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PROGRAMMING DOCUMENT MONTSERRAT

THE TERRITORIAL ALLOCATION OF THE 11th EUROPEAN DEVELOPMENT FUND



**PROGRAMMING DOCUMENT
MONTSERRAT**

STRATEGIC COOPERATION

BETWEEN

THE GOVERNMENT OF MONTSERRAT

AND

THE EUROPEAN UNION

BUDGET SUPPORT FOR MULTI-SECTOR ECONOMIC GROWTH STRATEGY

2014 - 2020

The Government of Montserrat and the European Commission hereby agrees as follows:

The Government of Montserrat, represented by,
..... and the European Commission, represented by
....., hereinafter referred to as 'the parties', held
discussions with a view to determining the general approach to cooperation between
Montserrat 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 ('Overseas
Association Decision').

For the Government of Montserrat

For the European Commission

Place:

Place:

Date:

Date:

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LIST OF ACRONYMS AND ABBREVIATIONS

CARICOM	Caribbean Community
DFID	Department for International Development
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
EDF	European Development Fund
EU	European Union
EUR	euro
GBP	pound sterling
IMF	International Monetary Fund
MoFEM	Ministry of Finance and Economic Management
MTEP	Medium Term Economic Policy
OAD	Overseas Association Decision
OCT	Overseas Countries and Territories
OECS	Organisation of Eastern Caribbean States
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PMO	Programming Management Office
SDG	Sustainable Development Goal
SDP	Sustainable Development Plan 2008-2020
UK	United Kingdom
UK-CIF	UK-Caribbean Investment Facility
USD	US dollar
XCD	East Caribbean dollar

EXECUTIVE SUMMARY

Montserrat is a British Territory in the Caribbean. It is a very small island, with a population just below 5 000 people (2011) stretching over a surface of 102 square km. It is still recovering from the volcanic eruptions of 1995-97, which rendered two-thirds of the island uninhabitable, including its capital, Plymouth, and which reduced the population by two-thirds, as many Montserratians resettled in the UK and elsewhere. The volcanic crisis significantly altered the social situation in Montserrat and had a severe negative impact on economic activity and social prospects. The public sector now dominates economic activity and Montserrat relies on development aid from the UK Department for International Development and from the European Union. Its current population of around 5 000 people represents a market size that is too small to stimulate significant local production.

For Montserratians to come back to the island and for others to come to live and work in Montserrat, it is essential that the economy will show signs of greater vigour. This is why the Government has been updating its Medium Term Economic Policy for the period 2017-2021, as a 'stepping stone' towards a new Economic Growth Strategy.

Under the umbrella of Montserrat's Sustainable Development Plan (SDP), the Medium Term Economic Policy 2017-2021 focuses on growth enablers and economic drivers where policies and master plans are more advanced (such as Energy), by bringing greater coherence between these sector policies and highlighting implementation priorities for 2017-2021. At the same time, the policy will represent the "stepping-stone" towards a new Economic Growth Strategy.

The 11th European Development Fund (EDF) Territorial Allocation in favour of Montserrat aims to support the transition towards sustainable economic development. The overall objective is to assist the efforts of the Government of Montserrat with the implementation of the Medium Term Economic Policy 2017-2021. The policy is the building block towards the development and the implementation of a new Economic Growth Strategy currently in the making, which will define in greater detail a more holistic multi-sector approach in addressing Montserrat's economic development challenges for the next 10 or more years.

The support from the 11th EDF Multi-sector Budget Support Programme is expected to include support to key enablers identified in the Medium Term Economic Policy, which are renewable energy and other backbone infrastructure developments in areas crucial to address accessibility constraints on the island. Moreover, the programme is expected to enhance Montserrat's tourism offer, while also taking steps to improve the business environment and encourage more inclusive private-sector development.

The Budget Support component will be EUR 17 400 000. The envisaged complementary support of EUR 1 000 000 will include a provision of EUR 920 000 for technical assistance and capacity building to support Montserrat in meeting the objectives of the Medium Term Economic Policy and its monitoring, as well as EUR 80 000, indicatively equally split for communication & visibility and for monitoring & evaluation. The expected operational implementation period of this action is 48 months planned to commence in 2018.

PART A: EU RESPONSE STRATEGY

1. OBJECTIVES OF THE EUROPEAN UNION'S FINANCIAL COOPERATION WITH MONTSERRAT

According to Article 198 of the Treaty on the Functioning of the European Union, the purpose of the association between the European Union and the Overseas Countries and Territories (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 developed in successive Council Decisions on the association of the overseas countries and territories with the European Union (EU) (Overseas Association Decision). The Decision currently in force is the Council Decision of 25 November 2013¹, which came into force on 1 January 2014.

This Decision establishes an association of the Overseas Countries and Territories with the European Union, forming a reciprocal partnership which supports these territories' sustainable development, while also promoting the values and standards of the Union in the wider world.

Part II of the Overseas Association Decision (OAD, Articles 15-41) defines the areas for cooperation for the Overseas Countries and Territories' sustainable development in the framework of the Association. For Montserrat, the most relevant Articles are Article 23 – Energy; Chapter 2 (Articles 26-30) – Accessibility, notably Article 30 on ICT; Article 41 – Tourism. In all these areas of cooperation, the emphasis in the OAD is on sustainable policies.

Part IV of the OAD includes detailed provisions on the financial cooperation between the Union and the Overseas Countries and Territories in the context of the 11th European Development Fund (especially Article 78), including support for capacity building (Article 80) and technical assistance (Article 81).

Under this framework, Montserrat proposed that the European Union financial cooperation under the 11th European Development Fund, for a total allocation of EUR 18.4 million, would support sustainable growth and economic development by means of a multi-sector reform contract.

The objectives of the envisaged cooperation between Montserrat and the EU are wholly in line with the provisions of Part IV of the Treaty on the Functioning of the European Union, as well as with Part II of the Overseas Association Decision as noted above. The specific articles mentioned are broad enough in their scope to encompass all the concrete activities envisioned in Montserrat, both in contributing towards the formulation of an overall plan for the sustainable growth and development of the territory, and within that to support selected actions in the energy sector, tourism, and other sectors of relevance to those two such as infrastructure.

2. POLICY AGENDA OF MONTSERRAT

The public sector now dominates economic activity and Montserrat relies on development aid from the United Kingdom's (UK) Department for International Development (DFID) and from the European Union. Nevertheless, there are clear, if limited, opportunities to create a more sustainable economy. These are, first, through developing a better and more cost-effective infrastructure, where energy, IT and access, particularly port development, can play

¹ Council Decision 2013/755/EU, Official Journal of the European Union, L 344 of 19.12.2013

a crucial role. Health and education also form an important part of the territory's vital infrastructure. Second, tourism and business services are under-exploited and there are also small scale opportunities for developments in agriculture and quarrying.

Recent economic activity draws these challenges into sharper focus. In 2015/16 activity contracted largely on account of deteriorating performance in the dominant sectors, notably public administration and construction. The outlook is for economic activity to continue on a slight downwards trend, based again on the expected performance in the key sectors, as well as on a further decline in construction activity as a number of investment projects in public infrastructure have been put on hold. The tourism industry, however, recorded a positive performance thanks to the increase of 16.7 % in the number of visitor arrivals and a 2 % increase in stay-over arrivals in the year to March 2016.

The Montserrat *Sustainable Development Plan* 2008-2020 (SDP) is an agreed, overarching policy framework, outlining national development priorities; it was prepared through extensive consultations. The five broad strategic objectives of the SDP include Economic Management; Human Development; Environmental Management and Disaster Mitigation; Governance; and Population. To enable more effective implementation, the SDP has been supported by shorter term plans covering five-year periods, the Medium-term Strategy and Action Plan for 2013-2017 being the previous one, now being superseded by the Medium Term Economic Policy for 2017-21. The timing of this final medium-term update is significant, as it has been designed to cover the entire period envisaged for Montserrat's 11th European Development Fund (EDF) programme, providing a clear and consistent policy framework for the programme. Moreover, it is embedded in the Medium-Term Expenditure Framework and is accompanied by a comprehensive Policy Assessment Framework.

Policies and plans for two of the pivotal sectors in Montserrat have already been prepared. These are Montserrat's energy policy, *The Power to Change*, 2016; and the *Montserrat Tourism Master Plan, 2015-2025*, 2016. For these and other potentially important sectors, strategy development and the updating of existing plans are already under way.

However, though obviously important in terms of preparing the ground and defining a new direction of development, these various reports – existing and proposed – are not enough, given the challenges Montserrat has faced with policy implementation in recent years. As far as 11th EDF is specifically concerned, the new Financial Secretary has already set up an 11th EDF Working Group. This will meet regularly to review progress, update targets and action plans, and to mobilise support across the whole of government. This initiative has strong support from the Premier and his Cabinet.

More generally, the Government of Montserrat is in the process of setting up a Programming Management Office (PMO) to drive change and investment; the director of the PMO took up his position in February 2017. The PMO, which is being set up within the Ministry of Finance and Economic Management (MoFEM), will manage projects and programmes on behalf of the Government. It will use methodologies based on today's best international practice with the objective of increasing the throughput and quality of programmes and projects. The overall goal is to increase the rate of public sector investment in Montserrat as such an increase is a precondition for raising the level of economic growth and bringing about sustainable development.

3. EU'S RESPONSE STRATEGY: CHOICE OF SECTOR OF CONCENTRATION

As noted above, the Government of Montserrat seeks support for the implementation of a multi-sector reform contract targeting *sustainable growth and economic development* under the 11th EDF territorial envelope. Based on the Medium Term Economic Policy for 2017-21, this support will build on the EU-financed general budget support completed under the 10th EDF.

The Montserrat economy has stagnated in recent years. Gross Domestic Product (GDP) growth is moderately recovering from 2016: it was estimated as 0.1 % in 2016, 0.7 % for 2017, with a medium term economic growth projected to average 2.2 % in the medium term. After the redevelopment of basic infrastructure in the years following the volcanic eruptions, the level of investment has fallen for a variety of reasons. Economic performance has become increasingly dependent on the level of recurrent support provided by the UK to Montserrat's public sector.

The fall in investment is partly attributable to a lack of clear and agreed plans and priorities and partly because there have been increasing challenges concerning project management and implementation. Following the UK's DFID-funded review of project management in 2015, the Government of Montserrat has taken the initiative to develop proposals for a PMO based on best practice international standards. This was already getting under way in late 2016 and early 2017, with a Head of the PMO appointed in late 2016, in office from 1 February 2017.

