr Speaker, because of a study of markets and media done by **Erdos and Morgan**, an international firm, which confirmed the wide circulation of this magazine.

**91.** A recent study has predicted that the CARICOM Single Market and Economy is likely to increase our GDP by more than eight (8%) percent. Mr Speaker, It is our intention to use our status as an Overseas Country and Territory (OCT) of Europe and our membership in CARICOM as a conduit for investment for goods and services to both regions. Clearly, Mr Speaker, if we get the right investments, we can probably double this predicted increase in GDP.

**92.** We will therefore continue to support the efforts of the Chamber of Commerce and in particular its efforts to develop the financial services sector and its facilitation of returning Montserratians. We will expand the role of the Government of Montserrat's Office in London to broaden its involvement in the promotion of investment and tourism of the island. We will request Her Majesty Government (HMG) to assist us in this effort in two ways. First to ensure that they do nothing that will have a negative impact on the Montserrat economy and secondly, using the United Kingdom (UK) investment networks to support our efforts.

### **Telecommunications**

**93.** Mr Speaker, this is the era where technology plays a key role in development. Communications and Technology must assume a central position in our island's development and Government has begun the process ensuring that Information Communication and Technology (ICT) will be a main focus in our development strategy.

**94.** Full liberalization of the telecommunication market is one of government's main goals. It is believed that through this process we can provide our citizens with reliable and cost effective technology services. Government recognizes that the process is a long one, but has already taken the first steps in realizing this goal at the appropriate time.

**95.** The world has advanced in the area of ICT. Indeed the region including Montserrat has also advanced in this area, and new developments in the field of telecommunications are creating waves for change. In order to respond to the needs of the industry, Government has appointed a Telecommunications Officer on a full time basis.

**96.** The existing legislation was carved out in 1951 and in order to make it relevant to the 21<sup>st</sup> century, a substantial amount of work is required to have it upgraded. Work has already begun in this regard, but there is still much to be done and Government will seek the assistance of HMG in this regard.

**97.** It is recognized that Cable and Wireless the incumbent provider has served Montserrat well for the past half a century. However, the dismantling of monopolies and preferential treatment at the international level has led and will create waves even in small territories like Montserrat. In fact, Government has had several applications for new licences to provide telecommunications services, but have been constrained by the existing operating agreement with the incumbent provider. We intend to discuss with Cable & Wireless a mutually acceptable way forward.

## **Social Development and Justice**

### ***Social Policy***

**98.** 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.

**99.** Government's commitment to these principles is unwavering. The \$5.3 million from the recurrent budget and over \$4 million allocated to the construction of the Community College is evidence of this commitment. Government intends over the next two years to focus on the development of post-secondary education development of programmes for the Community College and expansion of the library services.

**100.** Mr Speaker, expenditures on health and community development services include EC\$11.5 million from the recurrent budget and EC\$2.6 million from the development budget.

**101.** When we add the allocation for social housing and other programmes, the total provided to this objective is thirty million and seventy thousand one hundred dollars (\$30,079,100).

### ***Housing***

**102.** The provision of Housing, Mr. Speaker, is an important part of this Government's strategy to retain and increase the population while at the same time developing the island's social infrastructure.

**103.** Phase II of the Self-Build Materials Grant Program was closed officially in 2003 with the final draw-down of seven hundred and twenty three thousand eight hundred and thirty dollars (\$723,830) facilitating the completion of twenty two (22) dwellings bringing the total number of households assisted under this Phase to two hundred and eighty eight (288), including thirty (30) direct built at a total cost of EC\$13.5 million.

**104.** In 2003, under Self-Build-Phase III, eighty seven (87) additional households were awarded grants including, thirty eight (38) direct-built houses for vulnerable persons relocated from Gerald's Park, Shelters and Family Units. This brings the total number of approved applicants to one hundred and forty (140) under Phase III, committing the entire project sum of EC\$9.6 million. Some seventy five (75) dwelling units were completed during 2003. LDA plans to complete the construction of another thirty (30) direct-built dwelling units for the vulnerable in 2004.

**105.** Improvements were undertaken to some of the properties. For example, patios were added to all fifteen (15) CARICOM houses to prevent water penetration; all corroding external light fixtures were replaced at Lookout, and remedial infrastructural work were carried out, as available financing allowed. Other remedial works included painting all the metal supports on all the Force 10 Houses on steel columns.

**106.** As of November 20, 2003, thirty eight (38) houses have been sold: twenty three (23) at Davy Hill, one (1) at Shinnland and fourteen (14) at Lookout 1 (Phase 1) resulting in proceeds totalling six hundred and ninety five thousand three hundred and twenty dollars (\$695,320) which have been placed in a Revolving Housing Fund account to finance additional housing solutions. Approximately 80% of the remaining tenants at these three (3) estates have expressed interest in purchasing their homes.

**107.** In October 2003, Government approved the sale for the remainder of Government's housing stock comprising the Lookout I-Phase 2 Development and formally approved its sales Policy. Government's approved sales Policy includes a discount equal to the appropriate standard for 1- 2- and 3-bed houses plus a 5% cash discount to outright purchasers. Given such generous terms, it is anticipated that the majority of these tenants will opt to buy their homes.

