

**2007/08 BUDGET ADDRESS**

**MONDAY 23<sup>rd</sup> APRIL, 2007**

**Delivered by**

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MINISTER OF FINANCE, NATIONAL INSURANCE  
AND ECONOMIC PLANNING**

**to the**

**HOUSE OF ASSEMBLY**

Mr. Speaker

Honourable Premier and other Members of the Cabinet

Honourable Leader of the Opposition

Members of this Honourable House

Ladies and Gentlemen

Boys and Girls

**Greetings**

Mr. Speaker, Ladies and Gentlemen, good morning! Today is another great day in the history of the Turks and Caicos Islands.

We meet here today, after successful general elections, which returned this government for a further four-year term of office.

We meet here today after successfully hosting the 36<sup>th</sup> Annual CARIFTA Games, this past Easter weekend.

Mr. Speaker, all around the Turks and Caicos Islands, national pride and a sense of hope are at an all time high. Indeed, this is our time, as the 'currents' of prosperity beckon us towards the distant horizon. We are on the threshold of history, as we strive together to build the Turks and

Caicos Islands, and draw from a bright future, the blessings God has promised to those nations that meet their potential through the execution of vision!

As we meet here today, at this place, the tasks of meeting the challenges before us are great. The decisions we make this week will help shape the Turk and Caicos Islands for this and future generations.

As we look to the next four years, and rededicate ourselves to the tasks of Nation Building, we begin by thanking God for his goodness towards these Islands. We thank him for sparing us from natural hazards. We thank him for keeping all of our leaders safe and for his tender mercies towards the men and women, boys and girls, all across these Islands.

As we set out on another four years of governance, we are thankful to the electorate of these Islands for the overwhelming confidence they have placed in this Administration. You have heard our call not to '*Stop the Progress*'. You have agreed with us that '*Bigger and Better Things*' lay ahead for these Islands.

As we have often said, we do not take the '*people's business*' lightly. And so today as we begin anew, with a sense of humility, we rely on your continued support and prayers. We pledge, again, that all of our endeavours would be in the best interest of these Islands.

As we review past progress and outline our plans for the next few years, we want you to hold all of us accountable.

### **Overview of Budget Address**

Mr. Speaker, despite the phenomenal gains of recent times, as we shall see during the course of this Budget session, our best days as a people and as a country are still ahead!

This Administration is committed to delivering Bigger and Better things for our People. This is why I am dedicating this Budget Address to the People of this Country as we outline our plans to

take our country beyond the immediate success of our most sustained economic expansion in our history to begin the process of deepening our economic prowess and performance and establishing national institutions whilst strengthening existing ones.

We want to build on our record of achievement. Our achievements have been exceptional, because we take risks and think '*outside of the box.*' These will continue to be our mantra during this term of office.

Ladies and Gentlemen, the Budget process - from planning through to implementation - is very important. I encourage you to take heed as priorities are addressed; policies become transparent; and we, your leaders, are held accountable. Therefore, Members of this Honourable House, Ladies and Gentlemen, as we look to the future, it is significant that as the Minister of Finance, I am also responsible for Economic Planning. This is important because it signifies that it is my responsibility to put in place a sustainable and flexible framework to effectively and efficiently spend the Nation's finances to address the development challenges facing these Islands and to maximise ALL opportunities.

To be successful requires a careful understanding of our development opportunities and challenges in a changing international context.

Success requires the development of a Vision and related goals and supportive strategies. This will enable us to maximise the national rate of return from our expenditure and investment programs.

Success also requires that the government have strong and effective institutions and staff to assist in executing our responsibilities.

The need for ongoing dialogue with my Ministerial colleagues, various ministries and departments, local international development partners and stakeholders and the public is evident.

Therefore, Mr. Speaker, as we look to a future filled with potential and continue our evolution as a People, the main theme of my address is: **“Investing for Self-Sufficiency in a Globalized World”**.

Consistent with the theme of this address, I would devote time to discussing this government’s philosophy, a historical evolution of our development experience and some of the key development challenges facing the Turks and Caicos Islands. This would be followed by an elaboration of our major strategies as we invest for self-sufficiency in a globalized world. The keys to this, which you will find throughout my address, are:

- Institution Building
- Efficiency
- Performance

The means to achieve these standards are:

- Rule of Law
- Diversification
- Human Capital Development.