Given these important recent developments, the 11th EDF offers a timely opportunity for the Government of Montserrat to provide renewed clarity in its plans and priorities for the next 5-10 years. Whilst some valuable preliminary work has been done at the sectoral level, notably for energy and tourism, this needs to be set in the context of both a longer term vision for Montserrat's economic and social development and of specific plans and priorities. Whereas the vision may seek to look forward over longer than a 10-year period², a practical strategy to drive Montserrat's development over the next five years (the period of the 11th EDF) is provided by the new Medium Term Economic Policy, covering the period 2017-21, will be a 'bridge' towards the new Economic Growth Strategy to implement a multi-sector approach towards more inclusive sustainable development.

Specific sectors will clearly develop at different speeds and from different starting points, as part of this multi-sector approach. Plans for the energy and tourism sectors are already well-advanced, as already noted in Section 2 above. Up-to-date plans for other sectors are not yet fully formulated and will be developed and taken forward in the context of an evolving strategy for *sustainable growth and economic development*. Specific progress in those sectors where plans are already well-advanced, namely energy and tourism, are likely to form the main part of performance indicators governing the payment of variable tranches. The Economic Growth Strategy will take on and enrich the work already underway. In accepting the basic premises of the Medium Term Economic Policy, it will refine and add to the activities underway in the "growth enabling" sectors and identify any gaps. In similar vein, a key part of the Economic Growth Strategy will take forward the less developed work done on "growth drivers" to understand, assess and develop specific opportunities. The Strategy will be developed in part by prioritising the opportunities that provide the best growth potential for Montserrat and taking them forward into programmes and projects for implementation. The

² This will be one objective of the longer-term *Economic Growth Strategy* being prepared by Government of Montserrat.

proposed EU contribution is thus expected to include support to both, key development enablers, such as renewable energy and possibly other backbone infrastructure developments, and economic drivers, such as tourism development. As recommended also by the International Monetary Fund (IMF), lower energy costs, combined with easier access to the island by tourism, could generate incentives for investment and boost commercial development on the island, thus creating employment and increasing private sector participation. Furthermore, the multi-sector programme should seek to ensure that the actions undertaken will address the need for further improving the resilience of Montserrat when impacted by natural disasters. This should be taken into consideration in the context of accessibility (port development), tourism and energy, to increase the disaster resilience of the infrastructure and the sectors concerned, thus mitigate the possible impacts of natural hazards on the island.

Objectives

The overall objective of this multi-sector reform programme is to:

- Develop sectors that can bring about faster, more inclusive sustainable economic growth;
- Create viable private sector jobs to reduce Montserrat's reliance on relatively high public sector spending;
- Develop greater economic independence for Montserrat and reduce gradually its heavy dependence on external support and decision making;
- Develop an attractive business and physical environment that encourages increases in tourism and visitors, on the one hand, and higher levels of foreign and domestic investment, on the other.

The *expected results* will include:

- Greater clarity about Montserrat's direction in economic and social terms and about what is possible in economic development terms, leading to a specified and practical programme of implementable priorities and a clear route map as to how and when to implement those priorities;
- General progress in implementing the Medium Term Economic Policy, with clear and measurable progress in specific sectors, starting with Energy and Tourism;
- Progress in the development and endorsement of an Economic Growth Strategy to foster 'sustainable growth and economic development' in Montserrat, including some positive movement in leading indicators concerning economic growth. This may include, for example, an upturn in public or private investment;
- Montserrat has a better-defined and established governance, institutional, legal and regulatory framework to encourage and support increased investment and sustainable development.

On balance, Montserrat is judged to meet the EU's standard eligibility conditions for Budget Support, in all four areas of national policies (starting from the existing Sustainable Development Plan and its updated Medium Term Development Plans); macroeconomic situation (including the budget); Public Finance Management (PFM); and openness and transparency. The updated Medium Term Economic Policy 2017-2021 will provide the overarching framework for the proposed 11th EDF intervention, reflecting Government of Montserrat's recent multi-sector approach to more inclusive sustainable development, to be outlined in the Economic Growth Strategy, to be supported through the programme.

Montserrat is able to maintain macro-economic stability and debt sustainability, thanks to support from the UK.

Nevertheless, the territory has faced severe constraints on its institutional capacity. The administration is small and has been severely stretched, especially at the more senior levels. The recent appointment of a new Financial Secretary in the Ministry of Finance and Economic Management (MoFEM) in August 2016 has led to some overdue positive change. Recruitment for a dozen posts, most of which will be provided under UK technical assistance, is under way. This includes recruitment for a new Programming Management Office integrated in the MoFEM, whose Head is already in post as noted above.

It is therefore timely, for the EU to support a successful delivery of the Medium Term Economic Policy and the development and implementation of the related Economic Growth Strategy, based on the request for support from Government of Montserrat and in close coordination with DFID. The 11th EDF Programme will not be enough to transform the situation overnight, but it does provide an opportunity to kick-start the economy once again and stimulate faster and sustainable growth. This in turn would generate more jobs. The additional income would increase budgetary revenues and contribute to cut the recurrent deficit, and the more positive economic outlook would start to attract back to the Island some of those who left following the volcanic eruptions 20 years ago.

The 11th EDF will also include an allocation for complementary support in order to assist the implementation of the multi-sector programme with a further mix of technical assistance in support to institutional strengthening and public sector reform and for possible studies in different sectors.

PART B: THE TERRITORIAL PROGRAMME

1. Title/basic act/ CRIS number	11 th EDF – Multi-Sector Sustainable Economic Development Budget Support Programme in Montserrat, CRIS number: FED/2015/038816			
2. Zone benefiting from the action/location	Eastern Caribbean British West Indies, Montserrat.			
3. Programming document	OCTs 11 th EDF Territorial Allocation for Montserrat			
4. Sector of concentration	Multi-sector economic growth strategy	DEV. Aid: YES		
5. Amounts concerned	Total estimated cost: EUR 18.4 million Total amount of 11 th EDF contribution: EUR 18.4 million, of which <ul style="list-style-type: none">• EUR 17.4 million for budget support; and• EUR 1 million for complementary support.			
6. Aid and implementation modality(ies)	Budget Support: Sector Reform Contract Direct management : Procurement of Services for Complementary Support			
7 a) DAC code	43010	b) Main Delivery Channel: European Development Fund_10000 Public Sector Institution		
8. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Main objective
	Participation development/good governance			X
	Aid to environment			X
	Gender equality (including Women In Development)		X	
	Trade Development	X		
	Reproductive, Maternal, New born and child health	X		
	RIO Convention markers	Not targeted	Significant objective	Main objective
	Biological diversity	X		
	Combat desertification	X		
	Climate change mitigation		X	
	Climate change adaptation	X		
9. GPGC	Not related to a Global Public Goods and Challenges Thematic Flagships			
10. SDGs	Main SDG Goal: SDG No.8 ‘promote sustainable and inclusive growth, employment and decent work’. Subsidiary SDG Goals: SDG No.5 ‘gender issues’; SDG No.7 ‘affordable and clean energy’; and SDG No.9 ‘industry, innovation and infrastructure’; SDG No.12 ‘sustainable consumption and production’.			

1. CONTEXT

1.1 Sector Context/Country/Region/Thematic Area

Montserrat is part of UK OCTs in the Caribbean. It is a very small island, with a population just below 5 000 people according to the latest census of 2011, over a surface of 102 square km. It is still recovering from the volcanic eruptions of 1995-97, which rendered two-thirds of the island uninhabitable, including its capital, Plymouth, and which reduced the population by two-thirds, as many Montserratians resettled in the UK and elsewhere. The volcanic crisis significantly altered the social situation in Montserrat and had a severe negative impact on economic activity and social prospects. Although Montserrat is an open micro-economy, it became highly dependent and has few natural resources. The public sector now dominates economic activity and Montserrat relies on development aid from Department for International Development (DFID) and from the European Union (EU). Its current population of around 5 000 people represents a market size that is too small to stimulate significant local production.

The greatest challenge currently is how to achieve faster and sustainable economic growth. This in itself will help to alleviate the Island's poverty problems, both by creating more jobs – preferably mostly in the private sector – and by gradually raising wages. The *Sustainable Development Plan 2008-2020 (SDP)* still officially guides Montserrat's development, and its five areas of strategic focus are:

- Economic Management
- Human Development
- Environmental Management and Disaster Mitigation
- Governance
- Population

All five strategic areas will continue to be important in the future, but the balance can be expected to shift somewhat. In recent years, of necessity, much work has been done in the environmental management and disaster mitigation, as well as in governance, with efforts to strengthen institutions and make government processes more open and accountable, as well as integrating Montserrat more fully into the Organisation of Eastern Caribbean States (OECS) and the Caribbean Community (CARICOM) networks.

For the future, now that the economy is moderately coming out of recession, Government of Montserrat is putting much greater focus on fostering sustainable inclusive economic development, by improving infrastructure and by pursuing opportunities from renewable energy and tourism development to improving the business climate and improving the implementation and delivery of capital spending programmes. Attracting Montserratians and others to come to live and work in Montserrat is only likely to happen on a significant scale once the economy shows signs of greater vigour. This is why the Government has been updating its *Medium Term Economic Policy 2017-2021*, whose pillars are key sector policies such as renewable energy, tourism and infrastructure. The MTEP, under the umbrella of the SDP 2008-2020, provides the stepping stone to the development and the implementation of a new Economic Growth Strategy currently in the making, which will define in greater detail a more holistic multi-sector approach in addressing Montserrat's economic development challenges for the next 10 or more years.

1.1.1 Public Policy Assessment and EU Policy Framework

Policy Approach

As mentioned above, Montserrat has recently updated its Medium Term Economic Policy (MTEP) covering the years 2017-21, which now forms the policy framework on which to base the 11th European Development Fund (EDF) programme contributing to the transition towards sustainable economic development. Under the umbrella of the SDP 2008-2020, the MTEP focuses on growth enablers and economic drivers where policies and master plans are more advanced (such as Energy and Tourism), by bringing greater coherence between these sector policies and highlighting implementation priorities for 2017-2021. At the same time, the MTEP will represent a 'bridge' towards a new *Economic Growth Strategy*, which will be more comprehensive, providing a multi-year framework (for about 10 years) outlining Government of Montserrat's holistic approach to sustainable inclusive economic development.