**108.** Also in 2003, Mr. Speaker, this Government acquired four (4) acres of land at Drummonds, which has been subdivided into thirty six (36) lots on which eleven (11) houses have already been constructed. Nine (9) more houses are being constructed and will be available for occupation by April 2004. The remaining sixteen (16) lots will be allocated for sale to persons who have had difficulty finding serviced-lots.

**109.** Under Lookout Phase II we anticipate approximately seventy five (75) serviced lots will be available for allocation and sale during 2004 once the entire infrastructure, roads, sidewalks, water and electricity is installed. The new sewage treatment pond and sewage reticulation system will be operational during 2004.

**110.** The European Union has approved 5.7 million Euros or approximately EC\$16.3 million to fund a site development and another housing development project at Lookout designed to deliver a total of sixty (60), two and three bedroom houses by the end of 2004. These houses will be offered for sale and the proceeds will be re-invested in additional housing.

**111.** Ministry of Agriculture, Lands, Housing and the Environment is currently contemplating vesting in Land Development Authority (LDA), the commercial lands at Lookout Phase 3 for development. Once this is realized, LDA plans to seek financing to construct a mini-shopping mall for lease to entrepreneurs

**112.** The final detailed design of the Little Bay Area Plan was also approved for implementation of Phase 1, that is, the construction of roads and utilities to be completed during 2004. Land has been made available to relocate the businesses currently encroaching on the Little Bay area.

### ***Education***

**113.** Mr. Speaker, the Department of Education commenced the implementation of the Five Year Education Development Plan in 2003.

**114.** DFID has provided funding for the support of the Five Year Education Development Plan. This support will be provided for five years from September 2003 and will concentrate on activities aimed at building professional capacity

within the Montserrat education system and improving quality particularly with regard to the educational achievement of all children.

**115.** As part of the financing under the five (5) Year Education Development Plan funds have been made available in the area of educational infrastructure for the establishment of a Special Needs Unit at the secondary level, the purchase of furniture for the new Early Childhood Centre, the purchase of library books for the Montserrat Community College and the levelling and grassing of the Look Out School playing field. The Early Childhood Centre will be constructed in St Peters with funds from the Basis Needs Trust Fund.

**116.** At the Early Childhood level access was increased through the expansion of the St. Johns Day Care Centre. The Brades Nursery School was repainted and refurbished and the outdoor play area levelled and re-fenced thereby providing a safer environment for the delivery of the programmes.

**117.** To enhance the welfare of the students and teachers at the primary levels improvements were made to the physical plant. At Brades drains were covered, walkways installed and classrooms rewired. All buildings at the Look Out Primary received a facelift and renovations were made to one block to accommodate a small computer laboratory and a library.

**118.** To enable the Special Needs Unit to provide specialist programmes to students who are mentally or emotionally challenged, a Special Needs teacher was secured with the help of the Commonwealth Secretariat.

**119.** At the secondary level special attention was paid to male underachievement and the development of students' skills with emphasis on problem solving. The Students Council has been re-introduced thereby providing opportunities for the students to practice student governance. Students' performance in the Caribbean Examination Council (CXC) Caribbean Advance Proficiency Examination was commendable with an 85% pass rate. The performance at Caribbean Examination Council Caribbean Secondary Examination Certificate level was the best it has been since the Montserrat Secondary School started writing this examination in 1979 with a 90% pass rate.

**120.** Construction activity on the Montserrat Community College began in November 2003. Completion of the first phase is expected in mid 2004 ready for occupation at the start of the school year in September 2004. The building will provide classrooms, workshops, a fully fitted laboratory, computer room, learning resource centre, administration and staff accommodation.

**121.** To ease the congestion on the school buses two new school buses were purchased and has been in operation since January, 2004.

### ***Health Service***

**122.** Mr. Speaker, the prime goal of the Montserrat's health services is to provide adequate, affordable, accessible health care to all people of Montserrat. This Government has embarked on health policies and programmes that are geared towards expanding the medical services on island as well as enhancing the ability of our existing primary and secondary care services to promote the health of our people and improve the quality of life for all.

**123.** The Primary care services continues to thrive in implementing its preventive health care programmes and providing care for people with chronic diseases as well as the more vulnerable members of the society such as the elderly.

**124.** Notably Mr. Speaker Montserrat has once again been recognized within the region, for its efforts at promoting and achieving 100% immunization on Island. An active and efficient immunization program has resulted in the absence of communicable diseases such as diphtheria in the island's children. The Government is also currently part of the regional expanded immunization program whereby adults are protected against diseases such as hepatitis B. This is testimony of the efforts of protection offered to the population against preventable diseases.

**125.** My Government has just completed a tripartite agreement between DFID/PAHO/GoM regarding efforts to improve the quality of life for the elderly, the mentally challenged and people suffering from diabetes and hypertension. This effort will help to ensure that medical conditions are detected early, treated appropriately and measures are taken so that the individuals are rehabilitated to an acceptable level of their functional capabilities.

**126.** In an effort to improve the ability to provide rehabilitative care, the Government has engaged the services of a fulltime physiotherapist who along with an occupational therapist has been providing rehabilitative care. This is but another effort to expand the care services available on island and to improve the quality of life for the people of Montserrat.