Recent development and budget results would also be discussed. This would be followed by an elaboration of our fiscal forecast to 2009/10. Specific budget targets and measures for 2007/08 would then be presented. The final section of my address would be devoted to looking at institutional issues within the public sector, including plans to further strengthen the Ministry of Finance and Economic Planning, through a multi-component Change Project and plans for wider public service development.

### **Recent Development Experience**

#### **Economic performance during 2006/07**

Mr. Speaker, Ladies and Gentlemen, to put my address in context, I would now like to review economic performance, key budgetary results and some of our major achievements during 2006/07.

2006/07 was another year of economic success for the Turks and Caicos Islands. We continue to be the envy of those who visit us, and wonder in amazement what is taking place here. All major macroeconomic indicators are pointing in an upward direction.

The Turks and Caicos Islands are mentioned consistently amongst the top five (5) exclusive destinations in the world. Our goal is to produce additional reasons for Turks and Caicos Islands as a destination of choice.

According to information from the Department of Economic Planning and Statistics (DEPS), real gross domestic product grew by 13% during 2005. DEPS is in the process of compiling national accounts estimates for 2006. However, given expansion in the construction, real estate and tourism sectors, along with increased public sector revenue growth, in all probability real Gross Domestic Product growth exceeded 10% during 2006.

Our population is currently estimated at about 33,000 and per capita income is estimated at about \$18,635, which places us amongst the middle-income developing countries; effectively competing with the Bahamas and Barbados, the wealthiest nations in the Caribbean.

Mr. Speaker, recent development experience has witnessed a spread of development activity to all Islands due to our 'anchor tourism' development projects and government investment in infrastructure. As the tourism, real estate and construction sectors continue to expand, together they account for more than 50% of gross domestic product. Significant increases in residential construction are also taking place. There has been a decline in unemployment, which was estimated to be about 6.2% in 2005. Visitor arrivals continue to grow and during 2006 exceeded 500,000, including over 300,000 day visitors, after the first year of operations of the Grand Turk Cruise Centre.

I would now like to discuss the performance of the Budget during 2006/07. Mr. Speaker, recurrent revenue outturn for 2006/07 was \$202.5 million, some \$10 million higher than the original estimate for the year. This was approximately \$43 million higher than 2005/06 outturn.

These results can be attributed to the unprecedented economic growth now taking place in this country, due to the development friendly policies of this Administration.

Recurrent expenditure outturn is estimated at \$199.4 million, which is \$18.5 million higher than the original estimate of \$180.8 million. This is as a result of over expenditure on several heads, notably: medical referral costs, scholarship costs, pensions and gratuity, and debt service. The resultant recurrent surplus was \$3.1 million, about \$8 million below the original estimate.

Mr. Speaker, total development revenue for 2006/07 was \$87.9 million. Development revenue for the year consisted of additional loans of \$27.6 million and local capital revenue of about \$54 million.

Total development expenditure during 2006/07 was \$75 million. This represents an increase of about 100%, compared to 2005/06 when development expenditure totalled only about \$37 million. This Mr. Speaker, Ladies and Gentlemen, is a major accomplishment for these Islands. It is also the highest rate of annual project absorption in our history. It is manifested by the numerous projects this government has completed or commenced on all of our Islands.

Mr. Speaker, taking into consideration transactions on both the Consolidated and Development Funds, there was an overall surplus of approximately \$10.3 million for 2006/07. The overall surplus for the year enabled the government to make a contribution to the Reserve Fund for a total of approximately \$21 million, which is about \$1 million below the planned contribution I announced during the last Budget Address.

Mr. Speaker, Members of this Honourable House, total approved Public Sector debt at the end of the financial year has been revised to \$93.7 million. Of this amount, about \$70 million is handled directly by the government, and the remaining \$24 million is managed by TCInvest. Mr. Speaker, it is important for me to point out that disbursed public debt is what matters, and this was only \$82 million, as several loans by TCInvest have not been drawn down and principal payments have been made on several government loans during the year.

Mr. Speaker, I am pleased to inform you and the members of this Honourable House that the government ended the last financial year fully compliant with the borrowing guidelines.

### **Highlights of 2006/07**

Mr. Speaker, this Government has been severely criticized for our expenditure programs. While my colleagues will provide details of our accomplishments during 2006/07, Mr. Speaker, I am obliged to highlight some of them, which affect all the Islands of this country.

