

**Memorandum of Understanding (MOU)**  
**Between**  
**The Government of Montserrat (GoM)**  
**And**  
**The UK Department for International Development (DFID)**

## **1. Issue**

1.1 This MOU sets out the Government of Montserrat's commitment to implementing reforms that will (i) improve the business environment (ii) develop Montserrat as a tourist destination and (iii) strengthen GoM's capacity to facilitate growth. Significant progress across all reform areas is a fundamental precondition for any future UK commitment to investment funds in Little Bay town, Carr's Bay port and sea/air access to Montserrat.

## **2. Introduction**

2.1 The GoM have identified an ambitious strategy to move Montserrat towards self-sufficiency and away from financial dependence on the UK. This strategy is focussed on the development of a new capital in Little Bay with a new port at Carr's Bay to replace Plymouth as the centre for economic activity following the destruction of the former capital in the volcanic eruptions in the late 1990s. Since those eruptions, Montserrat has faced considerable challenges in rebuilding the economy as many people left Montserrat to live and work in the US, other Caribbean islands and the UK. Continued volcanic activity and ashing have resulted in nearly two thirds of Montserrat becoming uninhabitable.

2.2 Sustained economic growth focussed on the north of Montserrat around Little Bay is only likely to be achieved through significant public investment, if it can be fully justified (including financial and economic justification), which would act as a catalyst for private investment in town and tourism facilities. GoM do not have sufficient resources to fund public investments of the scale that might be made without financial support from the UK Government. In February of 2011, the Secretary of State for International Development, Andrew Mitchell visited Montserrat, outlining the basis for a potential deal between the UK and the Government of Montserrat to reduce Montserrat's financial dependence on the UK. This deal would involve increased capital investment and technical assistance funded by the UK, if it can be fully justified, while GoM undertakes policy reforms to create an enabling environment for private sector investment.

2.3 This MoU sets out the nature of this deal.

## **3. The Reform Programme**

3.1 GoM's strategy for financial self-sufficiency depends not only on increased public investment but also on a radical transformation of the business environment so Montserrat becomes more attractive for private investment. GoM have set an ambitious target of having the private sector contribute more than 50% of the economy by 2020, a significant increase on the 34% in 2011. This transformation will require significant changes in three key areas:

- i. improving the business environment;
- ii. developing Montserrat as a tourism destination; and
- iii. strengthening GoM's capacity to deliver reforms and key strategic investments.

3.2 Improving the business environment will be achieved through reviewing GoM's investment, immigration and tax policies so that Montserrat has a clear, simple, transparent and development-friendly system for non-Monsterradians to be allowed to enter, live, work and invest in Montserrat. This will be achieved through exploring options for creating a Special Economic Zone at Little Bay, reviewing immigrant land-holding policy and speeding up customs clearance times at the port.

3.3 Developing Montserrat as a tourist destination will be achieved through developing a clear tourism plan that drives economic growth and provides platform for sustained development. The 3<sup>rd</sup> Tourism Development Plan will be finalised by September and implementation started by February 2013. GoM will also take actions to improve sea and air access so it delivers secure access to the island and value for money to tax-payers. Activities include exploring private sector interest in running improved ferry and air services by September.

3.4 Strengthening GoM's capacity will be delivered through delivery of a comprehensive package of technical assistance. GoM have also committed to establishing a geothermal unit and restructuring the Montserrat Development Corporation (MDC) by September 2012 as well as reviewing GoM's regulatory bodies. By February 2013, GoM have implemented a number of cabinet decisions on institutional reforms as well as implemented recommendations from the policing review.

3.5 The goals and activities in each reform area are presented in the policy reform matrix in Annex 1. Progress in delivering against this reform plan will be monitored regularly over the next 12 months with a major review in September 2012 and again in February 2013. In delivering on this reform plan, GoM have identified 3 underlying principles which cut across all areas: Sound environmental management, sound financial management and inclusive growth.

#### **4. Investments for Growth**

4.1 GoM's Strategic growth plan identifies three areas requiring significant public investment: Electricity generation from geothermal; Little Bay town and Carr's Bay Port; sea and air access.

4.2 Preparations for the first investment in electricity generation from geothermal are the most advanced. Signing of this MoU will be made at the same time as UK Government commitment to fund the exploration phase of geothermal and support for the GoM to establish the necessary institutional arrangements to manage this investment. Following the drilling phase, it is expected that electricity generation from the geothermal resource will be delivered through a public-private partnership.

4.3 Little Bay town and Carr's Bay port are under design and the level of public funding required will be determined in mid-2012. A conditional and in principle decision on UK funding for public infrastructure (port, town and sea/air access) will require: detailed design and costings of the port and any other publicly funded infrastructure; outline justification (including financial and economic justification) of the investment; and the demonstrated interest of private sector entities to make key investments in hotel, yachting marina, residential and other facilities. The actual commitment of UK funds will be dependent upon: the UK Government having a full justification (including financial and economic justification) of the investment; the simultaneous contractual commitment of private sector entities to make key investments in hotel, yachting marina, residential and other facilities; the

submission and approval of a detailed business case; and demonstrable, significant progress by GoM in delivering reforms outlined in this MoU. The decision is expected no earlier than February 2013 following the review of progress against the reform matrix.

## **5. Dissemination strategy**

5.1 GoM will design and implement a clear communication strategy covering both the public investments and the reforms. This will target people living in Montserrat and its Diaspora. DFID will publish this MoU on its external website once signed.

## **6. Coordination, Monitoring and Reporting**

6.1 GoM will establish necessary monitoring arrangements and provide DFID with monthly reports of progress. Prior to the formal reviews in September 2012 and February 2013, GoM will provide DFID with a self-assessment of progress.

<b>For GoM</b>	<b>For DFID</b>
<b>The Premier</b> <b>Date:</b>	<b>Secretary of State</b> <b>Date:</b>