The Economic Growth Strategy (being developed in 2017-2018 with at least a 10 year span, to be endorsed by 2019) will present the growth enabling policies already enshrined in the MTEP in more detail. It will develop economic drivers that are currently specified in outline only, as well as developing complementary policies, based on updated master plans and strategies currently in the making. In accepting the basic premises of the MTEP, the Economic Growth Strategy will refine and add to the activities underway in the enabling sectors and identify any gaps. It will take a completely fresh approach to developing economic drivers, taking note of the preparatory work done in sectors such as tourism.

The Economic Growth Strategy will be developed in part by prioritising the opportunities that provide the best growth potential for Montserrat and taking them forward into programmes and projects for implementation. It will then be approved by Cabinet, the highest decision-making body in Montserrat, and the approval process will build on extensive consultations across the whole community, including where possible Montserradians living and working abroad, especially those who might at some point be persuaded to return. Consultations will develop wide understanding of the issues and priorities for Montserrat and should secure broad support for the Economic Growth Strategy, both from the population as a whole and from key stakeholders, including the Government of Montserrat, civic and representative groups on the island and the UK Government. The agreed Economic Growth Strategy will be published and actively publicised through all local media. Given this complexity, it is likely to take about a year to complete the full process, including the initial consultancy.

Specific sectors will clearly develop at different speeds and from different starting points, as part of this multi-sector approach. Policies and plans for two of the pivotal sectors in Montserrat have already been prepared. These are Montserrat's Energy Policy 2016-2030: The Power to Change; and the Montserrat Tourism Master Plan 2015-2025. A National Information and Communication Technology Policy, Strategy and Implementation Plan 2017-2021 was also recently completed with support from the Caribbean Telecommunications Union. For these and other potentially important sectors, strategy development and the updating of existing plans are already under way. Moreover, a Physical Development Plan is in place, highlighting some of the priorities in the infrastructure sector, to be completed by an Accessibility Strategy currently in the making. Flagship projects in the infrastructure sector include a new breakwater project, funded mostly with support from

DFID through the UK-Caribbean Investment Facility (UK-CIF) administered by the Caribbean Development Bank (CDB), and interconnectivity – a sea cable development project, to better connect the people of Montserrat to the worldwide web through the provision of fibre-optic broadband.

Policy relevance

The MTEP 2017-2021 builds on other recent initiatives in Montserrat to improve governance, such as reforms in Public Finance Management (PFM). It forms the core of a much needed and updated approach to renewing growth, with a strengthened focus on key transformative sectors. All this is vital to foster income generating activities to drive the economy forward. Montserrat only needs to develop a small number of competitive niches to achieve sustainable growth and a modicum of diversification to mitigate future economic risks. Such growth would bring about more inclusive participation of the private sector and inclusive participation of all population, including women. Moreover, it is key to providing sustainable livelihoods for the existing population, and to encourage home some of those who migrated after the volcanic eruptions that left over half the island uninhabitable.

Policy credibility

Policy costing and financing follow well-established procedures and budgeting operates according to a strict timetable, linking with the Medium Term Expenditure Framework. The UK Government still finances just over 60 % of the recurrent budget, but it is intended that faster growth stimulated by the implementation of the MTEP 2017-21 will help raise revenues towards greater sustainability. Furthermore, continuing efforts are being made to strengthen institutional capacity.

Policy credibility has been enhanced by the major efforts to assess critically capital programme implementation and to design and launch of a support unit. Although there have been some teething problems in the early months of operation, Government of Montserrat is taking urgent steps to overcome those.

As a member of the Caribbean Community (CARICOM), the Organisation of Eastern Caribbean States (OECS), as well as of the Eastern Caribbean Currency Union (ECCU), Montserrat's basic economic statistics are remarkably good for a small Overseas Country and Territory (OCT); they are also quite up to date and conform to international standards.

Overall, these points justify the conclusion that Montserrat's public policy is sufficiently credible for the proposed Sector Reform Contract goals to be achieved successfully.

The EU policy framework

As noted above, Government of Montserrat seeks support for the implementation of a multi-sector budget support programme targeting sustainable growth and economic development under the 11th EDF territorial envelope. Based on the MTEP 2017-21, this support will build on the General Budget Support programme under the 10th EDF, and the Sector Budget Support programme under the budget support multi-sector reform contract financed from the 9th EDF.

The 11th EDF offers a timely opportunity for the Government to provide renewed clarity in its plans and priorities for the next 5-10 years. Whilst some valuable preliminary work has been done at the sectoral level, mainly in energy and infrastructure and to a lesser extent in tourism, this needs to be set in the context of the overriding need for a longer term vision for improving Montserrat's economic and social development through igniting sustainable growth and of specific plans and priorities. Whereas the vision may seek to look forward over longer than a 10-year period, the interim strategy to drive Montserrat's development over the next 5 years (the period of the 11th EDF) is provided by the MTEP, covering the period 2017-21. The MTEP will be a 'bridge' towards the new *Economic Growth Strategy* to implement a multi-sector approach towards more inclusive sustainable development.

The 11th EDF programme is expected to contribute to the development of the overarching policy approach to ignite and sustain economic growth, as well as to foster developments in focal sector policies such as Renewable Energy and Tourism and their implementation, based on selected priority areas to be jointly agreed with the Government. Building on these, the 11th EDF programme is expected to include also support to other enablers – promoting sustainable infrastructure investments that are more resilient to natural hazards and could foster more inclusive job creation in the longer term – and other complementary actions aimed to strengthen capacities, increase private sector participation and resilience.

A newly established Programming Management Office (PMO) in the Ministry of Finance and Economic Management (MoFEM) will have a key role to play in supporting the Territorial Authorising Officer (TAO), in line with the design agreed by Cabinet in December 2016. The unit is expected to use Prince2-based processes and procedures as a process-based approach for project management, and progressively transfer knowledge so as domestic processes and local accountability mechanisms could be aligned to modern project management process and procedures, with adjustments as needed.

The 11th EDF will pay attention to gender equality and women's empowerment; especially as regard to job creation it will place special attention on increasing job opportunities for women. The action is in line with the EU Gender Action Plan 2016-2020 and it contributes to its Thematic Priority: Economic, Social and Cultural Rights – Economic and Social Empowerment; and especially objective 14: Access to decent work for women of all ages; and 15: Equal access by women to financial services, productive resources including land, trade and entrepreneurship; and 16: Equal access and control over clean water, energy, transport infrastructure, and equitable engagement in their management, enjoyed by girls and women.

1.1.2 Stakeholder analysis

The principal beneficiary is the Government itself, and within that the Ministry of Finance and Economic Management (MoFEM), the Office of the Premier, and several ministries, including line ministries responsible for focal sectors highlighted in the MTEP, such as the Ministry for Communications, Work, Energy and Labour. These agencies, as well as the Legislative Assembly, were all fully consulted.

Most important among the stakeholders, though unavoidably diffuse, is the general population of Montserrat, who should benefit from the programme in terms of more job creation, and a clear move towards a more robust and dynamic economy. As women will be specifically targeted by job creation, they will be further consulted, together with women's groups in order

to identify key gender issues and identify key actions for women's empowerment. It will be essential, therefore, to continue to engage and consult with the general population and civil society as fully as possible to maintain popular support and to ensure that Montserrat's needs are being properly addressed. Relevant sector interest groups and firms are also part of the stakeholders being consulted.

Other important stakeholders are the development partners actively supporting Montserrat's development, which are mainly the UK Government, represented by the Governor's Office and UK's DFID, the EU and the Caribbean Development Bank (CDB). In the drafting and implementation of the proposed 11th EDF Programme, close coordination and synergies were sought to avoid any parallel financing with DFID and the CDB, which is tasked to administer UK funding to be made available through the UK-Caribbean Investment Facility (UK-CIF) for a new breakwater project, contributing towards Montserrat's greater economic sustainability. A key concern for the UK is to see a path for Montserrat towards a situation where it gradually becomes less dependent on both recurrent funding as well as capital investment support. The 11th EDF programme and related domestic policies are intended to move the Territory firmly in that direction.

1.1.3 Priority areas for support/problem analysis

Overall considerations

Priority sectors within the multi-sector approach are energy, with a focus on renewables, tourism, including eco-tourism, and infrastructure, as key enabler for economic growth and tourism development. For energy and tourism, sector policies were recently reviewed and master plans developed. It is worth noting that, while the energy policy and master plan were formally endorsed, the update of the tourism policy until 2025 and its master plan until 2030 were completed in 2016, but a fully-fledged tourism strategy was not yet endorsed (hence it is proposed to be supported through this programme). Building on these, the emerging approach is expected to include support to other enablers, such as promoting infrastructure investments that are more resilient to natural hazards and addressing key accessibility constraints (e.g. breakwater project, which will be explained later).

Energy is attractive for Montserrat because the existing provision using diesel generators is expensive, not sufficiently reliable, and very costly in terms of imported fuel. Hence, the way forward is seen initially in terms of renewing and upgrading the current diesel generation (as was recently implemented), but rapidly moving on to developing solar energy and geothermal power, with a view to achieving a green Montserrat (i.e. very low or even zero carbon emissions) by 2020 or soon after. Cheaper and more reliable electricity on the island should help to stimulate new business formation and additional jobs. While DFID has been supporting the geothermal developments, it is proposed that the EU contribution will focus on supporting solar energy developments and energy efficiency, as well as on providing support to the institutional arrangement's (e.g. strengthening capacities of the Energy Unit). With regard to the energy sector, the current energy policy lacks gender considerations, which are sought to be improved. There is substantial evidence that the gender dimensions of energy use are important and have different impacts on the lives of women and men. The uses of energy in the public and private sectors / spheres vary between men and women. As women in Montserrat continue to be household energy consumers and end-users; their involvement in product design and implementation can lead to a more equitable delivery of the national energy plan.

Tourism in certain niche areas – such as eco-tourism – is considered to have potential in Montserrat, but to succeed it requires parallel action in several areas including access, accommodation, on-island activities and services, marketing and information. Opportunities to promote linkages between local suppliers of food and hotels, and tourism and renewable energy developments will also be explored. Well managed tourism used to be a main contributor to GDP prior to the volcanic eruptions and, with the right mix of initiatives and public-private partnership, can still be instrumental to create jobs and generate income for Montserrat.

Since tourism development is closely linked with addressing the island's accessibility constraints, support to other backbone infrastructure developments is important. These include the breakwater project, not least the fibre optic cable project to better connect the people of Montserrat to the worldwide web through the provision of fibre-optic broadband. The breakwater is given priority by the Government as it would solve the main accessibility constraint to the island, to which 11th EDF was asked to contribute together with the UK-CIF to cover the funding gap. UK-Caribbean Investment Fund (CIF) contribution in this area is expected to cover the majority of the afore-mentioned breakwater project. DFID will also contribute to the update of the Access Strategy – focusing on infrastructure developments.