**First**, in the fight against crime, an additional 36 officers were recruited to the ranks of the Royal Turks and Caicos Islands Police Force. A new Five-Year Strategic Plan is now in place. A new Management Services Unit was established and construction has started on new Police Barracks on Providenciales.

**Second**, we have heard the cry of the business community and ongoing strengthening of the Land Registry is on the way. Plans have been drawn up to refurbish and expand the Registry and enhance capacity and computerise its operations.

**Third**, housing is a basic need. Significant progress has been made in extending housing programs to benefit all segments of our society. Government has provided duty concessions to several developments aimed at benefiting middle-income earners; and during the year we handed over keys to the first homes under our affordable housing program in Providenciales. We also expanded the Shelter Development Program on Grand Turk and Providenciales. Our Special Mortgage Program, which was piloted on Grand Turk, was extended to the other Islands.

**Fourth**, we live in a region of the world that is subject to such natural hazards as hurricanes. I am pleased to inform this Honourable House that we have invested \$1million in premium coverage in the Caribbean Catastrophic Risk Insurance Facility, which is being set up by the Caribbean Development Bank and the World Bank. We have developed draft disaster legislation, while a Disaster Relief and Recovery Plan is nearing completion.

**Fifth**, we continue to be good stewards of our environment. This year has been declared the Year of the Environment. We have strengthened legislation for Protected Areas, including the introduction of polluter pay principles and have developed concession legislation, thereby increasing access to national parks and creating more business opportunities for Belongers.

**Sixth**, we remain concerned that despite economic expansion, some people live under challenging circumstances. Accordingly, we have introduced the Poverty Alleviation Citizens' Empowerment Program (PACE) to implement a number of complementary programs to improve the plight of poorer communities and citizens.

**Seventh**, we have continued plans to develop our human capital. Plans for the construction of two (2) state of the art hospitals on Grand Turk and Providenciales are advanced; ground was broken for these facilities and construction should start shortly. In the education sector, we have constructed additional classrooms at several schools and completed preparation of the new Five-Year Education Development Plan. We have also introduced special incentives for teachers, which should make this profession more attractive to Belongers, especially males.

**Eighth**, we have significantly invested in transport infrastructure on all of our Islands. On Grand Turk, over \$7 million was invested in road and environmental improvement projects. Over \$10 million is being invested on roads rehabilitation, a disaster/community centre and new airport terminal on South Caicos. Close to \$65 million is being invested on roads, airport and port development projects on North Caicos and Middle Caicos.

**Ninth**, during the year, we received the first tranche of assistance from the European Union, and today, Mr. Speaker, North Caicos and Middle Caicos have been successfully linked by a Causeway. On the island of Providenciales, over \$30 million was invested in South Dock Road, Five Cays Road, Blue Hills Road, Chalk Sound Road, Leeward Palms Roads, Long Bay Road, Kew Town Road and Juba Sound Road.



**Tenth**, we have won accolades for the successful hosting of the 36<sup>th</sup> Annual CARIFTA Games. While we did not win a medal on the field of competition, we have laid a foundation to win future medals.

### **Millennium Development Goals**

Mr. Speaker, in our 2003-2007 Policy Agenda, which was delivered by the then Chief Minister to the Legislative Council on September 24, 2003, we made a commitment to pursue economic growth, while ensuring that our country experiences “economic development.” The then Chief Minister stated:

*“in our march towards this goal we are mindful of the observations of that celebrated economist, the late Professor Dudley Seers, who insists that in looking at the matter of development, three important questions must be considered:*

- 1. What is happening to poverty?*
- 2. What is happening to unemployment?*
- 3. What is happening to inequality?”*

Consistent with the late Professor’s exhortation, it is incumbent on us to measure the impact of our activities on development in our country and future prospects and make policy shifts based on empirical evidence.

The Millennium Development Goals (MDGs), is an international development agreement to reduce poverty and hunger, promote maternal and child healthcare, promote gender equality and empowerment, reduce the impact of HIV/AIDS and other diseases and promote international partnerships to protect the environment by 2015. They therefore present an objective framework in which we can measure development in these Islands and make comparisons with other countries in this and other regions.

