



## PROGRAMMING DOCUMENT OF THE FALKLAND ISLANDS

### 11<sup>TH</sup> EUROPEAN DEVELOPMENT FUND



**The Falkland Islands Government and the European Commission hereby agree as follow:**

The Falkland Islands Government, represented by \_\_\_\_\_, and the European Commission, represented by Mr. Neven Mimica, member of the European Commission in charge of International Cooperation and Development, hereinafter referred to as 'the parties', held discussions with a view to determining the general approach to cooperation between the Falkland Islands and the European Union.

During these discussions this Programming Document was drawn up in accordance with the provisions of the Association of the Overseas Countries and Territories with the European Union, as provided for in the Treaty on the Functioning of the European Union, in particular Article 198, as well as the Council Decision 2013/755/EU of 25 November 2013 on the association of the overseas countries and territories with the European Union.

**Signatures**

For the the Falkland Islands Government,      For the European Commission,

Mr. Neven Mimica, Commissioner for  
International Cooperation and  
Development:

Date

Date

Place

Place

## Table of Contents

<b>PART A: EUROPEAN UNION RESPONSE STRATEGY .....</b>	<b>6</b>
Summary .....	6
1. Objectives of the European Union's financial cooperation with the Falkland Islands.....	6
2. Policy agenda of the Falkland Islands.....	7
3. EU's response strategy: Choice of sector of concentration .....	9
3.1 EU response strategy framework.....	9
3.2 Institutional Capacity Assessment .....	10
 <b>PART B: THE TERRITORIAL PROGRAMME</b>	
<b>1. CONTEXT</b>	
1.1.1 Public Policy Assessment and EU Policy Framework.....	13
1.1.2 Stakeholder analysis.....	15
1.1.3 Priority areas for support/problem analysis .....	16
1.2 Other areas of assessment.....	16
1.2.1 <i>Fundamental values</i> .....	16
1.2.2 <i>Macroeconomic policy</i> .....	17
1.2.3 <i>Public Financial Management</i> .....	19
1.2.4 <i>Transparency and oversight of the budget</i> .....	20
2. RISKS AND ASSUMPTIONS .....	23
3. LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES .....	24
3.1 Lessons learnt .....	24
3.2 Complementarity, synergy and donor coordination .....	25
3.3 Cross-cutting issues .....	25
<b>4. DESCRIPTION OF THE ACTION</b>	
4.1 Objectives/results .....	28
4.2 Main activities .....	27
4.2.1 <i>Budget Support</i> .....	27
4.2.2 <i>Complementary support</i> .....	30
4.3 Intervention logic .....	31
4.4 Financing agreement .....	31
4.5 Indicative implementation period .....	31
4.6 Implementation of the budget support component .....	30
4.6.1. <i>Rationale for the amounts allocated to budget support</i> .....	30
<i>Criteria for disbursement of budget support</i> .....	30
4.6.2 <i>Budget support details</i> .....	31

<b>4.7</b>	<b>Implementation modalities for complementary support of budget support</b>	<b>33</b>
<b>4.7.1</b>	<b>Procurement (direct management)</b>	<b>33</b>
<b>4.8</b>	<b>Indicative budget</b>	<b>33</b>
<b>4.9</b>	<b>Organisational set-up and responsibilities .....</b>	<b>32</b>
<b>4.10</b>	<b>Performance monitoring and reporting</b>	<b>33</b>
<b>4.11</b>	<b>Evaluation</b>	<b>34</b>
<b>4.12</b>	<b>Communication and visibility</b>	<b>34</b>
	<b>APPENDIX I : Indicative list of result indicators (for Budget Support)</b>	<b>35</b>
	<b>ANNEX I - Indicative timetable for commitment of funds</b>	<b>39</b>
	<b>ANNEX II Falkland islands at a glance (i.e. macroeconomic indicators), and other relevant indicators</b>	<b>40</b>

## **List of Acronyms and Abbreviations**

ACAP	Conservation of Albatross & Petrels
CITES	Convention on International Trade in Endangered Species
GBP	Great British Pounds
EDF	European Development Fund
EDS	Economic Development Strategy
EUR	Euro
FIG	Falkland Islands Government
FIGAS	Falkland Islands Government Air Service
FY	Fiscal Year
FIPASS	Falklands Interim Port And Storage System
GDP	Gross Domestic Product
GNI	Gross national income
KPIs	Key Performance Indicators
ICAO	International Civil Aviation Organisation
MPA	Mount Pleasant Airport
NIP	National Infrastructure Plan
OAD	Overseas Association Decision
OCTs	Overseas Countries and Territories
PFM	Public Finance Management
PWD	Public Works Department
RPI	Retail Price Index
SDGs	Sustainable Development Goals
TAO	Territorial Authorising Officer
TFEU	Treaty of the Functioning of the European Union
USD	United States Dollar

## **PART A: EUROPEAN UNION RESPONSE STRATEGY**

### **Summary**

The Falkland Islands is an isolated Overseas Country and Territory (OCT) located in the South Atlantic, linked to the United Kingdom. The population is approximately 3 200. Traditionally it relied on sheep farming, but since the mid-1980s fisheries license fee revenues have been the main source of Falkland Islands Government revenue. Oil has been discovered but has yet to be brought into production.

The Falkland Islands Government has been running the economy prudently and has maintained a high level of reserves to handle fluctuating revenues. A sound system of governance ensures a high degree of accountability. Democratic processes are designed to ensure that the needs of the isolated rural population are met as well as those of the majority of the population who live in Stanley. Economic priorities are to develop and broaden the economy, whilst ensuring that growth does not adversely impact on the unique way of life or environment.

EU cooperation has successfully supported the Falklands using budget support under the 9<sup>th</sup> and 10<sup>th</sup> European Development Funds (EDFs). Reflecting this positive experience, and in the light of continuing progress in strengthening planning and management within the Government, this modality is again envisaged under the 11<sup>th</sup> EDF through a Sector Reform Contract.

The EU co-operation under the 11<sup>th</sup> EDF intends to support equality of access to economic and social development opportunities across the territory and particularly in the rural areas of the archipelago through enhancing internal connectivity and accessibility. In particular, this Sector Reform Contract is to support the Government's accessibility and connectivity sector, as articulated in the National Infrastructure Plan. The main outcome relates to domestic transport (within the Islands), which will be improved to enhance transport and accessibility, in order to ensure equal development possibilities of urban and rural areas within the Falkland Islands.

### **1. Objectives of the European Union's financial cooperation with the Falkland Islands**

In accordance with Article 198 of the Treaty of the Functioning of the European Union (TFEU), the purpose of the association between the European Union and the OCTs shall be *“to promote the economic and social development of the countries and territories and to establish close economic relations between them and the Union as a whole.”* These objectives have been confirmed and further developed in the Decision on the Association of the Overseas Countries and Territories (OAD) adopted by the Council of the 25 November 2013 (2013/755/EU), which replaces the Council Decision 2001/822/EC.

The Association shall also pursue the overall objectives laid down in Article 199 TFEU, by the enhancement of the OCTs' competitiveness, strengthening of the OCTs' resilience, reduction of their economic and environmental vulnerability and the promotion of cooperation between them and other partners.

In addition, Article 9 of the OAD states that “*a specific treatment shall be established for isolated OCTs*”. In order to enable isolated OCTs, such as the Falkland Islands, Saint Helena, Ascension Island, Tristan de Cunha and Saint Pierre and Miquelon, to overcome structural and other obstacles to their development, this specific treatment shall take account of their particular difficulties, inter alia, when determining the volume of financial assistance and the conditions attached thereto.

Finally, **accessibility** represents one of the main areas of cooperation for sustainable development in the framework of the Association, as foreseen in Chapter 2 (Part II) of the OAD. Specifically, Article 26 of the OAD specifies that “*cooperation in the field of accessibility shall aim to ensure greater access of OCTs to global transport networks and ensure greater access of OCTs to information and communication technologies and services*”.

These extracts of EU legislation applicable to the OCTs constitute the basis for defining funding under the 11<sup>th</sup> EDF for the development programme of the Falkland Islands.

## **2. Policy agenda of the Falkland Islands**

The Falkland Islands Government has a well-structured and coherent set of policy documents summarised below, that provide the building blocks for economic and social development, planning and the delivery of public services.

The overarching document concerning the long-term economic development of the Falkland Islands is the **Economic Development Strategy (EDS)**, developed in 2010. It contains economic projections for the period 2009-2034 and lists activities for the short term (1-3 years), medium term (4-7 years) and long term (8-10 years or more). It is currently being reviewed and updated. Consultation has been conducted with a wide range of stakeholders across the public and private sectors and the community. The strategy is expected to be finalised and approved by the Executive Council by the end of 2017.

The **Rural Development Strategy** expresses the ambitions for the rural area known as Camp. It was developed in 2012 following consultation with stakeholders including the Rural Business Association and Camp residents. The aim was to reverse the decline in population and development in Camp. Priority areas include business growth and development, workforce development, improving access to services, infrastructure and the environment. Progress of the action plan is monitored, evaluated and reported on an annual basis and the strategy will be updated following completion of the revised EDS in 2017.

The **Islands Plan** is essentially the policy expression of the Legislative Assembly and has the objective “*to progress the sustainable, economic, social and political development of the Falkland Islands for the benefit of all residents*”. The current Plan, covering the period 2014-2018 replaces the earlier 2012-2017 Islands Plan. It will be reviewed around the time of the next elections (November 2017) and will cover the next term, 2018-2021.

The Island Plan has ten main themes, including **transport and communication**, with a vision “*to secure further improvements in the Islands’ transport systems and integration with the rest of the world (both physical and virtual)*”, and **infrastructure**, with a vision “*to pursue a co-ordinated, holistic approach to ensure that the infrastructure required to meet the future needs of the Islands over the next 20 years is provided in an appropriate and timely manner*”.

The specific document that will help the Government achieve the vision for these themes is the **National Infrastructure Plan (NIP)**. It is an important strategic document that is intended to provide a structured approach to prioritising future investment decisions in the infrastructure sector and transposing vision into action. It includes an assessment of existing infrastructure provision in meeting policy objectives and the provision in ten years' time to identify priority areas for improvement. The time horizon for the document is the period 2015-2030.

In addition to the economic benefits associated with investing and creating infrastructure, the NIP will help deliver social benefits and have a positive impact on the quality of life of residents, which in turn will help deliver the vision of the Islands Plan. Improved connectivity and accessibility to infrastructure, facilities and services will reduce isolation, social deprivation and vulnerability of the population and reduce the imbalance between Stanley and Camp.

