



PERFORMANCE REVIEW

ON THE

CONTRIBUTION OF THE HOSPITALITY SECTOR TO THE GROWTH

OF MONTSERRAT'S ECONOMY



Office of the Auditor General
Brades Main Road
Brades
Montserrat
November 2018

**CONTRIBUTION OF THE
HOSPITALITY SECTOR TO THE
GROWTH OF MONTSERRAT'S
ECONOMY**

This is a Report of a Performance
Audit conducted by the Office of
the Auditor General pursuant to
Section 103 of the Montserrat
Constitution Order 2010

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Auditor General
Office of the Auditor General
30 November 2018

PREAMBLE

Vision-Statement

The Office of the Auditor General (OAG) plays a crucial role in ensuring that public monies are spent wisely. Our vision is therefore “to be a proactive Supreme Audit Institution (SAI) that helps the nation to make good use of its resources”.

Mission-Statement

“The OAG is the national authority on public sector auditing issues and is focused on assessing performance and promoting accountability, transparency and improved stewardship in managing public resources by conducting independent and objective reviews of the accounts and operations of central government and statutory agencies; providing advice; and submitting timely Reports to Accounting Officers and the Legislative Council”.

The Goal

Our goal is “to promote staff development, enhance productivity, and maintain a high standard of auditing and accounting in the public sector, thereby contributing to the general efficiency and effectiveness of public finance management”.

AUDITOR GENERAL'S OVERVIEW

GOM has chosen the tourism sector as one of its central pillars of economic growth and development and the proceeds from this sector has made significant contributions to the GDP of Montserrat in the past. With continued emphasis being placed on the development of the sector and its contribution to GDP and employment, we deemed it opportune to conduct a review of the sector's recent contribution to the sustainable development of Montserrat.

Our review revealed that significant contributions had been made in the past but that, over the period 2011 – 2016, growth in the sector has fallen significantly. Further, whilst the sector has significant growth-prospects, GOM's recent approach to tourism has been low-key, under-funded, and under-staffed. Additionally, the ecosystem for hospitality has several weaknesses. This includes (a) inadequate infrastructure including that facilitating travel into and out of the island; (b) inadequate public transportation; and (c) power supply challenges with recurring and mostly unannounced outages. Moreover, most hospitality providers' information-systems, communication-patterns, client-service channels, and payment-methods are, with few exceptions, outdated, expensive to maintain, and neither efficient nor effective.

In light of our findings, we have provided a number of recommendations that we feel would benefit the Government and the citizens of Montserrat, once they are implemented.

I wish to thank all Accounting Officers within the Montserrat Public Service and their staff; management and staff of the Tourism Division; managers of financial institutions; private-sector interviewees; members of the hospitality industry; and all other persons who provided information, clarifications or extended any courtesy to my staff during this assignment.



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ABBREVIATIONS USED

ATM	Automated Teller Machine
BOM	Bank of Montserrat
BOP	Balance of Payments
CARICOM	Caribbean Community
CAROSAI	Caribbean Organisation of Supreme Audit Institutions
CDB	Caribbean Development Bank
DFID	U.K. Department for International Development
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
ECSE	Eastern Caribbean Securities Exchange
FCO	U.K. Foreign and Commonwealth Office
GDP	Gross Domestic Product
GOM	Government of Montserrat
ICT	Information and Communication Technologies
INTOSAI	International Organisation of Supreme Audit Institutions
ISSAI	International Standards for Supreme Audit Institutions
MCC	Montserrat Chamber of Commerce
MOVA	Montserrat Online Visa-Application
MPS	Montserrat Public Service
MUL	Montserrat Utilities Limited
OAG	Office of the Auditor-General
OECS	Organisation of Eastern Caribbean States
SDP	Sustainable Development Plan
SEO	Search-Engine Optimisation
SMEs	Small and Medium Enterprises
UNESCO	United Nations Educational, Scientific and Cultural Organisation

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EXECUTIVE SUMMARY

As part of our annual work programme, we conducted a review of the tourism industry to determine its impact on the overall economy of Montserrat. Our review revealed that Montserrat has several attractive features which can be exploited to improve its economic viability. Our main findings, recommendations and overall opinion are detailed below.

Main Findings

Montserrat has several attractive features. An important finding of our research is the various natural and social features of the island that make it attractive to select niches: e.g., volcano enthusiasts, hikers, festival-patrons, retirees, cyclists, birdwatchers, yachters, cruise ship-passengers, honeymooners, etc. [Exit Survey, 2011, p. 11].

Access to Montserrat is unsatisfactory. A key recurring theme in our interviews/survey was that access to the island is expensive, inconvenient, and inadequate (e.g., only 2 small airlines). This is consistent with previous studies and the Tourist Board's Exit-Surveys.

High percentage of returning visitors. Over the past decade, surveys and interviews revealed that over 60% of tourists were repeat guests (Exit Survey, 2011, p. 4). Several visitors have become property owners and/or permanent residents on the island.

Montserrat is almost unknown in the market. The combination of [a] big cuts to the Tourism Division's marketing budget, [b] loss/negligible use of tour-operators, and [c] inadequate use of its website, social media, and other channels, means that the island has no effective market-presence globally (Tourism Master Plan, 2016, p. 36-38). It is practically unknown beyond the small circle of overseas Montserratians, their friends, and persons who already have some connection with the island.

Lack of statistics and timely information. Some statistics are not gathered at all; others are gathered infrequently. Timeliness, quality and reliability are matters of concern.

The labour force has declined. Data up to 2011 show that the number of persons in the work-force has reduced slightly. The reported number of unemployed persons has fallen, but the number of employed persons has not increased, indicating shrinkage of the workforce, owing to retirements, emigration, and/or persons who have stopped seeking work.

The overall economy has declined. Data for 2011 to 2016 show that the GDP has reduced slightly. The private sector remains weak and underdeveloped.

The hospitality sector has declined. Data for 2011 to 2016 show that the contribution of hotels to GDP has increased, while that for restaurants has reduced. Overall, there was a net reduction in output from the sector in recent years.

Inadequate infrastructure and activities/experiences. For instance, (a) facilities at the airport and seaport are too small and lack the amenities that modern travellers expect; (b) public transportation is unscheduled and limited; (c) shopping, businesses, and banking have limited opening hours and most places close early. Many visitors (especially those under 50 years of age) complain of being bored and of not having much to do on the island, including negligible night-life and very few recreational areas and activities (Exit Survey, 2011; Tourism Master Plan, 2016, p. 38-39). This discourages the return of younger and first-time visitors.

Key Recommendations

Improve access to Montserrat. Growth of arrivals requires more direct flights, more convenient airline connections and ferry schedules, and bigger aircraft to handle families and groups, as well as the many visitors who experience seasickness and/or prefer the speed of flights.

Diversify and grow high value niche markets. Extend the effectiveness of Montserrat's positioning within existing markets and identify other rewarding niches (e.g., weddings, honeymoons, anniversaries; cycling tourism; surfing and beach culture; sports tourism; medical tourism; cultural immersion; and culinary festivals).

Provide more activities/experiences. Whilst the majority of older returning visitors are happy with simple relaxation and quieter pursuits, younger visitors complain of being bored and not having much to do on the island, including negligible night life and very few recreational areas and activities. Thus, more and better activities, experiences, and amenities are necessary to attract new tourists and to encourage the return of younger and first-time visitors.

Create a full-service Tourism Authority. Pursuant to the vision of the Montserrat Tourist Board Act, a stand-alone structure is required with (a) adequate staffing, (b) an enhanced budget for marketing and product-development, and (c) diverse representation from tourism and hospitality practitioners. This entails better information gathering and reporting, registration and engagement of service providers within tourism and hospitality, much improved range and timeliness of statistics, and more effective marketing of Montserrat.

Make e-tourism the default. Within 3 to 6 months, upgrade the current Tourism Division's website, intensify use of social media, and create a central e-portal for all of the service providers within tourism and hospitality. This will produce several benefits: e.g., it will (a) create synergies,

(b) encourage intra-sectoral and inter-industry co-operation, (c) ensure real time reporting for the prompt actions of all key decision-makers, (d) reduce the costs of the current archaic modes of manual processes and cash-only methods of payment, and (e) enhance marketing efficiency and effectiveness. With effective website management to ensure that all content is correct, complete and current, and with search-engine optimisation (SEO), this e-portal can be a powerful revenue-generating and value creating multifaceted interface to market the island's products, services, culture, history, venues, events, and activities. Among its several advantages, this will support an essential online payments infrastructure that will significantly reduce the cost, the time, the risks incurred, and the efforts currently expended in the area of collections, together with the related administration, accounting, and reporting.

Auditor's Conclusion

Within a moderately declining/stagnant economy, tourism and hospitality are very important to national development, but the sector has actually declined in the past few years. During the period 2011 to 2016, the sector's contribution to Gross Domestic Product (GDP) declined and national employment also fell. Whilst the sector has significant growth-prospects, GOM's recent approach to tourism has been low key, under-funded, and under staffed. The island has a unique profile and several attractive features, but the ecosystem for hospitality has several weaknesses. For instance, the quality and the delivery of water, sewage, and telecommunications are excellent, but (a) infrastructure has some challenges for example travel to the island is limited, inconvenient and expensive, (b) public transportation is inadequate, and (c) the supply of power has changed fundamentally since October, 2016, with recurring (and mostly unannounced) outages. Moreover, most hospitality providers' information systems, communication patterns, client service channels, and payment methods are, with few exceptions, outdated, expensive to maintain, and neither efficient nor effective. The current payment-system, procedures, and practices make little use of 21st-century technologies and tools, and they systematically underutilise many of the functionalities embedded within already available or installed hardware and software.