The Department of Economic Planning and Statistics recently launched a status report on the MDGs in the Turks and Caicos Islands to see what progress we have made. Mr. Speaker, I am

very pleased to inform this Honourable House that we have made much progress in attaining these goals. While there are some gaps in available data, the report highlights progress in several areas as follows:

1. In the area of Universal Primary Education, the proportion of pupils starting grade 1 who reached grade 5 was 98% in 2005/06. The literacy rate of 15-24 years was estimated at 95% in 2001.
2. We have made much progress in the area of gender equality and empowerment. During 2005/06, the ratio of girls to boys in primary schools was 98:100, at the secondary level it was 91:100 and at the tertiary level the ratio of girls to boys was 302:100 during 2003. 98% of females between the ages of 15-24 are literate.
3. Child mortality and maternal healthcare are areas of resounding success for the Islands. In 2005, under-five year old mortality was 3.1 per 1000 live births, while maternal mortality ratio was 0, and nearly 100% of births were performed by skilled personnel.
4. In the area of HIV/AIDS and other diseases: antiretroviral drugs are available free of charge and the rate of condom use was reported at 63% according to a 2003 survey. Instances of malaria and tuberculosis are nearly nonexistent.

Mr. Speaker, it is clear, we have made much progress and have in fact surpassed many of the MDGs. This is why we have absorbed the MDGs into the Ten-Year Development Plan and aim to develop national development goals of our own, which we can monitor to report on the success of our development efforts and the state of well-being of our people.

### **Acknowledgements**

Mr. Speaker, as I begin an elaboration of plans for the next few years, as we prepare to advance upon our potential, it is clear from our record that we have a solid foundation on which to build; and ensure that the fullest potential of this country and our people are realised.

Mr. Speaker, we could not have been so successful without the dedication and commitment of many of our civil servants and the community at large. Personally, I would like to recognize and thank the Permanent Secretary for Finance and his staff in the Ministry of Finance for their support and professionalism. I would also like to thank His Excellency the Governor, Her Excellency the Deputy Governor, the Public Service Commission, Honourable Attorney General and his staff, the Establishment Secretary, Permanent Secretaries, Heads of Departments and other officials who have provided invaluable assistance to us.

It is unfortunate that the hard work of those mentioned earlier is marred by some in the service who seem to make it their day's work to derail the policies and programs of this Government. But make no mistake about it; we have equal resolve to stay committed to the task at hand and to also expose and deal with those in the service who refuse to act professionally and continue to violate the principles of good civil servants.

We have had strong development relations and have often held dialogue with the local private sector on several development projects. I am sure Honourable Members would like to join me in thanking the private sector for their contributions to the common good of the Turks and Caicos Islands.

The Turks and Caicos Islands continues to benefit from the support and assistance of numerous multilateral development agencies. At this time, I wish to especially convey our thanks to the various agencies of the United Kingdom Government, the UK Overseas Territories Conservation Forum, the European Commission, the European Investment Bank (EIB), the Association of Overseas Countries and Territories of the European Union (OCTA), Caribbean Financial Action Task Force (CFATF), Caribbean Disaster Emergency Response Agency (CEDERA) the Caribbean Community (CARICOM), the United Nations Development Programme (UNDP), Pan American Health Organization (PAHO), Caribbean Regional Technical Assistance Centre (CARTAC) and the Caribbean Development Bank (CDB) for the financial and technical assistance they have provided over the years.

**“Investing for Self-Sufficiency in a Globalized World.”**

Mr. Speaker, I would now like to turn our attention to the main theme of my Budget Address: *“Investing for Self-Sufficiency in a Globalized World”*.

**Historical Perspectives**

Mr. Speaker, nation-building is a direct result of a bold and creative economic policy and leads to a natural progression in the history of a country and people. As we strengthen the footholds of our country, I recall the words of a popular song by Bob Marley: *“if you know your history you know your destiny.”*

Mr. Speaker, these goals I have announced and those yet to be announced will require commitment. Here in the Turks and Caicos Islands we have always been a very committed people.

Mr. Speaker, our goal is that when our citizens use the benefits of the prosperity earned here in these islands to travel the world – as they do – we want to ensure – as it is our job to do – that they have every institutional benefit and convenience as citizens of the most successful nations of the world.

Mr. Speaker, when investors arrive to invest their hard earned money, we want them to be confident that, as Thomas Jefferson – the Great American President said: *“this is a nation of laws”*. And as such, investors themselves, their rights and their property shall have the protection of laws; advanced and supported by institutional and physical infrastructure.

Mr. Speaker, our newly enacted constitution is the cornerstone of that assurance.