The NIP is structured into four themes that broadly mirror the Islands Plan:

- Theme 1: Transport and Communications
- Theme 2: Enabling Development
- Theme 3: Built Environment
- Theme 4: Health, Well Being and Lifelong Learning

A strategic goal is articulated for each theme, alongside sub-themes with policy objectives and outcomes for each.

In addition to the NIP, which is focused on the “*what*”, there are two other policy documents that complement each other: the Falkland Islands Development Plan (the “*where*”) and the Capital Investment Strategy (the “*how*”).

The **Falkland Islands Development Plan**, which covers the 2015-2030 period, provides a framework for the future spatial development of the Islands (including the determination of planning applications). It was reviewed, updated and adopted in August 2015. It includes a Structure Plan for shaping the built environment, protecting the environment and guiding physical developments.

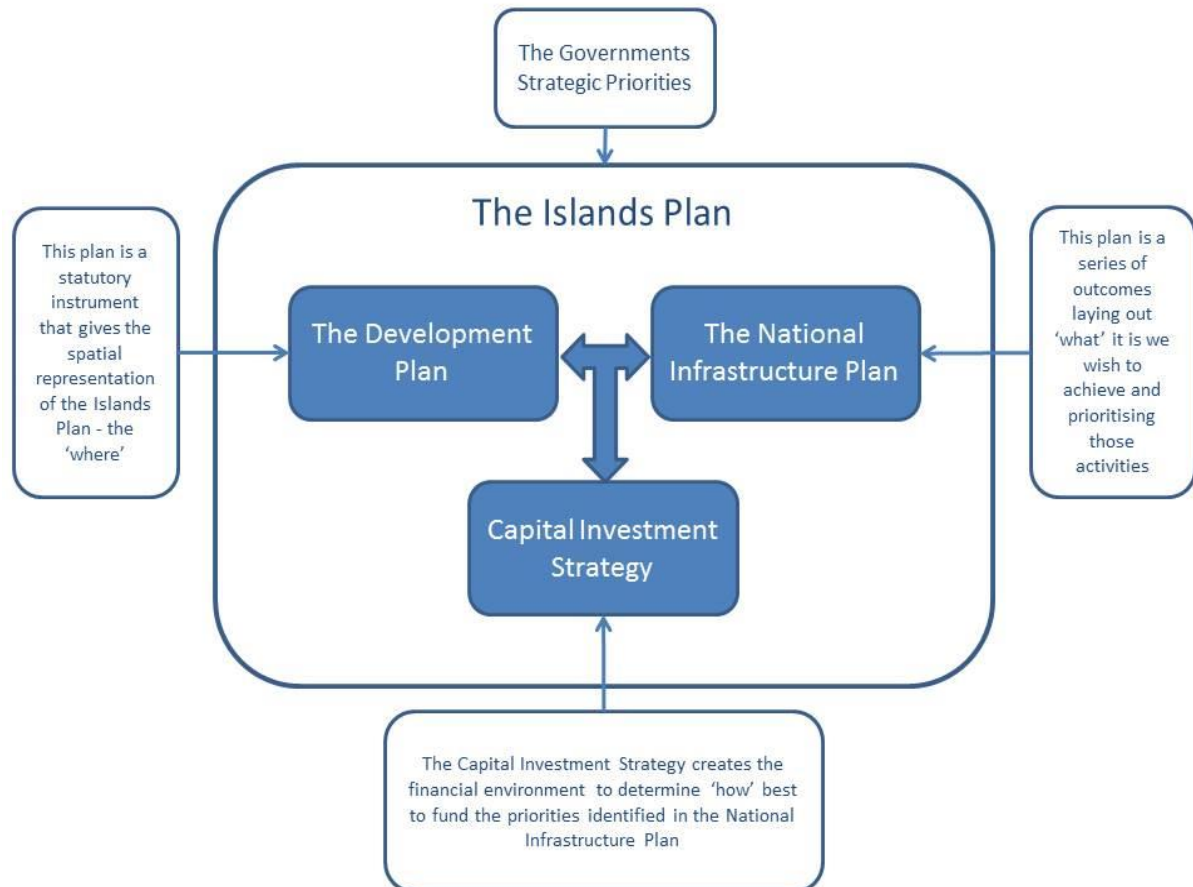
The **Capital Investment Strategy** covers the 25 years from 2016 to 2041. It provides the financial framework to determine how best to fund the priorities identified in the NIP. The Capital Investment Strategy includes net investments of EUR 55.8 million (GBP 47.4 million)<sup>1</sup> to cover the initial five-year period (2016-2020). ‘Transport and Communications’ (which includes telecommunications, air related transport, sea transport etc.), and ‘Roads’ are budgeted to cost approximately EUR 29.2 million (GBP 24.8 million)<sup>2</sup> over this period. The remaining capital expenditure relates to other capital projects such as housing, power station, plant and vehicles, a new elderly care home, and medical equipment. A summary of the planning framework is presented in Figure 1, below:

---

<sup>1</sup> [http://ec.europa.eu/budget/contracts\\_grants/info\\_contracts/infoeuro/index\\_en.cfm](http://ec.europa.eu/budget/contracts_grants/info_contracts/infoeuro/index_en.cfm) using December 2016 exchange rate 1 EUR = 0.84 GBP

<sup>2</sup> As above





### 3. EU's response strategy: Choice of sector of concentration

#### 3.1 EU response strategy framework

The Falkland Islands are sparsely populated and the more vulnerable sections of society include the elderly and remote farm settlements (“Camp”). Part of the logic for focusing the 11<sup>th</sup> EDF support on “accessibility and connectivity” is to ensure that the challenges faced by such groups, which include isolation, are effectively addressed.

In addition, whilst the rural road network has increased significantly over the last 20 years, the roads remain unsurfaced clay or gravel tracks, which restricts the movements of goods, animals (vital to the rural economy) and people, particularly at certain times of the year. It makes the movement of goods and people more challenging and more expensive, which restricts development of industries such as agriculture and tourism.

Improvements in connectivity and accessibility in the rural areas, particularly those transport-related, are a high priority for the Government. Poor domestic connectivity, especially for residents and businesses in Camp and those doing business with Camp, inhibits development, diversification opportunities and reduces resilience. It impacts residents’ ability to access and the Government’s ability to deliver basic services such as health, education and welfare.

In part because road conditions are so demanding, the Falkland Islands Government Air Service (FIGAS) plays a vital role transporting residents, tourists, mail and freight to and from remote islands and settlements. It performs a similar service to buses in most countries,

as a key form of public transport. However, its aircraft are between 23 and 29 years old, and in urgent need of rehabilitation to keep them airworthy.

Improving equality of access to transport and connectivity and infrastructure between residents of Stanley and Camp will reduce the imbalance in opportunity for economic and social development and will contribute to overall development and help the Islands to thrive.

Improvements are thus seen as crucial to ensuring sustainable economic growth, enhancing quality of life for the population, and also contributing to attracting tourism, as well as reducing the economic and social imbalance between Stanley and Camp. This is why "accessibility and connectivity" has been chosen as the single sector of cooperation of EU support under the 11<sup>th</sup> EDF, with an indicative envelope of EUR 5.9 million allocated for the period 2014-2020.

The EU support will have two specific objectives:

- i) To strengthen delivery of transport and connectivity related infrastructure and improved air transport services in order to reduce the impact of isolation within the Islands and on remote communities; and
- ii) To support inclusive growth by creating opportunities by improving roads and sustaining internal air links, thereby enhancing connectivity, and to assist the humane transport of livestock to the abattoir.

As such, the EU support to this sector will contribute to promote growth, connectivity, accessibility and future sustainability of the Islands. This will lead to improvements in the quality of life for people living and working on the Islands. It will also help the Islands develop both hard infrastructure and cost effective approaches to maintaining that infrastructure.

In addition, improved rural roads help with transporting livestock to the abattoir in a way that enhances animal welfare.

Finally, improving transport infrastructure in the Falkland Islands can catalyse tourism and strengthen the rural economy. It acknowledges that some of the Falklands' most remarkable sights are on West Falkland and on remote smaller islands, and that domestic air services provide a vital role in getting to and from these locations.

### **3.2 Institutional Capacity Assessment**

The Falkland Islands' isolation, small resident population (3 200 according to the 2016 Census) and the social, economic, environmental and geo-political factors mean that the institutional challenges facing its governance are unique. Notwithstanding, the Falkland Islands have well-functioning political and legal institutions.

In 2008, a former Chief Executive was tasked with carrying out a review of Government, which resulted in a Government re-structure in 2009. In 2012, an independent "Review of the Review" was undertaken by a former Permanent Secretary in the UK civil service to assess progress since the first review and it stated: "*[The Government] has made real progress*

*towards becoming a high performance organisation*”, and a more modern and streamlined government administration has emerged. Since then, many of the recommendations of the 2012 report (including using the framework of the Falkland Islands Plan to develop a clear vision and strategy, drawing on a wider group of stakeholders for consultation, and improved performance management arrangements) have been successfully implemented. A simplified performance management reporting system has been implemented, with objectives better defined and a smaller number of indicators reported. Quarterly and end-of-year reporting was introduced. A new financial management system has been put in place, and the Director of Central Services has been made a permanent post.

The implementation of Public Finance Management (PFM) reforms by the Falkland Islands Government has progressed satisfactorily in recent years. Work has been ongoing in terms of budget credibility to improve revenue projections in the face of highly volatile conditions unique to the Falkland Islands (fishing revenues). There is a high degree of fiscal transparency and the medium term financial planning process remains a salient feature in the Government's efforts to support the achievement of strategic goals through fiscal discipline and contributing to resource allocation focused on achievement of key development results. Procurement regulations have been revised and quarterly financial management reports are issued and made publicly available and remain of high quality. A recent update was made to the Public Expenditure and Financial Accountability assessment in 2015 (first carried out in 2009), which indicates a positive improvement against those indicators relevant to the Falkland Islands, including: credibility of the budget, comprehensiveness and transparency, policy-based budgeting, predictability and control in budget execution, accounting, recording and reporting, and external scrutiny and audit.

The Government is responsible for approximately 130 functions (including those that in a larger territory or country would be led by the private sector). This breadth of responsibility has, in some cases, placed pressure on the Falkland Islands Government. In response, the Government has in the last few years initiated a process of outsourcing certain functions to the private sector (where there is a sound business case for this to occur). Examples include Government IT services, post office services and rural road development and maintenance. This has had the effect of increasing Government capacity and encouraging private sector growth and expansion. There are other opportunities that are currently being explored, but the ability of the local private sector to respond is constrained by the factors identified above.