In turn, this means that GOM is getting a very low return on investment for the many millions of dollars spent during the past two decades on infrastructure and, in particular, (1) underuse of electronic information and communication, and (2) inadequate payment-methods and payment-systems. Overall, it is not serving the public nearly as well as it could be doing, and it is certainly not advancing the country towards the GOM's published Vision for 2008 to 2020, wherein (i) the tourism industry and (ii) information and communications technologies (ICT) are to become two of the central pillars of the new Montserratian economy and pivotal enablers of private sector development. These tools and technologies are especially vital for economic growth and employment through (a) the nurturing and transformation of incipient microenterprises, (b) the launch and export-readiness of innovative products and services, and (c) the strategic local, regional and international expansions of established small and medium enterprises (SMEs).

Likewise, the previously well-established framework for a separate tourism entity within GOM has been abandoned in recent years. Insufficient funding, marketing resources, and staffing have been allocated to tourism, thereby limiting its growth as one of the four central economic pillars in line with the national vision encapsulated the Sustainable Development Plan 2008 to 2020. Despite its important role as an earner of foreign exchange on the island's path to regaining economic self-sufficiency, the hospitality sector remains under -developed and is greatly under -performing vis-à-vis both its pre-1995 historical peaks and its current great potential.

CHAPTER 1: INTRODUCTION

Background

1. This performance audit focused on the categories of hospitality services, the GOM's policy-framework, and the supporting ecosystem (e.g., transportation, utilities, payments, and customer service), with implications (a) for efficiency, (b) for effectiveness, and (c) for value for money to visitors. After UK aid, tourism provides the largest source of foreign income to the island: e.g., in each of the years 2015 and 2016, inflows from travel credits were about EC\$24 million versus earnings of about EC\$11 million from merchandise-exports and roughly EC\$10 million from exports of telecommunications & ICT services (Statistics Department, BOP series 2014-2016 New Format). In turn, activities of the GOM and throughout the MPS constitute the biggest part of the flow of funds and full time employment in the national economy and have numerous multiplier effects.

2. **Rationale.** Operations within the MPS such as the Ministry of Finance, the Office of the Premier, and the Tourism Division influence fiscal, economic and other factors that impact on public services to create an enabling environment for tourism and hospitality to prosper. As a result, we have performed an extensive review of authorities, of literature, and of regional and global best practices. It is envisaged that such a review will, over time, assist all stakeholders in devising a more coherent framework to guide this and following audits, and in creating more value to citizens and to public-sector decision-makers alike. GOM can greatly reduce learning curves and save implementation costs by systematically embracing a multidisciplinary approach to learning from public sector experiences in other countries both what is best avoided and what is highly effective and efficient.

3. **The Context of the Information Age.** As the pace of technological innovation quickens, Governments and central banks around the world have been grappling with the issues of (1) economic empowerment, (2) facilitation of enterprises, (3) globalisation, and (4) smart regulation (including cross border surveillance and collaboration). The theme of e-Government is well developed both locally and regionally, including electronic filings and tax refunds with the Inland Revenue Department and Customs & Excise Department. The Eastern Caribbean Currency Union (ECCU), of which Montserrat is a member country, exemplifies e-Government in having a fully functional electronic securities exchange and an electronic securities-repository (www.ecseonline.com). For tourism and hospitality, this has become essential as e-commerce, e-communication, and e-payments dominate the delivery of information, services, products, experiences, and support to customers and to businesses throughout the value chain.

Local Context

4. In short, the GOM has a predominant size in the local context that it must provide policies and laws that facilitate business, trade, and economic activity by citizens and private businesses.

The State must also lead by daily example in its own diverse and far reaching operations: for example, in efficiently designing, specifying, acquiring, and deploying appropriate (i) software and hardware, (ii) energy and technologies, (iii) systems, (iv) people, (v) training and user support, and (vi) processes, all of which contribute to a fully modern apparatus for accelerating, at the least cost per transaction, provision of utilities, payment-methods of all types, and effective client-service channels, both inward and outward, and both local and foreign. This is vital both for governance and for national development. Tourism interfaces with all of these elements; the growth of the hospitality sector depends on their effective interactions.

Objectives of the Audit

5. The audit sought to examine the impact of the hospitality-sector on Montserrat's Gross Domestic Product and employment. Consideration was given to (a) the range and quality of products, services, amenities, infrastructure, transportation, utility delivery, payment methods, and client services, (b) their effectiveness in contributing to the growth of the economy, and (c) their value for money to stakeholders. Finally, the study aimed to identify, to measure, and to assess any performance gaps between (i) the usefulness and the feasibility of existing technological modalities for utilities, for payments, and for client service, and (ii) their actual degrees and rates of usage, as well as (iii) their expected contribution to the Government's enunciated National Vision and to the Sustainable Development Plan (SDP) 2008 to 2020, in which tourism and ICT are two of the four major pillars. In particular, we sought to identify strengths and weaknesses within the sector, as well as the major challenges and opportunities for sustainable growth and competitiveness.

Scope of Performance-Audit

6. The scope of this performance audit was an investigatory pilot project to examine the status and the performance of (i) amenities and products, (ii) utility services, (iii) payment systems, and (iv) client service in the hospitality sector, and their interfaces with the rest of the economy overall. Special regard is merited respecting (a) the enabling legislative framework already established for the country, and (b) the modern, competitive telecommunications infrastructure thriving on the island. We included all tourism related GOM departments in our review, emphasising their role in facilitating the development of tourism and its impact on the delivery and quality of service to customers. Financial and other data-analyses focused on the recent 5 year period (years 2012 to 2016). The most recent published tourism-statistics were for year 2016. However, several types of desired data are either not available at all or have not been gathered since the year 2011.

Scale of Performance-Audit

7. The scale of this performance audit encompassed most activities within GOM that affect tourism and hospitality. It also surveyed service-providers within the local hospitality-sector.

What We Excluded from this Audit

8. We generally excluded data preceding those of the year 2012, except for background knowledge and local context. We excluded comparative compensation analyses and other cross-country reviews. We also largely excluded regional data-sets, except for background information, thus emphasising Montserrat-specific current and historical data sets. Future performance audits and GOM's own strategic plans will need to address these areas in order to reach optimal human-resources management, to sustain effective financial management, and to exceed comparative Caribbean standards and best practices.

Audit Standards Used

9. The standards used to perform this audit engagement and to assess the findings of this audit include ISSAI 1, ISSAI 100, ISSAI 3000, and ISSAI 3100.

Why We Performed This Audit

10. **Vital economic role.** GOM views the sector as playing a critical part in developing the economy as, over the past several years, tourism has made a substantial contribution towards foreign currency earnings, economic activity, and domestic employment. However, the volume of tourists and visitors has declined below the pre-1995 levels when volcanic activity significantly impacted the tourism product. As reliance is placed on returns from this sector, any inefficiencies or disruptions in essential goods and services (e.g., energy, water, transportation, accommodation, and food-supply) will have ramifications for the entire country, including the sustained development of flourishing small businesses and vibrant job creating micro-enterprises. During the past year, the public sector, as well as the rest of the society and economy, has suffered (a) some interruptions of ferry-service, (b) recurrent outages of power supply, and (c) concomitant significant losses of productivity in its internal operations, including early closure of offices in some instances. Given the potential impacts of the sector on the overall development of the economy, this review was undertaken to determine the tourism sector's current contribution to the economic viability of Montserrat.

How We Performed This Audit

11. **Interviews.** Initially, we engaged in interviews with senior public-sector officials whose work relates to tourism and hospitality. With the guidance provided by these meetings, we

proceeded to devise questionnaires and data gathering techniques suitable for the purpose of assessing (i) the efficiency, (ii) the effectiveness, and (iii) the value for money (from the perspective of the end users), of the current range and quality of hospitality related offerings.

12. Reviews of relevant law, regulations and literature. Before we began our fieldwork, we engaged in research of existing GOM laws and regulations in order to establish the legislative framework for our performance-audit. The programme of research then encompassed the literature on such relevant subjects as (a) tourism and hospitality, (b) transportation, utilities, and payment-systems, (c) public-sector efficiency and effectiveness, and (d) performance-benchmarks and standards of service. It also included various local, regional and international sources to capture recent and current trends in these areas, with particular emphasis on journalistic articles, authoritative papers, eminent practitioners' experiences and perspectives, and academic case-studies of existing and emerging technologies for generation of renewable energy. Select lists of references used and of the sources that were researched are given in the relevant Appendix 2 and Appendix 3 hereto. These sources supplemented our reviews of various internal and external documents related to GOM's policies, structures, and operations affecting the hospitality-sector.

13. Survey of service providers. A variety of service-providers were surveyed during September, 2017. Emphasis was placed on hotels, guesthouses, villas, and restaurants. In particular, we sought to know whether they had added jobs or grown revenues during the past 5 years, as well as challenges for business and recommendations/opportunities for improvements.

14. Standards used. This audit was conducted according to standards promulgated by the International Organisation of Supreme Audit Institutions (INTOSAI) for performance-audits. Those standards require that we plan and perform our audit in order to obtain sufficient and reliable evidence to reach a reasonable conclusion about the performance of the MPS with regard to [a] its efficiency, [b] its effectiveness, and [c] the value for money that its services provided to its tax payers during the period under review.