**127.** In 2003 the St John's Polyclinic, which houses Mental Health, Medical Clinic and Dental Clinic was officially opened. This affords for the provision of coordinated service care within the domain of a single structure. Mental health care provided will be enhanced, among other efforts, by the addition of a visiting psychiatrist on island on a quarterly basis. Dental care services will be enhanced with the addition of a Dental Surgeon to compliment the existing dental staff.

**128.** The upgrading of the St Peters Health Center has been completed at a cost of four hundred thousand dollars (EC\$400,000). This upgrading has enhanced the ability to deliver primary health care services as well as provide a facility with the capability to serve as a triage center. Of particular note is the addition of an Ophthalmic Eye unit to the St Peter's Clinic. This will facilitate the

provision of basic eye care services such as Glaucoma. In addition to providing these basic services, having a stable base from which to operate, will enhance our ability to attract eye specialist willing to provide cataract surgery on island. Plans are in place to renovate the existing clinic into a nurse's home.

**129.** The newly constructed Operating Theatre will also improve the ability to attract specialist surgeons, such as orthopaedic surgeons, and to expand the number and types of operational service procedures available on island. This will increase the capacity to provide specialist care to the people of Montserrat and decrease the need to travel overseas for medical services. The Theatre was completed at a cost of EC\$1.5 million.

**130.** The construction of a new mortuary at the hospital commenced towards the end of 2003. The building will be complete by mid 2004 and will provide modern sterile autopsy facilities for the hospital.

**131.** A major focus of the Health sector in the upcoming year will be that of ensuring that the efforts of service expansion and improving quality of care is institutionalised and created into a sustainable system. To this end the Ministry of Health will be embarking on the development of a five-year health development plan charting the course of health promotion, disease prevention and medical care services.

### ***Welfare Services***

**132.** Mr Speaker, Social Welfare Financial Assistance was provided to an average of three hundred and eleven (311) households on and off island during 2003. Fluctuations were due mainly to change in circumstances, death and emigration of clients. A total of ninety-six (96) households were receiving rental assistance at December 2003, most of these occupying Government housing in Look Out.

**133.** Foster Care allowance continued to be issued on a fortnightly basis to an average of twelve (12) children during the year.

**134.** Sixty-seven (67) persons were assisted with medical expenses totalling approximately two hundred and seventy-six thousand dollars (\$276,000.00). Other one off grants ranging from food packages to funeral assistance were issued to over two hundred (200) persons, fifty-eight (58) of these being families assisted with school supplies for children.

**135.** The Warden Supported Apartments continued to operate at full capacity until close to the end of the year when the death and relocation of three (3) residents created vacancies to be filled early in the New Year.

**136.** Home Care and Meals on Wheels Programmes, operated through the Old People Welfare Association and Meals on Wheels Foundation respectively, provided services to over sixty elderly persons in the community. These programmes are largely facilitated by the provision of sizable subventions from the Government of Montserrat.

**137.** The Subvention to Golden Years Home was sufficient to cover the care costs of the thirty-five (35) residents accepted as being the responsibility of the Government of Montserrat. This system was optimised around the middle of the year by the re-housing of eleven (11) elderly persons from Garling Hill House and other shelters to the Golden Years Home.

**138.** Objectives for 2004 will continue to focus on initiatives aimed at improving services in the three (3) key areas of Care, Promotion and Protection.

### **Public Service and Civil Society**

**139.** Mr. Speaker, the Public Service and Civil Society will play a very critical role in enabling Government to achieve the ambitious, but essential, sustainable development programme. In order to provide this enabling role, the Public Service must steadily continue the process of modernisation, and achieve even higher levels of responsiveness, accountability, knowledge and skills; it must operate within a results-oriented culture and with a customer relations focus. We are keen to ensure that this happens and therefore, we are allocating twelve million seven hundred and ten thousand four hundred dollars (\$12,710,400).

**140.** My Government intends to undertake a review of the Public Service this year, with an emphasis on building capacity and enhancing performance throughout all Ministries and Departments. Each ministry and department has already developed corporate plans that outline their vision and mission, key issues, broad strategies for dealing with the issues and action plans with performance indicators.

**141.** Mr Speaker, my Government has already embarked on improving the working environment of all its employees, and providing a more comfortable setting for doing business with the public. We think this will also assist in improving the overall efficiency of the service.

**142.** In August 2003, the three-storey building housing the offices of the Chief Minister, Ministry of Finance and the Development Unit was completed and occupied. This was done at a cost of EC\$1.5 million.

**143.** The building provides purpose built fully serviced office space and allows some of the temporary buildings in the Brades compound to be emptied prior to upgrading for permanent use. It is expected that two of the existing buildings will be refurbished in 2004 for this purpose.

**144.** Work on Her Majesty's Prison commenced in early 2003. The project costing EC\$2.2 million is phased to allow for continuous operation of the facility. Phase 1 commenced in January and consisted of the erection of a Home Office standard fence around the existing remand unit and extended prison compound. The fencing is now completed.

