

DFID's Support to Capital Projects in Montserrat







Independent
Commission
for Aid Impact

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The Independent Commission for Aid Impact (ICAI) is the independent body responsible for scrutinising UK aid. We focus on maximising the effectiveness of the UK aid budget for intended beneficiaries and on delivering value for money for UK taxpayers. We carry out independent reviews of aid programmes and of issues affecting the delivery of UK aid. We publish transparent, impartial and objective reports to provide evidence and clear recommendations to support UK Government decision-making and to strengthen the accountability of the aid programme. Our reports are written to be accessible to a general readership and we use a simple ‘traffic light’ system to report our judgement on each programme or topic we review.

	Green: The programme performs well overall against ICAI’s criteria for effectiveness and value for money. Some improvements are needed.
	Green-Amber: The programme performs relatively well overall against ICAI’s criteria for effectiveness and value for money. Improvements should be made.
	Amber-Red: The programme performs relatively poorly overall against ICAI’s criteria for effectiveness and value for money. Significant improvements should be made.
	Red: The programme performs poorly overall against ICAI’s criteria for effectiveness and value for money. Immediate and major changes need to be made.

Executive Summary

Montserrat is one of 14 British Overseas Territories (OTs). The UK Government reaffirmed its responsibilities to the OTs in its June 2012 White Paper. It is committed to providing reasonable assistance to them and to supporting developments which will reduce aid dependency. The Foreign and Commonwealth Office (FCO) leads and DFID provides financial and development support. DFID expects to provide aid of over £24 million each year to Montserrat from 2012-13 to 2014-15. Since the devastation caused by volcanic eruptions, which began in 1995, Montserrat has been unable to return to self-sufficiency and the economy remains weak. This review assesses how the UK Government manages its aid to Montserrat, with a particular focus on DFID's capital investment projects.

Overall *Assessment: Amber-Red* 

DFID and the citizens of Montserrat have achieved much in averting a complete evacuation from the island and establishing lives away from the volcano. While continuing to meet basic needs, DFID's approach in Montserrat has changed to include a greater focus on economic development. Positive impact on beneficiaries has been achieved. DFID does not yet, however, have a firm view on what Montserrat's reasonable needs are nor what self-sufficiency means for the island; how best to improve it strategically over the long-term and what is affordable to the taxpayers of the UK and Montserrat. As a result, DFID has not managed the expectations of beneficiaries regarding what is realistic and achievable. We found also that DFID reacts in a piecemeal fashion to the Government of Montserrat's bids for DFID's funding.

Objectives *Assessment: Amber-Red* 

DFID does not have an appropriately defined strategy for improving self-sufficiency for Montserrat. DFID makes decisions on individual business cases for capital investment proposals on a piecemeal basis rather than as the next step of a coherent and prioritised strategy devised with development partners. DFID has developed parallel capital projects in the power sector which should have been better integrated. The benefits of developing a new airport may not have justified the investment.


Delivery *Assessment: Amber-Red* 

DFID has developed business cases for its capital projects, in conjunction with the Government of Montserrat, which mostly contain appropriate options and assumptions. DFID's assessment of the airport was a significant exception as it did not obtain and adequately assess robust evidence to support a key assumption on visitors to the island. The outcome was additional costs that were unplanned. In addition, DFID's business cases refer to the importance of maintaining the capital assets it supports but the Government of Montserrat struggles to achieve this. DFID's engagement with intended

beneficiaries has improved over time but we have identified scope for DFID to engage more consistently.

Impact *Assessment: Green-Amber* 

DFID's support has helped Montserrat in its recovery from natural disasters but has achieved less in progress towards self-sufficiency. The water and road infrastructure projects have delivered clear benefits to date, on both counts. Two other capital projects have, however, had limited impact. The airport has many fewer passengers than expected and a new school building, completed in October 2012, is yet to open, pending procurement of classroom equipment.

Learning *Assessment: Green-Amber* 

Monitoring of projects has been generally effective, although DFID has not undertaken a full post-implementation evaluation of the airport project, despite its clear lack of success. The relationship between DFID, the FCO and the Government of Montserrat is good and interaction is frequent and transparent. The June 2012 White Paper on the OTs gave DFID the opportunity to engage resources from across Whitehall to transfer skills to Montserrat but this initiative has yet to deliver significant results.

Recommendations

Recommendation 1: DFID should develop a more detailed understanding of self-sufficiency for Montserrat. DFID should use this understanding with the Government of Montserrat to determine a realistic set of expectations over the medium term to improve economic, financially justifiable self-sufficiency.

Recommendation 2: DFID should support the Government of Montserrat to develop a longer-term plan for the island based on an agreed understanding of self-sufficiency. This needs to show how the different projects add up to a coherent impact on livelihoods and economic progress. It should set out the level and composition of financial and technical assistance and a projection of capital costs and necessary revenue support.

Recommendation 3: DFID should work with the Government of Montserrat to increase the engagement of the people of Montserrat in its projects. This is both to understand their perspective and to manage their expectations.

Recommendation 4: DFID, working with the FCO, should bring together the required actions and commitments from across Whitehall to achieve the aims of the 2012 White Paper for Montserrat and the other OTs so that best practice is built into future projects, programmes and policies.

1 Introduction

Purpose of the review

1.1 In the five financial years between 2007-08 and 2011-12, the Department for International Development (DFID) has spent £281 million on support to the Overseas Territories (OTs). Montserrat was the second-largest recipient after St Helena. The purpose of this review is to assess the impact and effectiveness of DFID's support to Montserrat, as an example of its support to the OTs generally. We focussed in particular on six capital projects which were supported with DFID's funds. Our review assesses the quality and results of those projects and considers them in the broader framework of assistance to Montserrat.

Montserrat's relationship with the United Kingdom

1.2 Montserrat is one of the United Kingdom's (UK's) 14 OTs.¹ The UK's Sovereign is their Head of State and, as a matter of constitutional law, the UK Parliament has unlimited power to legislate for them. Each OT has its own constitution, government and local laws. If qualifying conditions are met, OT citizens can automatically qualify as British citizens.²

1.3 In June 2012, the UK Government published a White Paper setting out a new strategy for the OTs.³ This White Paper set out the UK's approach: 'the Government remains committed to meeting the reasonable assistance needs of Territories where financial self-sufficiency is not possible, as a first call on the aid budget'. It focussed on:

- strengthening the engagement and interaction between the UK and the OTs;

- working with the OTs to strengthen good governance arrangements, public financial management and economic planning; and
- improving the quality and range of support available to the OTs.

1.4 Earlier policy documents have also made reference to the aim of improving the self-sufficiency of OTs. In 1999, the UK Government published a White Paper⁴ that detailed, as one of its three main objectives, the aim of maximising 'economic growth and self-sufficiency through sensible economic and financial management, leading to graduation from such support where this objective is feasible'. Since then, several other DFID strategies and business cases have referred to this aim. For example, its *Overseas Territories: Managing Our Obligations More Efficiently and Assessing 'Reasonable Assistance Needs'*,⁵ published in June 2006, cited that 'making do' was not an efficient use of resources and that it held back 'achieving our long-term goal of the OTs all reaching self-sufficiency'.

1.5 The 2012 White Paper does not give a legal or formal definition of the 'reasonable assistance' needs of OTs. DFID interprets the term pragmatically to reflect the particular circumstances of individual territories and sectors. DFID is, therefore, closely involved in assisting the OTs that require budget support. Three of the Territories (Montserrat, Pitcairn and St Helena) have long-term financial dependency with substantial annual budget deficits.⁶ Pitcairn Island and St Helena both differ significantly from Montserrat in being extremely remote locations. Pitcairn also has a very small population of only 54 people.

1.6 OTs which are in receipt of such support are expected to do everything they can to reduce, over time, their dependence on the UK taxpayer. In Montserrat, DFID's support is focussed on rebuilding public infrastructure, the provision of

¹ A list of the 14 OTs can be found at:

<https://www.gov.uk/Government/policies/protecting-and-developing-the-overseas-territories>.

² On 21 May 2002, any British Overseas Territories citizen, who was not already a British citizen, acquired that status. Persons born on Montserrat after 21 May 2002 automatically acquire British citizenship so long as one parent is a British citizen, is settled in the UK or is settled in a British Overseas Territory. Any citizen without this connection can register for British citizenship. This will not normally be refused unless there is a specific reason. See: *Who is a British overseas territories citizen?*, UK Border Agency,

<http://www.ukba.homeoffice.gov.uk/britishcitizenship/othernationality/britishoverseasterritories/>.

³ *The Overseas Territories: Security, Success and Sustainability*, Foreign and Commonwealth Office, June 2012, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32952/ot-wp-0612.pdf. The quotation from the White Paper is from the Rt Hon Andrew Mitchell, former DFID Secretary of State.

⁴ White Paper *Britain and the Overseas Territories – A Modern Partnership*, Foreign and Commonwealth Office, March 1999, <http://www.ukotcf.org/pdf/charters/WhitePaper99.pdf>.

⁵ *Overseas Territories: Managing Our Obligations More Efficiently and Assessing 'Reasonable Assistance Needs'*, DFID, June 2006, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/67426/DFID-work-overseas-territories.pdf.

⁶ A fourth OT, Anguilla, is also ODA-eligible but is not receiving support at present.

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basic public services and increasing the island's self-sufficiency, now that the immediate humanitarian aid needs have been addressed.⁷

- 1.7 The UK Government has a fundamental responsibility for ensuring the security and good governance of the OTs. It is also responsible for the political, economic, social and educational advancement of the people of the OTs.⁸ The Foreign and Commonwealth Office (FCO) takes the leading role in implementing policy towards the OTs.
- 1.8 The 2012 White Paper established a Joint Ministerial Council (JMC), which meets annually and involves the elected leaders of the OTs and UK ministers.⁹ The JMC aims to review and implement the strategy and commitments in the White Paper. The JMC has a small secretariat, provided by the UK. Each UK government department has responsibility for supporting the OTs in their areas of expertise and departments have published papers setting out how they can provide this support.
- 1.9 The Governor of Montserrat is appointed by the Crown and chairs the Cabinet.¹⁰ The Cabinet also includes the Premier, three other ministers, three senior civil servants (the Financial Secretary, Cabinet Secretary and Attorney General) and the Deputy Governor, most of whom are Montserratians. The current constitution has been in place since September 2011 and is designed to give greater powers to local politicians and senior civil servants.
- 1.10 The Government of Montserrat sets its own agenda with routine and frequent contact with DFID staff based on the island. DFID staff also visit from the UK to negotiate Montserrat's budget and determine its progress towards meeting agreed goals.

⁷ It is noted that economic development objectives are included in DFID business cases for Montserrat airport back in 2002.

⁸ The White Paper states that these responsibilities stem from British history and international law, including the Charter of the United Nations signed in 1945, Article 73, <http://treaties.un.org/doc/Publication/CTC/uncharter.pdf>.

⁹ The UK Government has published details of the first JMC meeting in December 2012 at: <https://www.gov.uk/Government/publications/overseas-territories-joint-ministerial-council-communique>.

¹⁰ The Governor has direct responsibility for external affairs, defence, internal security, aspects of public service and the regulation of offshore finance.