Mr. Speaker, these bold strides are not new for us in these islands. The Turks and Caicos Islands have had a long and interesting history of survival and fearless integration into the global economy. The earliest recorded settlers of these Islands were the Lucayans who were residents

when our first tourist - Christopher Columbus - visited on his maiden voyage to the Caribbean. Up to the eighteenth century, the islands did not attract much attention from the other colonizing powers. They were small and lacked the cultivable land to support large-scale agriculture. However, they served as good lookout posts, and a haven for pirates and other buccaneers intent on plundering ships travelling through the Turks Island Passage and the Caicos Passage. Moreover, they were also useful ports of call for securing salt for vessels bound on their return journey to Europe.

The salt industry, which evolved on Grand Turk, Salt Cay and South Caicos dates back to the late seventeenth-century when Bermudans settled the islands. The granting of land to UK loyalists following the independence of the United States of America resulted in a major contribution to the population. The salt industry, along with limited attempts at agriculture sustained the islands up until the 1960's, along with income from the United States military facilities on Grand Turk.

When the salt industry collapsed in the 1960's, the fishing industry became more predominant and many of the Islanders were forced to migrate to neighbouring countries in search of employment. After a brief period of decline, the country transformed itself from an economy based on primary production into a leading provider of high quality services in the tourism and off shore financial industries, starting with initial investments on Providenciales during the 1960s and the enactment of Company laws during the 1980s.

Mr. Speaker, increased tourism development started during the 1980s when a Club Med Hotel and supportive infrastructure were constructed. Following increased marketing and promotion, the tourism sector really took off in the 1990s, an upward trend which continues until today. The sector now accounts for more than 30% of gross domestic product. The financial sector has not fared as well due to increased international scrutiny and threats of blacklisting. The sector now accounts for about 10% of gross domestic product.

Today our integration into the World economy has taken a different form. Where pirates once roamed, we now welcome discerning tourists. We are also now home to known international brands such as Carnival Cruise Line, Aman Resort, Ritz Carton, and the list continues.

### **Consolidating the Gains and Connecting the Dots**

Mr. Speaker, our economic expansion has translated into substantial improvements in human welfare in our country. As I have already elaborated, unemployment continues to fall, as opportunities spread to all of our Islands; our per capita income places us amongst the middle income countries of the World; we have increased investment in human capital; we have achieved universal access to education and greatly expanded tertiary level education and have expanded healthcare programs. Whereas our people were seafarers and migrants, we are experiencing net immigration as Belongers return home and other nationals join us in developing these Islands.

Mr. Speaker, Ladies and Gentlemen, with close to \$4 billion in planned investments on the way, economic prospects are very good for these Islands; however, we still believe it would be a big mistake to think that we can rest on the laurels of the past and current achievements. Several features of our economy and society would counsel against such a perspective.

There is still the need to develop our human capital to improve our competitiveness and labour force productivity.

There is still the need to create more Belonger entrepreneurs.

There is still the need to strengthen the civil service and key institutions.

There is still the need to diversify our economy, to make it more resilient and expand the revenue base.

There is still the need to protect our environment and grapple with the implications of global warming and climate change.

There is still the need to improve financial management and invest in major infrastructure.

This is why we have commenced the formulation of our Ten-Year National Development Plan, to implement a number of consistent measures to address these and other issues. The Development Plan is being prepared through a very participatory process, which extended to all of our Islands and has involved consultations with over 500 persons in both the public and private sectors. We intend to spend this year championing the Plan, including hosting a “*Development Dialogue*” to which local and international development partners and stakeholders would be invited. We propose to use the Plan as a basis for future budgets. As I have indicated, we want you to hold us accountable. Accordingly, our attention to the Plan through the allocation of budgetary resources is a good framework to assess our performance.

### **Major Investment Plans and Strategies to Achieve Self-Sufficiency**

Mr. Speaker, I am very confident that this administration will rise to the challenge of investing for self-sufficiency in a globalized world. If you recall, ladies and gentlemen, it is this and past PNP Administrations that have invested in important institutions such as the National Insurance Board, TCInvest, the Cadets and the Sport Commission. This is why I know we will not fail. Accordingly, I am very pleased to inform this Honourable House and the Nation of some of our major plans and strategies, including some of those being recommended in the Plan, which we propose to implement over the next few years, starting this year.