**145.** Phase 2 commenced in September 2003 and consists of the sequential construction of a new cellblock for an additional thirty-two (32) prisoners and the construction of a control area for the prison staff. This will be followed by the upgrading of the existing remand unit which will provide accommodation for high security prisoners and a separate female or juvenile unit. The final phase of works will be the construction of a new gatehouse and prisoner reception centre.

**146.** Mr. Speaker, in 2003 work continued on the extension of the Government's Intranet. Our initial local area network which connects all departments on the Government Headquarters compound has been developed into a wide area network that now includes, all government departments at Farara Plaza, all departments at the Agriculture compound, Police, Fire, Prison and Emergency Operating Centre. This network will span across all Ministries and departments thereby allowing them to communicate and share information and resources in more timely, efficient and innovative ways.

**147.** The Labour Department, Airport, Public Library, and Hospital compound will all be connected to the Government of Montserrat (GoM) Intranet in the next few months. All remaining government offices such as the Ministry of Communications and Works compound in Woodlands will be connected by the middle of 2004.

**148.** Mr. Speaker, this Government will soon be able to boast one of the most interconnected electronic networks in the region. All connected departments will have direct access to SmartStream (the government's financial management system), GoM Corporate E-mail and the Internet. A number of other software applications will be shared between related departments and by departments with offices at different locations.

**149.** The completion of this complex infrastructure is the first step in our E-government initiatives, which in addition to enhancing the way government functions internally, will see us embark on projects to disseminate information to the public online and start to interact with citizens and businesses online.

**150.** The following targets are part of the overall E-government Strategy:

- "The delivery of all government information by electronic media by 2006"

- “The collection of at least 4 types of government revenue online by 2006”.

**151.** In 2003 the Government of Montserrat signed and paid for an Enterprise Agreement with Microsoft. This agreement brings us into full compliance with our main software vendor and allows us to operate several mission critical applications and productivity tools with support from Microsoft.

**152.** The Enterprise Agreement also allows us to stay current with the latest software innovations and gives us immediate access to the latest versions of all Microsoft productivity tools. As part of the agreement we were also able to

negotiate a significant reinvestment by Microsoft, which includes free training for their server and application products, free systems consultancy and free support for the server and application products.

**153.** 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.

### **External Relations**

**154.** Mr. Speaker, this government sees itself as part of regional and international environment and while we will seek to protect the interest of Montserrat, we must seek to define and establish our place in the global environment. To achieve this objective we have allocated four million nine hundred and four thousand one hundred and ninety dollars (\$4,904,190) for 2004 for this purpose.

**155.** We must define how we relate to Her Majesty’s Government, the European Union, CARICOM, OECS, the Americas and others. The relationship with CARICOM and OECS will bring its own challenges for which we must be prepared.

**156.** Clearly, it is now necessary for Government to establish a Unit to follow up and treat with issues and opportunities presented by the external environment. Over the next two years, an appropriate strategy must be developed and implemented.

**157.** We already have in place organisations such as the United Kingdom Overseas Association that seeks to provide administrative, outreach and lobbying power within the United Kingdom. In Europe, the Overseas Countries and Territories Association provides a similar service. We also, have an office in the United Kingdom which will be restructured and enhanced over the next two years.

**158.** Finally, Mr Speaker, after much expression of dissatisfaction, the United Kingdom has appointed a person in the Foreign and Commonwealth Office specifically to enhance our representation in the European Commission. It is not perfect but my Government believes that we are advancing in the right direction.

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

**159.** Mr. Speaker, the events of July 12<sup>th</sup> 2003 and the resulting activities served to keep the Emergency Department on the sharp edge of preparedness. As a direct result of the volcanic activity, Her Majesty's Government readily made available funds through Department for International Development and Conflict and Humanitarian Affairs Department (DFID/CHAD) to procure response items such as shovels, brooms, wheelbarrows, two (2) Water Tankers and five (5) air conditioned Bobcats complete with spare parts and ancillary equipment to assist with the ash cleanup. The response from Regional and International partners especially Montserratian Organisations overseas was commendable and we must express our heartfelt gratitude to all who contributed in our time of need.

**160.** The Emergency Department is steadily progressing plans on the upgrade of the emergency infrastructure and the emergency shelters in particular. During 2004 the security of the buildings will be improved with the installation of more secure windows, insect screening and dead bolt locks on the doors.

**161.** The Disaster School concept where Montserrat will be the venue for field-based Disaster Management training is being actively pursued through two (2) regional partners namely Caribbean Disaster Emergency Response Agency and National Emergency Managers for Overseas Territories. The next stage will be a feasibility study to ascertain among other things the viability of such an institution.

**162.** In 2004 we will undertake the publication of the updated National Disaster Plan. The plan will feature sections on Hurricanes, Oil Spills, Volcanic Activity, Search and Rescue and other Land-based simulation exercises.

**163.** Mr. Speaker, maintaining a sustainable environment is also a key part of our strategic plans. We intend to have a separate Department of the Environment to focus attention on the management of our natural resources. This will be considered within the public service review. Also, an Environmental Management Plan is currently, being supervised by the Ministry responsible for the Environment for the overall management of our natural resources.

**164.** We have allocated seventeen million seven hundred and thirty six thousand eight hundred dollars (\$17,736,800) to achieving these objective.