CHAPTER 2: SECTORAL REVIEW

15. Organisational Structure. The GOM's Tourism Division is a small unit within the Office of the Premier. It comprises 4 persons, whose functional areas include (a) marketing, (b) product development, (c) business services, and (d) administration, respectively. Within the sector, most service providers are very small (e.g., most accommodation-providers have fewer than 5 rooms) and have only 1 or 2 employees/contractors; the largest full service hotel has only 16 rooms. In several instances, owners are on-site managers of their businesses; in other instances, ownership and management are separated, including cases of non-resident owners with local representatives or managers.

16. Human Resources Management. The current staffing of most service providers is very small; many restaurants, guesthouses, taxis, tour providers, and ancillary services are one-person microenterprises. Beyond direct employment, the use of freelancers and part-time contractors is widespread (e.g., a housekeeper might be engaged 2 days a week or a pool-maintenance person is employed a few times per month). This pattern reflects the small size of operations and also the fluctuation of occupancy-levels or activity-levels throughout the year.

17. Financial Management. The small size of most service-providers is strongly linked to under-capitalisation and cash-flow constraints. Often, businesspersons are using limited or old computers, systems, and equipment, and/or their properties are in need of refurbishment. From time to time, the GOM, with assistance from DFID, has offered grants to businesses within tourism and hospitality; however, these are typically small, infrequent, and limited in duration and in accessibility. Moreover, both public news articles and feedback from interviewees indicate that a large percentage has been allocated to a few prominent businesses rather than widely distributed.

18. The Environment for Hospitality.

(a) International Travel Links: The ferry-service has more than adequate capacity (i.e., for over 200 persons per trip), but its schedule is limited to 1 or 2 trips per day for 5 days per week. Air access is provided daily, but only by two airlines, and it is limited to very small aircraft (e.g., 2 to 6 persons per trip). The current airport is restricted to daytime flights and it is very small, further limiting capacity for arrivals. Contrary to the objectives of section 11 of the Tourist Board Act, all of these factors serve as constraints on the capacity to handle an increasing of arrivals to achieve growth in the hospitality sector particularly and in the economy generally.

(b) Transportation: On the island, visitors have several options for travel (e.g., rented vehicles, chartered tours, and taxi services), but there is no national transit system or scheduled service. The privately owned public-service vehicles offer very low fares, but they are mostly limited to daytime hours on work days (Monday to Friday) with little or no availability after 6 p.m., during weekends, and during public holidays. In those three instances, the fare nearly doubles.

(c) Utilities: The island's water-supply and sewage services are excellent, but, since October, 2016, the island's State owned monopoly for electricity has had several challenges (e.g., aging equipment, and failing generators), and the power-supply has been frequently interrupted. Very few businesses or service-providers have alternate sources of energy; this results in disruptions of service to residents and to tourists alike.

(d) Food chain: The island's agricultural sector remains small and very narrow in scope. Whilst there is an interesting range of locally produced food items and beverages, the hospitality sector remains heavily dependent on imported goods, beverages, and liquors. To a large extent, this means that service providers' menu prices to visitors are directly influenced by the prices set by foreign suppliers. High shipping costs to Montserrat and high local import taxes are further constraints on the hospitality industry.

CHAPTER 3: OUTCOMES & RECOMMENDATIONS

Findings of the Audit

30. Air & sea access remain limited. The ferry service does not operate every day. Furthermore, the scheduled services are interrupted or cancelled several times per year, owing to sea conditions and during the season for hurricanes and tropical storms. Air access is available daily, but (a) it is expensive, (b) it is restricted to a few flights during daylight hours, and (c) it is limited to 2 airlines with very small aircraft (under 10 persons per flight). The airport and the seaport are very small and inadequate for growth of the tourism sector (especially the fast-growing cruise industry, for which the Caribbean is the leading destination worldwide, with the biggest cruise ships exceeding 5,000 passengers, plus around 2,000 employees, many of whom become tourists themselves at each port visited during the cruise-itinerary). Many persons experience sea sickness and prefer to avoid the ferry service, but the flight services entail prolonged in transit delays in Antigua (including overnight stays in some instances) and small aeroplanes are inadequate for many groups.

31. Montserrat has several attractive features. An important finding of our research is the various natural and social features of the island that make it attractive to select niches: e.g., volcano enthusiasts, hikers, festival patrons, retirees, cyclists, birdwatchers, yachters, cruise ship passengers, honeymooners, anniversary celebrants, etc. Often mentioned are the peacefulness and the safety of the island; the very low crime rate; the abundance of natural beauty, views, landscapes and vegetation; and the warmth and hospitality of the people. [Exit-Survey 2011, p. 11; Tourism Master Plan 2015-2025, p. 37-41.]

32. Montserrat is almost unknown in the market. The combination of [a] big cuts to the Tourism Division's marketing budget, [b] loss/negligible use of tour operators, and [c] inadequate use of its website, social media, and other channels, means that the island has no effective market presence globally (Tourism Master Plan, 2016, p. 36-38). It is practically unknown beyond the small circle of overseas Montserratians, their friends, and persons who already have some connection with the island. The absence of any international hotel brands and restaurant chains also eliminates a major source of private sector marketing found in competing destinations.

33. High percentage of returning visitors. Over the past decade, surveys and interviews revealed that over 60% of tourists were repeat guests (Exit-Survey, 2011, p. 4). Several visitors have become property-owners and/or permanent residents on the island, leading to an established villa-market for both rentals and sales. This important core of loyal visitors contributed to the impressive growth of Montserrat's tourism sector in previous decades; however, as they age and die, their numbers (and, hence, the scope of their word of mouth

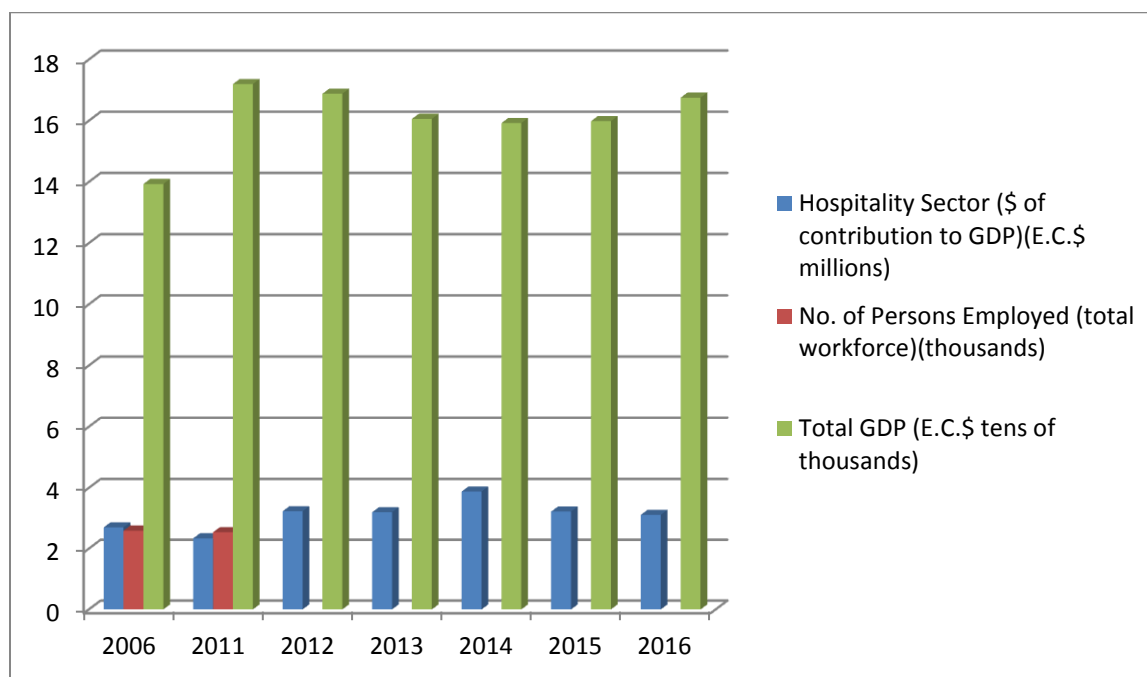
marketing to friends, relatives, and colleagues) are gradually dwindling. Accordingly, total arrivals during the past 5 years remain well below their historical peak.

34. The sector is small and undercapitalised. The dominant profile remains that of sole proprietorships and microenterprises that are under-funded and struggling (Tourism Master Plan, p. 35). Many owners/service providers depend on other sources of income and hospitality is more often a hobby or side-line than a professional undertaking. The majority are seemingly in the industry for the love of it and/or for a love for Montserrat more than for profit. Over the decade of 2004 to 2014, hotels and restaurants almost doubled their contribution to GDP: rising from EC\$1.99 million to EC\$3.88 million. However, in recent years, the hospitality-sector has reflected an overall decline (from EC\$3.88 million in year 2014 to EC\$3.11 million in year 2016), as falling output from restaurants outweighed increased output from hotels. Some restaurants have closed.