#### *Tax Reform*

I would like to begin the elaboration of our plans and strategies by looking at the area of tax reforms. Mr. Speaker, the expansion that is anticipated as we implement the Economic Development Plan and deliver opportunities for all, cannot be sustained without a considerable level of public investment in respect of the supporting physical, social and institutional

infrastructure. This would require that we raise more revenue and/or increase borrowing to achieve the targets that are being set.

While recent revenue growth has been positive, it is concentrated in a few areas. We need to lessen our dependence on import duties as global tariffs reduction become more commonplace. If we do not do likewise, our competitiveness in attracting foreign investment could be eroded. The current tax regime also needs to be widened if we are to raise the necessary revenue on a sustainable basis to implement our plans. We also need to have a tax regime, which incentivizes positive behaviours and penalizes negative ones. Mr. Speaker, these objectives can be achieved through the introduction of alternative broad based taxes that are elastic, and the introduction of user charges where they can serve to defray costs. The time to act is now - we plan to consider all options.

In this regard, Mr. Speaker, I led a delegation to the Bahamas last week to discuss their revenue regime and strategies, and develop technical cooperation and exchanges in this area. We have already held discussions with the Caribbean Area Regional Technical Assistance Centre (CARTAC) concerning technical assistance to prepare a Tax Policy Study for consideration by government. This study would look at our economic structures, tax regime and recommend reforms to increase revenue yield on a sustainable basis. We are committed to this worthy task. I look forward to keeping this Honourable House and the nation informed of activities in this area.

#### *Renegotiation of Borrowing Guidelines*

Mr. Speaker, this Government is committed to building reserves, as an element of prudent financial management and as a part of an effective risk mitigation and recovery strategy. However, as I have indicated on several occasions in the past, we see the borrowing guidelines and the blind adherence to reserve targets, as being too restrictive. They are therefore an impediment to the growth and development of these Islands. Accordingly, we plan to negotiate a new borrowing agreement with the United Kingdom Government, one which recognises that at this early stage of our development, there is need for a massive injection of development



investment if we are to maximise our development potential and implement the recommendations of the Ten-Year Development Plan.

### *National Health Insurance*

Mr. Speaker, plans for the construction of two hospitals are well advanced and construction should start shortly. This project would go a long way towards addressing the ongoing challenge of providing quality healthcare to our people in a cost effective way, which does not undermine growth and investment in other areas. During 2006/07 we spent over \$20 million on overseas medical referral costs. A similar amount is being budgeted for 2007/08. Clearly, this is unsustainable and our People must be prepared to meet a part of the cost of their healthcare needs. Accordingly, another one of our plans is the introduction of mandatory National Health Insurance. This would be introduced in time for the opening of the two hospitals. This would be preceded by a period of public consultations and preparation of legislation.

Ladies and Gentlemen, you can be assured that we would implement National Health Insurance in an equitable manner, which does not deny anyone on any Island access to quality healthcare. This notwithstanding, all employers and employees would be required to meet a part of the costs of their own healthcare and that of their families.

### *Gateways to the Turks and Caicos Islands*

Mr. Speaker, we have grouped a number of our plans and strategies under the heading “Gateways to the Turks and Caicos Islands.” I would now like to discuss this further.

Providenciales airport is the major gateway to the Turks and Caicos Islands. Its redevelopment is critical to the development and diversification of the economy. This is why I am pleased to announce that the government plans to undertake a special loan, to purchase all of the shares held by COXCO in the Provo Airport Company. This would be a strategic investment for this country. We envisage that loan funding of about \$75 million would be required to buy out COXCO, and then implement a program to build a new terminal and lengthen the runway at the

Providenciales Airport. This project would address overcrowding at the Providenciales Airport and allow us to accommodate direct transatlantic flights.

Mr. Speaker, our plans also include investments at all of the other airports in the Turks and Caicos Islands. We also plan to contract-in airport management expertise, from an international airport management company, and enhance the capacity of the Airports Authority. We plan to commence discussions on this initiative with the United Kingdom Government officials during the Economic Review Mission next week. We also plan to procure overseas technical expertise to work with a dedicated project management team to oversee this project.

Mr. Speaker, South Dock, Providenciales is another important gateway to the Turks and Caicos Islands. The redevelopment of South Dock is long overdue and further delay will result in it becoming a ‘bottle neck’ to the growth of Providenciales. This project was accorded the highest priority in the Transport Sector Policy in 2006. Based on the recommendations of this study, we plan to undertake this project with private sector participation based on competitive tendering. The project would also involve improvements in the institutional arrangements governing port operations and sector legislation and tariff reforms. We will procure overseas technical expertise to work with a dedicated project management team to oversee this project.