## **CENRAL GOVERNMENT FINANCES, POLICIES AND PROSPECTS**

### **Financial Management Overview**

**165.** Mr Speaker, we have made every effort to focus our expenditure on the strategic objectives we have set for ourselves. We have continued to maintain public expenditure at levels that support the economy generally and to offset the gap left by an underdeveloped private sector. My Government remains firm in its belief that government must play the lead role at this time and we will not change this focus until the private sector has developed sufficiently.

**166.** We have also sought to improve our service at the Treasury. Mr Speaker, the computerised accounting systems have been expanded to link ministries/departments via telephone and wireless systems to the Treasury to enhance the efficiency of the system. The only remaining Ministry to be connected is the Ministry of Communication and Works. They are expected to be on-line this year given that much of the infrastructure required was installed in 2003.

**167.** Again, Mr Speaker, my Government has sought to improve our medium term planning process. Our intention is to systematically enhance our planning mechanisms to internationally acceptable standards. You will note that the budget has been developed for three (3) years to ensure that individual ministries/departments have adequate time think about and make adjustments to their programmes. This will be supported by a corporate plan which will provide a broad outline of what will be achieved by individual ministries and departments over the next three to five years. We anticipate that this move will facilitate:

- I. increased knowledge of public servants and private citizens about the civil service;
- II. greater clarity in the interpretation of roles of ministries and departments and public officers;
- III. increased documentation for training purposes;
- IV. monitoring and evaluation both internally and externally; and
- V. quicker response and fine tuning of policies where flaws and opportunities are detected.

### **PUBLIC FINANCE**

**168.** In 2003, the members of this Council approved a total budget of one hundred and thirty three million one hundred and sixty seven thousand six hundred and forty dollars (\$133,167,640). The recurrent budget accounted for

sixty nine million eight hundred and one thousand five hundred and seventy dollars (\$69,801,570) and the capital budget sixty three million three hundred and sixty-six thousand and seventy dollars (\$63,366,070). The recurrent budget had to be revised upwards to seventy nine million six hundred and fifty thousand five hundred and seventy dollars (\$79,650,570) to take into account the portion of the Ash Clearing Programme charged to the 2003 fiscal year.

**169.** Mr Speaker for 2004, my Government is proposing an overall budget of one hundred and twenty-six million seven hundred and one thousand two hundred dollars (\$126,701,200).

### **Recurrent Revenue**

**170.** This level of expenditure will be financed by local revenues of EC\$31.2 million collected through the various government agencies. This represents a ten (10%) percent increase over last year's revenue and will be the result of the late billing of the 2003 property tax and a general arrears collection drive in 2004.

**171.** We will also benefit in the first quarter from the continuation of the ash programme and the airport project. Also, the anticipated expansion of the tourism sector resulting from the reoccupation of Old Towne and Isles Bay, the commencement of activities of off-shore educational institutions and government's tourism promotion drive are expected to have positive effects on revenue collection. We remain hopeful that one or two of the mining and quarrying businesses will begin operations on island soon. If everything occurs as planned, it is anticipated that local public revenues will increase to approximately EC\$33 million over the next two years.

**172.** Notwithstanding this, my Government is in the process of recommending some EC\$4 million in arrears for write-off that have been judged uncollectible. The list will be published and submitted to Legislative Council by the next sitting of Parliament.

### **Recurrent Expenditure**

**173.** The estimated recurrent expenditure for 2004 is eighty-three million seven hundred and sixty two thousand eight hundred dollars (\$83,762,800) (Annex 1). Consolidated fund services accounts for eight million two hundred and ninety-nine thousand six hundred dollars (\$8,299,600) and allocation to ministries and departments account for seventy-five million four hundred and sixty three thousand two hundred dollars (\$75,463,200). Mr Speaker, in nearly all cases the allocation to ministries and departments have been increased to reflect expanded programmes and costs associated with improved public service infrastructure. Over the next two years this expenditure is expected to fall to \$70 million and \$64 million respectively to reflect the end of the ash programme and the reduction in the level of emergency transportation services.

174. This level of expenditure however, is still unsustainable within the context of a declining aid framework, our own goals of self reliance and constitutional advancement. Therefore, a restructuring of the public services will be essential over the next two years to enable the private sector to play a more leading role.

### **Extra Ordinary Expenditure**

175. Mr Speaker, we must thank Her Majesty's Government for approving £5 million or EC\$20 million to assist with the clearing of the overwhelming ash deposits on the island especially the central portion of the island. At the request of this Government a project was submitted which provided for assistance to households with the cleaning of ash deposits from homes and businesses affected. We were also able to secure funds that assisted with the payment of water rates for one month in least affected areas and two months in the worst affected areas. Mr. Speaker had it not been for this assistance I am certain access to all the tourist infrastructure in the Old Towne and Isles Bay area would not have been accessible. I must also take this opportunity to emphasise that not only did this assistance reduce the health risks but it has brought new hope to the economy. This gesture, Mr Speaker has put meaning to the statements of past and present Secretaries of State for International Development that they **"will not abandon the people of Montserrat once they choose to remain on island"**.