Montserrat and its regional context

- 1.11 Montserrat is one of the Leeward Islands in the Eastern Caribbean and lies 43 kilometres southwest of Antigua and 64 kilometres northwest of Guadeloupe. It is one of five OTs in the Caribbean, along with Anguilla, the Cayman Islands, the Turks and Caicos Islands and the British Virgin Islands.
- 1.12 Montserrat has suffered significant natural disasters in the recent past. In September 1989, the category four Hurricane Hugo damaged or destroyed almost all the buildings on the island and left over 90% of the population homeless. Infrastructure repairs took several years and were effectively complete when the Soufrière Hills volcano began erupting in 1995. By 1997, these eruptions had destroyed the capital town Plymouth and its schools, government buildings, the main hospital, air access, energy generation and the port. Those who retreated to the north of the island were left with poorer schools and very poor roads, water and power provision. The UK Government established the Montserrat Volcano Observatory to monitor the volcano. Two-thirds of the island has been designated as a special vulnerable area in which permanent habitation is prohibited and access restricted (see Figure 1 on page 4).
- 1.13 Before the volcano erupted, the population of Montserrat was estimated to be around 13,000¹¹ but this had fallen to 4,922 by the 2011 Census.¹² The island was formerly financially self-sufficient but has now become heavily dependent on financial support from the UK. Tourism revenues have dropped substantially in recent years from £5.9 million in 2000 to £3.3 million in 2011.^{13,14}

¹¹ Montserrat's population is estimated by the CIA World Factbook to be 12,701 at July 1994, 12,738 at July 1995 and 12,771 at July 1996. CIA World Factbook archives for these periods are available at

<http://archive.org/stream/theciaworldfactb00180gut/pg180.txt>, <http://archive.org/details/theciaworldfactb00571gut>, and <http://archive.org/details/theciaworldfactb27675gut> respectively.

¹² *Census 2011 – Montserrat at a Glance*, Cabinet Report (census conducted 12 May 2011), April 2012,

<http://www.gov.ms/wp-content/uploads/2011/02/Montserrat-At-A-Glance.pdf>.

¹³ In this report, we have used pounds sterling figures provided by DFID wherever possible. Where figures are only available in a foreign currency, unless otherwise stated, we have translated into pounds sterling using the applicable average annual exchange rate (see: <http://www.oanda.com/currency/average>).

¹⁴ *Tourism Data October 2012*, East Caribbean Central Bank. Total Visitor Expenditure EC\$24.18 million in 2000 compared to EC\$14.01 million in 2011, see: <http://www.eccb-centralbank.org/Statistics/#tourismdata>.

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Figure 1: Map of Montserrat showing the extent of the exclusion zone in operation



1.14 The 2009 Comprehensive Poverty Assessment funded by the Caribbean Development Bank (CDB) classified 36% of Montserrat's population as poor.¹⁵ In 2011, Montserrat's Gross Domestic Product (GDP) per person was around £6,500. This is lower than other OTs and countries in the Caribbean such as Anguilla (£11,500), the Turks and Caicos Islands (£15,000) and Antigua (£7,800) but higher than St Helena (£3,888 in 2009-10).¹⁶

Role and approach of DFID

1.15 Between the financial years 1997-98 and 2011-12, DFID has provided £324 million to Montserrat, 50% of the total given to the OTs over this period.¹⁷

¹⁵ *Final Report: Montserrat Survey of Living Conditions, 2009*, The Government of Montserrat, the Caribbean Development Bank and Halcrow Group Limited, 2012, http://www.caribank.org/uploads/2012/12/Montserrat-2009-vol-1_v7.pdf. Poverty is most often defined on the basis of a severe poverty line (based on minimum food requirements) and a general poverty line (minimum food requirements plus an element of non-food expenditure). The CDB definitions of poverty are more wide-ranging than those based on income alone. They include consideration of living conditions, access to health and education and less easily defined notions such as vulnerability, voicelessness, powerlessness and lack of opportunity.

¹⁶ For St Helena the GDP per person: *Statistical News*, Statistics Office, Development and Economic Planning Department, October 2010; for the other areas: UN Data, 2013, <http://data.un.org/Data.aspx?q=montserrat&d=SNAAMA&f=grID%3A101%3BcurrID%3AUSD%3BpcFlag%3A1%3BcrID%3A500>, converted to constant prices using deflator from http://stats.areppim.com/calc/calc_usdlrxdeflator.php.

¹⁷ DFID obtained figures from ARIES and Statistics on International Development published by DFID from 1997 to 2002.

Montserrat currently accounts for 24% of DFID's spending on OTs, down from 41% in 2009-10 because of rising expenditure in St Helena.¹⁸ DFID expects to provide aid of over £24 million each year to Montserrat from 2012-13 to 2014-15, to cover technical assistance, budgetary support and capital investment. This will enable the maintenance of basic public services and investment in new projects. Jointly, the European Union (EU) and the CDB will provide a further £4.8 million per year over 2012-15 but no other development partners currently provide any support to Montserrat.¹⁹ Montserrat has no membership of the World Bank or the International Monetary Fund (IMF) independent to that of the UK and is not eligible for loans from them.²⁰ All of DFID's capital support is provided as a grant with no financing charge to Montserrat.

1.16 DFID has a team of four on Montserrat (a resident lead, an infrastructure adviser and two programme officers) and three programme officers in East Kilbride. They are supported by specialist advisers in key sectors such as education and health.

1.17 Both the UK Government and the Government of Montserrat produce strategic development plans for the island. For example, the Government of Montserrat produced a Sustainable Development Plan (2008-20), a Sustainability Road Map (2009), Policy Frameworks (for 2011-14 and 2013-16) and a Physical Development Plan for North Montserrat (2012-22).²¹ The Government of Montserrat, with

¹⁸ *Statistics on International Development 2007/08-2011/12, Total DFID Bilateral Aid*, National Statistics Publication, October 2012, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/67317/SID-2012.pdf.

¹⁹ The EU programme is worth €15.7 million over 2012-15 (approximately £12.4 million), EU press release, January 2013, http://eeas.europa.eu/delegations/barbados/documents/press_corner/news/release_no4_2013_montserrat_aid.pdf; CDB support is worth £1.9 million over the same period, CDB news release, July 2012, <http://www.caribank.org/news/news-release-no-392-cdb-board-approves-country-strategy-for-montserrat>.

²⁰ Whilst the IMF does not provide financial loans to Montserrat, it did complete a country report on the island in November 2011 on its economic developments and policies. The IMF published its results in 2012 and the report is available at <http://www.imf.org/external/pubs/ft/scr/2012/cr1209.pdf>. The IMF reviewed the Sustainability Road Map in 2011 and identified that the plan was built on assumptions that have not been borne out and suggested that Montserrat's medium-term fiscal framework be revisited to close financing gaps. The Road Map has since been dropped by the Government of Montserrat.

²¹ *Journey to Sustainable Prosperity – A Healthy and Wholesome Montserrat, Sustainable Development Plan (2008 - 2020)*, Montserrat Ministry of Economic Development and Trade, 2010, http://www.gov.ms/publications/SDP_MONTERRAT.pdf; *Sustainability Road Map*, Government of Montserrat, 2009, <http://www.gov.ms/wp-content/uploads/2011/02/Sustainability-Road-Map-12-Full-Text.pdf>;

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DFID support, produced the Strategic Growth Plan and related reform matrix. DFID produces routine documentation to support its annual budget negotiations. In 2012, DFID and the Government of Montserrat signed a Memorandum of Understanding detailing policy reforms which would provide a framework for future capital support from DFID, subject to the Government of Montserrat meeting agreed conditions. DFID undertakes an assessment of progress every six months.²²

- 1.18 The Government of Montserrat takes the lead on procurement for capital development projects. It also uses a proportion of DFID's budget support for access to specialist advice where required.

Approach to the review

1.19 This review examines how the UK Government manages its aid to Montserrat as part of its support to the OTs generally. DFID's programme on Montserrat is of particular interest given the shift in focus from humanitarian support to rebuilding public infrastructure, the provision of basic public services and the promotion of self-sufficiency.

1.20 DFID is funding a range of capital development projects to develop Montserrat's infrastructure needs. The projects include geothermal exploration, a power station, the upgrading of disaster management facilities and the island's main arterial road, as well as the expansion of a primary school and government buildings. Their costs and strategic importance to the island are significant. As of December 2012, DFID had eight live capital projects on Montserrat with a total planned cost of £35 million over the period 2007-16.²³

Policy Framework (2011 to 2014) and Policy Framework (2013 to 2016), Government of Montserrat; *Physical Development Plan for North Montserrat (2012 to 2022)*, Physical Planning Unit, Government of Montserrat, Ministry of Agriculture, Land, Housing and the Environment, December 2012, copies available from <http://www.gov.ms/pubs/malhe-ministry-of-agriculture/>.

²² *MoU Reforms: Mid-term review*, DFID, November 2012, <http://www.gov.ms/wp-content/uploads/2012/06/SGP-Final-Draft-MoU-Review-Report-Oct-2012.pdf>.

²³ As of December 2012, when we selected our sample for detailed review, DFID had eight live capital development projects on Montserrat. Four of these were among the six projects selected for detailed review. The four live projects not chosen were: Restructuring of the Public Works Workshop (£1.6 million, 2009-13); Government of Montserrat Office Accommodation (£2.9 million, 2010-13); Montserrat Disaster Preparedness Repairs (£0.7 million, 2012-13); and Montserrat Hospital and Healthcare Improvement Project (£8.3 million, 2009-16). For further details on each of these projects, see: <http://devtracker.dfid.gov.uk/search?query=montserrat>.

1.21 We have selected six capital projects for detailed review, having considered their strategic value, financial costs and stage of development. Our consideration of their strategic value included the extent to which DFID and the Government of Montserrat have placed importance on these areas in the development of the island. DFID has also discussed with the island the Government of Montserrat's objective to develop Little Bay and Carr's Bay into a new port and capital town. This is a significant development for the long-term sustainability of the island. We have included this project in our sample to the extent that it has progressed to date. Information on the timing and cost of these projects is shown in Figure 2 on page 6.

1.22 The six capital projects we reviewed were:

- **Gerald's Park airport (£8.8 million):** a development to replace the airport which was destroyed in the volcanic eruption. This was opened in July 2005;
- **Water supply development (£3.1 million across two phases):** a project to improve the capacity and reliability of water storage and distribution systems, helping 98% of the islanders gain access to safe, piped water;
- **Education infrastructure (£2.5 million):** the construction of two additional buildings for one of the two government primary schools. The first of the two buildings was completed in October 2012 but the facility is not yet open;
- **Road reinstatement (£5.8 million):** rehabilitation of the island's main road with improved drainage. This project is in progress with mixed results so far;
- **Geothermal energy development (£8.6 million):** exploratory drilling to establish whether there is a potential source of geothermal energy on Montserrat. A drilling rig is in place and is operational; and
- **Diesel power station (£5.3 million):**²⁴ the purchase of a new diesel power plant with associated civil works.

²⁴ This project is called the Power Generation Improvement project. It includes finance for a new diesel generator but will be taken forward to incorporate energy from renewables if and when available.