Developing better opportunities for women

Both the energy and tourism sectors offer an opportunity to boost women's empowerment and female participation in the formal labour market and in decision making processes.

As tourism and its related services feature prominently as one of the economic drivers of the Montserrat Sustainable Development Plan 2008–2020, more thought should be given to how the industry in its current state affects the livelihoods of both women and men. As the Plan is implemented and the infrastructure for tourism becomes fully operational, additional policies and measures are needed to overcome occupational discrimination.

Complementary support

As regards complementary support, the aforementioned areas will call for a mix of technical assistance and training activities to strengthen capacities and to increase private sector participation and resilience. Specialised studies for renewal energy and/or contributing to sustainable infrastructure development (e.g. Environmental and Social Impact Assessment linked to the breakwater project or related assessments) are envisaged under the Complementary Support Allocation.

Attention will be paid also to the promotion of socio-economic rights, non-discrimination and equal opportunities for all, including accessibility to employment for the most marginalised and vulnerable groups.

1.2 Other areas of assessment

1.2.1 Fundamental Values

Montserrat satisfies the EU's fundamental values, upholding the fundamental values of democracy, human rights and the rule of law. Gender equality is also supported by legislation, but may well need more active steps to implement it more effectively. The 2010 Constitution enshrines these basic principles, with Part I entirely devoted to human rights; as does the

structure of government. Montserrat is a constitutional monarchy with the Queen (Elizabeth II) as Head of State and a Governor residing in Montserrat as her representative. Below this top level, Montserrat operates as a parliamentary democracy with regular elections. Executive, legislative and judicial arms of the government structure function with sufficient independence to ensure the rule of law.

1.2.2 Macroeconomic Policy

In the last few years the economy of Montserrat has been in slow decline, or has at best grown very slowly, barely 1 % per annum. GDP growth was estimated as 0.1 % in 2016 and 0.7 % for 2017 and with a medium term economic growth projected to average 2.2 %. Indeed, the whole point of the proposed programme is to help to turn the economy around, stimulate higher levels of investment (ideally a mix of public and private, though initially mostly public), and promote growth with diversification. At present, by far the two largest sectors are public administration, and real estate, followed by financial intermediation. The agriculture and manufacturing sectors have experienced a significant decline in their contribution to GDP after the volcanic eruptions of 1995 and 1997 (from an average of 4 % contribution to GDP in the years 1993-1996 to less than 2 % in recent years). Altogether, the sectors of agriculture, fishing, mining and manufacturing account for just above 5 % of the 2015 Gross Value Added (GVA). As a result, it is not surprising that Montserrat's goods exports are very small, only around Eastern Caribbean Dollars (XCD) 9 million (roughly EUR 3 million) in 2014, 2015 and 2016. Since the territory, therefore, must import almost all the goods needed to support both domestic consumption (private and public) and investment, it regularly runs a substantial trade deficit, of the order of XCD 100 million in the last two years (about EUR 33 million). Tourism, which used to contribute up to 30 % to the economy until 1997, is quite small (currently representing up to 5 % of GDP), though visitor numbers have started to show some modest rises in the past three years or so, bearing in mind the very low base.

The budget is embedded into a well-developed Medium Term Economic Framework and is compiled according to a timetable that is announced early and normally fully adhered to. The territory has limited scope for raising budget revenues, though it does put significant effort into collecting all the revenues due to be paid in, and has had some recent success in cutting back arrears in some tax payments. From a mix of cautious fiscal management internally, and controls from the UK, Montserrat has almost no external debt, and what there is amounts to barely 4 % of GDP. Accordingly, there is no issue of debt sustainability for Montserrat.

As part of the Eastern Caribbean Currency Union (ECCU), the central bank for which is based in St Kitts and Nevis, Montserrat cannot operate an independent monetary policy. Moreover, the Eastern Caribbean Central Bank (ECCB) has held the exchange rate between the XCD and the USD fixed at the rate of $\text{XCD } 2.7 = \text{USD } 1$ for some decades already. Hence monetary stability is a feature of the region, with very low inflation in recent years. Fiscal policy, too, is heavily constrained via the annual budgetary discussions between Government of Montserrat and the UK Government, so although Montserrat is unable to raise sufficient tax revenue to balance its recurrent budget, the deficit is agreed between the Government and the UK Government. The result is a very stable macroeconomic framework.

There are nevertheless some possible economic shocks that could disturb this balance. Most severe is the possibility of yet another natural disaster. Given its history, Montserrat is as relatively well-prepared as it reasonably could be, whether the shock is a hurricane or further

severe volcanic eruptions. Best practices for constructing disaster resilient infrastructure will be applied as much as possible going forward. Furthermore, economic shocks via sudden movements in food prices or energy prices remain likely. In most recent years food prices have remained very stable, while energy prices have exhibited greater volatility. If geo-thermal energy proves a success in Montserrat, this could transform a major component of the energy picture, enabling the island to enjoy cheaper electricity.

In addition, there was a protracted suspension of the normal ferry service between Antigua and Montserrat during the middle of 2016 due to procurement and contractual issues. This occasioned significant economic losses and the service was only re-started in early December 2016. DFID and the Government are actively exploring possible long-term access solutions, with financial support from DFID. A further risk factor recently has been the GBP-USD exchange rate, which has fallen since the UK vote in June 2016 on continued membership of the EU. Since DFID's payments to Montserrat – both recurrent budget and capital projects – are effectively fixed in pounds sterling, the decline in exchange rate imposed unexpected costs on Montserrat. Further work could be done to improve the design of domestic policies to address natural disasters and integrate these policies into investment, debt, public financial management frameworks and crisis management frameworks. The final risk factor is simply the lack of suitable personnel in certain areas of management and of policy formulation and implementation. This is a perennial problem for an island with such a small population, though a renewed training and recruitment effort is under way to mitigate the problem.

Montserrat is an Overseas Territory of the United Kingdom, and as such is not eligible to be a member of the International Monetary Fund (IMF). Hence there are no IMF reports/programmes specifically on Montserrat, which is rather included in regional reports/programmes, e.g. through the work done by the Caribbean Regional Technical Assistance Centre (CARTAC) (the territory benefits from the EU support provided via CARTAC Phase V 2017 – 2022, financed from the 11th EDF Caribbean Regional Indicative Programme (EUR 5 million), Caribbean Development Bank (CDB), Eastern Caribbean institutions.

It can therefore be concluded that the authorities pursue a credible and relevant stability oriented macroeconomic policy aiming at restoring and maintaining fiscal and external stability and sustainability.

1.2.3 Public Financial Management (PFM)

Based on the report on Public Expenditure and Financial Accountability (PEFA) of 2014 (which showed significant improvements since the 2010 PEFA assessment, though a few indicators had slipped back), audit reports, and the PFM action plan, progress is positive overall in addressing key priorities, although several areas still need attention. These include:

- Budget credibility and variations in budget composition;
- Review and follow up on audit recommendations;
- Treatment of statutory bodies and the fiscal risks to which they may expose the Government;
- Execution and effectiveness of capital spending.

An update of the PFM Action Plan has been completed in early 2017 in the form of a complete 'Mock PEFA' a 'PEFA Self-Assessment' exercise, initialised by the MoFEM. The results form the new baseline for PFM-related work.

The relevance of the PFM reform strategy is assisted by consistent political support for PFM reforms, and the fact that the current action plans address all the identified PFM issues. Assessing the credibility of the Government's PFM reform strategy is more complex, as there are potential issues of sequencing of reforms, essentially due to resource constraints that force the Government to adopt a step-by-step approach. Nonetheless, there is consistent political buy-in to the reform programme. Reforms have been progressing overall and have addressed earlier concerns about corruption, with the formation of a Procurement Board, based on the 2012 procurement legislation and steps taken towards e-procurement; and the creation of an Integrity Commission based on the 2010 legislation. The institutional arrangements to support PFM reforms are in place and operational.

As for PFM dialogue, there is no shortage of suitable issues both within the Government itself, with the EU Delegation in Barbados, and with the UK Government. These include the treatment of public investment, responding better to audit reports, and the management of statutory bodies.

Overall, therefore, Montserrat PFM systems are sound and continue to be on an improving trend, with the Government committed to continuing recent progress, which includes the revised draft PFM laws and regulations and improvements in budget classification. Hence Montserrat's PFM eligibility can be confirmed.

Last, all activities undertaken under this programme have to be carried out in accordance with the highest principles of PFM and this will be verified both through the normal internal audit function, and in due course through the public spending audits carried out by the Office of the Auditor General.

1.2.4 Transparency and oversight of the budget

Transparency and budget oversight had improved in the period between the 2010 and 2014 PEFA assessments and, as far as can be ascertained without a full assessment, the trend continues to be positive. The relevant PEFA indicators had either stayed unchanged or had improved, in some instances markedly so. The weakest point was the extent of legislative scrutiny of the annual budget, judged not to have been particularly thorough or detailed. Otherwise, the overall picture is broadly satisfactory.

Improvements are being made in the timeliness of the key, budget-related reports, including *ex post* reports to do with the audit function. A new feature in 2016-17 is the publication of a Citizen's Guide to the budget. This is now an annual event, and the first such document is clear and readable, as well as being reasonably user friendly. The Guide for 2017-18 has already been published and placed on the official Government website. It is worth adding, too, that sessions of the Legislative Assembly, including those discussing the budget, are generally transmitted live on local radio and in a public forum lasting a number of days. The quality, integrity and accuracy of budgetary information are generally good, with transactions properly recorded and reported, both on the revenue and the expenditure side of the public accounts. For a small OCT, Montserrat produces its budgetary information to a high standard,

conforming as far as possible to the standards of the IMF's Government Finance Statistics Manual 2014.

The entry point is met in Montserrat as the Executive's draft budget proposal for 2017/18 was published and was formally approved by Cabinet with a slight delay. The enacted budget and the budget address were also published, and this has been standard practice in Montserrat for some years. The openness and transparency eligibility condition is therefore fulfilled for Montserrat.

2. RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L)	Mitigating measures
1. Vulnerability to several natural disasters, particularly volcanic eruptions and hurricanes	M	The area surrounding the volcano remains uninhabited, closely monitored and access restricted until further notice. A comprehensive disaster management plan and institutions responsible for environmental management and disaster mitigation and response are being enhanced.
2. Strong dependence on imports (more than 90 % of products are imported), great exposure to volatility in international prices, and limited domestic investment opportunities.	M	Policies to develop and diversify the private sector in place (incl. improvements to infrastructure), so that foreign exchange earning capacity increases, in order to buffer the impact of fluctuations in international prices; the development of the geothermal energy sector will also help to reduce import dependence.
3. Heavy reliance on UK grant funding for government expenditure (60+ % of the annual budget) and BOP balance.	M	Efforts in place to raise economic growth and make it sustainable.
4. Serious capacity constraints in the public sector and very modest presence of private sector.	M	Technical assistance from both public and private international donors continues to be deployed to help with the capacity constraints. Efforts to improve the business environment realised, including a liberal regime for FDI and the import of accompanying skills required.
5. Continued inability to implement programmes and projects, thereby constraining current growth and reducing future growth as the	H	Developing a Programming Management Office to leading international standards, primarily to support to manage capital projects. This and other measures will also help raise the quality of local suppliers, as well as give greater confidence to investors.

UK Government and other investors restrict their capital investment.		Increasing the rate and quality of investment, which to begin with will be almost all public investment, is the key to moving Montserrat from being a stagnating economy on to a growth path.
6. Tourism in particular depends on general state of world economy, currently growing modestly, but some risk of slowdown.	M	To sustain tourism development, scaling up investment in addressing accessibility constraints to improve the tourism 'offer'. Market analysis, complementary public investment and promotion to investors successfully realised to develop defensible niches in which Montserrat is competitive.
7. Gender mainstreaming not applied, lack of gender capacities, lack of understanding of the opportunity to empower women and girls in the sectors	M	Adoption of gender sensitive approach in training, ensuring equal opportunities in jobs and training. Promoting women's participation in decision making processes and promote women's economic empowerment

Assumptions

1. The capacity to anticipate, manage and recover from economic shocks / natural disasters continues to be strengthened and risk management plans are in place.
2. The UK will continue to provide budgetary support and funding for major infrastructure very much along the present lines. The EU will also continue to provide complementary support through the EDF, in close coordination with DFID and avoiding duplication of efforts. As the Montserrat economy grows, and locally raised revenues rise, however, a gradual withdrawal of UK/EU support in the long term needs to be factored in.
3. The combination of the implementation of the MTEP and the development of the Economic Growth Strategy and its implementation will mean that improvements in infrastructure – especially access, as well as energy – are realised and succeed in stimulating private sector development in the medium term.
4. This combination and, particularly, the new thinking envisaged for the Economic Growth Strategy, allow specialist tourism activity to grow rapidly in the coming years from a very low base, thereby generating jobs and higher incomes.
5. Recruitment efforts will succeed in bringing to Montserrat the most urgently needed skills and experience that it requires.

3. LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1 Lessons learnt

Some useful lessons can be learned for the 11th EDF from past interventions under the 9th and 10th EDF. A key lesson concerns the need to have a clear coordination mechanism to deal with limited human resources and have a high-level group in place to manage each stage of programme formulation and implementation, with regular updates and clear lines of action to deal with any slippages behind agreed targets. The recently established 11th EDF Working

Group led by the Financial Secretary who is also the Territorial Authorizing Officer (TAO), with representatives from the Office of the Premier and other Ministries, is designed to meet this need and is already functioning effectively. Key stakeholders will be involved in overseeing the whole 11th EDF programme. Although different sectors/ministries will benefit from different parts of the proposed programme, all will be expected to work together to ensure delivery of a coherent and mutually reinforcing programme for Montserrat.

Secondly, an effective monitoring mechanism will be needed for all stages of implementation of the envisaged Multi-Sector Reform Contract, with responsibilities clearly defined and shared, and with an agreed decision-making process to avoid delays, and confusion, and to ensure that prompt agreement can be reached at each stage to keep implementation on track.

Third, this will need to be accompanied by regular progress updates to be shared both with the TAO in MoFEM, and with the EU Delegation, as appropriate. Last, there might be a need for policy and technical dialogue focused on the planning and monitoring frameworks.

The need for setting realistic targets and an effective monitoring mechanism is particularly crucial for complex multi-sector reform contracts, as the experience of the 9th EDF showed. In the absence of clear, realistic targets and a monitoring framework, the multi-sector "Trade in Services Sector Programme (TSSP)" under the 9th EDF, aiming to contribute to Little Bay port developments and tourism development, only obtained mixed results, although the rationale for supporting key economic drivers such as tourism, with a focus on eco-tourism, remains valid.

3.2 Complementarity, synergy and donor coordination

The main donors to Montserrat in recent years have been the UK Government, via DFID, and the EU, mostly through various EDF programmes. The UK funds just over 60 % of Montserrat's recurrent budget, with up to GBP 20.6 million (EUR 22.9 million) committed for the fiscal year 2016-17 and GBP 22.6 million or approximately EUR 25 million committed in Financial Year 2017/2018. In addition, DFID has been funding a public sector reform programme in Montserrat (PSR2, budget GBP 2.57 million, EUR 2.86 million), as well as infrastructure investment projects in geothermal energy development (GBP 17.7 million, EUR 19.7 million), improving power generation (GBP 5.3 million, EUR 5.90 million), providing a submarine fibre-optic cable (GBP 100 000, EUR 111 000 for preparatory work, with the full contract likely coming in at just under GBP 5 million, EUR 5.61 million), and others. These projects are clearly strongly complementary to the MTEP 2017-21 that underpins the 11th EDF programme. The EU is working closely with DFID to ensure that support to be provided through the 11th EDF budget support programme is complementary and not duplicating DFID's. Moreover, the next phase of the PSR2, called Improving Delivery and Assurance in the Public Sector (IDAPS) is set to start in 2018 for 3.5 years, with a budget of GBP 3.5 million (EUR 3.9 million). The programme aims to provide targeted technical assistance to PFM reforms, including a focus on procurement and accounting and audit, and human resource management, including a focus on strengthening project management capacities. Also in this area, the EU is coordinating with DFID to ensure that complementary assistance to be part of the 11th EDF allocation is as much as possible closely aligned with DFID's for maximum impact.

Due to shortcomings in the Government's project management capabilities and some unsuccessful tendering processes, some of these projects have experienced delays in the past. However, with recent developments including the establishment of a dedicated working group for 11th EDF and arrangements made towards strengthening public sector capacities and by putting in place effective monitoring mechanisms, with support from the new Programming Management Office, there should be an acceleration of projects' implementation and hence some catching up. One important function of the unit moreover, will be to strengthen Montserrat's capability in terms of the monitoring and accountability of project spending.

Besides the EU and DFID, another important contributor to the sustainable development of Montserrat is the Caribbean Development Bank (CDB), currently administering the UK-Caribbean Investment Facility (UK-CIF) support contributing to infrastructure development. However, CDB's support will be basically through the supervision of the UK-CIF contribution; CDB could provide additional loan financing for energy or infrastructure but the Government is not taking up this option. Montserrat strongly supports the initiative to be funded through the UK-CIF, which has a provisional funding allocation of GBP 14.4 million (EUR 16.0 million) from DFID. It is envisaged that this will be spent on the breakwater project, for which a technical appraisal by CDB is currently in progress; and when confirmed, this will form an important component of Montserrat's much needed infrastructure to improve access to the island by sea. The Government of Montserrat and DFID have indicated that there is a funding gap for this project of about GBP 5 million (EUR 5.6 million). Government of Montserrat requested that this gap could be in full or at least partially filled by the 11th EDF.

Consultations with the Government, DFID, and the CDB have provided reassurance on the solidity of the new breakwater project proposal, and on how lessons learnt from the past experiences had been taken on board. More precisely:

- Caribbean Development Bank will provide high level supervision for the project on behalf of Government of Montserrat, in addition to the Government's own arrangements;
- The latest project design takes into account lessons learnt from previous assessments (the most suitable option has been identified based on an assessment of all previous project designs/feasibility studies, including the one funded through the EU);
- The project has the advantage that it can be further developed: the breakwater will be the first phase, on which full port facilities can be built. Each stage will be divided into sub-components, which should make it easier to monitor progress;
- The design build contract is expected to be awarded by 2019 and the construction phase start soon after to be completed by 2021/22;
- CDB will also oversee a full updated Environmental and Social Impact Assessment (ESIA) to be commissioned by Government of Montserrat, which will be key to preserving marine biodiversity, as well as the social impact assessment of the project; and
- The Government has formally indicated that the new breakwater project is a top priority transformational project for Montserrat and that it is fully behind the new project approach.

All three of the main capital project funders for Montserrat (the EU, CDB and DFID) have clear policies on gender issues and will therefore be well placed to support the Government in improving its own policies and practices in this area.

The UK Government, through DFID, the Foreign and Commonwealth Office, and the UK Overseas Territories Joint Ministerial Council (last meeting – London, November 2016), provides several channels through which important aspects of Montserrat's policies are monitored, notably macroeconomic policy, progress with PFM, debt management issues, etc. Regular meetings with the EU Delegation also provide some helpful oversight, as it does engagement with OECS, the ECCU and CARICOM institutions.

3.3 Cross cutting issues

As regards cross-cutting issues, environmental sustainability is crucial for several aspects of Montserrat's animal life, flora and fauna and their future development, including the protection of marine and land-based nature both for their own sake, and because of their importance for high-end niche tourism, such as eco-tourism. Linkages will be explored between tourism and sustainable agriculture as well as energy efficiency and renewable energy applications in the hotel sector. Moving towards cleaner energy by developing solar and geo-thermal power is part of Montserrat energy policy. DFID has been supporting the geothermal developments, through a project to develop and assess geothermal exploration wells. The project is already well-advanced, and should in due course greatly reduce the reliance on diesel-powered generators for electricity supply. The EU contribution includes support to key enablers, such as renewable energy, particularly solar energy and energy efficiency (which are not covered by DFID), and other core infrastructure developments such as the breakwater project, together with UK-CIF, as well as tourism development, which is currently 'orphan' of other donors' funds. Climate considerations will be examined across all activities to ensure that gains are made whenever possible and feasible. It is expected that 11th EDF will contribute to the update of a full Environmental and Social Impact Assessment (ESIA)/ related assessment to be carried out by Government of Montserrat in cooperation with CDB for the breakwater project. In these ways, the proposed 11th EDF programme will contribute positively to Montserrat's environment.