### ***Development Expenditure***

176. Mr Speaker, the budgeted development expenditure for 2004 is forty two million nine hundred and thirty eight thousand four hundred dollars (\$42,938,400). We have programmed thirty-four million five hundred and eighteen thousand four hundred dollars (\$34,518,400) for infrastructure development, one million and eight four thousand one hundred dollars (\$1,084,100) for natural resources development and seven million three hundred and thirty five thousand nine hundred dollars (\$7,335,900) for social and other miscellaneous services. The details will be presented by Ministers where required.

177. Mr Speaker, I need to point out that development funds managed and disbursed directly by the European Union does not appear in the estimates but nonetheless must be disclosed in this budget because of the significance of the project's contribution to economic growth. In addition to the development expenditure above, the EC\$43 million for airport development, Community College and EU funded housing must be added.

178. Further, the Single Programming document submitted in accordance with the OCT Decision by Montserrat should be approved in May by the EDF Committee. Over the next five years, GoM expects to benefit from eleven million euros (€11mn) or thirty five million dollars (\$35m) for the development of Little Bay Port and town centre.

### ***Aid Framework 2004-2006***

179. Mr Speaker, based on the approved DFID Aid Framework, the following funds will become available over the next two years to Montserrat from the Department for International Development:

|                 | <u>2004/5</u> | <u>2005/6</u> |
|-----------------|---------------|---------------|
| Budgetary Aid   | £9.55 million | £7.2 million  |
| Development Aid | £4.95 “       | £5.3 “        |

180. This translates to approximately \$116 million Eastern Caribbean Dollars (£1 or EC\$4.3) over the next two (2) years. The amounts provided in the aid framework for 2004 ensure that the expenditure programmed in the 2004 Appropriation Bill before this Honourable House is adequately covered.

## **MACROECONOMIC TARGETS AND FINANCIAL POLICIES**

### **Macroeconomic Targets**

181. Mr Speaker, we anticipate a growth rate of five (5%). This growth is expected to continue to be dominated by the Government (25%) and Construction sectors (15%), with contributions from the Tourism and Mining and Quarrying Sectors. Modest growth is expected from the Agricultural Sector from increased production from targeted assistance to farmers. Communication Sector is expected to grow as Cable & Wireless increases its investment in high-speed Internet access and introduce the Global System for Mobile Communications. There will also be some growth in the Transport Sector from increased public expenditure on the airport project and roads.

182. Mr Speaker, we are also expecting increase in population approximately 4.5% resulting from an expanded housing programme, and increased activity in the mining sector. In 2004, we also expect to see a number of Montserratians returning home to fill positions as a result of the development of the Department of Administration Website. In addition, the reoccupation of Old Town, Isles Bay and parts of Olveston will assist this effort. Overall, my Government expects the working population to move from 2000 to over 2500 persons.

**183.** We are also expecting public debt to decrease from 12.39% to 11.64% of GDP for 2004. This will be due in part to repayments made during the fiscal year and the expansion of GDP.

**184.** Our trade position is expected to remain adverse as our imports exceed our exports. We imported approximately EC\$75.2 million in 2003 and this is expected to increase to approximately EC\$80 million in 2004. However, we are anticipating exports receipts in excess EC\$10 million from the export of sand and aggregate from Phoenix and Selsi Limited, which are two (2) locally registered companies. This is expected to marginally improve Montserrat's terms of trade.

**185.** Clearly, Mr Speaker, the environment is starting to look much better than before and we expect this to continue over the next two years. In 2005, we will be expecting our economic programmes to bear fruit and a downward trend in our deficit before grants, which now stands, at 40.73% of GDP.

## **Financial Policies**

### ***1. Introduction of the Common External Tariff***

**186.** Mr Speaker, the major financial policies to be included in this budget relates to our obligations to CARICOM under the Treaty of Chaguaramas in 1973. We recognise that HMG is still considering the new Treaty before granting Montserrat an entrustment to sign. These policy decisions therefore, seek to treat with provisions of the Treaty for which Montserrat was granted derogations and which expired in February 2004. I am pleased to report that our request to the Council for Trade and Economic Development (COTED) for further derogations was approved for five years with an option to renew for a further five years. The timetable for the removal of restrictions was also approved. This is a giant step forward in support of our request for an entrustment from the United Kingdom.

**187.** As a direct consequence of the above action, with effect from 1 June 2004, Montserrat will introduce the International Harmonised Tariff System using as far as possible:

- I. Rates that are similar to those required by members of CARICOM and will be based on the 2002 CARICOM Tariff structure.
- II. Derogations from some rates for a period of five (5) years in the first instance.
- III. Request derogations on the following criteria – cost of living, health, tourism and infrastructure development concerns.

- IV. A reduced Service Tax rate from eight (8%) percent to five (5%) percent.
- V. A three (3) tier Consumption tax rate 10%, 20% and 30% as proposed in my last budget address except for Alcoholic Beverages and Cigarettes. This will hopefully reduce the number of rates from over 30 to less than 5 rates.
- VI. Convert specific rates to ad valorem rates to make the calculation of duties especially by computers much easier.
- VII. Ensure rates selected on implementation of the Common External Tariff yields a revenue neutral position. This means that revenue gains will be offset by revenue losses. Government's aim is **NOT** to raise revenue but to comply with our obligations as a member of CARICOM. In addition, the rates selected were chosen to ensure minimum impact on the rate of inflation.