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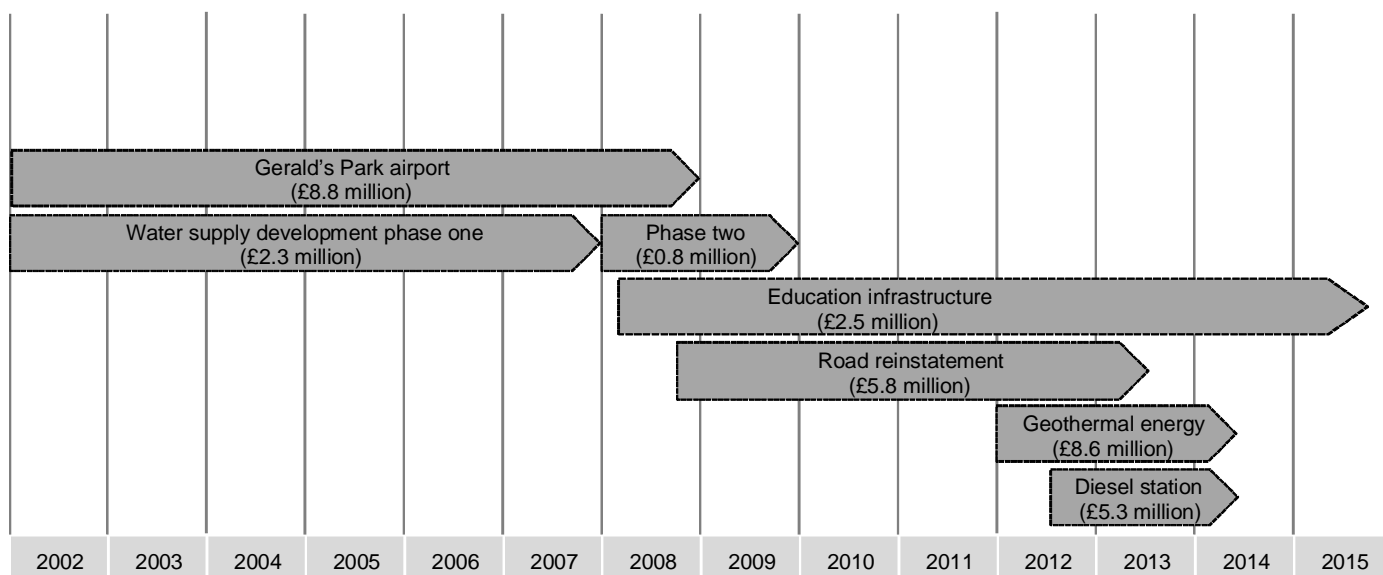
1.23 We undertook a literature review of these projects and of the wider context. We also received detailed briefings from DFID in the UK and in Montserrat. A field trip to Montserrat included visits to all six capital projects, as well as to a housing project and examinations of plans for a new port, capital and hospital.

1.24 Interviews were conducted in London with Government of Montserrat officials, the FCO and

DFID staff. Further consultations were carried out in Montserrat with:

- officials of the Government of Montserrat, the FCO, DFID, technical advisers and other development partners; and
- intended beneficiaries including small business owners, police officers, airport staff, staff at the volcano observatory, restaurant and shop owners and employees and winter residents.

Figure 2: The six capital projects selected for this review



Source: Planned expenditure and timeline information provided by DFID

2 Findings

Objectives

Assessment: Amber-Red 

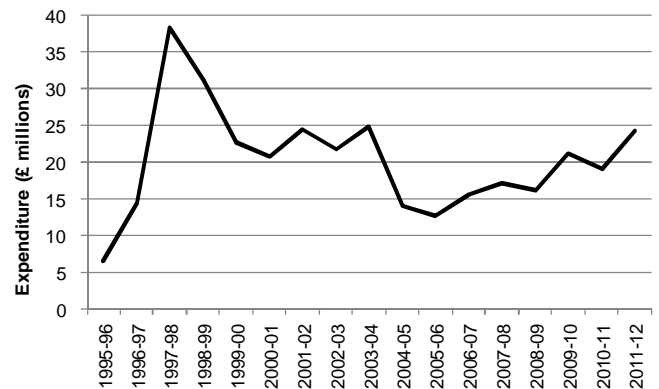
- 2.1 The 2012 White Paper on the OTs commits the UK Government to meeting the reasonable assistance needs of the OTs and to prioritising developments that reduce their dependency on UK aid.²⁵ This section of the report examines how the objectives of meeting reasonable assistance needs cost effectively and improving progress towards self-sufficiency inform the development of DFID's strategy towards Montserrat. We assess whether DFID's overall objectives are clear, relevant and realistic. We also consider the extent to which DFID's capital projects address these overall objectives and relate to the work of other partners.
- 2.2 We found that DFID has worked closely and successfully with the Government of Montserrat to help the island make the transition from the immediate post-disaster emergency to a stable normality, albeit with significant financial support. While a range of strategic documents has been produced, DFID has not yet developed a coherent strategic view of self-sufficiency, what this may mean in terms of expenditure and timescales and how to establish a co-ordinated portfolio of projects to meet the overall goal. We believe that DFID would benefit from adopting a strategic approach modelled more closely on long-term development planning and co-ordination with other development partners.

DFID has taken a pragmatic approach to meeting Montserrat's reasonable assistance needs

- 2.3 Although the UK Government is committed to meeting the reasonable assistance needs of the citizens of the OTs, there is no legally binding definition of what this means. DFID considers 'reasonable needs' on a territory and case-by-case basis. We find this a sensible overall approach. We believe that a single and fixed standard could not be applied rigidly across all the OTs in view of the differing circumstances and constraints which they face.

- 2.4 Following the hurricane and the subsequent volcanic eruptions on Montserrat, DFID concentrated on providing basic resources so that the island remained habitable. DFID's immediate response to the natural disasters was to preserve life and make available sufficient resources to enable Montserrat's population to occupy the safer northern area of the island. Figure 3 illustrates the initial injection of resources by DFID to address the aftermath of the volcanic eruptions to 1998. Although there is no recognisable date when the focus on humanitarian support moved to developing the north of the island to meet the needs of the population for the long term and improve Montserrat's self-sufficiency, the greatest concentration of humanitarian assistance was between 1997 and 1999. Figure 3 also illustrates the sustained support required until 2003-04 to bring back a certain level of normality and the period of increasing assistance since 2005.

Figure 3: DFID's expenditure on Montserrat since 1995



Source: Data provided by DFID

- 2.5 The road, water, power and education projects have supported the island's immediate recovery and all appeared to address reasonable needs of intended beneficiaries:
- the road is the main arterial route necessary to travel to the majority of the island's key remaining sites;
 - water is a basic commodity;
 - power is needed to sustain modern human life; and
 - education is a human right.

²⁵ *The Overseas Territories: Security, Success and Sustainability*, Foreign and Commonwealth Office, June 2012, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/14929/ot-wp-0612.pdf.

2 Findings

- 2.6 We did not, however, find a compelling rationale for the airport project on the grounds of reasonable needs. With Antigua only 43 kilometres away, ferry access could have been a more suitable alternative. Many islands with small populations cope well with this means of access and accept that adverse weather conditions may mean that access (whether by ferry or air) is not always possible.
- 2.7 As a result we find that, in some sectors, DFID needs to establish a clearer sense of reasonable assistance to inform both the expectations of Montserratians and its interactions with the Government of Montserrat. DFID should do more to illustrate how far it is prepared to go in meeting this objective and thus avoid encouraging unrealistic expectations and supporting projects that do not contribute meaningfully.

DFID has not adequately thought through its approach to helping Montserrat improve self-sufficiency

- 2.8 The Government of Montserrat accepts its responsibilities raised by the White Paper to avoid long-term dependency on the UK and wishes itself to achieve self-sufficiency. DFID has not, however, developed a realistic view of how to improve self-sufficiency and of what this means in terms of expenditure and timescales.
- 2.9 In our view, this reflects failings in the planning process between the UK Government and the Government of Montserrat. In addition, DFID has not adequately thought through its overall objectives for Montserrat in the longer term. The Government of Montserrat's Strategic Growth Plan²⁶ creates no overall picture of self-sufficiency for the island before describing a phased approach to developing four investments in air and sea access, geothermal energy and the new town. As a result, the strategic framework to help Montserrat work towards self-sufficiency is weak. In the absence of a meaningful strategic framework, DFID cannot set, commit and communicate the financial resources required to meet its self-sufficiency objectives.

Planning for self-sufficiency is not coherent or systematic

- 2.10 At present, it is unclear what targets DFID is hoping to achieve in Montserrat. DFID has a good working relationship with the Government of Montserrat but it has not used this to ensure aligned objectives or to create a single shared strategy. It is difficult for DFID to create a portfolio of priority areas for further focus and development, for example in the access sector, without a clear understanding of its overall strategic intent.
- 2.11 A portfolio approach to project development and management assists development partners and recipient governments alike. It helps to establish clear links between their strategic objectives and available resources, implementation risks and progress. This is a common approach taken by local authorities in the UK when developing a range of initiatives and seeking to attract private sector investment. We think that DFID would find a similar approach to planning helpful.
- 2.12 The drawbacks of the current approach are apparent in the proposed development of Little Bay and Carr's Bay, a new port and capital town. DFID is currently considering investing a significant sum in this project, which the Government of Montserrat sees as key to the island's future. The project has evolved over time since 1997, when the Government of Montserrat commissioned a report into suitable locations for a replacement port. Since then, DFID has had to consider the impact of future volcanic activity and various options for the detailed specification of the project.
- 2.13 DFID has also commissioned further evaluations into the tourist industry, land ownership issues and infrastructure costs. In the absence of a clear strategic framework, however, it is likely to prove necessary to revisit the detailed plans and to identify alternative ways of proceeding which are less costly or involve greater private sector investment. With better planning, options could have been identified at an earlier stage and more limited investment proposals developed for further detailed consideration.

²⁶ Government of Montserrat, *Strategic Growth And Development Reform Plan*, November 2011.

2 Findings

The financial implications of plans designed to improve self-sufficiency are poorly considered

2.14 DFID has not put adequate effort into managing the expectations of the people of Montserrat about a level of future funding to improve self-sufficiency which is realistic and affordable. Rather than making difficult strategic choices to prioritise some projects and not support others, DFID has made poor decisions on a project-by-project basis and has not demonstrated a capacity for joined-up thinking across projects. For example, DFID decided to invest in a new airport and to end ferry and helicopter subsidies. Instead of improving access, this led to a further decline in tourism: the ferry subsidies had to be reinstated and the airline services are also now subsidised. In addition, the airport makes a loss each year.²⁷

2.15 There is little recognition of what is achievable and affordable. For example, capital expenditure has a cost but this is not always recognised by the Government of Montserrat, because capital funds are provided by DFID without a financing charge. We also found that there is little incentive for the Government of Montserrat to consider areas such as revenue generation and applying charges for government services in adequate detail. We identified cases, for example in power and water, where Montserrat officials told us they have not used any mechanism for reviewing charges.

The involvement of partners is not sufficiently co-ordinated

2.16 We found evidence of successful co-operation between partners at the project level, for example in the diesel power station and airport projects. The overall strategies of DFID, the EU and the CDB, however, are developed largely independently of each other. DFID lacks a strong strategic focus on maximising a return on the investment in its projects as a whole, by harnessing the involvement of other partners. A more thorough and comprehensive strategy from DFID could provide a basis for better plans from the EU and CDB.

Private sector involvement has proved difficult to secure

2.17 Both DFID and the Government of Montserrat acknowledge that an enhanced role for the private sector has to be a major component of greater self-sufficiency. DFID has, however, lacked clarity and consistency in its approach to increasing private sector involvement and may have developed unrealistic expectations among the Government of Montserrat and its citizens about what can be achieved.

2.18 In the case of geothermal energy, DFID had hoped that the private sector would be interested in exploratory drilling on a speculative basis. Advice to DFID raised doubts over whether this could be achieved. In practice, the private sector has not engaged and the current geothermal drilling is entirely funded by DFID.