35. The economy is stagnant and fragile. The available data from the Montserrat Statistical Department show that GDP grew moderately, on average, over the past 10 years, but has actually declined in three (2012, 2013, & 2014) of the past five years before making a small recovery in years 2015 and 2016. However, GDP for 2016 (EC\$167.54 million) was still less than that for year 2011 and that for year 2012. The workforce also declined: from 3,006 persons in March, 2006, to 2,718 persons in May, 2011 (the most recent census data). The official unemployment rate declined impressively (from 13.7% to 6.5%) during that period; however, the absolute number of employed persons actually fell (from 2,593 to 2,540). Adjusted for inflation, real GDP also reflected declines both for the hospitality-sector and for the economy generally. In

short, nearly 30 years since Hurricane Hugo (1989) and more than 20 years since the volcanic crisis (1995), major indicators such as (i) GDP, (ii) employment, (iii) population, and (iv) the level of private-sector activity all remain well below their historical peak-levels.



36. The Tourism Division is under resourced. Despite the importance attributed to the hospitality sector in the Sustainable Development Plan, too few persons (currently, only four) are dedicated to tourism development, and the marketing budget is extremely small (both as a percentage of the GOM’s overall annual budget, and even when viewed on a per-capita basis). The Tourism Master Plan (p. 36) emphasises that the marketing budget was cut from EC\$2 million in year 2011 (under the previous Tourist Board) to EC\$180,000 per year. Public relations representatives in Guadeloupe, Germany, and the United Kingdom are no longer employed (TMP, p. 36). Effectiveness appears to be limited as the sector (a) has remained well below historical averages, (b) continues to be a small percentage of GDP (i.e., reported output from hotels and restaurants ranged between 2% and 2.5% of GDP in recent years), and (c) is clearly under-performing its potential. Notably, the GOM’s National Tourism Policy dated May, 2016, acknowledges that “Montserrat is virtually unknown in the market - place” (p. 7).

37. Training is widely lacking. Most interviewees acknowledged this point; this is also highlighted in the Montserrat Tourism Master Plan: 2015 to 2025 (p. 103). In the absence of a local training institute for the required technical skills, businesses engage primarily in on-the-job learning for their staff. The lack of a systematic approach to training and development creates a steep learning curve for new recruits and limits the progression of long term careers. Such an environment also discourages potential high calibre candidates from applying for vacancies and/or

from remaining within the local industry over the long term. This has significant adverse implications for succession planning, for operational efficiency, and for service quality.

38. Marketing and Client Relationship Management (CRM) are minimal to nil.

There is a lack of effective marketing across the sector. Several service providers are making limited use of web pages and social media, but little evidence of strategic marketing/management was found, and CRM software is non-existent. No exit surveys of customers have been done by the Tourism Division since the year 2011 and there is no client-loyalty or customer-oriented recognition/rewards programme.

39. Sectoral data are inadequate. Several statistics (e.g., average occupancy rates; average spending per visitor) are not gathered at all. Other data are gathered infrequently: e.g., labour market surveys are limited to a national census once every ten years, resulting in increasingly outdated and less useful information.

40. Lack of monitoring. From the evidence that we found, there is no comprehensive system that is documented for checking, for monitoring, or for reviewing critical metrics such as (a) service quality, (b) client satisfaction, (c) fault calls, and (d) disruptions to utility delivery. Matters are usually handled (e.g., by telephone or in person) whenever they arise, but without records in most cases. Hence, in many instances, valuable organisational history, service related data, and useful statistics are unavailable and/or they are available, but are not being used.

41. Recurring complaints about electricity service. Frequent interruptions of service have occurred during the period November, 2016, to September, 2017. Every business was affected on multiple occasions as both scheduled load-shedding rotating across communities and unplanned outages affected the whole island's power-supply at various times. These disruptions also affect the provision of Internet-services on the island and cause great dissatisfaction to visitors, who rely on connectivity for news, for communication, for planning, etc.

42. Vulnerability of infrastructure and systems. Mild effects of passing storms during September, 2017, revealed severe risks of disruption to telecommunications, to electricity supply, and to water supply. Each of these utilities was interrupted for up to several days, resulting in periods of the closing of various businesses across the island, reduced quality of service to guests, and intermittent (and sometimes prolonged) unavailability of some services. The widespread lack of generators and solar-energy systems jeopardises client satisfaction for almost every service provider in the hospitality-sector. The interruption of ferry services and airline services on some days further affected the arrival and departure of visitors.

43. Cheque/cash vs. electronic options. Several hotels/guesthouses and restaurants handle online reservations and/or credit card payments, but most small providers operate on a cash basis and most other local suppliers and businesses are still operating exclusively with cash/cheques. Hence, the ecosystem for the sector remains underdeveloped and backward. As

a vestige of the 20th century, this paper based, labour intensive payment system is both cumbersome and expensive to service providers themselves; it also tends to be slow, frustrating, and inefficient in the eyes of payees. With bureaucracy come various measurable deficiencies in service-related delivery and attitudes.

44. Limited foreign currency systems. There is only one ATM on Montserrat that handles foreign credit-cards and debit-cards; interviewees reported that, sometimes, it is not working. This makes things very difficult, inconvenient, and frustrating for visitors as well as for expatriates who live on the island and depend on foreign incomes. Altogether, the status quo does not meet the expectations of most visitors to Montserrat. This is a significant limiting factor to accommodating increasing visitor arrivals, maximising their total spending, and sustaining the growth of the hospitality-sector.

45. Online reservations and payments. Several hotels/guesthouses and restaurants handle online reservations and/or credit-card payments, but most small providers still operate on a cash basis. The Montserrat Online Visa Application (MOVA) system and the ferry-service also offer online reservations and payments. However, most venues, events, activities and festivals do not yet facilitate online reservations or electronic ticket-purchases. This is below visitors' expectations and it reduces patronage and potential revenues through pre-booking.

46. Inadequate water storage. MUL's water-tanks are distributed over the island and vary widely in adequacy. Reports indicate adequate storage for Salem and for St. Peters, but very low storage for LookOut especially and St. Johns generally. Several districts have experienced increasing numbers of residents and/or businesses, but without commensurate investments in extra water-storage (GOM, 2012)[ref. 41]. This is a significant limiting factor to accommodating increasing visitor-arrivals and growth of the hospitality-sector.

Analysis of the Findings

47. Poor/under use of electronic systems. Many businesses in Montserrat have limited and inadequate internal administrative systems. Some have made excellent progress towards online reservations and credit card payments, but too few have improved from an all-cash and manual process historical basis towards substantial use of electronic data entry, of electronic accounting, and of electronic approval and processing of cheque-payments, coupled with increasing use of direct deposits to bank-accounts. Moreover, in many client-facing functions, there is little or no use of electronic channels (e.g., they have no websites and/or online channels are greatly under-utilised). The availability of e-commerce websites, online accounts, and online banking would enable real-time confirmation and viewing of transactions by employees as well as all customers, suppliers, or stakeholders interacting with service providers in any capacity.

48. Utility deliveries are adequate, but infrastructure is aged. Large and growing risks and inefficiencies affect the current infrastructure. Generally, MUL is meeting its mandate to provide island wide coverage of all three utility services, but water storage is well below standard 3 day levels. The majority of water pipes are many years old, and have been fixed or replaced mostly when they break, rather than strategically replaced and upgraded year by year. Power-supply is under constant risks of failing generators and costly repairs.

49. Underdevelopment of human resources. Most of the persons surveyed reported lack of trained staff and infrequent opportunities for training on Montserrat. We generally observed that very few persons in the hospitality sector are professionals; owners and managers are typically self-described amateurs and hobbyists or persons who have come into the industry by economic necessity (e.g., to supplement their pensions or to earn rent on their properties when they are not on the island) or by other life events or personal circumstances, rather than by specific education and career-development. Part time and seasonal jobs predominate in the sector. Persons tend, therefore, to have more than one job and/or to be contractors with more than one property.

Discussion & Conclusions

50. Many opportunities for improvement. There is much room for improvement within such areas as (a) the marketing of tourism/hospitality, (b) the level of service and the quality of service channels, (c) the quality of infrastructure, (d) the full range of payment methods that are available on the island, and (e) the overall reliability of telecommunications and of utility services. The GOM, service providers, and visitors will save considerable amounts of time, of effort, and of cost through 24 hour per day access to electronic channels for information, communication, service, and online payments. This is especially important for the large overseas constituency of expatriate Montserratians (which is much greater than the on-island population), who are the largest visitor group in recent years, as well as foreign visitors, tourists, expatriate residents, investors, international businesses, importing local enterprises, cruise-ships, and ferry passengers. International airlines and cruise-ships have 24-hour-a-day schedules across all time zones, and, correspondingly, modern tourists expect to have the convenience of (nearly) 100% up-time for all utilities (e.g., water, power, lighting, fuel, telecommunication, and Internet service, including mobile and wireless connectivity), systems, websites, payment methods, and channels for e-commerce, including e-Government.

51. Investment is vital. As the experience of other successful tourism destinations has proven, it is essential to take a strategic approach to the entire eco-system of the hospitality-sector. Illustrative focal areas include these: air access, sea access, amenities, utilities, transportation, infrastructure, telecommunications, online and in-person payment-systems, the ease of doing business, the quality of tours, of hike trails, and of attractions. These all require a systematic review, integration, and upgrade. With measurable improvements each year, aligned to visitors' needs and preferences, GOM can get a better return on such investments. More

effective investments will stimulate the growth of the sector and lead to improved GDP, tax-revenues, and employment.