The principle of gender equality is included into the 2010 Constitution. Employment practices across the Government and the public sector fully comply with the principle of equality and equal opportunities. In the private sector, too, discrimination based on gender is illegal. Hence as far as employment practices are concerned, gender equality is supported. In other areas of life, men and women are generally treated equally. However, the UN observed that the situation of women is almost the same as it was in 1994. While boys at both primary and secondary education level perform less well than girls, women's participation in politics and in the job market remains lower than men, with "technical fields" and management positions remaining particularly gender biased in favour of men.

Tourism has the potential to play a prominent role in national economic activity. Present trends reveal an industry that is heavily dominated by males in the rebuilding phase and women in the service sector, with a heavy male presence in jobs traditionally dominated by men such as taxi drivers. Sustainable tourism development for Montserrat will require some

gender rebalancing of the tourism product to ensure that the post-infrastructural phase fully utilises the national human capital.

As regards the energy sector, the access, use and services of renewable energy will impact women and men differently. Montserrat's energy policy has the potential to be balanced across the three dimensions of sustainable development – social, economic and environmental – once a gender analysis is integrated. Resource capacity for renewable energy is highly skilled and presents a challenge as the limited capacity that exists is predominantly male. Once the industry is gender sensitised and measures are put in place for the sector to be gender balanced, both women and men will experience the benefits of renewable energy that meets their needs and it can create income generation and renewable energy livelihoods opportunities for women.

For these reasons, all new activities supported by the 11th EDF programme will be expected to conform to the principle of gender equality. Attention will be paid to the promotion of socio-economic rights, non-discrimination and equal opportunities for all, including accessibility to employment for the most marginalised and vulnerable groups. This is likely to include support to further efforts to promote equal access to job opportunities for men and women and to address occupational segregation, starting from new job opportunities in tourism, renewable energy and agriculture.

Last, good governance is an important topic that has received significant attention in Montserrat through improvements in PFM, continuing efforts to improve performance on PEFA indicators, and recent steps to develop the PMO to support the planning, management and implementation of investment programmes and projects and the management of change. By providing a significant contribution to a new strategic planning and development framework for Montserrat, as well as making available a further mix of technical assistance in support to institutional strengthening and public sector reform, the work to be done under the 11th EDF programme will also contribute to good governance.

4. DESCRIPTION OF THE BUDGET SUPPORT ACTION

4.1 Objectives/Results

The envisaged programme is relevant for Agenda 2030. It contributes to the achievement of several of the Agenda 2030 Sustainable Development Goals (SDGs), notably the following: SDG7 on affordable and clean energy; SDG 8 on decent work and economic growth; and SDG9 on industry, innovation and infrastructure. In addition, SDG 5 on gender issues will be a priority for the whole programme, as will SDG 12 on sustainable production and consumption. Taken together, these five SDGs sum up the key areas in which Montserrat will be working to foster the transition towards sustainable economic development in the coming years.

The *overall objective* of Montserrat's proposed 11th EDF Multi-Sector Budget Support Programme is to contribute to set Montserrat on a path of *sustainable economic development*, based on its MTEP 2017- 2021.

The contribution from the European Union is expected to include support to key enablers identified in the MTEP, which are renewable energy and other backbone infrastructure developments in areas crucial to address accessibility constraints on the island (notably the breakwater project as the first phase of the new port development). Moreover, the programme

is expected to enhance Montserrat's tourism offer, while also taking steps to improve the business environment and encourage more inclusive private-sector development. In addition, the programme will contribute to the development of the Economic Growth Strategy currently in the making, which, building on the Medium Term Economic Policy, will define in greater detail a more holistic multi-sector approach in addressing Montserrat's development challenges for the next 10 or more years.

In terms of impact, it is expected that the programme will contribute to stimulate sustainable economic growth thereby contributing in the medium to long term to greater self-sufficiency and reduced dependency from foreign aid.

The impacts and outcomes of the budget support programme will be visible in the long run, years after specific actions would have been implemented (for instance the use of infrastructure funded through the programme). Potential impacts include increased electricity generation through renewable energy and increased energy efficiency, progress in infrastructure development taking into account environmental considerations, and job creation through tourism development.

The 11th EDF multi-sector budget support programme in support to sustainable and inclusive economic development of Montserrat aims to contribute to the following *purpose* and *specific objectives*:

- The *purpose* is to facilitate the implementation of the agreed MTEP 2017 – 2021 and at the same time to contribute to the development of the *Economic Growth Strategy* currently in the making, which, building on the MTEP, will define in greater detail a more holistic multi-sector approach in addressing Montserrat's sustainable and inclusive economic development challenges for the next 10 or more years.

More explicitly, the programme will contribute to the following *specific objectives*, which will be further developed into results areas and activities in the following section:

Objective 1: to increase electricity generation through renewables and energy efficiency, at the same time ensuring a reliable electricity supply;

Objective 2: to increase specialist tourists' arrivals;

Objective 3: to facilitate access to the island by sea.

4.2 Main Activities

4.2.1 Budget support

Support will be provided in the form of untargeted budget support, which will be received into Government of Montserrat Consolidated Budget. The support will help Government of Montserrat, and notably the Ministry of Finance and Economic Management, and other line agencies to facilitate implementation of the MTEP 2017-2021.

Moreover, the EU support will contribute to the development of the Economic Growth Strategy, which building on the MTEP, will define in greater detail a more holistic multi-sector approach in addressing Montserrat's sustainable economic development challenges for the next 10 or more years. Therefore, in addition to activities pertaining to the three main result areas described below, a provision is foreseen under the Complementary Support

Allocation for activities accompanying the Economic Growth Strategy endorsement and its monitoring and evaluation, and improvement of statistics in key sectors.

The support to Government of Montserrat to facilitate implementation of the Medium Term Economic Policy (MTEP) 2017-2021 programme will be provided through activities in the following result areas:

Result area 1: A significant switch to renewables, increased energy efficiency and a reliable energy supply.

The 11th EDF will contribute to Montserrat's ambition to transform its energy usage towards 100 % renewables, whilst making significant strides in energy efficiency. Some of the key proposals from the Energy Policy and Master Plan will be fully developed and delivered, whilst the overall policy framework will be enhanced and implementation progressed.

- Montserrat's plans for solar power to become a substantial proportion of energy capacity and usage will be advanced and implemented with EDF funds;
- There will be a programme of replacing conventional street lighting with LED lighting using EDF funds and of providing solar lighting for roads and other infrastructure not adjacent to main power lines; and
- The capacity of the new Energy Unit will be strengthened leading to its full operationalisation for it to drive Montserrat's wider energy policy. This will include support to the unit to carry out a gender impact assessment of the energy policy and master plan's implementation.

Result area 2: Tourism development: a Tourism Strategy is formally endorsed and initial implementation undertaken, including tourism products and marketing of eco-tourism.

The 11th EDF will contribute to tourism development including the formal endorsement of a tourism strategy and its initial implementation. The implementation of the tourism strategy will be co-ordinated with infrastructure and tourism capacity developments.

- A tourism strategy will be developed from the overarching Tourism Policy and Master Plan recently drafted, including gender sensitive considerations (a gender impact assessment will be carried out to inform the strategy)
- Its implementation will be co-ordinated with improvements in access and infrastructure, not least the completion of the breakwater project that will provide a safe harbour and with improvements to the ferry and air services from Antigua;
- Gender-balanced training programmes will be developed for tourism to help bring about a fair balance in employment opportunities as the sector develops; and
- Product development and marketing in niche areas, including eco-tourism, will lead implementation in some areas, such as for day trippers, and be co-ordinated with private sector investment and increases in tourism accommodation and other facilities for other areas, not least stayover tourism. Linkages with sustainable agriculture and energy efficiency and renewable energy applications in the hotel sector will be sought.

Result area 3: Public sector investment and infrastructure provision improved, with a focus on addressing accessibility constraints at sea.

The implementation of the Medium Term Economic Policy (followed by the *Economic Growth Strategy*) and its component parts, such as the Tourism Strategy, will entail key infrastructure investments. Central to improved and more reliable access to Montserrat, for tourists and citizens alike, will be the breakwater project (as a first phase of a new port development phased approach). The 11th EDF programme is expected to contribute to the following:

- Full update of the Environmental and Social Impact Assessment for the breakwater project and related assessments undertaken.
- Design and ground breaking for the breakwater project accomplished.

Should Montserrat be seriously impacted by natural disasters, such as volcanic eruptions and hurricanes, limited funds could be used to deal with the most urgent reconstruction needs, if mutually agreed between the EU and Government of Montserrat.

4.2.2 Complementary support

An indicative amount of a maximum of EUR 1 million will be set aside for support to measures related to the implementation of the proposed 11th EDF Programme.

Through the proposed complementary support, assistance will be provided in response to expressed Government needs in respect of analytical and advisory services and policy advice on key strategic issues. To increase the sustainability potential of the budget support and indirectly its potential impacts, it is advised to include inter alia support related to the following areas:

- Technical assistance to support the MoFEM to implement PFM reforms;
- Technical assistance to improve key economic statistics both in technical quality and availability in key sectors;
- Specialist studies/ assessments to support renewal energy developments. This includes advice and studies on integration of RE, including gender mainstreaming within the sector, review of existing reports and studies, cost of service studies, energy efficiency studies, and technology and training for the smart grid implementation;
- Assessments to support infrastructure developments, including contribution to the Environmental and Social Impact Assessment (ESIA) for the breakwater project and / or related assessments;
- Support to facilitate the endorsement and publication of the EGS and its monitoring and evaluation;
- Monitoring and Evaluation of the 11th EDF Programme; and
- Communication and visibility actions.

4.3 Intervention logic

The Budget Support Programme is strongly aligned with the Territory's efforts and plans to promote sustainable economic development and faster economic growth through a linked series of policy initiatives and specific investments in several key sectors, notably in energy, infrastructure and tourism. A key concern is the current imbalance between the public and private sectors, both in employment and contribution to GDP, and the heavy reliance of Montserrat on UK grant funding. The proposed Action therefore aims to contribute to a more sustainable development pattern for the island, being centred on alleviating dependency on energy generation through imported fossil fuel, and contributing to developing tourism in niche areas, leading to increased revenue and employment generation in the private sector for men and women. The support to the breakwater project to ease access to the island by sea is essential for the prospects of tourism development and to improve living conditions of the people of Montserrat in general. Moreover, given Montserrat's small size and small administration, it is foreseen that the Action will deliver complementary support to strengthen capacities in key areas, including support to the MoFEM to implement PFM reforms, improve statistics, for specialised Technical Assistance and studies in the core result areas and for monitoring and evaluation of the programme.