2.19 More significantly, Montserrat has expended considerable effort over the past two years in developing its vision for tourism as the main way forward for the island. In order to make this happen, the Montserrat Development Corporation (MDC) and the Government of Montserrat have proposed a new port. This would be continuously operational, regardless of weather conditions and would include the development of a new capital town. The estimated cost to DFID would be significant.

2.20 DFID has said that it will commit to funding this project if 32 criteria are met, including simultaneous commitment from the private sector for major investment in hotels and property. In its mid-term review published in November 2012, DFID found that the Government of Montserrat was making good progress in most of these areas. DFID also felt that more work needed to be done to obtain the commitment of the private sector and that private sector commitment remained a key prerequisite to allow this significant public sector investment to go ahead. Advice to DFID, however, suggests that the private sector is unlikely to invest without public sector investment first. We agree that the current approach to involving the private sector in the development of a new port is unlikely to be successful.

²⁷ Montserrat Budget Submission 2012-13, DFID documentation.

2 Findings

A different strategic model may be more effective

2.21 We compared the strategic approach taken to the design and output of DFID's programme in Montserrat to the approach taken by donor and recipient to aid development. We focussed on the approach taken by the World Bank. We have set out an outline of this approach and the advantages it may offer for Montserrat in Figure A3 of the Annex.

2.22 We found that the UK Government and the Government of Montserrat have a different relationship from the typical relationship between donor and recipient. While we recognise the inherent differences, DFID would nonetheless benefit by adopting a strategic approach that focusses on long-term development planning and co-ordination with other development partners. In summary, the key features and benefits are:

- the establishment of an overall framework of targets and indicators that helps to design and implement effective programmes and projects;
- a focus on the likely future levels of funding over the longer term to encourage a realistic view of investment plans and better prioritisation; and
- the engagement of partners in developing the country strategy to encourage co-ordinated approaches to programmes.

DFID's strategic plans do not adequately address cross-sector issues such as access to the internet

2.23 In our view, DFID should define its overall objectives with greater precision to allow it to put in place an appropriate strategic framework for the oversight of its programme in Montserrat. In the absence of a meaningful strategic framework, DFID cannot set, commit and communicate the financial resources required to meet its self-sufficiency objectives.

2.24 For example, DFID's plans do not adequately consider the widespread use and impact of the internet across sectors. To date, DFID has considered internet-related issues as supplementary to an overall objective rather than as a separate enabling strategy in its own right. As a result, DFID does not have a clear view on the

benefits that would accrue from developing and using this resource more widely from its current access via existing telephone lines.

2.25 DFID is considering recent advice suggesting that a fibre optic connection is a key development for the island's future sustainability. DFID's consideration of this should help to establish a robust enabling strategy.

DFID's engagement on the power sector has been pragmatic but should be more long term

The Government of Montserrat identified numerous power sector projects

2.26 The situation in the power sector is complex. Montserrat's main power station was destroyed in the volcanic eruption. Since 1997, the island has relied on a number of high-speed diesel-generating units to produce electricity. Currently 98% of the population obtains a reasonable power supply from these units.²⁸ Although these types of unit have an expected life of about ten years, they would not normally be used to provide a continuous supply of electricity. They are typically used in emergency situations or to provide top-up capacity during periods of peak demand.

2.27 In its Policy Framework for 2011-14, the Government of Montserrat developed plans for the following power projects:

- a new medium-speed diesel power station, with a proposed capacity of 1.5 megawatts (MW), expected to be in operation by June 2013;²⁹
- the construction of a geothermal plant, generating 2.5MW by March 2014;³⁰
- two wind turbines, generating 1MW in total by March 2014; and
- the commissioning of a solar power plant planned for March 2013, with unspecified generation output.³¹

²⁸ According to Montserrat Utilities Limited, Montserrat's consumers experienced an average of 880 minutes of interrupted electricity supply in 2010.

²⁹ This was an expectation of the Government of Montserrat which was not achieved due to affordability and specification issues.

³⁰ Montserrat identified geothermal power as a major export opportunity if a substantial generating capacity could be sourced and exported via a transmission line to neighbouring islands. DFID's current geothermal project will establish whether this source is viable for local needs before considering its wider export possibilities.

2 Findings

2.28 We found this collection of plans for the sector to be unnecessary and incoherent. The total demand for power on Montserrat is expected to increase to 2.5MW but, by developing all these power sources, Montserrat would have more than double the capacity it needs, even with some allowance for a capacity margin for breakdowns, maintenance and peak time usage. In addition, the wind and solar plants do not complement the geothermal plant.³² This is because the geothermal plant has to work continuously in order to make use of the available steam.³³

2.29 DFID has – sensibly in our view – not considered financing the wind or solar projects. As a result, the Government of Montserrat has no further plans for these projects. DFID has not, however, formally responded to the Government of Montserrat's plans. The preparation of these plans may create unrealistic expectations in Montserrat about what DFID will fund.

DFID is funding two significant projects in the power sector

2.30 DFID has agreed to fund two simultaneous projects in the power sector, a new diesel power station and a geothermal plant. The geothermal and diesel power plants are both complementary and competitive projects but DFID has not fully appraised them as a potential integrated programme.

2.31 The business case for the diesel plant project identifies improved safety, reliability and efficiency as benefits. DFID, however, risks funding a £5.3 million diesel plant project which Montserrat may not require in the medium term.

2.32 The development of both diesel and geothermal projects in parallel will result in a significant workload for the Public Works Department (PWD). While the PWD has support from well-qualified

consultants on both the geothermal drilling project and the energy sector, we believe it will overstretch the Department's current capacity, particularly at senior levels, which is already having difficulty in meeting all the pressures on its services.

DFID has little recent commercial leadership experience in the power sector and has not contributed sufficiently to preparing Montserrat for forthcoming projects

2.33 At an early stage, the Government of Montserrat and DFID considered geothermal power to be an export prospect through a transmission line to a neighbouring island. In view of the unpredictable nature of volcanic activity, it is not currently considered safe to exploit the resource, if proven, on a suitable scale for export. It is possible that the opportunity to export geothermal power will be revived but at this stage DFID does not have any estimates of transmission costs or contracting plans. Establishing a private-public contract for transmission, distribution and continued investment will require further expert commercial skills to realise this opportunity, if possible. DFID has limited recent commercial experience of leading in the financing of power stations compared to that of the multilateral development banks.

2.34 These institutions usually expect power providers to have up-to-date and audited accounts. They regard this as evidence of careful protection of assets and resources. Montserrat Utilities Limited (MUL), which runs the power system, has accounts which are three years in arrears and the accounts for the previous year are still subject to audit. DFID will not release project finance until MUL meets the project's condition on bringing its accounts up to date. DFID should, however, have identified the absence of audited accounts in the business case for the project and put in place earlier measures to publish MUL's accounts.

³¹ DFID did not consider financing the solar projects proposed in the 2011-14 policy framework. As a result, the Government of Montserrat has no further plans for these projects.

³² Solar and wind technologies will produce variable power outputs. These are typically complemented by thermal plants (such as gas or diesel) which can be throttled as required for efficient fuel consumption. A geothermal plant, however, offers less control and when power from wind turbines and solar plants is online, total power output can only be reduced by venting steam.

³³ The current strategy, should geothermal not proceed, is to have two medium-speed diesel units, each with a maximum size of 1.5MW, to provide for back up and peak time usage.

2 Findings

Delivery

Assessment: Amber-Red 

2.35 This section of the report examines DFID's business cases for each project. It looks at the options proposed to deliver the planned results, their beneficiary involvement, monitoring and evaluation and progress towards delivery.

2.36 Generally, DFID has considered an appropriate range of options but project appraisal has been handled less well, especially for larger projects such as the airport and power sector. DFID's business cases make reference to maintaining the capital assets it supports. It has not, however, enabled the Government of Montserrat to secure the long-term financing to ensure that this is achieved. Beneficiary engagement has improved on the more significant projects but engagement throughout the life of the projects is less evident.

DFID has planned minor projects well but major projects have shown planning weaknesses

2.37 We examined the business cases (or their equivalent) for six capital projects. Figure 4 summarises our assessment against a range of criteria. This assessment has informed our overall scoring of the six projects, which is presented in the Annex at Figure A2. The projects in the roads, water and education sectors are both smaller and simpler in engineering terms than the airport and the two power projects.

DFID's option appraisal and risk assessment was sufficient

2.38 The business cases we examined have considered an appropriate range of options or met the minimum DFID guidance in comparing the costs and benefits of the project with the 'do nothing' option, for example in the cases for the water and road projects. For the road project, however, DFID's appraisal of a technology solution for the application of asphalt, without considering alternative solutions, may result in long-term sustainability issues and increased road construction costs.

2.39 Equally, the business cases identified a reasonable set of risks and mitigation. These were generally scoped, however, in terms of infrastructure issues and not wider organisational or external issues. We

would expect DFID to have dealt partly with the consideration of these risks at a sector or portfolio level. For example, DFID did not adequately assess at the start the capability of the Public Works Department to cope successfully with the impact of increased demand on its services and the strength of arrangements with the Government of Montserrat. DFID raised these issues in its December 2012 annual review of the roads project.

Figure 4: Selected projects' business cases and our assessment³⁴

Project	Appropriate range of options	Adequate consideration of risks	Robust evaluation	Clear sustainability assessment	Adequate beneficiary needs
Gerald's Park airport	✓✓	✓✓	✓	✓	✓✓
Water supply	✓✓✓	✓✓	✓✓✓	✓✓	✓✓
Education infrastructure	✓✓✓	✓✓✓	✓✓	✓✓	✓✓
Road reinstatement	✓✓	✓✓	✓✓	✓	✓✓
Geothermal energy	n/a	✓✓✓	✓	✓✓	-
Diesel station	n/a	✓✓✓	✓	✓	-

The case for the new airport was not evaluated adequately

2.40 DFID undertook a more robust evaluation of the simpler engineering projects (water, education and roads) than it has for the airport. These simpler cases appraised a range of relevant financial, technical, operational and environmental factors with reference to other studies. For the scope of these projects, we did not identify any significant gaps arising from DFID's evaluation process. We noted that a more rounded evaluation of the capacity and capability of the Public Works Department would have strengthened the assessment of the education and roads projects.

2.41 We found that the business case for the new airport was not evaluated adequately. Gerald's Park airport was always contentious. The previous

³⁴ We have used a score of one to three, indicated by the number of ticks in the table, to assess each criterion. Broadly, ✓ means brief or insufficient, ✓✓ means sufficient but could be strengthened and ✓✓✓ means satisfactory.

2 Findings

airport on Montserrat was destroyed by the volcano in 1997 and, thereafter, transport to Antigua was maintained by helicopter and ferry. Over the period 1997 to 2005, DFID supported the Government of Montserrat to spend more than £3 million each year subsidising both routes.³⁵

2.42 The development of a new airport was widely regarded on the island as beneficial to Montserrat. The project appraisal identified and assessed appropriately the chosen site and size of the airport and dealt with some local concerns over both its size and location.

2.43 We found, however, that there were shortcomings in the evaluation. DFID approved the project on the basis that all subsidies for the helicopter and ferry services would cease. The business case analysis assumed that ferry passengers would be willing to transfer to an air service. DFID did not undertake a survey of existing ferry users to gauge this willingness. Local people told us of the strong positive feedback for building a replacement airport, given that difficult sea conditions can affect the use of the current harbour facilities but that the decision to cancel subsidies to ferry services when the airport opened was taken against their wishes.