Recommendations

52. Improve island access and visitors' travel experience. This has several aspects:

- (a) Gradually increase the number of daily and weekly departures;
- (b) Negotiate more direct flights (e.g., to/from St. Kitts and St. Martin) to avoid the current bottlenecks in Antigua and the high risks of dependence on one port of entry);
- (c) Integrate flight schedules and ferry-schedules to better match the schedules of feeder airlines in Antigua so as to minimise in transit times, costs, and inconvenience;
- (d) Upgrade to a high-speed ferry to reduce trip-duration and increase stabilisers to make the trip safer and much more pleasant to passengers, addressing a key complaint;
- (e) On a phased basis, negotiate for larger aircraft (e.g., a 19-seater rather than 6-seater or 8-seater) to serve the island, starting with 1 or 2 flights per week and building frequency and capacity in line with demand and especially during peak periods (e.g., St. Patricks Festival and Christmas/New Year holidays);
- (f) On a phased basis, provide for night-time flights to avoid having visitors overnight in Antigua or deterred from visiting Montserrat at all; the longer they have to spend elsewhere on route to Montserrat, the more they spend elsewhere and the less time and money they have to spend in Montserrat;
- (g) Develop a port-facility to accommodate more cruise-passengers and day trippers and to provide a better overall experience before, during, and after their arrival. Free wireless internet connectivity in public places is a common expectation.

53. Reinvigorate and expand the Tourist Board. In line with its original mandate in the Tourist Board Act and to realise the vision of the Tourism Master Plan, it is urgent to re-establish a strategically managed, stand-alone national tourism entity with well-funded and effective marketing campaigns. This requires smart investments (a) in product-development, (b) in infrastructure, and (c) in professional development of the existing staff, along with (d) expansion of the human resources to incorporate appropriate specialist skills: e.g., e-tourism, e-commerce, social media, stakeholder-engagement, project-management, investment-promotion, and business-facilitation. Only thus can tourist-arrivals grow sustainably and boost the economy.

54. Implement certification and accreditation. The Tourism Division could provide leadership, technical expertise, and training in supporting local service providers to seek and to qualify consistently for various regionally and internationally recognised awards and certifications e.g., Green Globe; Caribbean Hotel/Restaurant of the Year; the Caribbean Tourism Organisation's awards; Caribbean Hotel/Tourism Association's awards. Another opportunity for Montserrat is accreditation such as UNESCO World Heritage designations. Such marks of distinction highlight the best that the island has to offer and raise standards within the hospitality-sector. Certification and accreditation boost both national marketing and the service-providers' own marketing campaigns. It also supports human-resources development and attracts talent.

55. Progressively implement up to 100% renewable energy. Provide support and incentives to expedite the installation of solar power throughout the sector to reduce the risks of oil price volatility, foreign currency leakage, and supply-disruptions. In the short term, solar power (perhaps supplemented by wind-energy) is the safest, least-cost, and cleanest source of energy for electricity generation. In the medium term to long term, hydropower and geothermal energy offer great potential for national self-sufficiency and exports. Solar energy can reduce GOM's own costs, while reducing the cost and the risks of businesses serving visitors. Green business can thus become a major component of Montserrat's tourism marketing strategy and country branding. This is also congruent with the notions of eco-tourism.

56. Implement modern marketing and CRM. It is imperative to strengthen and to equip the Tourism Division with adequate resources, including [a] appropriate numbers and allocations of employees, [b] quality assurance and compliance systems, [c] business facilitation unit, [d] stakeholders and public relations unit, [e] investor /client assistance unit, and [f] a comprehensive planned programme of in-house training and refresher courses for officers and for service providers at all levels to ensure the appropriate level of skills and the most effective staffing. Greater accountability is required in assessing staff in relation to client focused objective metrics: e.g., (1) the number of inquiries, accounts, and complaints processed; (2) the incremental costs saved and/or revenues earned arising from effective client relationship management, assessments, reviews, and audits; (3) the timeliness of error corrections and disbursements of refunds; and (4) the timeliness in responding satisfactorily to clients' inquiries and requests. In short, move from a passive and reactive mind set (e.g., waiting for clients to call/complain) towards a proactive and strategic marketing and client-relationship framework (e.g., reaching out to clients periodically). This includes recognition/rewards for frequently returning visitors as well as for excellent service-providers and high performance employees/contractors.

57. Budget adequately for maintenance and training. All vehicles, equipment and premises need regular maintenance for high performance. Likewise, every employee needs a strategic skills enhancement programme (e.g., set an annual minimum for the number of hours of training per employee) and a career building plan (developed collaboratively with tangible milestones and outcomes, and revised at least annually). This applies equally to the Tourism Division and to the various service providers in the hospitality sector. GOM, along with partners

such as DFID and CDB, can assist in co-ordinating these activities across the sector, including targeted grants and low cost loan-programmes.

58. Implement Caribbean Vocational Qualifications. Towards institutionalising career development and professionalism in the sector, the Tourism Division can co-ordinate C.V.Q and other relevant programmes. This is important for the upskilling, career development, promotion, and retention of persons who are already working in the sector. It is also important towards attracting young professionals locally and regionally to enter the sector and to remain on the island and in the sector for the long term.

59. Expand water storage. The 2017 performance review of Montserrat Utilities Limited revealed that shortages of storage already exist (below the international benchmark of storage to last 3 days of average use). This has major implications for GOM's economic strategies (a) to increase the population and (b) to increase tourism as a major pillar of the economy. All water tanks need periodic maintenance and repairs to maintain safety for employees and health of users. In turn, provision of additional water tanks is urgently required in several parts of the island to meet growing demand and to comply with applicable local and international standards. Integrate this with disaster management plans and building codes so that existing properties are retrofitted with water storage and new properties are required to have a specified minimum of water storage capacity for business continuity, for safety, and for the satisfaction of guests/clients. During the annual Hurricane Season (which can cover more than half of the year, May to November) and given the increasing frequency and intensity of storms, there is a higher risk of major damage to infrastructure, including utility services. This necessitates expanded capacity (both distributed and off network storage) to provide essential services during and after disasters, storms, and other disruptions of normal service levels.

60. Monitoring and review mechanisms. Given the pervasive absence of documented evidence of any actively implemented systems for identifying, for monitoring, and/or for recording many aspects of client-data and communication, it is essential that the Tourism Division register and support every service provider in the sector to establish a standard template for weekly and monthly reporting of faults, of complaints, and of feedback from clients. In line with best practices, all reasonable efforts ought to be exerted to ensure that exceptional items are highlighted promptly for the soonest redress of (i) any disputes with clients, (ii) documentary deficiencies, and (iii) service quality issues. Data analysis can then ensue to show categories, trends, actions, costs, benefits, and progress in various service delivery and client relationship issues within each year and between years.

61. Business facilitation & smart partnerships. As 8 years have elapsed since the effective date of this law, the Financial Secretary and The Ministry of Finance and Economic Management must urgently implement, as soon as it will be practicable, the e-Business Advisory Council, as mandated by the Electronic Transactions Act 2009. Among other benefits, this can be the mechanism for value added interface with the OECS Business Council and the related business-facilitation unit of the Eastern Caribbean Central Bank, as well as the Montserrat

Chamber of Commerce, and various other private sector entities and public-sector agencies that are focused on business related initiatives: e.g., (a) internships, (b) work-attachments, (c) micro-enterprise development, (d) financing of start-up ventures, (e) export promotion, (f) e-commerce, (g) website development, and (h) young-entrepreneur networks, training, and supporting ecosystems. As tourism is a major business sector in GOM's vision for Montserrat, hospitality-providers have a strategic role to play in and with these and other entities locally and regionally. Making Montserrat a better place for business directly impinges on the growth and profitability of tourism and hospitality also. This kind of strategic, long-term perspective, alongside the nurturing of smart partnerships, needs urgent attention.

62. Implement a Tourism Information System. The Tourism Division needs an integrated and comprehensive information system (a) to enhance the work of the Montserrat Statistical Department, (b) to allow regular performance reporting, and (c) to boost the databases for marketing and for policy formulation. A Balanced Scorecard paradigm can provide a framework for creating regulatory and managerial dashboards and high quality quarterly and annual performance reports at all levels of the hospitality sector. This can be integrated into a performance based rewards and recognition system within GOM as well as across the sector to celebrate achievements as well as to highlight areas needing remediation.

63. Maintain comprehensive Tourism/Hospitality registry. To keep correct and current sectoral information, the Tourism Division needs to encourage the registration of all service providers. Suggested information includes (a) name, contact details, and address of owner(s), (b) name, contact details, and address of manager(s), (c) name and address of the business, (d) number of rooms/beds (for accommodation-providers), (e) category and classification of the business, and (f) range of services/products. Periodic site visits, annual renewals of registration, and quarterly/annual reviews of information would encourage stakeholders' engagement with GOM's vision and policies.

64. Expand card payments. Alongside the GOM's current year thrust to deploy card-machines at multiple public sector locations, the Tourism Division can assist service providers throughout the hospitality sector to enhance the entire payments system and infrastructure, as a high client service priority, including installing wired/wireless card reading machines at every visitor oriented touchpoint. With joint ventures, co-operative programmes, and/or wholesale negotiations, the cost per unit will be reduced for each business. This will further the twin purposes (a) of revenue maximisation and (b) of optimal value for money to stakeholders, through the deployment of credit card/debit card payment facilities both in person, at cashiers, and online. Expatriates living on the island, travelling residents, overseas Montserratians, returning Montserratians, investors, and other stakeholders will all immediately benefit from greater ease of access, high levels of convenience, enhanced security, and the significant cost savings of doing business with service providers in Montserrat, regardless of time zones, of business hours, and of their physical locations.