Where services are outsourced to local companies, Government continues to monitor and scrutinise those services to ensure they are delivered efficiently. Regular progress meetings are held between providers and Government to discuss any strategic issues, and providers are required to report progress against performance indicators. If a significant decision is required in relation to the service, a recommendation is referred to the Executive Council for final approval via the Director of Central Services (who is the lead Director on outsourcing).

The policy framework is both clear and coherent. As well as tying in well with the annual budget framework, the commitments to better monitoring the use performance indicators and risk management to measure results are now being delivered. Reports are submitted to the Executive Council and are subsequently made public.

In conclusion, it is evident that the Falkland Islands Government has the institutional capacity to ensure proper implementation and monitoring of the policy document through mechanisms that are already established and operational.

## PART B: THE TERRITORIAL PROGRAMME

<b>1. Title/basic act/ CRIS number</b>	Support to promote equality of access to economic and social development opportunities across the territory through enhancing internal connectivity and accessibility CRIS number: FED/2017/038-944, financed under the 11 <sup>th</sup> European Development Fund			
<b>2. Zone benefiting from the action/location</b>	Falkland Islands The action shall be carried out at the following location: Falkland Islands			
<b>3. Programming document</b>	Programming document for the Falkland islands under the 11 <sup>th</sup> European Development Fund			
<b>4. Sector of concentration/ thematic area</b>	Connectivity and Accessibility	DEV. Aid: YES		
<b>5. Amounts concerned</b>	Total amount of EDF contribution EUR 5.9 million for budget support of which: <ul style="list-style-type: none"><li>• EUR 5.8 million amount for budget support and</li><li>• EUR 0.1 for complementary support (monitoring and evaluation)</li></ul>			
<b>6. Aid modality(ies) and implementation modality(ies)</b>	Budget Support Direct management – Budget Support: Sector Reform Contract			
<b>7 a) DAC code(s)</b>	16050 Multi-sector aid for basic social services; 21050 Air transport; 21020 Road transport;			
<b>b) Main Delivery Channel</b>	10000 Public sector institutions			
<b>8. Markers (from CRIS DAC form)</b>	<b>General policy objective</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Main objective</b>
	Participation development/good governance	x	<input type="checkbox"/>	<input type="checkbox"/>
	Aid to environment	x	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality (including Women In Development)	x	<input type="checkbox"/>	<input type="checkbox"/>
	Trade Development		<input type="checkbox"/>	x
	Reproductive, Maternal, New born and child health	x	<input type="checkbox"/>	<input type="checkbox"/>
	<b>RIO Convention markers</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Main objective</b>
	Biological diversity	x	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	x	<input type="checkbox"/>	<input type="checkbox"/>

	Climate change mitigation	x	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	x	<input type="checkbox"/>	<input type="checkbox"/>
<b>9. Global Public Goods and Challenges (GPGC) thematic flagships</b>	Not applicable			
<b>10. SDGs</b>	Main SDG: Goal 9.1 Industry, Innovation and Infrastructure Secondary SDG: Goal 11.2			

## CONTEXT

### 1.1.1 Public Policy Assessment and EU Policy Framework

The Falkland Islands faces considerable uncertainty. It has proven hydrocarbon reserves, but the recent low cost of oil has meant that the commercial development of these offshore oilfields has been delayed. Development is unlikely to be viable at an oil price of under USD 65 per barrel. The external political dialogue continues to be in a state of flux, partly determined by the evolving political landscape within Argentina. This also impacts on the attitudes of other South American countries including Chile and Brazil towards the Falkland Islands, with implications in areas such as international connectivity and trade development. Economic revenues from fisheries fluctuate year on year; the fish resource is well managed from a sustainability perspective, but potential for uptake, especially of squid, varies annually according to natural phenomena as well as fishing beyond territorial waters.

These uncertainties impact on the policy agenda. The Falkland Islands Government responds to the situation by planning prudently, taking account of a range of possible scenarios. It retains financial reserves to act as a buffer against economic downturns, but has also responded to the cessation of oil exploration in 2015 with a fiscal stimulus to offset the economic slowdown.

The schooling system in the Falkland Islands is free and compulsory for children between five and sixteen years of age. There is a primary and a secondary school in Stanley, and three small settlement schools are operating on large farms. Other rural pupils are taught by travelling teachers and older children attend school in Stanley, living at a boarding hostel.

As far as the access to health services is concerned, all medical, dental and community health services are based at the King Edward VII Memorial Hospital in Stanley, the Islands' only hospital. Care is provided to the remote farm settlements by general practitioners via telephone consultations and regular visits. In an emergency situation, the doctor can be taken to the settlement, or the patient evacuated to Stanley, using the Falkland Islands Government Air Service. Specialist services for some of the medical consultations such as Obstetrics & Gynaecology, Ophthalmology, Psychiatry, Orthopaedics, ENT and Oral & Maxillo-facial surgery as are provided by a range of visiting consultants in Camp.

An improved connectivity within the archipelago is therefore crucial to continue providing basic public services, such as education and access to health services.

Despite its small population and the challenges detailed above, the Falkland Islands has well-functioning political and legal institutions. There is a well-established policy framework,

which is clear and coherent and has been refined to strengthen the focus on outcomes and performance monitoring. Performance management software to monitor service delivery was implemented in 2013 and reporting of service key performance indicators have been developed and refined over the past few years. Performance indicators are reported to the Corporate Management Team and Executive Council on a quarterly basis, and are subsequently made public.

The Economic Development Strategy is the overarching development plan with short, medium and long term priorities. Other planning documents and processes tie in to provide a coherent whole. As already indicated in Part A of the Programming Document, these are the:

- Islands Plan, which is the policy expression of the Legislative Assembly. It has ten main themes, including infrastructure and transport and communications;
- 2015-2030 Falkland Islands Development Plan (including the Structure Plan) to provide a framework for spatial development and provide the overall strategic approach;
- 2015-2030 National Infrastructure Plan (NIP), which establishes policy and objectives for infrastructure;
- 2016-2041 Capital Investment Strategy, which provides a long term financial environment to fund priorities identified in the NIP.

The planning processes of the Falklands are well grounded and the policy and budget cycles are closely linked. There is a clear linkage between the vision, its articulation through a process of prioritisation and realistic costing of development activities. The Government is committed to providing a stable environment that fosters economic growth, private sector expansion and the development of human capital. To attain this, the Government has developed a Medium Term Financial Plan (2016/17-2020/21), and the Budget Strategy supported by the Legislative Assembly sets out nine principles and supporting policies to ensure that the Government can deliver efficient and effective public services whilst encouraging economic development, strengthening infrastructure, safeguarding sustainable pension arrangements and improving the quality of life in the Islands. This is all based on the principles of maintaining a reasonable level of uncommitted reserves and not borrowing for operating purposes so that it only spends within the available means. A demonstration of the progress in strengthening planning is preparation of a Long Term Financial Plan which provides a structured approach to prioritising future investment decisions in the infrastructure sector and transposing vision into action.

Whilst these planning processes have been managed by the Falkland Islands Government and are in essence public sector, there is ample evidence of extensive consultation with both the private sector and with civil society. The planning process supports the objectives of sustainable and inclusive growth, conservation of the environment, social harmony and democratic governance. The wide variety and rigorous application in the production of sectorial studies and of papers, strategic plans and widespread consultations clearly provide robust support to the process of democratic governance.

The Falkland Islands Government has a good track record over many years in delivering on its policy priorities. A continuing focus on improving public sector management has been an important factor in this performance. The Government does face some structural challenges: for example the market for construction is small so it is difficult to ensure that open

procurement competitions function well, but the Government has developed responsive and appropriate strategies to ensure that Value for Money is achieved.

In other respects the small population functions as an advantage. The Falklands has a single tier of government which is largely centralised. Policy financing therefore goes through the Treasury and is subject to the extensive rules, procedures, checks and accountability that are used for all government expenditure. This has been carefully reviewed in other documentation related to this programme, and also reflects past experience with the 9<sup>th</sup> and 10<sup>th</sup> EDF programmes.

### **1.1.2 Stakeholder analysis**

The main stakeholders and beneficiaries are the Falkland Islands' population in general, the public and private sectors.

Extensive consultations (which take the form of workshops with business associations such as the Chamber of Commerce, Rural Business Association, Falkland Islands Fishing Companies Association, of open public meetings including sessions held in the remote settlements, and of surveys) have taken place to ensure that planning objectives meet the needs and priorities of the population. Society is generally homogenous and levels of governance and accountability are high. The following points underpin this assertion, and help to give credence to the policy and planning framework:

- the small overall population and remoteness of the islands;
- whilst the town of Stanley is the economic centre, there is a consensus that the sustainability of the “Camp” farm settlements is a high priority;
- historically, a small number of private sector landowners had disproportionate power; now, there is a proactive approach to supporting plurality of business and supporting diversification with active business groups giving voice to interested stakeholders;
- housing in Stanley mainly comprises low density detached homes, and few are empty; and
- the population is well integrated.

Overall there is no significant disconnect between the public administration on the Islands and the population. Whilst civil society has an important role to play, there is no major issue with distrust between the Administration and the population on the Falklands. The result is that public policy documents do reflect the priorities of the population.

The planning processes undertaken by Government, including the Islands Plan, and the Falkland Islands Development Plan have been subject to extensive consultation processes as have the Structure Plan and the NIP. Extensive stakeholder reviews have facilitated their refinement. For example, consultations are widely publicised in the media (press and radio) and through social media on local community boards, and engagement levels are high. Key documents are published online and in user-friendly accessible formats. Another example of the plurality of expression is the Penguin News, the main newspaper, with an independent editorial stance and lively contributions from subscribers.

### **1.1.3 Priority areas for support/problem analysis**

There is an acknowledged need to diversify the economic base to strengthen economic resilience and the Falkland Islands Government is committed to broadening the economic base. A key priority of the 2014-2018 Islands Plan is to “*create conditions for wider growth and investment in the economy by removing barriers to business growth and investment by improving the Island’s connectivity*”.

Poor domestic connectivity, especially with the rural areas ("Camp") can inhibit development and diversification opportunities particularly in the Camp mainstream industries such as agriculture and tourism. It also reduces resilience. Movement of people, goods and delivery of services is more challenging and more expensive. Improvements to connectivity and accessibility are vital for ensuring sustainable economic growth and diversification, as well as improving residents’ quality of life.

The NIP highlights that maintaining the economic and social life in the "Camp" is a main policy objective of the Falkland Islands. It is acknowledged that while Stanley is the economic centre, the sustainable development of the Camp is a high priority of the territory.