2.44 DFID's assumptions about the willingness of ferry passengers to transfer to an air service have proved to be incorrect. The level of traffic at the airport remains far below forecast levels and tourist numbers have continued to fall (see Figure 7 on page 17). As a result, the Government of Montserrat now subsidises the airport, an airline service and the reintroduced ferry service, at a cost of £732,000 in 2011-12. While the Government of Montserrat endorsed the airport project, it is clear that it had reservations, in particular over the withdrawal of ferry subsidies and consequent closure of the ferry service.

In the projects we reviewed, DFID's assessment of sustainability was not realistically linked to annual maintenance budgets

2.45 The business cases considered the upkeep of the current and future assets created by the capital development. For example:

- the airport business case quoted estimated annual maintenance costs for the runway, at 2002 prices, of £52,600; and
- the road business case contained a detailed rationale for upgrading the road to enable a preventative maintenance regime. This included figures for the road maintenance budgets for 2004-09 and analyses explaining the relative costs and benefits of maintaining and rehabilitating a road, depending on its condition.

2.46 Although the business cases identified sustainability issues, too often they lacked detail and realism in how effectively they could be implemented and maintained:

- the Government of Montserrat's Public Works Department, responsible for the road project, stated that its current budget was insufficient to meet current demands. Any future budget reductions were, therefore, likely to result in deteriorating roads. This was not assessed in the business case; and
- the business case for the school project did not estimate the annual running costs. It stated that, 'GoM [Government of Montserrat] has agreed to meet the additional running and maintenance costs for the additional school building. GoM is committed to raising additional revenue to meet increased expenditure obligations – principally through improved revenue collection effort by the authorities'. The absence of an estimate or range of likely annual running costs undermines the credibility of this commitment.

2.47 Our examination of the road project, in Figure 5 on page 14, provides a useful case study of the challenges DFID and the Government of Montserrat face in protecting the life of this asset.

³⁵ Information Note: *Improving Access for Economic Development*, DFID, July 2011.

2 Findings

Figure 5: The road project in detail

In the roads sector, DFID is financing the refurbishment of the major road on the island with improved surfacing, drainage and the creation of a pavement to enhance road safety. We found this project to be well thought through in principle, although it has experienced difficulties and DFID suspended further finance for the project in May 2013. DFID's review in 2012 identified that the Public Works Department was using too many small contractors and, although progress was being made, DFID wanted assurance over its future management in meeting the aims for better safety, improved maintenance and support to utilities infrastructure.

Management of the roads sector always needs to strike a balance between capital and revenue expenditure. Roads which are not properly maintained deteriorate rapidly and require investment to rehabilitate them. DFID and the Public Works Department also have to ensure that the personnel and systems are in place to manage rehabilitation and maintenance effectively.

DFID's business case recognises the importance of controlling the loading of trucks. Montserrat has a small sand mining industry and its trucks are frequently overloaded, causing damage to road surfaces. The Government of Montserrat has responded by setting legally enforceable maximum axle weights for vehicles and obtaining a weighbridge to check trucks. These are currently enforced by causing inconvenience to overloaded trucks, stopping them and obliging the drivers to remove some of the sand before they can continue their journey, rather than by prosecution. In future, greater involvement by the police and greater willingness to undertake prosecutions may be needed to ensure compliance.

The Government of Montserrat recognises that its roads budget is inadequate to ensure proper maintenance. Over the past eight years, the budget for roads maintenance has reduced from £365,000 to £120,000.

It is likely that the Government of Montserrat will request further investment in road rehabilitation from DFID. A full asset condition assessment is required to determine a reasonable figure for maintenance expenditure needs. After discussion with Montserrat's Public Works Department, we believe it is likely to be closer to the original £365,000 budget than to the current reduced one.

DFID, therefore, needs to continue to work with the Government of Montserrat to establish the appropriate level of maintenance and rehabilitation expenditure on the roads network and ways of managing that expenditure effectively. It should be a condition of funding for any future investment that roads are properly maintained. Discussions with the Government of Montserrat should cover the issue of revenue from transport taxation as well as expenditure. There is a strong case for taxing both vehicle ownership and use to ensure that, at a minimum, all road users bear the costs that they impose on the road network. This will

involve a combination of fuel duty and excise duty on vehicles. The level of taxation imposed on trucks needs to be a particular focus of attention, since they are likely to be responsible for the majority of road deterioration. These are important issues for both the Government of Montserrat and the UK Government to consider. It seems unlikely that subsidies to Montserrat lorry users can be regarded as a reasonable assistance need to be supported by the UK Government. Provided that the level of taxation is high enough, the road maintenance budget can, in effect, be protected in budget support negotiations.

Beneficiary engagement has improved for recent, larger projects

- 2.48 Increased DFID presence on Montserrat has improved engagement with the Government of Montserrat and beneficiaries. The resident lead adviser has regular and detailed contact with senior politicians and officials. This is particularly important on Montserrat, since much engagement is by word of mouth. The full-time presence of the infrastructure advisor on the island, since November 2012, should also improve the level of engagement with beneficiaries and the Government of Montserrat.
- 2.49 We found that the simpler projects have followed a logical approach to addressing beneficiaries' needs in cases where it is straightforward to identify priorities:
- the road project contained measurable objectives to improve drainage;
 - the water project continued the phased approach to maintaining a reliable water supply, to World Health Organization (WHO) standards, to consumers throughout the island; and
 - the education infrastructure project had a relatively straightforward aim to extend and improve facilities at a crowded primary school.
- 2.50 Beneficiary engagement on the new port and capital town project, led by the Montserrat Development Corporation and supported by DFID, has been good. This engagement includes a permanent exhibition of the plans close to the site, extensive development of publicity material and public events. The expectations generated by these plans may, however, be unrealistic.

2 Findings

Projects are locally owned, monitored and controlled but often delayed

- 2.51 The Government of Montserrat uses its systems of procurement and delivery for each DFID-funded project. DFID and the Government of Montserrat are alert to the procurement risks common to a small island and have acted accordingly to mitigate these. The Government of Montserrat has identified lessons for public sector procurement from the delayed appointment of a contractor for the school project.
- 2.52 DFID also relies on the Government of Montserrat's systems and processes for financial management and control. We found strong evidence of detailed and frequent financial project monitoring and evaluation for the road project that also included non-financial information.
- 2.53 DFID gives responsibility to the Government of Montserrat to achieve results and there are good examples of the Government of Montserrat taking effective control. For example, the Government of Montserrat implemented new IT systems for customs which have significantly improved clearance procedures for cargoes at the port.
- 2.54 We found evidence of delay in the projects we examined, in particular at the planning stage. The first study for a diesel generator was completed in 2005 but a contract for the project has not yet been signed. The water project was delayed for over two years in the planning stage, while Montserrat Utilities Limited enacted tariff increases and finished eight months later than planned. The school building project was delayed by six months because of a procurement error and subsequent legal challenge. DFID now has an adviser on Montserrat to observe projects and discuss issues more frequently and this should help to reduce similar delays in future.

Impact

Assessment: Green-Amber 

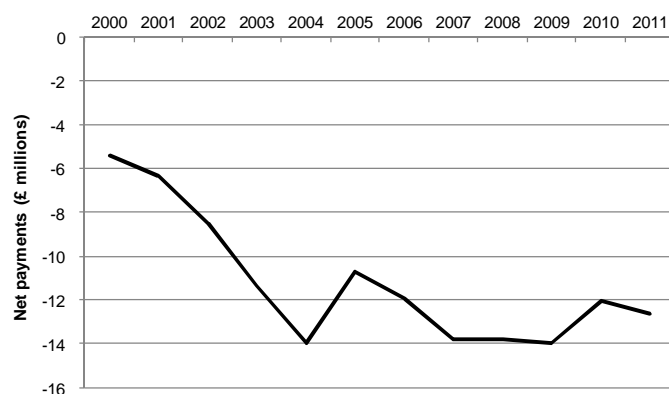
- 2.55 This section of the report considers the impact of DFID's capital projects with particular reference to the impact on intended beneficiaries.

DFID's programme on Montserrat had a clear positive impact in the aftermath of the natural disasters but less progress has been made on improving self-sufficiency

- 2.56 Following the volcanic eruptions which began in 1995, Montserratians faced a crisis. The material from the volcano swept away their homes and caused severe damage to the safe distribution of water, to electricity supplies and to access across the island.
- 2.57 DFID's actions helped to prevent an entire evacuation of the island. DFID provided emergency humanitarian assistance for healthcare, shelter, food and water. At the same time, DFID helped people to relocate permanently to the north of the island or to move overseas.
- 2.58 Subsequently, DFID's efforts have focussed on ensuring that those who remained could lead reasonable lives in their new homes. The water and road projects are aspects of that continued assistance which now also contribute an economic benefit to the island. Power was made generally available from emergency generators and around 98% of the population now has a power connection. The impact of DFID's immediate actions in the wake of the natural disasters was significant and proved vital for ensuring that the island remained habitable.
- 2.59 Despite DFID's achievements in restoring people's lives, it has had less success in improving Montserrat's self-sufficiency and ending budget support. This is illustrated by Figure 6 on page 16, which shows Montserrat's balance of payments position since the eruption. The deficits are a mirror image of DFID budget support. Analyses of this type are useful tools to help illustrate the work still required to achieve the impact desired and progress being made.

2 Findings

Figure 6: Montserrat's balance of payments since 2000



Source: Government of Montserrat fiscal accounts

The impact on beneficiaries of the projects we reviewed is mixed

2.60 Four of the six projects we reviewed are complete or substantially complete. They are the main focus of this part of the review. We found that two of these projects (in roads and water) are having a positive impact on intended beneficiaries whilst the airport, which was completed successfully, has had less beneficiary impact than expected and the first school building, while complete, is not yet occupied.

2.61 Figure 8 on page 18 summarises the impact of DFID-funded projects on intended beneficiaries. This assessment has informed our overall scoring of the six projects, which is presented in the Annex at Figure A2.

The airport project has not had the impact expected

2.62 The Gerald's Park airport development was met with mixed responses. Its impact has been limited and less positive than had been envisaged. Visitors told us that they enjoyed travelling more quickly to the island by air than by sea and that the sea journey was unpleasant when the Atlantic became rough. Business owners, however, told us that they wanted cheap, reliable access to the island to encourage visitors – particularly day and weekend trippers – and to export their goods. They wanted the ferry subsidy to continue and were ambivalent at the time about developing air access.

2.63 The economic benefits that the airport would bring formed the basis of DFID's positive assessment of the project and 'conclusive evidence of the economic justification for an airport on Montserrat'.³⁶ Figure 7 on page 17, however, shows the declining trend of visitor numbers to Montserrat against the forecast numbers in the DFID business case. The overall objective of the new airport to improve access and therefore increase tourism and reduce subsidies to the island has not been achieved.

2.64 Many Montserradians to whom we spoke felt that the airport makes an important statement about the significance of their island. Some considered that the airport might serve as a lifeline should the volcano erupt more violently again but many told us that a ferry would bring back the visitors, revive Montserrat's tourism industry and be more beneficial overall.