**188.** Mr Speaker, when this tariff is implemented, it will not only be more aligned with what pertains in CARICOM but even more so, to the lower rates proposed by World Trade Organisation. This, Mr Speaker, is a major achievement.

## ***2. Property Tax Rebate***

**189.** With respect to property taxes, in 2003 Government gave a property tax rebate of 50% on the total tax liability. Mr Speaker, for the fiscal year 2004, my Government proposes a tax rebate of 25% on the total tax liability.

## ***3. Low tax on Pensions over \$36,000***

**190.** Mr Speaker, in order to take advantage of our double taxation agreement with the United Kingdom, Government of Montserrat proposes to introduce a five (5%) percent tax on pension income over thirty six thousand dollars (\$36,000). Mr Speaker, this means that very few, if any, local pensions will be affected. Montserratians and other UK citizens moving to Montserrat to reside for more than 183 days would qualify for this low tax rate on their world wide income and if they earn pensions less than \$36,000 they will be exempt from the local taxes. This will support the Montserrat Chamber of Commerce and Industry population growth initiative. Mr. Speaker this arrangement will not affect our American and Canadian citizens, but we hoped that in the future we would be able to negotiate a double taxation agreement with these respective countries that would help them to take part in a similar initiative.

**191.** This policy targets Montserratians who qualify for pension in the United Kingdom and wish to return home but will also benefit UK pensioners generally who wish to relocate and invest in Montserrat. All persons wishing to benefit

from this provision will have to register with the local Inland Revenue Department so that the relevant information to facilitate the exemption from UK taxes can be obtained.

#### **4. Social Security, Health & Life Insurance Premiums**

**192.** Mr Speaker, we recognise that our health care system is inadequate and many persons have had to travel abroad for medical attention. With the social welfare costs rising, we also wish to promote the purchase of life and endowment policies to ensure that the needs of love ones are taken care of. Mr Speaker, my Government is proposing that health and life insurance premiums including Social Security payments be allowed as a legitimate expense for tax purposes for individuals and businesses on behalf of their employees. The allowance will be granted only on submission of valid payment receipts.

#### **5. *\$2,400 Tax Allowance for taxpayer for Elderly or incapacitated person living within his or her household***

**193.** Again, my Government shares the difficulties of those persons still hold fast to our tradition of caring for their elderly or incapacitated relatives **in the comfort of their own home**. Mr Speaker, we already provide assistance with hot meals to these persons through the meals-on-wheels programme and assistance with nursing care through the Old People's Welfare Association. We know that many persons provide this personal care out of love but government wishes to show its appreciation and from 2004, the head of such a household will be granted an annual tax allowance not exceeding two thousand four hundred dollars (\$2,400) per annum from any gross income earned during the year. The person however, must be living with the taxpayer for a minimum of four (4) months.

#### **6. *Tax Arrears by Financial Institutions prior to 2000 redirected to loans Programme.***

**194.** Mr Speaker, this Government recognises the importance of financial institutions in economic development. We are also aware that many of these institutions have gone through difficulties and are currently recovering nevertheless lending rates are high compared to what obtains internationally. We are appealing to these institutions to review their rates downward to stimulate investment. We wish to assist this process by proposing a waiver on any arrears of taxes owing prior to 2000 on the condition that the principle, interest and penalties are on-lent to households with incomes under five thousand dollars (\$5,000) at a maximum rate of 9%. Institutions wishing to benefit from this proposal will need to agree the terms of verification with the Ministry of Finance.

#### **7. *Small Business Tax***

**195.** Mr Speaker, I have been approached by many of our small businesses to simplify the tax system. Many have stated that they are willing to pay the tax but do not have the skills to produce the required accounts nor are they able to find help to provide the necessary financial statements on a timely basis. Mr Speaker, my Government proposes to introduce a Small Business Tax. This proposal seeks to:

- I. Register all small businesses;
- II. Exempt small businesses with annual sales/turnover of less than \$25,000 but will still be required to file their income tax return;
- III. Levy a five (5%) percent tax on turnover of small businesses that have annual Sales/Turnover between \$25,000 and \$100,000 payable by March 31 of the following year. Businesses will be entitled to a refund if they file audited statements subsequently, showing a tax liability of less than 5%.
- IV. The relevant legislative amendments will be in place before the end of the year.

**8. *Responsibility for Monitoring and Collection of Real Estate fees, Occupancy Taxes and Trade Licensing fees.***

**196.** Mr Speaker, the monitoring and enforcement of these regulations have been woefully lacking that even those in the business have expressed their dissatisfaction with the process. We want to correct this by transferring the responsibility to a department that undertakes similar responsibilities and strengthen their field audit division.

**197.** Mr Speaker, we propose to move the monitoring and collection of these taxes, licenses and fees to the Inland Revenue Department.