In parallel, the Rural Development Strategy developed by the Government in consultation with stakeholders in 2012 highlights a need to improve the delivery of essential services in the Camp, both through growth in private sector businesses and services and public sector services such as health and education. This cannot be done without necessary infrastructure facilities. An under-developed infrastructure in the Camp discourages new investment, new business formation and growth of the population. Improving provision of efficient, reliable and affordable utilities and communications is therefore essential in seeking to establish new businesses, new industries and growing and sustaining the population. The focus in Camp is required to equalise the development possibilities throughout the territory.

Based on the above, the priority areas for improvement are to strengthen delivery of transport- and connectivity-related infrastructure to reduce isolation, reduce the imbalance in opportunity for economic and social development, and promote growth and future sustainability of the Islands. Improving roads and sustaining internal air links will do this by reducing remoteness for isolated residents, including continuing to ensure equal access to basic public services such as education and health and enhance the tourist offer (many of the best wildlife destinations are in the more difficult to access West Falkland and outer islands).

## **1.2 Other areas of assessment**

### ***1.2.1 Fundamental values***

The fundamental principles of human rights, democracy and rule of law are common to the OCTs and the Member States to which they are linked. In the case of the Falkland Islands, there is a strong linkage with the United Kingdom, of which the Falkland Islands are an Overseas Territory. The adherence of Falkland Islands to the fundamental values of democracy, human rights and the rule of law is the same as of the United Kingdom.



### ***1.2.2 Macroeconomic policy***

The macroeconomic situation in the Falkland Islands remains stable despite the volatile external conditions. The Islands have a gross national income (GNI) per capita of EUR 60 000<sup>3</sup> (GBP 51 000) (2014 estimate), with a positive macroeconomic outlook following the early success with the exploration of oil and gas resources and the record high of cruise and tourist arrivals and tourist spending turnouts in 2015.

The Falkland Islands economy has grown from EUR 141.5 million (GBP 120 million) in 2008 to EUR 204.4 million (GBP 173.4 million) in 2014, equating to an average annual growth rate of 10 % in nominal terms. GDP growth has nonetheless remained volatile over the period, led in the main by strong changes in fishing output. This volatility has been exacerbated by the oil exploration activities. Falkland Islands' GDP is currently EUR 204.4 million (GBP 173.4 million) annually (2014) and enables the Islands to be economically self-sufficient in all areas but defence.

The primary sector of the economy remains fishing and accounts for most of the Falkland Islands' GDP, contributing between 30 % and 60 % of GDP before 2010. However, since the advent of oil exploration, this has fallen to 30-40 %. Most of the fishing product is exported. The agricultural sector also contributes significantly and employs about one tenth of the working population. A quarter of the workforce serves the Falkland Islands Government, making it the archipelago's largest employer. Ecotourism is seasonally an important part of the service economy and spurred by an increased interest in Antarctic exploration and the creation of direct air links with the United Kingdom and South America. Tourists, mostly cruise ship passengers, are attracted by the archipelago's wildlife and environment, as well as activities such as fishing and wreck diving.

The economic outlook changed swiftly after oil explorers decided to scale back drilling work to control costs amidst the steep decline in oil prices, although the prospects still seem promising after a recent audit on the North Falkland Basin revealing that both the Sea Lion and Isobel Elaine oil fields hold half a billion barrel of recoverable oil reserves each and the final sanction decision on whether UK Premier Oil will exploit the Sea Lion project has been deferred. Reportedly, Rockhopper's North Falkland oil reserves have doubled to more than 300 million barrels in what experts now believe to be a billion barrel basin.

The Zebedee well in the Northern Basin aimed at significantly boosting the reserves of the Sea Lion field complex, initially estimated at around 400 million barrels, whilst the other wells were looking to open up new opportunities in the area. Oil explorers targeted significant resources in the waters around the islands with potential production due to start as early as 2020. The Islands hope to receive income from these resources in multiple forms, through royalties paid on every barrel of hydrocarbons extracted and the additional taxation raised through Corporation Tax on company profits and Income Tax for those additional workers located off and onshore.

Other sectors remain largely vigorous or at least stable. Fisheries revenues remain generally strong; lamb and mutton exports are growing and tourism is recovering after the global economic downturn of several years. Unemployment rates are low and the Government remains well-resourced with a strong reserves position and free of debt.

---

<sup>3</sup>[http://ec.europa.eu/budget/contracts\\_grants/info\\_contracts/infoeuro/index\\_en.cfm](http://ec.europa.eu/budget/contracts_grants/info_contracts/infoeuro/index_en.cfm) using December 2016 exchange rate 1 EUR = 0.84 GBP, applicable to all conversions in the document

There remain challenges common to many remote small island economies – high transport and telecommunication costs, dependency on a small number of commodities both for import and export and thus vulnerable to shifts in world market prices, and a tiny population which, despite low unemployment, affects the local labour market and hinders business innovation. The Falkland Islands has additional challenges associated with the political stance from neighbouring Argentina, although it is hoped the change in Argentina's political leadership will begin to alleviate this.

The Falkland Islands Government and Assembly continue in their pursuit of a strategy of economic diversification that is more facilitating and enabling to the needs of the Islands as a whole. This is reflected in the efforts to implement the Rural Development and Tourism Development Strategies supported by the 10<sup>th</sup> EDF-OCT budget support programme. Through revenues received, the Government maintains a balanced budget and provides a high standard of public services. Estimated Operating Expenditure for the 2016/17 Financial Year is EUR 72 million (GBP 61 million), while Government Revenue is estimated at EUR 69.5 million (GBP 59 million). The overall budget is projected to result in an operating deficit for the first time in six years (although deficits have been projected in previous budgets but have been exceeded and resulted in surplus) - it is projected to equal EUR 5.1 million (GBP 2.5 million) in 2016/17, from an estimated surplus of EUR 2.9 million (GBP 2.3 million) in 2015/16, in an effort to boost economic development by investing in infrastructure, before returning to a balanced budget. The Government consolidated fund reserves currently stand at about EUR 207.5 million (GBP 176 million), in line with its policy of maintaining reserves of at least two and a half times the annual operating budget.

In recent years, renewed efforts had been made by the Government to invest in promoting economic development and improving roads and other basic infrastructure, thus resulting in transfers from the Capital Equalisation Fund to departments and projects in amounts averaging EUR 14.7 million (GBP 12.5 million) per annum over the past four years. The overall movement in consolidated funds turned into a deficit estimated at about EUR 2.9 million (GBP 2.5 million) in 2015/16 and to EUR 12.7 million (GBP 10.8 million) in 2016/17, as shown in table 1.

**Table 1: FIG Overall Fiscal Operations** (in millions of GBP)

	Actual 2012/13	Actual 2013/14	Actual 2014/15	Rev. 2015/16	Est. 2016/17
Operating revenue	60.2	64.5	62.3	57.5	59.0
Operating expenditure <sup>4</sup>	(50.6)	(69.7)	(68.6)	(65.0)	(60.9)
<i>of which Capital Transfers</i>	<i>(11.0)</i>	<i>(15.0)</i>	<i>(14.0)</i>	<i>(9.0)</i>	<i>(4.0)</i>
Sub-total	9.6	(5.2)	(6.3)	(7.5)	(1.9)
Oil-related operations, net	26.3	11.0	7.0	9.8	(0.6)
Other gains/losses	8.4	3.4	2.5	(4.8)	(8.3) 3/
Overall movement in Consolidated Fund	44.3	9.2	3.2	(2.5)	(10.8)
Total reserve funds, as of start of FY <sup>5</sup>	119.0	163.2	172.4	175.5	173.0
Total reserve funds, as of end of FY <sup>6</sup>	163.2	172.4	175.5	173.0	162.2

*Sources: Budget books, 2016/17 and previous years.*

<sup>4</sup> Includes operating expenses, and current and capital transfers

<sup>5</sup> Consolidated Fund Balance

<sup>6</sup> Potential additional transfer to Capital Equalisation Fund dependent on progress of planned Capital Programme

A Rural Development Strategy was agreed early on to add value to agricultural production, encourage greater production of fruit, vegetables and meat, and to build stronger communities in rural areas. A new Tourism Strategy (approved by Executive Council in 2016) with ambitious targets is being implemented with a focus on attracting greater numbers of land-based tourists to the Islands to complement the successful cruise ship tourism industry. The Islands Plan also seeks to ensure greater economic benefits to the Islands from fisheries activities and in new industries where the Islands' unique environment and natural resources can be sustainably exploited.

According to Government data, the capital investments represented an average of about one third of total Government expenditure accrued over the past four years. Within the capital expenditure programme, the share of roads infrastructure in total capital investments is estimated to have increased to 20% in 2015/16, from 13% in 2012/13 and it is projected to increase incrementally in the subsequent four years to an average of almost 30% per annum.

### ***1.2.3 Public Financial Management***

A solid performance of Public Financial Management (PFM) constitutes a major landmark in the Falkland Islands' growth and development process. In the absence of a fully-fledged Public Expenditure and Financial Accountability assessment, the Government opted to lay out a PFM reform action plan put in place by the Treasury Task Force in October 2015, with inputs from annual audit reports and a series of capacity strengthening initiatives undertaken mainly by the Treasury. Strengthening of PFM capacities has led to positive results, as follows:

- **Credibility of the Budget** - tax and customs authorities as well as the Fisheries Department continued to improve revenue forecasting in the face of highly volatile conditions unique to the Falkland Islands;
- **Comprehensiveness and Transparency** - the high degree of fiscal transparency continues to be a major asset of the Falkland Islands;
- **Policy-based Budgeting** - the Medium Term Financial Plan process remains salient in the Government's efforts to support the achievement of strategic goals through fiscal discipline and contributing to resource allocation focused on achieving key development results;
- **Procurement** - the procurement regulations (embedded in the Falkland Islands Government Financial Instructions, Chapter 10) have recently been revised so as to enable a clear distinction of procurement methods;
- **Accounting, Recording and Reporting** - quarterly financial management reports are issued and made available to the public. Annual financial statements remain of high quality. Improvements since the last Public Expenditure and Financial Accountability assessment also include the issuing of cash flow statements, directors' remuneration and Annual Governance Statement;
- **Internal Audit** - a number of developments have taken place, including the approval of new risk-based internal audit guidelines and standards in line with international best practice. Moreover, staff training and capacity building are showing firm progress.