The school project remains a work in progress

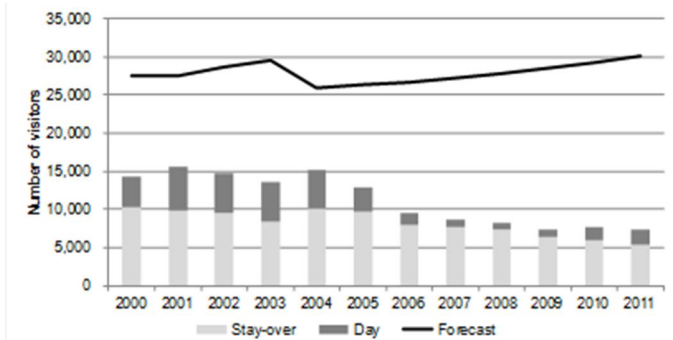
2.65 Following the volcanic devastation, DFID funded building works to develop Montserrat's education infrastructure. At present, Montserrat has three government nursery schools, two primary schools (Lookout and Brades), one secondary school (Montserrat Secondary School) plus two privately owned primary schools.

2.66 DFID agreed in principle in February 2008 to fund a series of education infrastructure projects, culminating in August 2010 with the first of two phases of development at the Lookout primary school. The first phase aimed to ease overcrowding for pupils and teachers with a new two-storey facility and to create better educational and community facilities including a sports hall.

³⁶ DFID project documentation, economic and financial appraisal of *Gerald's Airport Project Memorandum*, DFID, August 2002.

2 Findings

Figure 7: Forecast arrivals versus actual visitor numbers (2000-11)³⁷



2.67 Construction work on the first school building was largely completed in October 2012 but the building is not yet fulfilling its intended purpose. Pupils and teachers to whom we spoke were frustrated that they could not yet access the new building and its facilities and use the additional classroom space in the existing buildings. During the project, according to DFID the Public Works Department and Ministry of Education changed the agreed approach, with the result that it is unclear whether the budget now covers the costs of the equipment and fittings.³⁸ The school management was, however, confident that the new building, once open, would be well received.

2.68 In April 2013, DFID agreed funding to complete this project and report that the first building will open in September 2013 in time for the new school year, with the second building opening in September 2014. Whilst DFID has correctly expressed its criticisms of these design changes to the Government of Montserrat, DFID's oversight was not sufficiently proactive to challenge and resolve the revisions in a timely manner.

³⁷ Forecast arrivals from *Gerald's Airport Project Memorandum*, DFID, August 2002, Table 6: the 17-year forecast of passenger arrivals (2001-18) is the lower forecast assessment; and visitor numbers are from *Montserrat Annual Tourism Numbers*, East Caribbean Development Bank, 2012, see: <http://www.eccb-centralbank.org/Statistics/#tourismdata>.

³⁸ The original Project Memorandum for Phase 1 completed in August 2010 contained £150,000 for the fixtures and fittings, but the Annual Review completed in 2012 stated that 'it is completely unclear at this stage what level of equipping and fitting is further required under this project'.

Learning

Assessment: Green-Amber 

2.69 This section of the report looks at the learning opportunities presented by DFID's management of its Montserrat programmes to date and by the recent White Paper on the OTs. We also consider how well DFID is learning and sharing lessons from its experiences.

DFID has not properly evaluated all projects

2.70 DFID undertook a financial evaluation of the airport project in 2009. Its aim was to enable an understanding of the adequacy of the project's accounting and management systems. In doing this, it also looked at whether the goods and services financed by DFID were procured in accordance with the relevant financing agreements and with due regard to procurement best practice.

2.71 Whilst this review identified minor issues relevant for future projects, we believe DFID should have undertaken a wider value for money evaluation focussing on the project's relevance, efficiency, effectiveness, impact and sustainability in the access sector. This was a large project and, even though the project was completed some time ago and has acknowledged shortcomings, it is likely that there are important lessons to be learned.

2.72 With the exception of not completing a benefits realisation review for the airport project, DFID has generally monitored its projects effectively but with minor shortcomings in that it did not undertake:

- one of the annual review processes on the school project; nor
- a timely review of the roads project, despite concerns raised by DFID about the management of the project by the Public Works Department.

2.73 A more transparent approach to the oversight of projects shared with the Government of Montserrat and intended beneficiaries should ensure that DFID is able consistently to monitor its projects. Planning when to undertake evaluations based on when key milestones are reached should also help to ensure that any corrective action is taken on a timely basis.

2 Findings

Figure 8: Summary of DFID's planned and actual results by project

Project	DFID's planned results	DFID's actual results
Gerald's Park airport ³⁹	<ul style="list-style-type: none"> ■ Develop new airport runway and buildings ■ Attract airlines to operate from the airport with seven rotations per day in 2008 rising to eight in 2013, of which one would be an Islander aircraft and the other Twin Otters ■ Achieve passenger arrivals of 26,000 by 2008 and 33,000 by 2013 and subsequent increase in tourism economy ■ Eliminate subsidies for helicopter and ferry services ■ Meet safety standards 	<ul style="list-style-type: none"> ■ New airport completed ■ Limited number of airlines attracted and this has required subsidy. The level of service is below expectations. There are no Twin Otter aircraft servicing the route and only four rotations of Islander planes ■ Passenger arrivals are far below expectations. Even at full capacity, the maximum number of passenger arrivals in 2013 would be around 13,000. According to the Montserrat Tourist Board the island had 9,905 visitors in 2012 and 7,392 in 2011⁴⁰ ■ Subsidies for helicopter services have ceased ■ Subsidies for ferry services were ceased but had to resume (at lower levels) because of the fall in tourist arrivals to the island. Ferry subsidies were £600,000 in 2010-11 and £732,000 in 2011-12. It is forecast that over five years a total of £4.5 million will be spent on subsidies ■ The airport operated to appropriate international safety standards
Water supply development ⁴¹	<ul style="list-style-type: none"> ■ Improve capacity and reliability of water distribution systems ■ Meet present and predicted water demand ■ Supply water to WHO standards ■ Progress to financial sustainability 	<ul style="list-style-type: none"> ■ The capacity and reliability is good, 98% of the population have a piped water supply and Montserrat has increased capacity by over 500,000 gallons ■ Current water demand is fully met ■ Water quality is independently tested and meets WHO standards ■ The water sector appears to be loss-making and further tariff increases may be needed to ensure financial viability
Education infrastructure ⁴²	<p>For the Lookout primary school, an additional building that included:</p> <ul style="list-style-type: none"> ■ IT classroom, library/resource centre, administration and staff facilities ■ A multipurpose sports hall ■ Changing rooms 	<ul style="list-style-type: none"> ■ IT classroom, library/resource centre, administration and staff facilities built ■ Four classrooms and a science laboratory built (but no equipment) ■ Built using appropriate methods to prevent corrosion by acid rain
Road reinstatement ⁴³	<ul style="list-style-type: none"> ■ Improve drainage to reduce maintenance costs ■ Repair road as necessary and correct faults ■ Improve road safety ■ Increase capacity for road maintenance ■ Ensure controls on trucks carrying sand to prevent overloading 	<ul style="list-style-type: none"> ■ DFID suspended finance for this project following safety concerns in operation and has set Montserrat actions that include an up-to-date condition survey and a rational and costed plan for all necessary improvements that enable the full road asset to be properly maintained ■ Better storm drains installed at critical points along road ■ Road has been repaired to a good standard (although only 17% of the required resurfacing works completed to date) and underground channels installed to improve reliability of utilities (17% of the ducting completed to date) ■ Road accidents fell each year from 87 in 2007 to 80 in 2011 but remaining concerns over further safety measures ■ Capacity for maintenance has been improved ■ A weighbridge is available and checks are being made on trucks
Geothermal energy development ⁴⁴	<ul style="list-style-type: none"> ■ The project is carrying out drilling to establish whether there is a viable source of geothermal energy to meet future electricity generation needs 	<ul style="list-style-type: none"> ■ Drilling team on site and operational since March 2013 ■ Depth of well at first site reaching 1,000 metres as at 10 April 2013 ■ Local workforce used to prepare sites ■ Second site prepared for next drill hole
Diesel power station ⁴⁵	<ul style="list-style-type: none"> ■ Procurement of a 1.5MW diesel generator and associated civil works to create a power station 	<ul style="list-style-type: none"> ■ The project was put out to tender by the CDB but no technically responsive bids were received. We were also told that bids exceeded the cost budget. The project has been re-tendered internationally.

³⁹ DFID project documentation, August 2002 and September 2005.

⁴⁰ Press release, Montserrat Tourist Board, 2012, www.zjb.gov.ms/2013/04/12/statistics-show-a-marked-increase-in-visitor-arrivals-in-2012-compared-to-the-previous-year.

⁴¹ DFID project documentation, 2009.

⁴² *Annual Review of Project: Education Infrastructure (115005015)*, DFID, June 2012, see: <http://projects.dfid.gov.uk/project.aspx?Project=113990>.

⁴³ *Internal Monitoring Report: Quarterly Report No.7*, Department for International Development and Government of Montserrat, July to September 2012 and DFID's project plan and annual review documentation 2011 and 2012.

⁴⁴ Public statement from project manager at the Montserrat Geothermal Project, Government of Montserrat, 12 April 2013, <http://geothermalresourcescouncil.blogspot.co.uk/>.

⁴⁵ DFID project documentation, March 2012, see: <http://projects.dfid.gov.uk/project.aspx?Project=202374>.

2 Findings

DFID has sought appropriate expertise in many cases and will need to continue to draw on external advice in the future

- 2.74 Observing volcanic activity and speculating on geothermal drilling lie outside DFID's core capabilities. DFID has acted appropriately in these areas by using specialist advisers and expert consultants to complement the dedicated resources on Montserrat and in East Kilbride. DFID has also added an infrastructure adviser on the island to strengthen its oversight of its relationship with the Government of Montserrat, given the range of capital projects underway.
- 2.75 DFID has not, however, sought timely advice or, in all cases, used effectively the advice it has received. For example, DFID did not (until 2012) engage an expert in global commercial finance and public policy to help assess the wider strategic issues for Montserrat and to identify the projects that will propel it towards increased self-sufficiency.
- 2.76 DFID has also pursued private sector involvement in geothermal exploration despite advice suggesting this was very unlikely to be secured, given the small-scale and unproven nature of the project. DFID could do more to ensure that the Government of Montserrat has the right expert advice when considering tariffs, risk and reward arrangements and future maintenance costs in finding a geothermal energy source. This is particularly the case in view of the complexities of regulating utility markets. DFID will need advice to assess viability and to establish robust partnership agreements in the exploration, development and implementation of large-scale commercial geothermal exports.

There is scope for further shared and sustained learning between DFID and the Government of Montserrat

- 2.77 Although interaction between DFID and the Government of Montserrat is generally good, we identified areas where there is scope for improvement. For example, on the port development, DFID could help the Government of Montserrat further by sharing its evaluation tools and models at an early stage so that they can form part of the future monitoring approach. The port is

a major development which has already attracted over 30 studies. The economic tools and analyses being developed are, therefore, an opportunity to help the Government of Montserrat to monitor and evaluate its progress. This learning should also help to develop technical understanding applicable to other significant projects on the island.

- 2.78 The contribution made by the Government of Montserrat's Office of the Auditor General is potentially important in both financial audits and value for money reviews. Its contribution to DFID programmes is constrained by its current capabilities. At the time of our visit, the UK National Audit Office (NAO) was supporting the training and development of the Office. We commend this work and the strengthening of this function for the long-term success of the island.