65. Annual hospitality provider surveys. The Tourism Division could perform annual surveys of hotels, restaurants, and ancillary services to assess (a) attitudes towards their jobs and towards their employer, (b) the scope, the scale, and the intensity of usage of ICT, (c) new failures or successes in service delivery, and (d) remaining performance gaps, with ensuing personalised plans for human resource development within businesses and, in turn, at the personal level with objective metrics for successful outcomes. Create an open environment in which valid criticism is welcomed and new ideas are embraced, regardless of their source or the rank of the contributor. Demonstrate, measure, and report satisfactory action on resolving at least one significant employee related and/or customer related complaint or issue each year.

66. Annual customer surveys. The Tourism Division must be empowered with the resources to achieve exit surveys of visitors at least annually. This national effort would complement a programme to encourage each hospitality-provider to perform its own quarterly or annual surveys of customers to assess (a) clients' level of satisfaction with products/services received, (b) attitudes to Montserrat, (c) customers' usage of facilities, tours, excursions, and other aspects of tourism/hospitality, (d) stakeholders' perceptions of new failures or successes in service-delivery, and (e) remaining performance-gaps (e.g., persons' actual service experiences versus their emerging needs, preferences, and expectations), with ensuing personalised plans for marketing Montserrat, for sector wide HR development, and for business-process and ICT enhancements towards optimisation within each service-unit (Jones, Hackney, & Irani, 2007)[86].

CHAPTER 4: MANAGEMENT RESPONSE

The Tourism Division notes the findings and recommendations made by the Auditor General and are generally satisfied with the reports' findings.

The majority of these findings are hinged on a new Tourism Authority being established. This would place the Division in a better position to effectively prioritize its initiatives and deliver on these initiatives with more impact given adequate financial support to implement.

There's a suggestion for more activities /experiences to attract new tourists to encourage them to return. Although the Division agrees to this point, such activities should not be solely Tourism Division's responsibility but rather a partnership between the Private Sector with guidance from the Tourism Division.

Training for stakeholders in the Hospitality Industry is a requirement; many Accommodation Owners and Taxi Drivers do not understand the power of digital marketing and therefore rely heavily on the Division's web promotions to advertise their business/services. A series of training workshops would be essential in providing these stakeholders with at least the basics and this has been identified as a key strategy for 2019/20.

Standards in the industry is also critical especially with the current country tag line being, 'Come, we have time for you', standards would need to be improved to illustrate this. The Tourism Division has conducted standards training in the past but due to high staff turnover, many sectors have inadequate standards and a lack of trained staff to enable internationally recognized standards for particular hospitality sectors e.g. Restaurants, hoteliers etc.

The regular day trip by the Guadeloupe ferry, Jeans for Freedom is growing in frequency, so it is important that Guides on island are taught conversational French to be able to provide a better service to these visitors.

In an ideal economy, the Tourism Division would be able to assist hospitality stakeholders in terms of electronic transactions and reservation payment systems, however, in a declining economy as in Montserrat, stakeholders cannot depend exclusively on The Division, they would need to exercise initiative and keep updated with market trends to learn ways to be competitive in the industry.

CHAPTER 6: OVERALL CONCLUSION

(a) Limited air/sea access. Ferry services are not available every day; the ride is long, often rough, and unpleasant for many non-CARICOM passengers, who are more accustomed to travelling by land and by air. Flight times to Montserrat are very short, but airline services (1) are very expensive, (2) are limited to a couple of providers, (3) are allowed only daytime departures and arrivals, and (4) offer only a few very small aircraft. This limits the number of persons/groups that can conveniently reach the island. Both the seaport and the airport are under developed and inadequate to support the long-term growth of tourism and hospitality.

(b) Marketing is inadequate. The Tourism Division is under staffed, marketing is greatly under-funded, and sectoral linkages are weak or lacking. Part of the problem is inadequate data-gathering and outdated statistics about the economy and about the tourism sector. In the 21st century, customers' expectations are higher than ever and more business is being done through electronic channels; younger tourists tend to use them exclusively. Effective target marketing, smart partnerships, improved travel-options to and on the island, and a strong online presence are all necessary to raise Montserrat's international image and recognition as a destination of choice. The island's tourism-thrust must also grow in new markets and new niches.

(c) Inadequate infrastructure & attractions. Many visitors complain that there are too few things to do, and not enough places to go/meet on the island. Business hours and days of opening are too limited in most cases, do not adequately match visitors' times of arrival/departure, and thus limit visitors' satisfaction and total spending here. Significant portions of utility-assets (e. g., vehicles, power generation equipment, and water distribution pipes) are old, and in chronic need of repair, replacement, and/or upgrades. Most of the infrastructure is not insured. A strategic approach to planning, budgeting, self-insurance, and procurement is essential to efficiency, effectiveness, safety, and value for money. As the power-supply and Internet-services are repeatedly interrupted, visitors' satisfaction is diminished, and the status quo is incompatible with the GOM's Policy Agenda, including economic growth, private-sector development, major investments, and increased tourism/hospitality (Citizens Guide, 2016, p. 1).

(d) Under used technologies. Too many instances remain where available low-cost approaches are not employed, and/or existing technologies, modalities, and payment methods are readily feasible, but they are not being utilised fully or at all. Examples include (1) online reservations, (2) online payments, (3) in person credit card/debit card payments at local businesses, and (4) online purchases of tours, of tickets, and most local products and services.

(e) Great opportunities. Green business is vital for the growth of Montserrat's economy generally. By extension, a paradigm of personal wellness and workplace-ergonomics will contribute to the national vision of "A Healthy and Wholesome Montserrat". High levels of employees' attendance, satisfaction, and performance will (1) greatly improve public services, (2)

increase efficiency, (3) reduce long term healthcare and other risks and costs, and (4) redound to the benefit of all residents and visitors. Thereby, GOM's national SDP goals of economic prosperity and population-growth will be easier to achieve and to sustain.

APPENDIX 1: OFFICE OF THE AUDITOR GENERAL

Functions

By force of *The Montserrat Constitution Order 2010*, the OAG is established and upheld in its independence and in its functions within the public sector of Montserrat. The relevant section states as follows below:

Functions of Auditor General

103.—(1) The Auditor General shall audit and report on the public accounts of Montserrat and of all public offices, including the courts, the central and local government administrations, universities and higher education institutions, and any public corporations or other bodies or organisations established by an Act of the Legislature, and may conduct financial and value for money audits in respect of any project involving public funds.

(2) The Auditor General shall submit to the Legislative Assembly annually a report of the accounts audited by him or her under subsection (1) for the immediately preceding financial year.

(3) For the purposes of subsection (1) the Auditor General and any person authorised by him or her shall have a right of access at all reasonable times to all such documents as appear to him or her to be necessary for the purposes of the audit, and shall be entitled to require from any person holding or accountable for any such documents such information and explanation as he or she thinks necessary for those purposes.

(4) In the exercise of his or her functions, the Auditor General shall not be subject to the direction or control of any other person or authority. The independence of both (a) the functioning of the Auditor General and (b) the budgetary allocations from the Government's national Consolidated Fund to finance the Office of the Auditor General are clearly stated and emphatically declared as follows below:

“National Audit Office

104.—(1) The Legislature shall by law make provision for the establishment of an independent National Audit Office headed by the Auditor-General.

(2) The budget for the National Audit Office shall be charged on and paid out of the Consolidated Fund, and must at all times be adequate to enable the full performance of the functions conferred on the Auditor-General by this Constitution or any other law.

(3) The accounts of the National Audit Office shall be audited and reported on by an auditor appointed by the Legislative Assembly.”

In line with international standards for public-sector auditors and global best practices for Supreme Audit Authorities, the O.A.G. of Montserrat espouses the following values and priorities:

Our Values

Respect. We seek to build productive professional associations and cordial personal working relationships with colleagues internally as well as with other public servants externally.

Honesty. We tell the truth even when it is unpleasant or embarrassing. Accurate self-assessment is vital for every person and for every unit of Government to acknowledge its strengths and its weaknesses, and to begin to address performance-gaps and shortfalls from relevant policies, from applicable standards, and from currently binding laws and regulations.

Transparency. Our work is in the service of the Government and the people of Montserrat. Therefore, all of our final reports on engagements undertaken are made available to all stakeholders, to the public and to any other interested parties via publication on our website.

Confidentiality. In the course of our duties, we protect the identity of all persons who reveal secret information or private details. Our reports disclose general conclusions and focus on practicable solutions rather than highlighting any person or department directly.

Accountability. By definition, the work of the O.A.G. is to hold accountable all public-sector Ministries, Departments, agencies, public-private partnerships, and State-owned enterprises. In turn, we are accountable (a) to colleagues through quality-control procedures and through peer-review, (b) to local, regional and multinational professional accounting and auditing bodies, and (c) to global standards-setting bodies. Finally, the O.A.G. itself is subject to annual audits by an independent external audit-firm of the highest repute.

Objectivity. Auditors must remain impartial, devoid of partisan bias, without membership of political parties, and otherwise focused on the truth and the facts, rather than personal opinions, emotions, or self-interest. All of our analyses, conclusions and recommendations are based on facts and verifiable and auditable evidence, supported by retained audit-papers and work-in-progress files throughout each and every audit-engagement. Information is gathered solely for the purposes of the official audit and never to be used for personal advantage of either the auditors themselves or of any other person, party, entity, or enterprise.