A sound PFM system has been essential for the Government's implementation of policies and achievement of developmental objectives by supporting aggregate fiscal discipline, strategic allocation of resources and efficient service delivery. The following remains at the core of PFM reform to achieve the three key budgetary outcomes:

- The institutional framework for achieving fiscal discipline is based on the continuing support to spending rationalisation. One major effort in this context is the championing by the Treasury in adhering to a principle-based budget mechanism (i.e., “fiscal aims”) whereby reserves are maintained at a certain level together with other aims (Box 1) rather than pursuing a balancing-the-budget approach;

- For the strategic allocation of resources, the Medium Term Financial Plan (inclusive of revenue and expenditure, with five-year rolling targets to be prepared annually) and the initiative to introduce performance orientation within projects are expected to have an important impact on allocative decisions resulting in improved planning processes and better decision-making information basis; and,

- Efficient and effective service delivery will continue to be improved over time as a result of reforms in planning, budgeting, and procurement.

Another strong feature of financial management is that the budget is comprehensive with little off-budget spending. There are no significant off-budget liabilities. There is room to improve the costed strategies and the

Government utilises a medium-term financial plan for implementing its operating plans. The Policy Unit is responsible for developing the medium- and long-term development plans in coordination with the relevant technical and operational departments. The NIP is genuinely realistic because it reflects the likely levels of affordability in terms of government financing and identifies net financing requirements.

As a result of the risks of being dependent historically on one volatile source of income, the Falkland Islands Government has long put a premium on financial sustainability. Liquid reserves of two and a half times annual departmental expenditure are maintained as a central budget policy. With the Falklands Islands' dependence on fishing beginning to decrease, its financial position is becoming stronger and more sustainable. The Falklands Islands has, effectively, no debt. Given this, there is very little risk of an important part of the infrastructure policy not being financed.

#### ***1.2.4 Transparency and oversight of the budget***

The Falkland Islands shows a high degree of fiscal transparency and publishes to the public several Government reports through appropriate means for the latest available year. It publishes through the Treasury or the Public Accounts Committee websites the adopted annual budget (Budget Book), the quarterly budget reviews, the annual financial statements, the independent audit reports and the financials of the capital equalisation fund and other special funds and strategic papers for the latest year available. It also publishes through the

#### **Box 1: Fiscal Aims**

The Falkland Islands Government (FIG) fiscal aims include the following:

1. To spend within the Falkland Island Government's means;
2. No public sector borrowing for operating purposes;
3. A reasonable level of funds are held in uncommitted reserves;
4. An appropriate level of funding is provided to maintain efficient and effective public services;
5. To ensure appropriate funding of FIG Special Funds;
6. To ensure sustainable pension arrangements are in place;
7. To seek to improve the quality of life in the Falkland Islands;
8. To encourage economic development in the Falkland Islands;
9. To strengthen infrastructure within the Falkland Islands.

*Source:* Budget Book, Approved Estimates of Revenue and Expenditure for the Financial Year 2016/17.

Falkland Islands Gazette, the Government website or the local newspaper all contracts awarded above GBP 50 000.

The external auditor's comments on the 2014/15 Financial Statements provide a favourable opinion overall. Among others, it was stated that: (i) the financial statements properly present the assets and liabilities, in accordance with the accounting policies detailed in Note 1 to the financial statements; (ii) its revenue and expenditure for the year then ended have been properly prepared in accordance with the Colonial regulations; (iii) in all material respects, the receipts and payments have been applied to the purposes intended by the Government and conform to the authorities which govern them; and (iv) the information given in the Introduction is consistent with the financial statements.

## 2. RISKS AND ASSUMPTIONS

Risks	Risk Level (H/M/L)	Mitigating Measures
Deterioration in public finances of the Falkland Islands Government means that the proposed access and connectivity investments become unaffordable.	L	<ul style="list-style-type: none"> <li>The FIG has reaffirmed its commitment to support the sector, in part because it is prioritizing a fiscal stimulus to offset the slowdown caused by the cessation of oil exploration activities.</li> </ul>
Release of funding by the EU is predictable and timely.	L	<ul style="list-style-type: none"> <li>Conservative timetabling assumptions applied;</li> <li>Mentoring of FIG staff regarding payment dossier requirements.</li> </ul>
Delays occur in rehabilitating FIGAS aircraft.	L	<ul style="list-style-type: none"> <li>Conservative assumptions have been applied to the pace of rehabilitation works.</li> </ul>
Access and Connectivity infrastructure is of constructed to appropriate quality and fit for purpose.	L	<ul style="list-style-type: none"> <li>FIG has demonstrated expertise and capacity in managing contract works, but this will be validated during design phase.</li> </ul>
<b>Assumptions:</b>		
<p>In spite of the uncertainty in the external conditions, the Falkland Islands Government has taken effective policy actions and implemented reforms which helped the economy grow by 10 % per year on average between 2008 and 2014, as noted in sub-section 1.2, Gross Domestic Product growth had nonetheless been volatile over the period led by strong fluctuations in fishing and oil-related revenues, the main sources of income. Real GDP growth has declined in 2013 and remained relatively static in 2014 due to a temporary ceasing of oil related activities during the period.</p> <p>Risks associated with medium-term macroeconomic stability relate to volatility in oil prices and the expectation of the Government raising more income through oil extraction. These are potentially set to raise its first flow of commercial sale only in 2020. Uncertainties also lie in issues relating to capital shareholding in the oil venture and on-shore infrastructure investments in order to sustain the oil exploration operations. The volatility of fisheries (mainly illex-related) income has been set for decades in the economy. The Government has managed to weather the adverse effects through economic diversification and other sources of income, i.e. rural development and tourism.</p> <p>The risk of inflationary pressures jeopardising competitiveness is relatively low, although increasing. The Falkland Islands pound is linked to the pound sterling which has fluctuated significantly in recent months since the UK referendum of June 2016. The Government has an effective control over both public sector wages and the minimum wage, and social benefits.</p> <p>Although detailed statistics on the external accounts have not been prepared for the Falkland Islands until recently, it is clear from a mixture of partial evidence that the current account is in a healthy condition. There are rising exports of fish, and financial inflows due to oil licences and fishing licences, as well as interest on assets held overseas (mainly in the UK). Overall, the</p>		

current account is in good condition. Low interest rates and equity volatility do mean there is a degree of uncertainty regarding future real earnings on Falkland Islands Government reserves. However, given substantial externally held assets, and no debt – either internal or external – there are no readily foreseeable capital account or debt sustainability issues.

As regards public expenditure, the 2016-2017 Budget Book gives a complete picture of the out-turn in the last fiscal year, plans for 2015-2016 and expectations for the subsequent three fiscal years. The fiscal policy aims are summarised near the start of the Budget Book, for ease of reference.

In the event of external shocks the Government has sufficient reserves to cushion the effects in the local economy. The Government has strengthened technical capacity in policy and planning in order to: (i) better assess the macroeconomic situation and possible macroeconomic imbalances, and to monitor changes in external economic variables in a more accurate and regular manner; and (ii) appraise possible policy shifts required to respond to those changes adequately.

PFM risks were identified in relation to senior appointments (possible conflicts of interest), treatment of revenue flows linked to oil exploration, audit adjustments relating to taxation income, accounting for fishing income, accurate recording of all revenue streams, fraud risk, valuation of fixed assets (disposals), and political risk and poor investment returns due to world economic climate. It was found by the auditors that all these risk factors were being appropriately managed by the Falkland Islands Government.

### **3. LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES**

#### **3.1 Lessons learnt**

The Falkland Islands successfully utilised the budget support provided under the 9<sup>th</sup> and 10<sup>th</sup> EDFs in support of economic development and diversification. The Falkland Islands were also examined as a case study as part of the Regional Level Evaluation of Overseas Countries and Territories, published in October 2011, and was found to have performed well. This provides a good prognosis for using Government systems for the 11<sup>th</sup> EDF. Since the previous rounds of budget support the EU has refined its requirements for budget support, with an increasing emphasis on governance and accountability, as well as a greater focus on results and outcomes. In addition, constructive guidance has been issued by the European Commission, based on experience gained of supporting OCTs to avoid overloading the systems of small OCTs that have limited capacity.

The above mentioned elements indicate that the Falkland Islands has the capacity to manage EU funded budget support. However, a key requirement is the setting of clear results-focused and time-bound indicators. It is also important that the programme should be prepared and delivered using appropriate SMART (Specific, Measurable, Achievable, Realistic, Timely) performance milestones. In the accessibility and connectivity sector, the two main implementing arms of the Government are the Public Works Department (PWD) and the Falkland Islands Government Air Service (FIGAS). Both report routinely to the Chief Executive and to Executive Council, and key indicators (such as the condition of rural roads) are captured by Key Performance Indicator reporting.

A good dialogue was held in developing the 11<sup>th</sup> EDF indicators, and a high level of buy-in of the process has been achieved. It will be important that requests for tranche releases be made within the first few months of the fiscal year to allow full reporting on the economic and financial activities of the preceding year.

Key lessons already learnt are the need of Government Planning Officers to have a clear understanding of the available guidelines on the management of the EDF and to be fully cognisant of all processes and timelines. To achieve this, emphasis should be put on communication initiatives to assist OCT stakeholders to work with the EDF programme.

In addition, the current budget support programme will continue to build upon the progress already achieved in the field of PFM.

### **3.2 Complementarity, synergy and donor coordination**

The EU is the only official donor present in the Falkland Islands, so the issue of complementary actions by third parties does not arise except for independent monitoring and evaluation.

However, co-ordination between the Falkland Islands Government and the European Commission is important because of the remoteness of the Falkland Islands. The UK Foreign and Commonwealth Office plays a coordination role, as does the Falkland Islands Government Office in London. Dialogue between the Commission, the Falkland Islands and the UK is regularly held through structured meetings, such as the OCT-EU Forum and regular trilateral meetings.

This programme is complementary to other actions being funded by the Falkland Islands Government (with potentially private sector investment in some areas) and forms part of a coherent and broader transport infrastructure improvement programme. Other elements include port improvements because the floating dock (known as FIPASS<sup>7</sup>) at Stanley is approaching the end of its economic life, enhancements to the passenger air terminal at Mount Pleasant Airport, the renewal of the ferry contract between East and West Falklands, and the envisaged introduction of a second commercial air service with a South American country, potentially Brazil or Chile.

### **3.3 Cross-cutting issues**

Cross-cutting issues such as eradication of poverty, gender equality, climate change and environmental issues are being closely followed up by the Government of the Falkland Islands.

The Government has been able to provide high levels of social welfare despite substantial volatility in its fisheries income, ensuring an absence of poverty and the introduction of a minimum wage in 2013, currently at GBP 5.38 per hour. Growth is inclusive because of long-established policies where financial reserves are built up; when government revenues are established at a higher level, in the absence of other urgent policy priorities, the first use of revenues in excess of budget balance tends to be for social welfare programmes.