DFID continues to find effective knowledge management a challenge

- 2.79 DFID's corporate memory has been challenged by regular changes of personnel among its island staff, who typically have two-year placements. It also relied heavily on its documentation systems when the OTs department moved location from London to East Kilbride and only one adviser followed. New members of staff have had to acquire institutional knowledge quickly and have also had to rely on the Government of Montserrat for their induction.
- 2.80 The two-year tenure of DFID's resident lead on Montserrat has been extended and this will be beneficial. With more staff, DFID also has a greater opportunity to share learning among future incoming staff, to embed good practices of project management through routine reporting and to minimise the impact of staff changes.

A whole of Whitehall approach to the OTs is an opportunity that DFID must seize

- 2.81 The UK Government's 2012 White Paper envisages stronger engagement between the UK Government and the OTs. It proposed the engagement of all Whitehall departments in support of the OTs. It has also led to the first meeting of the Joint Ministerial Council (JMC), in December 2012, organised by the FCO. This

2 Findings

annual forum includes representatives from across Whitehall as well as from each of the OTs. Importantly, the Council has a clear remit to review progress and implement the 2012 White Paper.

- 2.82 The White Paper follows a previous 1999 White Paper in promoting greater prosperity and partnership. The White Paper also states that ‘the established policy of successive British governments has been to give every help and encouragement to those territories which wished to proceed to independence, where it is an option’. The JMC and its predecessor forum, the Overseas Territories Consultative Council (OTCC), also have common characteristics: conducting face-to-face meetings annually; having similar representation; and seeking common goals on good governance, environmental issues and working in partnership.⁴⁶
- 2.83 It is too early to assess how well the JMC is discharging its duties. It is important to note, however, the criticisms made by the Foreign Affairs Committee in 2008, on the performance of the OTCC.⁴⁷
- 2.84 The Select Committee urged that papers be made publicly available (the FCO communiqué published in December 2012 on the JMC has achieved this) and that ‘the FCO continues to press other departments to take their responsibilities with regard to the Overseas Territories seriously’. It noted that ‘those issues raised in the OTCC which involved other Whitehall departments were least likely to be followed up’. It will undermine the authority and long-term effectiveness of the JMC if this situation is replicated.
- 2.85 DFID’s initial requests for support from across Whitehall have received inadequate responses from the Departments of Health and Business, Innovation and Skills. This experience echoes the findings of the Foreign Affairs Committee from 2008. DFID, therefore, needs to work on the detail of this commitment with the FCO to identify and to

remedy any blockages to making the whole of Whitehall approach effective.

- 2.86 We fully endorse an approach that embeds Whitehall departments’ responsibilities into individual roles and responsibilities. DFID should support the FCO in seeking the identification of nominated leaders who can act as focal points to help drive through creative developments and use their networks and influence more widely across government, for example to help twin local authorities with OTs.

⁴⁶ The OTCC was established after the White Paper *Britain and the Overseas Territories – A Modern Partnership*, Foreign and Commonwealth Office, March 1999, <http://www.ukotcf.org/pdf/charters/whitepaper99textonly.pdf>.

⁴⁷ *Select Committee on Foreign Affairs, Seventh Report*, House of Commons, June 2008, <http://www.publications.parliament.uk/pa/cm200708/cmselect/cmfa/147/14705.htm#a7>.

3 Conclusions and Recommendations

Conclusions

- 3.1 The economy of Montserrat has deteriorated significantly since 1997. A territory which was formerly self-sufficient is now financially dependent on budget support. In keeping with its commitment to meet the reasonable assistance needs of the OTs, DFID has successfully restored and developed basic infrastructure in the north of Montserrat, where the majority of the population now lives, so that satisfactory conditions exist for everyday life.
- 3.2 Over the longer term, the UK Government has a clear willingness, in principle, to provide capital investment through DFID to reduce Montserrat's dependence on the UK and achieve self-sufficiency if possible. We found, however, that DFID does not have a detailed view on what self-sufficiency for Montserrat means. For example, we would expect DFID to have economic targets for Montserrat that take into account the attributes and resources of Montserrat when compared to neighbouring Caribbean islands.
- 3.3 DFID has established neither a sufficiently robust planning framework nor timescales for improving self-sufficiency. Equally, DFID has neither determined the likely costs associated with improving self-sufficiency nor set out how this will be financed or shared among development budgets and Government of Montserrat sources. Because there is no overall strategy for the long-term economic future of Montserrat, DFID has not developed a coherent and complementary portfolio of capital projects which could contribute to improving self-sufficiency. Instead, we found that the plans put forward by the Government of Montserrat and agreed by DFID take a piecemeal approach, notably in the development of the power and access sectors and in the involvement of the private sector.
- 3.4 As a result, DFID and the Government of Montserrat have spent too long developing plans that cannot be evaluated properly against the goal of self-sufficiency. We have not been able to identify a clear set of plans appropriately prioritised and with a realistic assessment of their financial impact on self-sufficiency and sustainability. In the

absence of an overall strategy, DFID has found it difficult to make the appropriate decisions on projects with a clear economic benefit to the island and to rationalise others. Sometimes, DFID's engagement with a project has risked raising unrealistic expectations in Montserrat, for example around the potential development of a new port. In addition, DFID has not done enough to encourage the Government of Montserrat to take account of the ongoing costs of DFID's capital investment and to develop integrated capital and revenue finance plans.

- 3.5 DFID's programme on Montserrat had a clear positive impact in the aftermath of the natural disasters but the impact on beneficiaries of the projects we reviewed is mixed. Out of four capital projects we reviewed, the roads and water projects are having a positive impact on intended beneficiaries. DFID has, however, made some poor assessments on individual capital projects. As a result, for example, the airport has had less beneficiary impact than expected and the first new school building is not yet functioning.
- 3.6 In short, although we saw evidence of good and necessary assistance to fund basic investment on the island, we found that DFID has not adequately undertaken long-term strategic planning with the Government of Montserrat for improving self-sufficiency. In our view, DFID should do more to engage other resources to support its work with the Government of Montserrat, either from other development partners such as the EU and CDB or from other UK government departments. The 2012 White Paper on the OTs endorses greater participation across Whitehall in helping the OTs.⁴⁸ DFID now has an excellent opportunity, offered by the White Paper, to encourage other departments to be responsive to the commitment to the OTs.

⁴⁸ *The Overseas Territories: Security, Success and Sustainability*, Foreign and Commonwealth Office, June 2012, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32952/ot-wp-0612.pdf.

3 Conclusions and Recommendations

Recommendations

3.7 Whilst our conclusions are drawn from the scope of work undertaken, we believe that this report identifies issues which may have wider relevance than DFID's approach to Montserrat. Our analysis of other OTs is limited and we recognise that they have different characteristics and challenges. We believe, however, that by applying our recommendations in its approach to the OTs more generally, DFID could develop clearer planning and budgeting responsibilities between the OTs and the UK, improved beneficiary engagement and greater support from other UK government departments. Project-specific recommendations are included at Figure A4 in the Annex.

Recommendation 1: DFID should develop a more detailed understanding of self-sufficiency for Montserrat. DFID should use this understanding with the Government of Montserrat to determine a realistic set of expectations over the medium term to improve economic, financially justifiable self-sufficiency.

3.8 Setting out this vision will require DFID to:

- continue to use external experts (including those available in the UK Government) as sounding boards over key issues and challenges;
- agree with the Government of Montserrat common plans which are both affordable and realistic for the future of the island;
- consider the potential impact of pervasive technologies such as the internet and mobile communications in each aspect of its vision;
- engage more widely with the islanders over any difficult choices; and
- seek commitment to the whole of Whitehall approach.

Recommendation 2: DFID should support the Government of Montserrat to develop a longer-term plan for the island based on an agreed understanding of self-sufficiency. This needs to show how the different projects add up to a coherent impact on livelihoods and economic progress. It should set out the level and

composition of financial and technical assistance and a projection of capital costs and necessary revenue support.

3.9 DFID needs to develop a robust three-to-five-year plan with clear assumptions and targets. This will enable DFID to prioritise and integrate projects which meet longer-term objectives and which can be sustained by the available Government of Montserrat resources. The plan should also inform each year's annual budgeting process (and vice versa) and be used as a monitoring and feedback tool during the year. This plan will need to be regularly updated.

3.10 DFID may find an economic model useful to develop thinking on self-sufficiency and to support future plans. To maximise the benefits of the longer-term plan with an economic model, DFID would need to:

- develop and continue to refine a realistic, accessible, long-term and high-level model of a self-sufficient economy (or one that is as close to this aim as possible) that includes:
 - a reasonable set of assumptions in the context of the Caribbean (such as the price of fuel, future tourist demand and capacity); and
 - indicators that can withstand a 'reasonableness' check, for example, GDP per person, visitor numbers and expenditure per person;
- determine and agree in principle a range of likely capital investment costs, timescales and recurrent impact;
- identify any interdependencies and create a high-level roadmap so that any critical path issues or multiple capital investments within a sector are clear and visible; and
- engage with the Government of Montserrat in preparing the plan, particularly so that any annual financial requirements arising from capital investments receive adequate revenue support.

3 Conclusions and Recommendations

Recommendation 3: DFID should work with the Government of Montserrat to increase the engagement of the people of Montserrat in its projects. This is both to understand their perspective and to manage their expectations.

3.11 This should happen at both strategic and project levels, for example using:

- parent–teacher associations more extensively for school projects;
- an oversight body for the planned hospital, perhaps comprising a balanced group of independent stakeholders and patients or carers who are able to report separately to the Government of Montserrat; and
- a forum to engage with sand miners on road maintenance and weight compliance measures.

Recommendation 4: DFID, working with the FCO, should bring together the required actions and commitments from across Whitehall to achieve the aims of the 2012 White Paper for Montserrat and the other OTs so that best practice is built into future projects, programmes and policies.

3.12 One way of achieving this would be for DFID to establish a list of practical ways in which other departments can help the OTs. These might include short-term secondments or assistance with twinning initiatives.

3.13 DFID should ensure that the Department for Business, Innovation and Skills assists the Government of Montserrat in its efforts to complete the World Bank’s ‘Doing Business’ survey.

Annex

1. This annex sets out:

- descriptions of the capital projects we examined (Figure A1);
- our traffic light scoring, by project, to show how the projects informed our overall scores (Figure A2);
- the advantages of a more strategic approach to the design and output of DFID's programme in Montserrat (Figure A3); and
- the additional programme-level recommendations contained in our report (Figure A4).