**9. *Cessation of Payments on Development Bond Mortgages***

**198.** There have been many representations to Government to assist persons who hold mortgages with the Housing Division for properties in the evacuation zone. Mr Speaker, with effect from 1 January 2004, mortgage holders will not be required to make further payments neither principal nor interest on such balances. The accounts will be audited to establish the individual balances so that a proper decision to write off these balances can be taken.

**ACKNOWLEDGEMENTS**

**199.** Mr. Speaker, it is necessary for us to recognise the contribution of several organisations and individuals to our beloved country. Let us therefore express our heartfelt gratitude to all those who have made any contribution to our economic recovery efforts thus far.

**200.** We must specifically mention the vital role played by our partner and main sponsor, DFID for their profound contribution without which life on Montserrat would have almost been impossible. We thank them, the Foreign and Commonwealth Office and Her Majesty's Government in general for their support.

**201.** A number of regional organisations have maintained their interest and continue to work closely with us to improve the situation on Montserrat. These include the ECCB, CARICOM, Caribbean Development Bank, OECS, CDERA, the University of the West Indies and others. Local organisations such as the Red Cross, the St. Patrick's Credit Union and the National Trust continue to serve the community well.

**202.** I would like to express our deepest appreciation to the public servants and all employees of statutory bodies and Government owned companies. As a group they have displayed the dedication and patriotism necessary to move this island forward.

**203.** Finally, as the tour of duty of His Excellency, the Governor, Mr. Anthony Longrigg CMG comes to an end, my Government and I wish to thank him for the outstanding contribution he has made throughout the community and island as whole during his term in office. We wish him and his wife all the best in their future endeavours.

**CONCLUSION**

**204.** In conclusion, I must reiterate that my Government and I are committed to rebuilding a thriving, modern Montserrat. We believe that people through legitimate enterprise should succeed and we will support their efforts. We intend to encourage and support equitable partnerships that will lead to the mutual benefit of all parties involved. And finally, Mr Speaker, my Government believes that Montserrat will rise from the ashes but it is up to us to make our dreams come true.

Mr. Speaker, I so move.

**ANNEX 1**

**Table B Allocation by Ministries and Departments**

**SUMMARY OF RECURRENT EXPENDITURE 2003 - 2004**

|       |                     |          | Revised  |
|-------|---------------------|----------|----------|
|       |                     | Estimate | Estimate |
| Heads | Description of Head | 2004     | 2003     |

|    |                                    |                   |                   |
|----|------------------------------------|-------------------|-------------------|
| 01 | Consolidated Fund General Services | 8,299,600         | 9,893,720         |
| 02 | Governor's Office                  | 284,400           | 282,220           |
| 03 | Administration                     | 4,334,200         | 3,928,720         |
| 05 | Police                             | 4,331,900         | 4,515,200         |
| 06 | Emergency Department               | 12,368,000        | 11,815,940        |
| 07 | Legal                              | 1,059,300         | 662,510           |
| 08 | Magistrate Court                   | 190,900           | 130,400           |
| 09 | Supreme Court                      | 758,300           | 762,450           |
| 10 | Legislative                        | 781,400           | 627,000           |
| 11 | Audit                              | 569,600           | 524,290           |
| 15 | Chief Ministers Office             | 2,841,500         | 2,670,690         |
| 20 | Ministry of Finance                | 4,694,100         | 3,980,250         |
| 21 | Development Unit                   | 2,324,100         | 2,471,560         |
| 22 | Treasury Department                | 1,747,100         | 1,632,070         |
| 23 | Customs & Excise                   | 765,700           | 774,250           |
| 24 | Inland Revenue                     | 515,100           | 494,760           |
| 25 | General Post Office                | 386,400           | 431,140           |
| 30 | Agriculture                        | 4,516,900         | 4,360,110         |
| 35 | Communication & Works              | 16,133,000        | 14,197,060        |
| 40 | Education                          | 5,306,200         | 5,005,810         |
| 45 | Health                             | 11,555,100        | 10,490,420        |
|    | <b>TOTAL RECURRENT EXPENDITURE</b> | <b>83,762,800</b> | <b>79,650,570</b> |

#### SUMMARY OF DEVELOPMENT FUND EXPENDITURE 2003 - 2004

|        |                                   | Estimate          | Revised           |
|--------|-----------------------------------|-------------------|-------------------|
| Heads  | Description of Head               | 2004              | 2003              |
| 03     | Administration                    | 937,800           | 207,740           |
| 05     | Police                            | 333,000           | 433,913           |
| 21     | Min of Fin. & Econ. Dev.          | 9,914,700         | 5,771,428         |
| 30     | M.A.L.H. & E.                     | 11,976,700        | 8,197,616         |
| 35     | Min. of Comms. & Works            | 14,620,700        | 14,323,200        |
| 35/354 | MCW on Behalf of Other Ministries | 2,405,300         | 1,610,569         |
| 40     | Ministry of Education             | 563,900           | 264,136           |
| 45     | Min of H & C.S.                   | 2,186,300         | 1,449,381         |
|        | <b>TOTAL DEVELOPMENT FUND</b>     | <b>42,938,400</b> | <b>32,257,983</b> |

- NB: Excludes -
1. Direct European Union funded projects - \$43.5 million.
  2. European Union funding from EDF9 under the OCT decision - \$35 million over five (5) years.