---

<sup>7</sup> Falklands Interim Port And Storage System (FIPASS)



The rights of women and children are recognised by the Falkland Islands Constitution of 2008 and also enshrined in a number of other legal provisions such as the amended Children Ordinance (2014), Children and Young People Safeguarding Procedures (2014) and the 2015 Children (Safeguarding Children Board) Regulations. The Falkland Islands has a very high labour participation rate by international standards for both men and women and youth unemployment is not an issue. According to the 2012 census (published April 2013), Economic Activity Rate for males is 88% and for females 79%. The latter is due to the larger proportion of the female population who is not working for other reasons (such as being homemakers, family carers, etc.).

The Environment is one of ten priority areas identified in the Islands Plan, which aims to ensure the conservation of the Islands' environmental heritage and biodiversity and seeks to enhance environmental protection. The Falkland Islands developed a Biodiversity Strategy in 2008, supported by a detailed environmental baseline assessment (State of the Environment Report). This was reviewed, amended and adopted by Executive Council in January 2016.

The Falkland Islands Government has signed up to a number of international agreements in its own right. It has committed to achieving the objectives of:

- The Kyoto Protocol;
- The Convention on International Trade in Endangered Species (CITES);
- The Ramsar Convention;
- The Conservation of Migratory Species of Animals; and
- The Conservation of Albatross & Petrels (ACAP).

The Islands have been first movers amongst OCTs in the development of wind power. The Islands' six wind turbines provide 40% of Stanley's electricity. Extensive investments have been made in providing wind power to settlements and individual farms in rural areas, to the extent that most now have 24-hour power, with a commensurate reduction in the use of diesel fuel. The Government has recently built turbines for the Ministry of Defence to provide power to the Mount Pleasant Airport (MPA) complex, further reducing the use of fossil fuels on the Islands.

The Environmental Mainstreaming Group is a Forum to further encourage and support "greening" of government and industry. Created in 2013, it aims to facilitate sectorial communication and collaboration on environmental mainstreaming. Examples of the Group's work include advising and progressing on the Biodiversity Strategy and progressing on the joining of the Convention on Biological Diversity.

In 2012 the Government announced the creation of the South Atlantic Environmental Research Institute, along with seed corn funding to develop the institute over a three year period. The Institute has a high level of political support and is successfully engaging with partners from other OCTs, in the UK and the rest of the world.

Reflecting the high priority attached to the environment in the Islands, the Government recently announced that hydrocarbon developments would be required to undertake a detailed "Environmental Case" in support of any proposals put forward. This is a significant step and will enable the Islands to be at the forefront of environmental management of a new hydrocarbons sector. The Government is also actively reviewing its safety and emergency management processes and procedures, which will include environmental protection.

In addition to the above, the proposed sector reform will contribute to the efforts of environment protection by limiting road erosion thanks to additional sealing, preventing water damage and installing an energy efficient asphalt plant. The road network in the Islands outside of Stanley is limited to a single road connecting the settlements and as such crosses rivers and streams which are particularly climate-vulnerable. Culvert construction and replacement for example, will contribute to improved management of the existing water resources through minimising flooding of the roads, improving water flow and drainage, and reducing erosion and damage to the surrounding rivers, landscapes and biodiversity.

#### 4. DESCRIPTION OF THE ACTION

##### 4.1 Objectives/results

Improving equality of access to transport and connectivity infrastructure between residents of Stanley and Camp will reduce the imbalance in opportunities for economic and social development. These improvements are crucial to ensure sustainable economic growth, enhance quality of life for the population, contribute to attracting tourism as well as reduce the economic and social imbalance between Stanley and the Camp.

Therefore, the **overall objective** of the programme is to support equality of access to economic and social development opportunities across the territory and particularly in the rural areas of the archipelago through enhancing internal connectivity and accessibility.

It will build on the progress of the 10<sup>th</sup> EDF in terms of diversifying the economy and strengthening resilience of the Falkland Islands to future shocks. The equal access to infrastructure between the residents of Stanley and the rural areas will contribute to ensuring equality among residents and will contribute to the overall development of the Islands.

The **specific objectives** of the programme in the sector of "Connectivity & Accessibility" include:

- i) Improving the domestic air services of the Falkland Islands Government Air Service and improving fire safety facilities at rural airfields;
- ii) Improving road infrastructure, particularly gravel roads in rural areas, and on the main link between Stanley and Mount Pleasant Airport.

This programme is relevant for the Agenda 2030. It contributes primarily to the progressive achievement of Sustainable Development Goals (SDG) target(s) to build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation, but also promotes progress towards Goals 9.1: *“develop quality, reliable, sustainable and resilient infrastructure, including regional and trans-border infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all”* and 11.2: *“by 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons”*. This does not imply a commitment by the Falkland Islands benefiting from this programme.

The **specific results** of this intervention are:

- i) Improved domestic air services
  - Result 1: More reliable and enhanced air services that will benefit both residents and tourists;
  - Result 2: Improved safety of domestic aerodromes through replacement of fire-fighting and safety equipment.
- ii) Improved road infrastructure
  - Result 3: Improved connectivity between Stanley and Mount Pleasant Airport through sealing additional sections of this key road;
  - Result 4: Enhanced capability to seal the roads using an energy efficient asphalt plant;
  - Result 5: Enhanced maintenance of rural roads to improve their running conditions and to make them driveable by lorries rather than just 4-wheel drive vehicles;
  - Result 6: Reduced water damage to rural roads achieved through construction of culverts at key points.

In addition to these specific measures funded under the 11<sup>th</sup> EDF, the Government is committed to investing more in infrastructure in the coming years. The medium-term financial plan covering the period 2016/17-2020/21 includes a capital budget provision of EUR 29.2 million<sup>8</sup> (GBP 24.8 million) towards ‘Transport and Communications’ (telecommunications, air and sea related transport etc.) and ‘Roads’. This reflects its appreciation of the importance of enhancing connectivity and accessibility to strengthen competitiveness. It is also a rational counter-cyclical policy to minimize the adverse impact of the temporary cessation of oilfield exploration and delays in developing proven oil fields that is the consequence of prevailing low oil prices experienced in 2015 and 2016. This investment will enhance preparedness for future potential oil developments as well as maintain local capacity to undertake construction and development work.

## **4.2 Main activities**

The main activities to implement the budget support package are policy dialogue, provision of financial resources, performance assessment and reporting. Although capacity development is not an explicit objective of the 11<sup>th</sup> EDF, the application of Government Key Performance Indicators is consistent with best practice in terms of avoiding duplication of effort and consolidation of public sector reforms that have already taken place in the Falkland Islands.

### **4.2.1 Budget Support**

The budget support programme entails engagement in dialogue around the agreed conditions and government reform priorities, the verification that those conditions have been met and, as appropriate, the payment of budget support. Support will be provided in the form of untargeted budget support, which will be received into the Governments Consolidated Budget. The budget support will help to facilitate implementation of the Connectivity and Accessibility sector.

---

<sup>8</sup> [http://ec.europa.eu/budget/contracts\\_grants/info\\_contracts/infoeuro/index\\_en.cfm](http://ec.europa.eu/budget/contracts_grants/info_contracts/infoeuro/index_en.cfm) using December 2016 exchange rate 1 EUR = 0.84 GBP

The main **activities** being funded are described below:

– *Activity 1: Rehabilitation of five Falkland Islands Government Air Service aircraft BN2 Islander aircraft*

These aircraft serve over 30 domestic aerodromes. They are therefore vital to the rural and tourist economy, especially on West Falkland and on the small islands including Sea Lion, Saunders, Pebble, Bleaker and Carcass Islands, each of which have more than 250 landings per annum. The air access is often the only connectivity means of these remote rural areas. A feasibility study by FIGAS has demonstrated that rehabilitation provides the best option for sustaining air services. In addition to new avionics and repainting, improved interiors will enhance passenger comfort, benefitting tourists and other visitors.

The activity will encompass avionics upgrades, internal cabin trim refurbishment and external painting of each aircraft. The work itself is expected to be undertaken over three years (2017-2019) via a tendered contract, which is an appropriate timescale for funding under the 11<sup>th</sup> EDF.

– *Activity 2: The Aerodrome Towed Fire Appliances project*

This activity responds to the safety requirements set by current regulations stipulated by the International Civil Aviation Organisation (ICAO) and Overseas Territories Aviation Requirements. Maintaining the rural aerodromes is key to ensure continuous connectivity of the population living outside Stanley with the capital, since FIGAS flights are often the only means of transport in these areas. The activity is expected to be implemented during three years and involve procurement of equipment for 28 aerodromes. This activity will be managed by FIGAS and will involve a public procurement tender. As part of efficiency reforms, aerodromes with little usage will be closed.

– *Activity 3: Improved connectivity between Stanley and Mount Pleasant Airport (MPA)*

This is the most heavily used non-urban road in the Falklands largely unsealed (gravel) and has high maintenance requirements due to its high usage. Sealing the most heavily used sections of this road will have significant environmental benefits through fuel savings, will be safer, require less routine maintenance and provide better driving conditions for the islanders, residents and tourists. The phased improvement programme is prioritised to ensure that the sections with most usage and wear are sealed first (e.g. close to Stanley, in the vicinity of the quarry, where the new asphalt plant is to be located). This project has clear environmental, social and cost-efficiency gains, and can be phased over each year of the 11<sup>th</sup> EDF programme.

– *Activity 4: Purchase and installation of a new asphalt plant*

This activity aims to meet both public and private sector needs. This plant will be larger and more technically advanced than the existing elderly plant, facilitating more energy-efficient and higher quality production. The plant will be publically managed. It will be located in a central location, close to the quarry supplying aggregates and well-located to serve key end-user locations.

– *Activity 5: Improvements of additional sections of the road network*

The road network will receive sustained and prioritised investment to improve its condition. Roads will be maintained on a systematic basis in accordance with Key Performance Indicators agreed with the Public Works Department of the Government, and reported on a regular basis. The Public Works Department utilises the Highways Asset Management Plan to

prioritise and maintain the road network in the Falkland Islands. The Highways Asset Management Plan is a tool created to manage road assets and plan future works. Road condition is a Key Performance Indicator for the Public Works Department, with regular reporting. This activity will help the tourists and other visitors get around the islands by road more easily and farmers deliver livestock (mainly sheep) to the abattoir (part-funded under STABEX) in better condition with animal welfare benefits. This action will help to reduce the isolation of “Camp” farms, assisting in making rural life more attractive and reducing the imbalances between Stanley and the Islands.