Figure A1: Further details of the six capital projects in focus

Purpose	Description	Timescale	Financing and implementation
1) Gerald's Park airport			
Aimed to provide regional fixed-wing air access to and from Montserrat	<ul style="list-style-type: none"> ■ The existing airport facilities at Trants were inaccessible after 1997 and finally destroyed in a volcanic eruption in 2010 ■ From estimates made in December 2012, the new airport caters for an annual throughput of 6,000 to 7,000 passengers⁴⁹ 	<ul style="list-style-type: none"> ■ December 2001 to December 2008 (2005 for the main airport component) ■ Airport completed in July 2005 	<ul style="list-style-type: none"> ■ £8.8 million DFID project ■ DFID expenditure to date: £8.8 million ■ The total estimated cost of the project was £11.2 million ■ Project funding was split between DFID and the EU on a 55:45 ratio basis ■ DFID's initial contribution of £6.2 million was provided through Financial Aid (£5.4 million) and Technical Co-operation funds (£0.8 million) ■ The estimated maintenance cost for the runway at 2002 prices was £52,600 each year
2) Water supply development			
Aimed to improve the capacity and reliability of water storage and distribution systems to meet the present and predicted future water demands	<ul style="list-style-type: none"> ■ Third DFID-funded project to establish a robust water infrastructure 	<ul style="list-style-type: none"> ■ 2002 to October 2009 ■ The project was completed in 2010 	<ul style="list-style-type: none"> ■ £3.1 million DFID project ■ DFID expenditure to date: £2.0 million
3) Education infrastructure			
Aimed to assist the Government of Montserrat in meeting primary level education needs and to build a sense of community at the Lookout Centre	<ul style="list-style-type: none"> ■ The construction of a separate new building on an existing primary school site ■ Original plan consisted of an IT classroom, library/resource centre, administration and staff facilities and a multi-purpose sports hall designed to be suitable for school and community use 	<ul style="list-style-type: none"> ■ February 2008 to December 2012 ■ The first building was completed in October 2012 ■ DFID has approved a project extension to September 2015, increasing the project budget by £725,000. 	<ul style="list-style-type: none"> ■ £1.8 million DFID project (£2.5 million with the extension) ■ DFID expenditure to date: £0.8 million

⁴⁹ Physical Development Plan (draft), Physical Planning Unit, Government of Montserrat, see: http://ppu.gov.ms/?page_id=4.

























Annex

Purpose	Description	Timescale	Financing and implementation
4) Road reinstatement			
Aimed to improve safety of vehicular and pedestrian access along 14km of Montserrat's A01 arterial road from Salem to St John's and to make the road surface easier to maintain	<ul style="list-style-type: none"> ■ The A01 had been extensively damaged by poor weather, including flash floods in 2010, as well as the weight of sand mining trucks ■ Works included road reconstruction and paving, widening of sections of road, improvements to drainage and utility channels and new stretches of pavement 	<ul style="list-style-type: none"> ■ September 2008 to December 2012 ■ DFID suspended the project for two months (April-June 2013) due to implementation problems. The works resumed in July 2013 on the basis of a new implementation schedule and improved local management. 	<ul style="list-style-type: none"> ■ £5.8 million project ■ DFID expenditure to date: £4.9 million
5) Geothermal energy development			
Aimed to support the development of geothermal energy in Montserrat, to provide clean domestic energy	<ul style="list-style-type: none"> ■ There is probably a resource but it is not yet proven ■ Exploratory drilling is underway and is due to report by September 2013 ■ Should the resource be found to be significant, there is a longer-term potential to export energy to neighbouring islands to generate additional revenue 	<ul style="list-style-type: none"> ■ December 2011 to March 2014 	<ul style="list-style-type: none"> ■ £8.6 million project ■ DFID expenditure to date: £6.7 million
6) Diesel power station			
Aimed to ensure an efficient and reliable electricity service	<ul style="list-style-type: none"> ■ The purchase of a new facility with associated civil works ■ Montserrat Utilities Limited, owned by the Government of Montserrat, is responsible for its delivery ■ The project was put out to tender by the CDB but no technically responsive bids were received. We were also told that bids exceeded the cost budget. The project has been re-tendered internationally 	<ul style="list-style-type: none"> ■ August 2012 to March 2014 	<ul style="list-style-type: none"> ■ £5.3 million project ■ DFID expenditure to date: £0 – tender process not yet complete ■ The CDB is also providing technical assistance

Annex

This table sets out our scoring of each of the six projects we examined using our standard traffic light approach. The reasons for our rankings are set out in the text of the report and in Figure 4 on page 12 (objectives and delivery) and Figure 8 on page 18 (impact).

Figure A2: Scoring by project

Project	Objectives	Delivery	Impact	Learning	Overall
Gerald's Park Airport					
Water supply development					
Education infrastructure					
Road reinstatement					
Geothermal energy		--	Too early to assess	--	
Diesel station		--	Too early to assess	--	

Further notes on our assessment:

- we have not scored projects where it is too early in their development and so it is not yet appropriate to draw conclusions. The Government of Montserrat and CDB have undertaken only a procurement exercise for the diesel station project and therefore we have not assessed its delivery to date; and
- we treated each criterion broadly equally in determining the overall assessment.

Annex

Figure A3: The World Bank example: a more strategic approach to the design and output of aid delivery programmes

DFID has a good working relationship with the Government of Montserrat but it has not used this to create aligned – or shared – strategies. In addition, DFID has not adequately translated its strategic intent into a portfolio of priority areas for further focus and development. This is most clearly demonstrated in the power and access sectors.

We have set out below the advantages of a more strategic approach to the design and output of DFID's programme in Montserrat. This is based on a World Bank approach to the roles that recipients and development partners typically take in development situations.

The roles for the two sides are:

- **Recipients:** use a standard overarching planning framework, such as a Poverty Reduction Strategy Paper (PRSP). This describes the country's macroeconomic, structural and social policies and programmes to promote growth and reduce poverty. It also identifies financing needs and major sources of financing; and
- **Development partners (including DFID):** develop country plans using the overall strategic thinking from the donor community, for example a World Bank Country Assistance Strategy. It is results-focussed and includes a framework of clear targets and indicators to monitor performance in achieving stated outcomes.

We acknowledge that the relationship between the UK and Montserrat differs from the typical relationship between donor and recipient. We find, however, that the PRSP and country strategy approaches have five advantages for improving the present arrangements for Montserrat:

- the establishment of a framework of targets and indicators helps both the country and donors to design and implement effective programmes and projects. At present it is unclear what targets DFID is hoping to achieve in Montserrat;
- by focussing on the likely availability of funding, the PRSP encourages a realistic view of investment plans. In the case of Montserrat, locally developed plans are not prioritised against each other and may not be realistic. Capital expenditure has a cost but this is not always recognised by the Government of Montserrat, because capital funds are provided by DFID without a financing charge. A revised approach should help to manage the expectations of the people of Montserrat about what is achievable and affordable;
- the identification of a future level of financial support in the country strategy reinforces this realism in country plans and enables the donor to prioritise accordingly;
- the PRSP articulates policies more broadly than the current planning documentation produced by the Government of Montserrat. Areas such as revenue generation and charging for government services are not discussed in detail in Montserrat's present plans. We identified cases, for example in water and power, where Montserrat has not used its mechanisms for reviewing charges; and
- engagement between development partners, for example the World Bank and the International Monetary Fund and other lending agencies, in developing the country strategy, encourages the development of co-ordinated approaches to country programmes. In Montserrat, we found evidence of successful co-operation at the project level, for example in the diesel power station and the airport. The strategies of DFID, the EU and the CDB, however, are developed largely independently of one another.

Annex

Figure A4: Additional programme-level recommendations

The table contains more detailed and operational recommendations for the projects examined as part of the review. We do not expect DFID to provide a formal management response to these recommendations.

Issue	Recommendation
<p>1. New port and capital town: DFID is currently considering investing a significant sum for a new port and capital town project which the Government of Montserrat sees as key to the island's future. This is a major project but the current approach to securing private sector investment is unlikely to be successful. (See paragraphs 2.12, 2.17-2.20)</p>	<p>DFID should reconsider the plans in the light of an overall strategic framework for Montserrat and identify alternative ways of proceeding to demonstrate value for money.</p> <p>The project has already attracted over 30 studies. DFID should share its evaluation tools and models with the Government of Montserrat so that they can form part of a future monitoring approach. This learning should also help to develop technical understanding applicable to other significant projects on the island.</p>
<p>2. Cost of capital: the cost of capital is not always recognised by the Government of Montserrat because capital funds are provided by DFID without a financing charge. (See paragraph 2.15.) If the Government of Montserrat were free to access the capital markets for investment then it would incur a charge for that loan depending on the amount borrowed, its repayment period, the relevant prevailing interest rate and their credit worthiness. Within the UK public sector, it is common practice for a circular flow of funds between Departments and their organisations to exist (e.g. within the health service sector) to help account fully for the cost of borrowing.</p>	<p>To help develop further sound financial management, prudent decision-making and appreciation of the investment appraisal process, DFID should ensure that financing charges are determined, agreed, implemented and transparent in Montserrat's financial reporting and planning.</p>
<p>3. Revenue generation: Montserrat has not used any mechanism for reviewing charges for power and water regularly. A review is planned as part of the diesel power plant project. Montserrat Utilities Limited, which runs the power and water systems, has accounts which are three years in arrears and the accounts for the previous year are still subject to audit. The water sector is loss making. (See paragraphs 2.15, 2.34 and Figure 8.)</p>	<p>DFID should encourage the Government of Montserrat to take steps to improve revenue generation and review charges for government services such as power and water on a regular basis.</p> <p>It should discuss with the Government of Montserrat how to ensure that Montserrat Utilities Limited publishes its audited accounts on a timely basis.</p>
<p>4. Internet connectivity: internet access is currently provided via existing telephone lines and the importance of technology for Montserrat's future has not been properly addressed. (See paragraphs 2.23-2.25.)</p>	<p>DFID should consider how the potential benefits from a fibre optic connection might provide a robust enabling strategy for the island's sustainability across sectors. To support the Government of Montserrat's future plans and approach, DFID should be willing to provide technical assistance in this sector.</p>
<p>5. Public Works Department: the Public Works Department is finding it difficult to meet the pressures on its services. (See paragraphs 2.32, 2.39-2.40 and 2.46.)</p>	<p>DFID should discuss with the Government of Montserrat how it might provide appropriate support to ensure that the Public Works Department has the capacity to cope.</p>

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Issue	Recommendation
<p>6. Road maintenance: here we identify three risks:</p> <ul style="list-style-type: none"> i. DFID's capital investment in the rehabilitation of roads will be jeopardised by a failure to maintain them properly; ii. overloaded sand mining trucks cause significant damage to the roads. This risk has diminished now that sand exports are passing through Plymouth but has not been eliminated; and iii. road users do not currently pay for the cost of the road network. (See Figure 5) 	<ul style="list-style-type: none"> i. DFID should make it a condition of any further capital investment in the roads that they are properly maintained. DFID should work with the Government of Montserrat to establish the appropriate level of maintenance and rehabilitation expenditure on the roads network and ways of managing that expenditure effectively; ii. if enforcement of load limits through causing inconvenience to sand lorries proves ineffective, DFID should discuss with the Government of Montserrat the need for greater police involvement; and iii. DFID should discuss with the Government of Montserrat the issue of revenue from transport taxation, involving a combination of fuel duty and excise duty on vehicles (particularly trucks).
<p>7. Audit: the work of the Government of Montserrat's Office of the Auditor General is potentially important in both financial audits and value for money reviews but its impact is constrained by its current capabilities. (See paragraphs 2.34 and 2.78.)</p>	<p>We commend the current work of the NAO in supporting the training and development of the Office. DFID should discuss with the NAO how this work can be developed and the audit function on Montserrat strengthened.</p>

Abbreviations

CDB	Caribbean Development Bank
DFID	Department for International Development
EU	European Union
FCO	Foreign and Commonwealth Office
GoM	Government of Montserrat
GDP	Gross Domestic Product
ICAI	Independent Commission for Aid Impact
IMF	International Monetary Fund
JMC	Joint Ministerial Council
MDC	Montserrat Development Corporation
MUL	Montserrat Utilities Limited
MW	Megawatts
NAO	National Audit Office
OT	Overseas Territory
OTCC	Overseas Territories Consultative Council
PRSP	Poverty Reduction Strategy Paper
PWD	Public Works Department
UK	United Kingdom
WHO	World Health Organization

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