The final gateway to the Turks and Caicos Islands that I would like to discuss is Information and Communication Technologies. In this area we have encouraged competition. We plan to build on this by encouraging more infrastructure investment to have the country ‘wired and wireless’ to strengthen the tourism and financial sectors, promote E-commerce and video-conferencing to lessen costs to government and the private sector.

### *Linking the Caicos Islands*

Mr. Speaker, another one of the strategies I would like to discuss is the continuation of the Spine Link Road in the Caicos Islands. As I have already indicated, North Caicos and Middle Caicos have already been linked. I have not personally made the journey, but I can imagine the sense of pride the residents of those Islands felt on realising the dream of the Causeway – which some

people thought would never happen. I am therefore pleased to inform this Honourable House that a long-term goal we have set is the completion of the spine link, all the way from Providenciales to South Caicos. If every government in the future is dedicated to this vision, and make a contribution to it, within a reasonable period of time we could achieve it. In this regard, we are including funding in this year's budget to carry out a feasibility study for the construction of the spine link over the medium to long term.

#### *Special Development Bond*

Mr. Speaker, in support of our plans to Redevelop Providenciales Airport and complete the Spine Link Road, one of the initiatives I am pleased to announce is the Issuance of \$100 million Turks and Caicos Islands Development Bond. Mr. Speaker, we plan to engage technical assistance to design this investment instrument. However, we envisage that this bond would be mobilised locally and internationally and would be specially targeted at the citizens of this country and the Diaspora. In this regard, we would be able to invest in the future growth and development of these Islands, while becoming more empowered at the same time.

#### *Formation of the Turks and Caicos Islands Development Agency*

Mr. Speaker, the formation of the Turks and Caicos Islands Development Agency is another one of our plans that I wish to elaborate on. This new agency would be formed by institutional reform and restructuring at TCInvest to allow greater focus on local entrepreneurial and empowerment initiatives by separating the investment promotion and banking and business development activities into two separate entities. We plan to set up a project team to oversee the formulation of plans for the new entity. This would involve study tours to other countries to inform the development of a Business Plan with related Mission Statement and Objectives for the new agency. The project team would also consider legislative changes needed to establish the new agency. We plan to ensure that the agency is innovative in introducing new products such as a business development fund, an equity fund and a venture capital fund, to address the needs of the local business people.

## *Economic Resilience and Diversification*

Mr Speaker, the final plans and strategies I wish to discuss relate to economic diversification.

Mr. Speaker, Ladies and Gentlemen, our strategy begins with a thrust to differentiate our tourism product from that of our neighbours. In this regard, we plan to consolidate our efforts to develop a sophisticated upmarket residential based tourism product. This is why we have budgeted \$7 million to implement a Tourism Development Project over the next two years. This program would involve increased marketing and promotional efforts in up-market publications and promotion in new source markets in Europe, China and India. We would continue our anchor tourism projects and would ensure that developments are environmentally and ecologically friendly. Greater effort would be made to encourage local ownership of resorts and employment in management positions in the hotel industry.

Mr. Speaker, we have set as one of our goals, diversification of our services platform to expand and deepen our economic performance.

Mr. Speaker, I have had the pleasure of seeing preliminary plans toward this end and I am pleased to say we are headed in the right path. Our objective is not to “rent” constitutional protection to unknown investors as some jurisdictions do, which got them into problems. Instead, we are cutting a bold new path, consistent with the image and reputation of the Turks and Caicos Islands as a place for the discriminating international investor.

Mr. Speaker, in the next few months, as we unveil our plans, and as we begin to take our message to the world, the Turks and Caicos Islands will experience a new level of international prominence.

With the success of the 2007 CARIFTA Games behind us and the development of the two new hospitals coming on stream, we plan to use these as catalysts to develop sports and medical tourism respectively as part of our efforts to diversify the economy. We also plan to introduce special incentives to encourage light manufacturing, possibly derived from our natural resources,

brine shrimp farming, mariculture, aquaculture and agriculture production to diversify our economy.

Consistent with both our education and diversification policies, we plan to establish a College Park in Providenciales, whereby universities and colleges from overseas would be able to construct campuses here and send students to the country. We have already earmarked land for this purpose.