– *Activity 6: Construction of culverts at key points of the rural network*

This activity aims to reduce water damage to the rural road network. The capital investment in rural roads is largely focusing on constructing culverts to divert water away from the road surface and reduce the rate of deterioration. An investment programme has recently started with a four-year contract being let following a competitive tender. Six to eight culverts will be constructed each year. The Public Works Departments performance in managing this contract and the contractor’s outputs will be utilized as the basis of a variable tranche indicator.

#### **4.2.2 Complementary support**

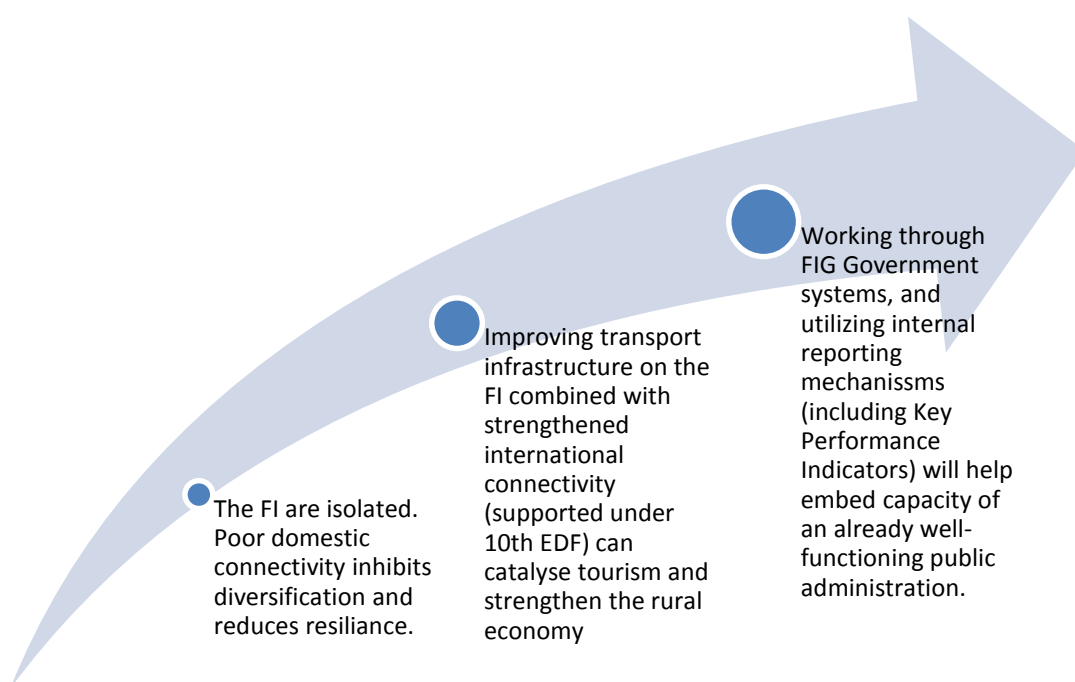
Since the Government has considerable capacity, and has experience in preparing disbursement requests from the EU, complementary support will not be required in this instance except for monitoring and/or evaluation.

#### **4.3 Intervention logic**

The sector budget support provided through the 11<sup>th</sup> EDF will enable the Government of the Falkland Islands to contribute to developing its long-term vision for sustainable economic development, while advancing the internal transport and connectivity sector (e.g. improvement of road and national air services provided). The equal access to infrastructure to the inhabitants of Stanley and the rural areas will contribute to ensure equality among inhabitants and enhance the economic development of the territory.

The financial support will enable the Falkland Islands Government to continuously focus on local transport enhancement, heading toward ensuring rural development of the zone outside Stanley while strengthening transport capacities for incoming tourists at the same time.

The intervention logic is based on the following theory of change:



#### **4.4 Financing agreement**

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 85(2) of Council Decision 2013/755/EU.

#### **4.5 Indicative implementation period**

The indicative operational implementation period of this action, during which the activities described in section 4.1 will be carried out and the corresponding contracts and agreements implemented, is 48 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's authorising officer responsible, by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute non-substantial amendment in the sense of Article 9(4) of Regulation (EU) No 322/2015.

#### **4.6 Implementation of the budget support component**

##### ***4.6.1. Rationale for the amounts allocated to budget support***

The amount allocated for the budget support component is EUR 5.8 million.

##### ***Criteria for disbursement of budget support***

a) The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the National Infrastructure Plan (NIP) and continued credibility and relevance thereof;
- Implementation of a credible stability-oriented macroeconomic policy;
- Satisfactory progress in the improvement of Public Financial Management;

- Satisfactory progress with regard to the public availability of timely, comprehensive and sound budgetary information.

b) The specific conditions for disbursement that may be used for variable tranches are the following: implementation of Connectivity and Accessibility, namely:

i) Improvements to resilience, reliability and safety of Falkland Islands domestic flights (which serve remote farms and islands in the Falklands) through:

- Variable Tranche Indicator 1: FIGAS aircraft rehabilitation;
- Variable Tranche Indicator 2: Domestic aerodrome (airstrip) fire safety improvements;

ii) Improvements to the road network:

- Variable Tranche Indicator 3: Length of Mount Pleasant Airport (MPA) to Stanley Road sealed Per Annum;
- Variable Tranche Indicator 4: Installation and operationalisation of new asphalt plant;
- Variable Tranche Indicator 5: Maintenance of the Rural Roads Network: Grading of road network;
- Variable Tranche Indicator 6: Improvements to Rural Road network: Number of Culverts completed for the rural road network.

The chosen performance targets and indicators to be used for disbursements will apply for the duration of the programme. However, in duly justified circumstances, the Falkland Islands Government may submit a request to the European Commission for the targets and indicators to be changed. The changes agreed to the targets and indicators may be authorised by exchange of letters between the two parties.

In case of a significant deterioration of fundamental values, budget support disbursements may be formally suspended, temporarily suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

#### ***4.6.2 Budget support details***

Support will be provided through a combination of fixed and variable tranches and will be non-targeted budget support. There will be three fixed tranches and two variable tranches. The fixed tranches will cover the whole programme and the variable tranches the second and the third year of the programme.

Budget support is provided as direct untargeted budget support to the National Treasury. The crediting of the euro transfers disbursed into Falkland Island pounds (convertible to GBP sterling at parity) will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

## 4.7 Implementation modalities for complementary support of budget support

### 4.7.1 Procurement (direct management)

Subject in generic terms, if possible	Type (works, supplies, services)	Indicative number of contracts	Indicative trimester of launch of the procedure
Evaluation & Monitoring	Services	1	Q4 2020

## 4.8 Indicative budget

	EU contribution (amount in EUR)
– Budget support - Sector Reform Contract	5 800 000
– First fixed tranche	2 000 000
– Second fixed tranche	1 000 000
– First variable tranche	1 000 000
– Third fixed tranche	1 000 000
– Second variable tranche	800 000
– Evaluation, Monitoring	100 000
<b>Totals</b>	<b>5 900 000</b>

## 4.9 Organisational set-up and responsibilities

Responsibility for implementing most aspects of the programme lies with the Public Works Department of the Government. Overall responsibility and oversight remains with the Government Secretariat with oversight by the Chief Executive of the Government and the Executive Council who are members of the Legislative Assembly. The Territorial Authorising Officer (TAO) will coordinate monitoring of eligibility conditions and Variable Tranche Indicator collection and reporting.

### 4.10 Performance monitoring and reporting

The day-to-day technical and financial monitoring of the implementation of support to the National Infrastructure Plan will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the list of result indicators. The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.



The European Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

#### **4.11 Evaluation**

Having regard to the nature of the action, a mid-term or final evaluation will not be carried out for this action or its components. The European Commission may, during implementation, decide to undertake such an evaluation for duly justified reasons either on its own decision or on the initiative of the partner.

#### **4.12 Communication and visibility**

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the European Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

## APPENDIX I: Indicative list of result indicators (for Budget Support)

List of indicators is included in the Annex 4 of the programming Document for the Connectivity and Accessibility development of the Falkland Islands - Table of indicators from the National Infrastructure Plan (NIP) utilizing Falkland Island Government Key Performance Indicators (KPIs) where appropriate.

The inputs, the expected direct and induced outputs and all the indicators, targets and baselines included in the list of result indicators are indicative and may be updated during the implementation of the action without an amendment to the financing decision. The table with the indicative list of result indicators will evolve during the lifetime of the action: new columns will be added for intermediary targets (milestones), when it is relevant and for reporting purpose on the achievement of results as measured by indicators.

	Intervention logic	Indicators	Baselines	Targets	Sources and means of verification
Overall objective: Impact	Enhanced connectivity within the Falkland Islands supporting equality of access to economic and social development opportunities across the territory and particularly in the rural areas of the archipelago therefore helping to build economic diversification, and resilience  a) Increased number of internal air transport trips	a) Annual numbers of passengers carried on FIGAS flights	a) 6772 (2015)	a) 3 % increase by 2020 <sup>9</sup>	a) FIGAS Passenger Statistics
	b) Improved internal circulation conditions on the roads, supporting the internal connectivity of the islands.	b) Annual number of road traffic incidents	b) 2015: 59	b) 5 % decrease by 2020 <sup>10</sup>	b) Royal Falkland Islands Police Statistics

<sup>9</sup> Target as per FIGAS Business Plan.

<sup>10</sup> Target as per Royal Falkland Island Police Business Plan

Specific objective(s): Outcome(s)	a) Improved domestic air services of the Falkland Islands Government Air Service	a) Customer satisfaction with the FIGAS service	a) 87 % in 2016	a) 92 % by 2020 <sup>11</sup>	a) FIGAS management Reports
	b) Improved fire safety facilities at rural airfields	b) Annual number of incidents at rural airfields	b) 0 (2015)	b) Safety record maintained – 0 in 2020	b) FIGAS Management Reports
	c) Improved road infrastructure, particularly gravel roads in rural areas, and on the main link between Stanley and Mount Pleasant Airport	c) km of sealed category A roads on East Falkland (excluding Stanley)	c) 6 km (2016)	c) 12 km by 2020 <sup>12</sup>	c) Public Works Department management reports

<sup>11</sup> Target as per FIGAS Business Plan.

<sup>12</sup> Target as per Highways Management Plan.