The combination of funding from the EU (11th EDF) and development partners such as DFID (both recurrent and capital support), alongside direct contributions from Government of Montserrat itself will help to kick-start the economy of Montserrat.

The financial support through the 11th EDF will enable the Government of Montserrat to prioritise sectoral development and alleviate the current pressure on the capital budget and address the backlog in project investments. Major investments will be aimed to bring about a total transformation of the energy sector, with the aim of Montserrat's electricity generation approaching 100 % green (solar + geo-thermal) by 2020 or thereabouts. Tourism will be far more prominent 'on the map' than at present, and there will be serious efforts to upgrade services and facilities for the visitor. With the likelihood of some port development, with the top priority being a new breakwater to make the port less vulnerable to bad weather, conditions will be in place for a greater variety of private sector developments, both stimulating economic growth, and finally starting a process of private sector revival and renewal on the Island.

The complementary support will provide Government of Montserrat the opportunity to receive assistance in strategic functions and key analytical studies, which can make a positive contribution to overcome technical obstacles in effective service delivery in the sectors and current capacity constraints in the present staff complement.

The intervention logic foresees to apply a gender sensitive and right based approach to reach out to groups such as women, youth and disadvantaged groups.

5. IMPLEMENTATION

5.1. Financing agreement

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

5.2. Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4.2 will be carried out and the corresponding contracts and agreements implemented, is 48 months (four years) 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.

5.3. Implementation of budget support component

5.3.1. *Rationale for the amounts allocated to budget support*

From the total allocation of EUR 18.4 million to the OCTs 11th EDF Territorial Allocation for Montserrat, the amount allocated for budget support is EUR 17.4 million, and for complementary support EUR 1 million. This amount is based on anticipated need for specific short-term and medium-term technical assistance related to: Economic Growth Strategy, public finance management, statistics development, and for studies, such as to support renewal energy and infrastructure developments.

From the complementary support budget, EUR 40 000 is reserved for monitoring and evaluation and EUR 40 000 for communication and visibility.

5.3.2. *Criteria for disbursement of budget support*

In order for the Commission to evaluate the fulfilment of the general conditions, the office of the Territorial Authorising Officer in the Ministry of Finance and Economic Management shall communicate information on the following conditions:

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

1. ***Public Policy:*** Satisfactory progress in the implementation of the *Medium Term Economic Policy* covering the period 2017-21, and the continued credibility and relevance thereof;
2. ***Macroeconomic Policy:*** Implementation of a credible and stability-oriented macroeconomic policy;
3. ***Public Financial Management:*** Satisfactory progress in the implementation of the Public Financial Management Reform Action Plan;
4. ***Transparency and Oversight of the Budget:*** Satisfactory progress with regard to the public availability of timely, comprehensive and sound budgetary information.

On the basis of the information supplied, the Commission shall formulate an assessment

before the disbursement of all tranches of budget support. The funds will be accounted for in the Government of Montserrat's medium term fiscal budget projections and, upon receipt, they will be transferred into the Government's Consolidated Fund.

The indicative specific conditions for disbursement that may be used for variable tranches are to be drawn from the four areas indicated in the Appendix, which are:

1. Implementation of solar power development to increase the proportion of renewables in Montserrat's electricity usage and of LED lighting for public street lighting to increase energy efficiency;
2. Development and implementation of a Tourism Strategy, including gender sensitive considerations, focusing first on the Strategy being completed, agreed and adopted, second, on the development of tourism products in niche areas including eco-tourism and their marketing and, third, on employment generation;
3. Progress with the pivotal breakwater project, comprising an updated full environmental and social impact assessment and progress in the design and infrastructure provisions;
4. Progress in the implementation of Public Financial Management reforms.

Moreover, it is foreseen that the programme will contribute to progress with the development, endorsement and monitoring of the Economic Growth Strategy, which could be considered an induced output.

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 TAO may submit a request to the Commission for the targets and indicators to be modified. 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.

5.3.3. Budget support details

Support will be provided through a combination of fixed and variable tranches and will be non-targeted budget support.

Budget support is provided as direct untargeted budget support to the national Treasury. The crediting of the euro transfers disbursed into Eastern Caribbean Dollars (XCD) will be undertaken at the appropriate exchange rates in line with the relevant provisions of the Financing Agreement.

5.4. Implementation modalities for complementary support

5.4.1. Procurement (direct management)

Subject in generic terms, if possible	Type (works, supplies,	Indicative number of contracts	Indicative time of launch of the procedure

	services)		
Complementary Support: specific TA to contribute to Economic Growth Strategy / PFM/Budget Reform incl. PFM Reform Action Plan implementation	Services	2	Second half 2018
Complementary Support: studies related to infrastructure development / renewable energy developments/ ESIA / other assessment	Services	2	Second half 2018 /First trimester of 2019
Communication and visibility actions	Services	1	Last trimester of 2018
Monitoring and Evaluation	Services	1	Last trimester of 2021

An indicative amount of EUR 1 000 000 will be set aside for Complementary Support measures relating to implementation of the 11th EDF programme in support to sustainable economic development. The TAO in coordination with the EU Delegation will launch contract tenders based on needs identified and clarified by the Department of for Communications, Work, Energy and Labour and other relevant agencies where appropriate, in conjunction with MoFEM, in support of the implementation of the 11th EDF objectives.

5.5. Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility in accordance with Article 89(2)(f)(ii) and 89(3) of Council Decision 2013/755/EU on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

5.6. Indicative budget

Item	EU contribution (amount in EUR)
5.3. Budget Support Sector Reform Contract	17 400 000
5.4.1. Complementary support through procurement (direct management), broken down as follows:	1 000 000
• Technical Assistance and studies	920 000
• Monitoring and Evaluation	40 000

• Communication and visibility	40 000
Total	18 400 000

Table 1, below, sets out the indicative yearly budget for the 11th EDF programme for Montserrat, based on the above global totals.

Table 1. Montserrat's 11th EDF Programme – Indicative Yearly Budgets

Fiscal Year	2017/18	2018/19	2019/20	2020/21	Total
Type of Tranche					
Fixed	5.4	2.0	2.0	2.0	11.4
Variable	-	2.0	2.0	2.0	6.0
Complementary Support - TA	0.35	0.25	0.25	0.07	0.92
Complementary Support – Monitoring and Evaluation	-	-	0.02	0.02	0.04
Communication and Visibility	0.01	0.01	0.01	0.01	0.04
Total (11 th EDF)	5.76	4.26	4.28	4.1	18.4

Note: Figures in this table are in EUR millions.

5.7. Organisational set-up and responsibilities

The overall responsibility and oversight of the 11th EDF Multi-sector programme for Montserrat lies with the Government of Montserrat, notably the Ministry of Finance and Economic Management (MoFEM). Responsibility for implementing most aspects related to the budget support multi sector programme lies with the Ministry for Communication, Work, Energy and Labour, in conjunction with key line agencies, while actions related to the general conditions for budget support are with the MoFEM. Government of Montserrat is formally represented by the TAO who will be in charge of administering the Budget Support and who is responsible for setting up the appropriate programme management structure within the MoFEM, including installation of Project Management capacity to guide implementation of any capital development initiatives within the remit of the Medium Term Economic Policy (MTEP).

A Programme Steering Committee will be established for the duration of the budget support programme, building on the already established 11th EDF Committee within MoFEM, to oversee and validate the overall implementation progress with emphasis on the fulfilment of macro and PFM related indicators and the achievement of the agreed variable tranche indicators. The committee shall meet regularly, with emphasis on the achievement of the sector's priority objectives and specific variable tranche indicators. One of the sessions shall take the form of the annual progress review including macro-economic, public financial management and implementation of the MTEP, on the basis of annual progress reports. The oversight committee shall be comprised of, but not restricted to:

- Montserrat's TAO or relevant representative, as the contracting authority;
- Representatives of Ministry of Communications, Work, Energy and Labour and any other relevant line agencies involved in the MTEP implementation;

- A representative of the MoFEM in the area of macro-economic planning and Public Financial Management;
- A representative of the EU with observer status; and
- Representative(s) of DFID, CDB and other relevant development partners involved in Montserrat in areas relevant to the policy implementation and /or involved in macro and PFM monitoring may be invited as and when required, with observer status.

The Programme Steering Committee shall oversee and validate the overall direction of the Budget Support Programme. The Committee shall supervise and steer the monitoring of the programme's implementation, progress, output and achievements and recommend remedies to be taken where necessary. It will work on the basis of annual progress reports produced by the TAO/Ministry for Communication, Work, Energy and Labour. It shall meet at least once every six months (calendar basis) in Montserrat. A representative from the EU Delegation will be invited to the Programme Steering Committee meetings.

In the absence of regular IMF missions, monitoring of PFM eligibility will be done on the basis of the reviews of the government's PFM reform strategy and associated assessments supplemented at times by *ad hoc* analysis from the IMF and other development partners, including sector specific reporting where relevant. Monitoring of budget transparency will be undertaken through verifying the public availability of appropriate and up-to-date documentation.

5.8. Performance monitoring and reporting

Different levels of baseline information are available per core result area. In the energy sector, baseline information is more straightforward (e.g. the starting point is 0 % of electricity generated through renewables at present). Regarding baseline information for tourism and easier access at sea, further information will need to be collected in the inception phase, starting from year 1. Baseline assessment and labour market statistics are planned to be improved through revamped Annual Survey to be conducted by Montserrat Statistical Department starting from 2018. The findings from the survey will allow monitoring percentage change in employment generation in tourism and change in tourists' arrivals. It is worth noting that, since the breakwater project will probably still be in progress before the end of 11th EDF, targets such as increase in vessels berthing as a result of the breakwater project may not be able to be reached before the end of the 11th EDF, but only after, and therefore indicators related to increase in vessels berthing are not proposed as such in the present log-frame.

Regarding progress in the implementation of the PFM reform action plan, although the official reference point is the latest formal PEFA assessment of 2014, the 2017 'mock' PEFA will be used as baseline to track progress from the start of the 11th EDF programme, and will be useful to analyse trends in recent years.

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner (Montserrat TAO) 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 logframe matrix (for project modality) or the list of result indicators (for budget support). 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 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).

5.9. Evaluation

Having regard to the nature of the action, one final evaluation is expected to be carried out for this action or its components until the end of the programme. The evaluation should examine and assess how far the budget support is proving to be relevant, efficient and effective. These criteria refer to the objectives of the agreed programme, and hence the extent to which they are being successfully delivered.