Independence. Vitally important to the respectability of the O.A.G. is the independence of the Auditor-General and of his/her staff both in appearance and in fact, both in public discourse and in social intercourse. Auditors must avoid any potentially compromising personal relationships or business activities with any public-sector auditee. Where he/she has (i) any material private indirect interest and/or (ii) any direct financial or other interest in an auditee and/or (iii) in or with any of its employees, suppliers, investors, creditors, or other related parties, an auditor must either refrain from any part of an audit of such entity and/or disclose the nature and the extent of such actually or potentially compromising interest whatsoever it be.

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APPENDIX 3: TERMINOLOGY

Efficiency. This is measured as the ratio of inputs per given or desired unit of output. The performance-goal is the minimisation of inputs and/or input-costs per unit of output.

Productivity. This is measured as the ratio of actual units of output per given unit of each input. The performance-goal is the maximisation of output per unit of each input and/or of each input-cost, subject to the desired quality of that output.

Effectiveness. This is measured as the ratio of actual units/costs of all outputs to the desired units/costs of output. The short-term performance-goal is the minimisation of the gap between desired output(s) and actual output(s), subject to the desired quality of that output.

Value for money. This is the *desired surplus quantum and/or value of benefits* derived from actual output(s), deliverable(s), or outcome(s). It is measured as the consumer's utility or economic surplus: i. e., (1) the actual (and/or user-perceived) value of all benefits of each unit of output, minus (2) the actual costs per unit of each input required to produce that unit of output. The performance-goal is the maximisation of the total value of incremental benefits (minus marginal costs) derived from all units of output (e. g., public services or public goods), subject to the desired quality of that output, and to any applicable standards, regulations, contractual obligations, client-service objectives, or legal requirements.

Performance. This concept defines observable behaviours in respect of a specified function or activity. In practical terms, performance is measured as the comparison of *ex post* actual outcomes with *a priori* desired or pre-agreed outcomes. This lends itself very well to objective definition, measurement, monitoring, reporting, feedback, and recommendations for improvement, wherever gaps are identified between (a) desired behaviours and outcomes and (b) actual behaviours and outcomes.

Performance audits. These are objective, external, and independent reviews of activities, processes, organisations, financial statements, and/or other objects of interest, having explicit regard to such parameters as (i) applicable laws, (ii) external regulations, (iii) internal policies, (iv) internal rules, (v) international treaties, (vi) bilateral or multilateral agreements, (vii) industrial benchmarks, (viii) contracts, (ix) codes of conduct, (xi) ethics, (xii) morals, and/or (xiii) professional standards. Performance-audits go beyond (1) *financial audits* and (2) *internal audits*, for instance, to examine the actual, observable, and measurable behaviours, outputs, efficiency, effectiveness, and value for money of an entity, a programme, an agency, a statutory corporation, or an entire public sector, as the case might be. In this regard, performance-auditing is inherently more far-reaching, more strategic, and more consultative than other types of audit. When it is well executed by the auditor(s), and when, thereafter, its findings are wisely attended and its recommendations expeditiously implemented, a performance-audit in the public sector has the potential to offer the greatest value for money to the Government and, ultimately, to the people of Montserrat. In short, it pays for itself many times over.

APPENDIX 4: AUDIT FIELDWORK

Questionnaire for Interviewees

GOM Interviewees

- (1) The Financial Secretary
- (2) Limited input from The Acting Permanent Secretary, Office of the Premier
- (3) The Product Development Officer of the Tourism Division, Office of the Premier
- (4) Sourced data from, and had discussions with, Montserrat Statistical Department.
- (5) Conferred with the Chief Economist, Ministry of Finance.

Survey of Hospitality Providers

During September, 2017, we conducted a short survey of service-providers, including hotels, guesthouses, apartments, villas, and restaurants. Many small providers are not separately listed in the telephone-directory and/or proved to be uncontactable and/or were reluctant to provide much information. In several instances, telephone-services and/or internet-services were reportedly disrupted and lines not working; hence, difficulties were experienced in reaching some telephone-numbers and/or e-mail addresses. In spite of the small number of completing respondents, good coverage of the sector was achieved (a) through the inputs of persons/companies that manage multiple properties, and (b) thanks to the participation of the largest individual hospitality-providers.

- (1) Tropical Mansion Suites (the largest hotel-accommodation and restaurant)
- (2) Grandview Bed & Breakfast (the largest bed-&-breakfast accommodation and restaurant)
- (3) Erindell Villa Guesthouse (accommodation and restaurant)
- (4) Soca Cabana (restaurant)
- (5) Pont's Beach Bar (restaurant)
- (6) Montserrat Enterprises (manages multiple villas); V.A.H. Management Services; Montserrat Company Limited
- (7) Tradewinds Real Estate (manages 45 properties)
- (8) Apartments and Villas in Montserrat (manages 16 properties)

APPENDIX 5: METHODS OF PAYMENT

Methods of Payment

Cash. After millennia of use, cash is rapidly diminishing in importance in the modern world. Several central banks have already eliminated production of some denominations of coins, for



instance, (e.g., the 1-cent and 2-cent coins have been discontinued by the Eastern Caribbean Central Bank), owing to the fact that the cost of production exceeds the value of the denomination in circulation (Anand & Kumar, 2016).

Cheques. While offering several advantages over cash in the form of notes and coins, cheques



are also diminishing in their proportion of transactions worldwide. Traveller's cheques, in particular, are already obsolete in several jurisdictions, as credit-cards, debit-cards, and cash-cards proliferate worldwide.

(a) **Direct costs.** Local costs range from EC\$20 to EC\$30 per month for having a chequing account: this means a basic annual cost of EC\$240 to EC\$360 merely for having an account. Moreover, cheques incur incremental transactional costs with each use: the cost of cheques ranges from EC\$15 per book of 25 cheques to EC\$60 for a book of 150 cheques; stamp duty of EC\$0.05 applies to each payment. This yields a range of EC\$0.45 to EC\$0.65 per cheque-payment (BOM, 2014)¹.

(b) **Other Costs.** Effectively, small transaction-amounts and transaction volumes are heavily penalised, and the low income segments of the society are worse affected, whilst high-volume users (e.g., wealthy households and large corporations) have the lowest cost per unit. Studies

¹ <http://www.bankofmontserrat.ms/public-relations/>

continue to show that commercial banks are over-charging customers with ever higher and more numerous fees (McCoy, 2016). We found that the same obtains in Montserrat: e.g., RBC Montserrat charges E.C.\$300.00 per year for a savings-account, both RBC Montserrat and BOM charge fees (E.C.\$300.00 and E.C.\$240.00 per year, respectively) for chequing accounts, plus fees for overdrafts on chequing accounts, and fees (e.g., a minimum of E.C.\$30.00 per month) for having a line of credit even when it is not used in a particular month.

The fees on deposit accounts have more than doubled in the past 3 decades, while the interest-income paid to customers has steadily declined (e.g., most recently, from 3% p.a. to 2% p.a. in the OECS and as low as 0.05% p.a. in other CARICOM States). In some instances, regulators have fined banks for widespread unethical fee-related practices, including banks' charging large fees for their self-serving (i.e., revenue-maximising) ways of handling of hundreds of thousands of customers' accounts and associated transactions (e.g., charging high overdraft-fees to clients who had never opted-in for overdraft-services). All of these facts point to the high and rising costs of traditional cash and cheques, pointing to the increasing advantages of electronic payments, card-payments, and online payments.

Drafts. As two party paper, these instruments have higher respectability than personal or commercial cheques (three-party paper). Versions such as banker's drafts and so-called "cashier's cheques" (e.g., issued by a credit-union to a third party on behalf of a customer of that credit-union) (a) represent the good faith of financial institutions, (b) have the same certainty as cash, and (c) are more secure than personal cheques. However, even financial institutions' drafts are no longer convenient as even local drafts are being held for several work-days in a number of Caribbean jurisdictions, notwithstanding the small number of issuing financial institutions and despite the ease of confirming any draft immediately and via multiple person-to-person channels directly between the issuing financial institution and the receiving/encashing financial institution.

- (a) **costs.** In Montserrat, the cost of a draft is EC\$15.00, which is multiples of the cost of a local cheque, though it is much more favourable than the EC\$60.00 to EC\$115.00 charged by local banks for foreign-currency drafts.

Debit cards. These electronic instruments allow customers to access their bank-accounts with the ease of instant cash-withdrawals without having to physically visit an automatic teller machine (ATM) or a bank-branch. They also offer greater protection to users than cash or cheques, while offering the vendor or recipient immediate certainty as to the availability of funds for a given purchase or transaction.

- (a) **costs.** There is no annual fee for a debit-card service. Some institutions have a small per-transaction fee for point-of-sale activities. This is basically a very convenient extension of the ATM card, allowing customers to buy items at diverse merchants and shopping locations, with the same convenience of credit-cards. Debit-cards are available for both local payments and for international payments,

and provide interest-free access to the consumer's bank-account to the extent of its available balance.