Induced outputs	a) Quality and reliability of FIGAS fleet improved	a) Status of rehabilitation programme for FIGAS fleet	a) 0, no rehabilitation prior to programme (2016)	a) No less than 50 % of work complete by contract value by 2020	a) FIGAS management reports
	b) Quality and reliability of Aerodrome fire appliances improved	b) Status of replacement programme for aerodrome fire appliances (to meet ICAO requirements)	b) 2016 replacement programme not started.	b) By 2020 replacement programme fully implemented to the quality specified.	b) FIGAS management reports
	c) Improved road access between Stanley Mount Pleasant Airport (MPA)	c) Kms of road rehabilitated to sealed condition (EU Result Framework consistent indicator)	c) 0 (2016)	c) 6 km by 2020	c) Public Works Department (PWD) management reports
	d) Better quality rehabilitated roads available to FIG and private sector thanks to energy efficient asphalt plant	d) Extent to which the new asphalt plants permits high quality road construction	d) New plant not functioning (2015)	d) Plant functioning effectively and able to provide quality asphalt on to schedule by 2018.	d) Public Works Department (PWD) management reports
	e) Rural roads maintained efficiently and effectively	e) Number of kms of rural road graded in accordance with targets	e) 52 % of category C roads graded annually in 2015	e) 75 % of category C roads graded annually by 2020	e) Public Works Department KPI report
	f) Reduced water damage to roads	f) Annual number of culvert constructions performed	f) 0 in 2016	f) 12 by 2020	f) PWD reports.

Direct outputs	a) FIGAS fleet rehabilitation achieved	a) Percentage (in value terms) of rehabilitation work (consisting of avionics structure upgrade, cabin trim refurbishment and external painting) completed.	a) 0 % in 2015	a) 50 % of work complete by 2020	a) FIGAS management reports
	b) Aerodrome fire tenders replaced	b) Number of Fire tenders specified, tendered, procured and installed	b) 0 in 2016	b) 24 by 2020	b) FIGAS management reports Contract and supply (delivery note) documentation
	c) Seal sections of Stanley and MPA airport road that are currently unsealed	c) Length (in kms) of MPA road (that is unsealed at the beginning of the 11 <sup>th</sup> EDF programme) that is sealed each year.	c) 0 in 2016 - the definition used only relates to ungraded sections in the baseline year	c) Minimum of 1.5 kms sealed per year – 6 km by 2020	c) PWD reports
	d) Asphalt plant procured and operational	d) Status of installation of new asphalt plant	d) No new asphalt plant (2016)	d) Plant fully installed and operational by 2018	d) PWD reports
	e) Rural roads maintained in good condition	e) **Number of kms of rural roads maintained and frequency of maintenance. (EPRR indicator)	e) Category C Roads 197 km graded annually in 2015	e) Category C Roads 285 km graded annually by 2020	e) PWD operational reports on Key Performance Indicators

	f) Improvements in rural roads drainage through construction of culverts	f) Number of culverts built in East and West Falkland per year	f) Baseline set at zero, i.e. excludes culverts constructed prior to this programme.	f) Minimum of 4 culverts to be constructed each year.	f) PWD reports
--	--	--	--	---	----------------

#### ANNEX I - Indicative timetable for commitment of funds

<b>11<sup>th</sup> EDF funding</b>	<b>Indicative allocation in EUR million</b>	<b>Fiscal year 2017/18</b>	<b>Fiscal year 2018/19</b>	<b>Fiscal year 2019/20</b>	<b>Fiscal year 2020/21</b>
Projected releases <sup>13</sup>	5.9	2.0	2.0	1.8	0.1

<sup>13</sup> Note that the FIG financial year is July to June; for these budgeting purposes the allocation is in accordance with the EU financial year, i.e. calendar years.

## **ANNEX II Falkland islands at a glance (i.e. macroeconomic indicators), and other relevant indicators**

The macroeconomic indicators of the Falkland Islands during the period 2009-2014 remain generally stable in spite of strong fluctuations in global demand. Falkland Islands Government authorities have taken effective policy actions and implemented reforms which contributed to the economy growth of 4.2 % on average during the period under review— gross domestic product growth had nonetheless been volatile over the period<sup>14</sup> led by strong fluctuations in fishing and oil-related revenues, the main sources of income. Fluctuations and uncertainties in the economic activity have been exacerbated by recent oil exploration activities.

Falkland Islands' Gross Domestic Product is currently about EUR 204 million (GBP 173 million)<sup>15</sup> annually and enables the Islands to be economically self-sufficient in all areas except for defence. Most of fishing production, the main sector in the economy, is nonetheless remitted overseas and consequently the gross national income in per capita terms is still about 80 % of the United Kingdom level.

The primary sector of economy accounts for most of the Falkland Islands' gross domestic product, with fishing alone contributing between 50 % and 60 % of annual gross domestic product before 2010. However, since the advent of oil exploration, this has fallen to 30-40 %. Agricultural sector also contributes significantly and employs about one tenth of the working population. A quarter of the workforce serves the Falkland Islands Government, making it the archipelago's largest employer. Ecotourism is seasonally an important part of the service economy and spurred by an increased interest in Antarctic exploration and the creation of direct air links with the United Kingdom and South America. Tourists, mostly cruise ship passengers, are attracted by the archipelago's wildlife and environment, as well as activities such as fishing.

Also, important steps have been identified to ensure economic growth is laid on a sustained basis. The Government is committed to providing a reliable supply of electricity and a proper road network, as part of the goals in the Islands Plan. As part of the structural reform agenda, a Project Management Unit was established within the Public Works Department to help ensure readiness and quality of investment projects. The Taxation Office has strengthened tax administration and progress has been made towards improvement of revenue forecasting and cash planning.

Inflation, measured in terms of retail price index, averaged 5.6 % in 2012 and 1.1 % in 2013, due to lowering in international food prices and exchange rate pressures and then subdued further to 1.3 % in 2014 and 0.2 % in 2015.

Through revenues received, the Falkland Islands Government maintains a balanced budget and provides a high standard of public services. Estimated Operating Expenditure for the 2016/17 Financial Year is EUR 72 million<sup>16</sup> (GBP 61 million), while Government Revenue is estimated

---

<sup>14</sup> The recent National Accounts Survey (2015) shows real GDP in millions of FKP changing rapidly from 53% in 2010 to 21% in 2012, -20% in 2013 and -3% in 2014.

<sup>15</sup> [http://ec.europa.eu/budget/contracts\\_grants/info\\_contracts/inforeuro/index\\_en.cfm](http://ec.europa.eu/budget/contracts_grants/info_contracts/inforeuro/index_en.cfm) using December 2016 exchange rate 1 EUR = 0.84 GBP

<sup>16</sup> As above

in EUR 69.5 million<sup>17</sup> (GBP 59 million). The overall budget is projected to result in a deficit of EUR 2.9 million<sup>18</sup> (GBP 2.5 million) in 2016/17, from an estimated surplus of EUR 2.7 million<sup>19</sup> (GBP 2.3 million) in 2015/16 in an effort to boost economic development by investing in roads, housing and power infrastructure. The Falkland Islands Government reserves currently stand at EUR 207.5 million<sup>20</sup> (GBP 176 million), in line with its policy of maintaining reserves of at least two and a half times the annual operating budget.

The Islands have undertaken proper measures to ensure prudence and transparency of public financial management. The comprehensiveness of procedures for preparing the budget, including discussion in Executive Council and final approval by Legislative Assembly, comply with best Public Financial Management standards, as was confirmed by the 2009 Public Expenditure and Financial Accountability assessment and subsequent independent updates in 2012 and 2013 and 2015. There is a well-functioning Public Accounts Committee to review the public accounts, extensive internal auditing, and the Governor appoints an external auditor.

**Table 1: Selected Macroeconomic Indicators**

	2009	2010	2011	2012	2013	2014
<b>Real GDP</b>						
Real GDP at constant prices (% change, p.a.)	-19.6	53.2	-6.2	20.9	-20.4	-2.6%
Agriculture and fisheries (% change)	-30.4	64.3	-31.9	53.9	-30.8	7.9%
<i>Of which:</i> Fisheries (% change)	-30.9	67.8	-33.9	56.1	-32.6	8.0
Mining and quarrying (% change)	102.6	1053.4	24.7	3.4	-65.3	-21.3
Manufacturing (% change)	-13.3	16.0	44.8	-3.5	9.0	4.5
Services (% change)	-12.3	-1.7	6.9	7.4	18.6	-5.9
<i>Of which:</i>						
Utilities (% change)	-8.4	9.8	-8.4	18.4	4.6	5.1
Construction (% change)	-52.9	-11.3	14.8	7.4	-7.7	13.4
Transportation and storage (% change)	-2.3	14.3	10.9	58.1	-27.7	-30.6
Information and communication (% change)	-8.8	13.6	16.4	-3.3	-3.5	10.0
Real GDP excluding fishing sector (% change)	-10.5	44.2	13.8	6.2%	-12.9	-7.6
<b>Nominal GDP</b>						
Fisheries and aquaculture (% of total)	37.7	43.5	35.2	38.1	36.4	43.5
Mining and quarrying (% of total)	2.3	19.4	27.0	22.8	3.9	6.2
Manufacturing (% of total)	0.3	0.5	0.7	0.6	0.6	0.8
Services (% of total)	57.7	35.0	35.0	36.5	57.0	47.4
<i>Of which:</i>						
Utilities (% of total)	1.0	0.8	0.7	0.8	0.9	0.6
Construction (% of total)	5.2	2.6	2.2	2.7	4.1	3.1
Transportation and storage (% of total)	5.1	4.5	5.0	8.2	6.9	3.5
Information and communication (% of total)	1.8	0.9	1.1	1.2	1.9	1.4

<sup>17</sup> As above

<sup>18</sup> As above

<sup>19</sup> As above

<sup>20</sup> As above



Nominal GDP, millions of € <sup>21</sup> millions of £	115.2 97.7	197.5 167.5	217.8 184.7	240.8 204.3	189.0 160.3	204.4 173.4
<b>Prices</b>						
RPI inflation (end-December) 1/	-3.2	5.7	8.3	4.1	0.6	1.3
RPI inflation (period average) 1/	0.4	3.3	8.0	5.6	1.1	1.3
<b>Government budget</b>						
Total revenue and grants (% of GDP)		26.2	33.2	32.4	59.6	
Total expenditure (% of GDP)		26.2	24.6	22.9	39.9	
Overall fiscal balance, including grants (% GDP)		9.6	8.7	9.5	19.7	

Sources: FIG Policy Unit; and the Treasury.

1/ Data refer to changes in the Retail Price Index (RPI).

<sup>21</sup> [http://ec.europa.eu/budget/contracts\\_grants/info\\_contracts/inforeuro/index\\_en.cfm](http://ec.europa.eu/budget/contracts_grants/info_contracts/inforeuro/index_en.cfm) using December 2016 exchange rate 1 EUR = 0.84 GBP