The Commission shall inform the implementing partner at least 1 month in advance of the dates foreseen for the evaluation mission. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

One contract for evaluation services shall be concluded in 2021.

5.10. Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

5.11. 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 and supported with the budget indicated in section 5.6 above.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the 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.

Indicatively at least one contract for visibility actions are foreseen, to be funded through Complementary Support Allocation.

APPENDIX: INDICATIVE LIST OF RESULT INDICATORS (FOR BUDGET SUPPORT)³

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. Note also that indicators should be disaggregated by sex whenever relevant.

	Results chain	Indicators	Baselines (incl. reference year)	Targets (incl. reference year)	Sources and means of verification
Overall objective:	OO: The programme's central goal is to get Montserrat on a path of sustainable growth and economic development, at the same time reducing its dependency on foreign aid	1. % change in revenue raised	1. 2016/17 Recurrent revenue raised by Government of Montserrat	1. 2017/18 +0 % 2018/19 +1 % 2019/20 +2 % 2020/21 +5 %	1. Annual progress reports on MTEP implementation; Budget documents
Specific objective(s): Outcome(s)	R1 - Energy: Switch to renewables, increased energy efficiency and a reliable energy supply	Indicator 1.1: % change in electricity generation by renewable energy (*)(**) Indicator 1.2: % change in energy efficiency in street lighting (*)(**)	1.1. 2016/17: Renewables 0 % of electricity generation 1.2. 2016/2017: LED lighting 0 % of street lighting – better baseline would be cost of street lighting (assuming that all street lights are functioning)	1.1 2018/19: 10 % 2020/21: 40 % renewables: 1.2. 2019/20: 50 % LED lighting	1.1.- 1.3. MUL generation records 1.1.-1.3 Annual Progress Reports by Ministry for Communication, Work, Energy and Labour

³ Mark indicators aligned with the relevant programming document mark with '*' and indicators aligned to the EU Results Framework with '**'.

	Results chain	Indicators	Baselines (incl. reference year)	Targets (incl. reference year)	Sources and means of verification
Specific objective(s): Outcome(s)	R2 – Tourism: A Tourism Strategy is formally endorsed and initial implementation undertaken, including tourism products and marketing of eco-tourism	Indicator 2.1: Tourism Strategy developed Indicator 2.2: Greater sale of new eco-tourism products Indicator 2.3: % change in employment generation in tourism, with disaggregated data for men and women (**)	2.1. 2016/17: Master Plan in place but not formally approved. Strategy yet to be developed 2.2 2016/2017: No eco-tourism products available 2.3.: 2016/17: Employment baseline to be assessed, entire population plan to be surveyed in 2017 on labour market engagement	2.1. 2018/19: Strategy completed and agreed by Cabinet 2.2. 2019/20: New eco-tourism products developed and e-marketing started – 2.3. 2020/21: Employment in tourism sector increased by x %, with disaggregated data for men and women	2.1. Completed report and Cabinet minutes 2.2. Annual progress reports by MoFEM and line agency 2.3. Assessment and labour market statistics through Annual Survey by Montserrat Statistical Department
	R3 – Infrastructure: Public sector investment and infrastructure provision improved, with a focus on addressing accessibility constraints at sea	Indicator 3.1: at least one ESIA undertaken (**) Indicator 3.2: breakwater design build contract awarded Indicator 3.3: infrastructure being built	3.1. 2016/17: EIA of 2010 3.2. – 3.3. 2016/2017: Breakwater project not yet started /project being negotiated with CDB	3.1. 2018/19: one ESIA completed 3.2. 2019/20: Breakwater Design Build contract awarded by Government of Montserrat 3.3. 2020/21: Breakwater Infrastructure implementation progressed	3.1. – 3.3. Annual progress reports by MoFEM / Ministry for Communication, Work, energy and Labour / CDB.

	Results chain	Indicators	Baselines (incl. reference year)	Targets (incl. reference year)	Sources and means of verification
	R4: Improve PFM	Indicator 4.1: Greater efficiency of tax administration (through use of computerised tax system) – Indicator 4.2 : % adoption of internal audit recommendations Indicator 4.3 : % e-procurement	4.1. 2016/2017 tax evasion reports 4.2- 4.3: 'Mock' PEFA carried out early 2017 using PEFA 2016 methodology	4.1. 2019/2020: reduced tax evasion 4.2. 2020/2021: 60 % adoption of internal audit recommendations 4.3. 2020/2021: 40 % of international procurements through e- procurement	4.1. – 4.3. PFM reform action plan progress reports, periodic reports by MoFEM
Induced outputs	Government of Montserrat has been implementing the MTEP and progressed in the formulation of the EGS, resulting in: IO1. Improved public policy formulation and execution processes IO2. Improved public service delivery	1.1.1. Endorsement of the EGS by Cabinet. 1.2.1 Replacement of conventional street lighting with LED lighting 1.2.2. Switch to electricity generation through renewable energy 1.2.3. Breakwater infrastructure being built	1.1.1. 2016/2017: MTEP endorsed by Cabinet in July 2017 and EGS not yet drafted. 1.2.1. 100 % conventional street lighting 1.2.2. 0 % electricity generation through renewables 1.2.3. Breakwater project not yet started	1.1.1. 2018/2019: Adoption of EGS by Cabinet 1.2.1. 2019/20: LED lighting 50 % f street lighting 1.2.2. 2020/21: Breakwater Infrastructure implementation progressed 1.2.3. 2020/21: Cheaper & reliable electricity generation through renewables	1.1.1.Cabinet records of EGS approval 1.2.1. -1.2.3. Annual progress reports by MoFEM / Ministry for Communication, Work, energy and Labour on MTEP/sector policies implementation

	Results chain	Indicators	Baselines (incl. reference year)	Targets (incl. reference year)	Sources and means of verification
Direct outputs	<p>Policy frameworks are enhanced, institutions strengthened and a sustainable basis for investments in RE/tourism/infrastructure, as well as enhanced predictability of investment in these sectors is achieved, including:</p> <p>DO1. Sector policies/strategies reviewed and improved, including for tourism;</p> <p>DO2. Budgets dedicated for the sectors increased</p> <p>DO3. Capacities and systems of MoFEM and line agencies to implement the MTEP and coordinate development partners' support strengthened</p> <p>DO4. External assistance (of both the EU and DFID) better harmonised and aligned to government policies and systems</p>	<p>1.1.1. Endorsement of Tourism Strategy by Cabinet.</p> <p>1.2.1. Change in funds made available in the National Budget for key sectors</p> <p>1.3.1. % change in execution of 11th EDF budget support programme and frequency of steering committee meetings,</p> <p>1.4.1. Alignment of external assistance based on budget information</p>	<p>1.1.1. 2016/2017: Tourism Strategy not yet drafted.</p> <p>1.2.1. 2016/2017 funds made available in the National Budget for key sectors</p> <p>1.3.1. 2016/2017: 0 % execution of 11th EDF budget support programme and no steering committee meetings held</p> <p>1.4.1. 2016/2017: alignment of external assistance based on 2016/2017 budget</p>	<p>1.1.1. 2018/2019: Adoption of Tourism Strategy by Cabinet</p> <p>1.2.1. 2018/2019/2020/2021: change in funds made available in the National Budget for key sectors</p> <p>1.3.1. 2018/2019/2020/2021: Execution of 11th EDF budget support programme in line with Financing Agreement and regular steering committee meetings held</p> <p>1.4.1. 2018/2019/2020/2021: alignment of external assistance based on budget information.</p>	<p>1.1.1. Cabinet records of Tourism Strategy approval</p> <p>1.2.1 & 1.4.1. Budget Statements</p> <p>1.3.1. Annual progress reports by MoFEM / Ministry for Communication, Work, Energy and Labour on MTEP/sector policies implementation & Steering Committee meetings' reports</p>

ANNEX 1: INDICATIVE TIMETABLE FOR COMMITMENT OF FUNDS

	FY 16/17	FY 2017/18				FY 2018/19				FY 2019/20				FY 2020/21			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Annual review of eligibility	X			X				X				X				X	
Fixed tranche disbursement					6				2				2				1
Variable tranche disbursement					0				3				2				2
Total					6.0				5.0				4.0				3.0

ANNEX 2: MONTSERRAT AT A GLANCE

Capital	Plymouth (de jure), Brades (de facto since 1998)
Head of Government	Premier, Mr. Donaldson Romeo
EU Status	OCT, linked to the United Kingdom
Official Language	English
Other Languages	n/a
Surface Area	Area (Sq. km):102km ²
Geographical Situation	<p>Location: Caribbean, island in the Caribbean Sea, southeast of Puerto Rico.</p> <p>The island is 17.6 kilometres (11 miles) in length and 11.2 kilometres (7 miles) in width. It is located 43 kilometres (25 miles) to the south-west of Antigua which acts as an international gateway for persons seeking to enter or leave Montserrat. Guadeloupe, which is one of the French Caribbean territories, is situated 43 kilometres (25 miles) south-east of Montserrat.</p>
Time Zone	GMT-4
Currency	Eastern Caribbean Dollar
Population	4,922 inhabitants (Official count, 2011 Population and Housing Census)
Life Expectancy at Birth	<p>Total population: 74.4 years (2016 est.)</p> <p>Male: 75.8 years.</p> <p>Female: 72.9 years</p>

Ethnicities/Communities	n/a
Literacy Rate	n/a
Urban Population	n/a
Male/Female Distribution	Of the total 4 922 persons, 2 376 or 48 % were females and the remaining 2 546 or 51% were males (2011 Population and Housing Census)
GDP (Nominal GDP at market prices)	XCD 160 million (EUR 54.26 million)
GDP/Capita	XCD 32 448 or EUR 11 003
Primary Components of GDP in current prices (%) (2016)	<ul style="list-style-type: none"> ▪ Public Administration - Defence & Compulsory Social Security (33%) ▪ Real Estate, Renting and Business Activities (16 %) ▪ Financial Intermediation (7 %) ▪ Transport, Storage & Communication (8 %) ▪ Construction (6 %)
Inflation Rate (CPI, average for 2015, ECCB)	-1.15 %
Unemployment Rate (2011, census data)	6.5 %
Trade Balance (ECCB data, 2015)	XCD -96.26 million (EUR -32.64 million)
Membership of Local/ Regional	Member of the Eastern Caribbean Currency Union

Associations	Associate member of CARICOM Member of OECS
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Note. Conversions to euros are done using the official EU contract rate for November 2016