Credit cards. The technology of card-payments has evolved through several generations since American Express revolutionised payment-methods more than 50 years ago. Whilst American Express, Visa and MasterCard are the three globally dominant network providers, many other credit card systems and brands exist, including (a) store cards, Discover, (b) co-branded cards (e.g., by a credit-union, which cannot issue credit cards directly), and (c) corporate cards. Many



additional features and advantages have been added over the past two decades, including (1) discounts with merchants, (2) reward-points, (3) airline miles, (4) cash-refunds up to 5% (Kline, 2017), (5) 24-hour emergency lines, (6) heightened anti-fraud surveillance, (7) automated international currency-exchanges, (8) travel-insurance, (9) life-insurance, (10) emergency services, (11) rental vehicle insurance, (12) concierge services, (13) travel planning and travel assistance services, (14) purchase protection (e.g., FirstCaribbean International Bank launched this extra benefit for its customers in the Caribbean in the year 2016) and (15) recourse to challenge and to reverse transactions up to 60 to 90 days afterward (e.g., in cases of fraud, and in cases of vendors that do not deliver the contracted service/goods) (Andriotis, 2017).

Smart cards deter fraud.

Within the past 2 years, North American banks have followed the leadership of European financial institutions in providing smart credit cards with dual swipe and sign, as well as authentication for each point of sale) (Biersdorfer, development has almost card fraud, not least of all vulnerability of the historically and-sign technology to near-no longer possible, owing to transactions with the newer owing to the requirement of a personal identification number for each transaction (as opposed to only a signature, which can be copied and/or forged, as is also much more difficult to validate by vendors overseas or at a long distance from the issuing bank) (Hawthorne, 2017; Herrera, 2017). The technologies have evolved beyond traditional plastic cards to wearable medallions (Jolly, 2017).



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(a) costs. The annual fees for credit-card accounts range from \$0 in some markets to as much as US\$150 for Platinum Visa accounts (e.g. Republic Bank, FirstCaribbean International Bank); however, competition has arisen to lower even the highest fees within the region (e.g., Globe Finance Inc. offers Classic, Gold, and Platinum Visa accounts at annual fees ranging from US\$12.50 to US\$100, respectively) (GFI, 2016) (<http://www.globefinanceinc.com/credit-cards>). Users who choose to defer payments of their transactions have the convenience of paying as little as 3% of their monthly balance. Associated interest-rates are now as low as 12% p.a. within the region (GFI, 2016). However, some banks charge punitive rates and fees for cash-advances and for specific types of transactions (Collinder, 2017) [39].

(b) benefits. Optimally used, however, credit-cards offer unlimited transactions for this fixed fee; all transactional expenses can be avoided once the statement-balance is paid each month on or before the specified date of payment. By extension, this means that one of the unique advantages of credit-cards is interest-free credit up for up to 7 weeks (from the date of the transaction to the subsequent date of the statement on which it first appears to the payment-due date on that statement). Thus, the effective cost per credit-card transaction to the user is much less than that of cheques or drafts, for instance, ultimately, it can reduce to zero cost, or, including rebates and other benefits, negative (i.e., net benefits).

E-wallets. These are the electronic equivalents of cash for transactions and offer even more safety and security than normal debit-cards and credit-cards because they have additional layers of encryption and password-protection between the user and the vendor e.g., for purchases either online or in person. Paypal, for instance, allows the user to connect multiple credit-cards to one account and thereupon to select which one would be used for any particular transaction; however, the credit-cards are never used directly with the vendor (in the case of a regular purchase) or with the donee (in the case of a gift). Therefore, anonymity and security of underlying payment-instruments is highly assured. Such mechanisms have gone far towards advancing electronic commerce, including such scenarios as (1) a customer's doing a transaction with a vendor for the first time, (2) a customer's making an online purchase via an unfamiliar website, and (3) international transactions. The additional recourses and protections provided by the issuers of the underlying credit-cards themselves strengthen the environment of trust and of safety for consumers.

Cash cards. These instruments combine the immediacy of cash with the conveniences of electronic cards. Similar to debit cards and credit cards, they have revolving utility, which is not possible with cheques or drafts, which remain costly and useful for only one transaction per instrument (generally). A distinct advantage is that no bank-account is required and this feature enables many under-banked and un-banked citizens to become participants in the official financial system. This has enabled many vulnerable and low-income citizens to become efficiently and

safely served, including disbursement of welfare-benefits at least cost to Governments (Kelley, 2014).

- (a) **costs.** All of the usual issues of banks' charges and fees are minimised with one simple fee calculated as a small percentage of the cash loaded onto the card. This is usually no more than 1.5%, which is much less than the typical fees incurred (1) for international remittances (which cost low-income workers exorbitant effective rates of fees up to 20% of transaction-amounts) (Peterson, 2016), (2) for drafts (which can cost up to US\$5.00 regardless of how small the amount is), (3) for postal orders, and (4) for credit-cards (e.g., annual fees charged to customers and transactional fees up to 7% charged to the receiving merchants).
- (b) **local notes.** Discussions with survey participants revealed that, even though it provides all of the above-mentioned methods of payment in other markets, including elsewhere in the Caribbean Community, Royal Bank of Canada, in Montserrat, does not provide cash-cards to any of its local customers.

Systems of Payment

Mobile payment systems. In many developing countries, mobiles phones and portable digital devices have become ubiquitous (National Bank of Dominica, 2017). This phenomenon, along with (a) wireless telephony, (b) both wired and wireless Internet-services, (c) remote towers, and (d) satellite-arrays, (which obviate the high-cost installation of traditional infrastructure,) has enabled many financial services to become available to the unbanked, the under-banked, and the low-income strata of the citizenry. In several African countries, for instance, the world-renowned Mpesa and similar electronic-payments networks offer hundreds of millions of hitherto financially unserved consumers immediate, reliable, secure, and robust channels for (1) micro-savings, (2) micro-payments, (3) person-to-person transactions, (4) international remittances, (5) bill-payments, and (6) regular daily purchases, including micro-enterprises and roadside vendors, who are thus likewise empowered both financially and economically (Mpesa, n.d.)²

Similar mobile payments services exist worldwide, abetted by the ever greater presence of, and applications for, billions of mobile phones and Internet-connected devices. Every transaction is protected by a personal identification-number and all accounts are securely housed by remote server systems, which protect consumers in the event that their access-devices are stolen, lost, or damaged (<http://www.vodafone.com/content/index/what/m-pesa/m-pesa-faqs.html>). In many countries, including Montserrat, the high penetration-rates of mobile telephony, of wireless devices, and of Internet-connectivity facilitate the rapid and widespread adoption of mobile and online payments whereby transaction-volumes would soon equal a significant percentage of the nation's Gross Domestic Product (Economist, 2013).

² <http://www.vodafone.com/content/index/what/m-pesa.html#>.

A particularly important benefit is not only the reduction/elimination of traditional financial-system transactional costs, but the ease of making credit and loan-repayments available at much lower interest-rates, thus adding significantly to financial inclusion, micro enterprise development, and economic development (Economist, 2013). Especially in rural communities and among low-income populations, electronic payments such as these eliminate the cost and the time of having to travel to distant bank-branches, vendors, stores, and/or relatives in order to deliver purchase-payments, loan payments, or monetary gifts in person. By eliminating a large part of the traditional opportunity costs of the conventional financial sector, mobile payments and wireless remittances boost individual efficiency, corporate effectiveness, and national productivity, increasing output while reducing inputs and lowering costs, risks, and expenses. These and other benefits would contribute to the GOM's efficiency, effectiveness, and the value for money to the public, and play an important role in the redevelopment of Montserrat.

For the persons in Montserrat who do not yet have bank accounts and/or credit cards, households that adopt mobile payments would save the hours of time normally needed to travel to and from financial institutions and to wait in queues for routine transactions. They could also avoid the relatively high incidence of risks, of errors, and of crimes affecting in person and cash based transactions, and are able to spend the extra saved time productively in their jobs and/or micro-enterprises (Economist, 2013). Furthermore, the very existence of e-payments and m-payments has enabled a range of new businesses to emerge and to flourish, owing to lower costs, bigger client scope, and easier client access, including communities that were previously inaccessible, and goods or services that were hitherto unprofitable (or even unfeasible) to deliver. By extension, the GOM would achieve lower cost per payment, greater tax compliance, and wider scope for delivery of public goods and services.

Electronic banking. Globally, financial institutions have deployed a variety of electronic systems both within their back office operations and in their customer facing touch points, branches, and online channels. For instance, (a) cheques are scanned for the Automated Clearing House within the Eastern Caribbean Currency Union, (b) in other countries, customers can deposit cheques to their bank-accounts via scanning and uploading the image of their cheques with their mobile phones to the issuing financial institutions, (c) self-service channels are provided through Automated Teller Machines, mobile phones, and websites, and (d) clients can have secure online accounts with full transactional capabilities (such as bill-payments, deposits, inter-account transfers, third party transfers, international electronic remittances, account histories for 6 to 12 months, et cetera). Some institutions have provided all forms and services in electronic formats, as well as fully online loan-request and appointment-setting functionalities.

E-government. Governments around the world and within the Caribbean have progressively adopted electronic channels for information, for communication, and for payments of taxes, licences, and fees of all kinds.

This approach to public sector reform (a) encourages compliance, (b) saves time and money for all stakeholders, (c) provides enhanced value and service to citizens, and (d) allows the Government

to serve increasing numbers of people without adding to aggregate headcount. Higher compliance-rates increase aggregate revenues; these, coupled with reduced costs per unit of public good or service, lead to expanded capacity to reinvest savings into high-value enhancements of existing public services, while also providing the sustainable basis for investments in newer technologies and services. All of this accelerates economic growth and deepens the integration of enabling technologies that bring the public service closer to the persons that it serves.