### **Measuring our progress**

Mr. Speaker, in order to track our progress in implementing our strategies and plans, we have set the following measurable indicators:

1. Number of hotel rooms in Belonger ownership and management.
2. Number of visitor arrivals from new markets.
3. Number of hotel rooms located outside of Providenciales.
4. Number and value of mutual funds set up.
5. Volume and value of food imports reduced.
6. Acreage of land under production.
7. Number of non-traditional businesses started in the course of the year.
8. Share of gross domestic product contributed by non-traditional sectors.
9. Number and values of loans provided by the Turks and Caicos Islands Development Agency.
10. Number of new jobs created in Belonger owned businesses.

I look forward to tracking these indicators and informing this Honourable House of our progress.

### **Elaboration of the 2007/08 to 2009/10 Budget Cycle**

Mr. Speaker, I would now like to turn my attention to an elaboration of some of the 2007/08 to 2009/10 Budget targets and specific measures that are consistent with our plans.

## **Economic Outlook**

To put our fiscal targets and policy measures into perspective, I would like to begin by reviewing international economic developments.

In the year since the last Budget Address, the international economic environment has become less certain. Mr. Speaker, according to information from the International Monetary Fund spring meetings, global growth should remain solid during 2007, approaching 5%, which will mark the sixth year of expansion. While the United States economy has slowed this year on account of a weaker housing market, rising interest rates and the sub-prime lending woes, the Fund noted that economic expansion in other major economies look good. Most analysts, however, suggest the United States Federal Reserves might lower interest rates later during the year, so that the economy can regain momentum.

Developments in the United States economy are very important to us. One issue I would like to elaborate on is rising interest rates and tightening credit conditions. Recent growth in the Turks and Caicos Islands has been led by construction of luxury condominiums by overseas nationals (mostly from the United States) as a second home or as a source of investment income. Expansion in this sector is very responsive to interest rate changes. We therefore need to monitor interest rate changes as rate hikes could limit demand in the construction sector here.

However, there are also signs of incredible promise for us. With the baby-boomer retirement picking up pace, we expect increased interest in the second-home, retirement villa economic space. Moreover, that is bound to be fuelled by the wealth transfer which the Congressional Budget Office places at around \$40 trillion dollars.

Mr. Speaker, if we take this in perspective, given the movements against the US dollar as it relates to the pound and the Euro, Turks and Caicos Islands is positioning itself for the 'windfall' which is likely to result from Americans seeking alternatives to the now expensive European options and from Europeans, who now with expanded purchasing power over dollar-assets, may look to the Turks and Caicos Islands with interest.

Looking at the Caribbean, the International Monetary Fund expects growth to be just over 4% for the region, given dependence on conditions in the United States market. It notes the occurrence of the Cricket World Cup in the region and the impact this would have on debt levels and the diversion of expenditure from other priority areas. It notes that economic prospects would be higher in service-oriented economies and advises countries to increase tourism marketing and promotional efforts to capitalise on the hosting of the Cricket World Cup.

### **Fiscal plans and policy measures to 2009/10**

Mr. Speaker, I would now like to outline our broad fiscal plans and measures to 2009/10.

Starting this year, and continuing over the next two years, altogether this government will spend at least \$1 billion on recurrent and development programs as we invest for self-sufficiency and deliver opportunities for all - one Island at a time until all of our People benefit from the growth and development now taking place. We expect the growth rate of GDP to be above 10% during each of the next three years.

During the next few years, as I have already indicated, we plan to reform and modernize our tax system to enhance revenue yield. These reforms will not be introduced until 2008/09 and should result in a revision of recurrent revenue growth above the 10% shown in the fiscal accounts.

Mr. Speaker, Members of this Honourable House, we plan to contain recurrent expenditure growth to about 5% annually, after 2007/08 and to prioritise new expenditure in line with the recommendations of the Ten-Year Economic Development Plan. This level and approach to recurrent expenditure planning should allow us to introduce new programs in line with the demands of an expanding economy. It would also allow us to increase transfers to the Development Fund and have a progressive accumulation of reserves.

Recurrent expenditure growth will be better contained through greater enforcement of our scholarship policies and strengthening of financial management within statutory bodies.

We also plan to implement a Ministry of Finance Change Project. Another important financial management objective would be to improve the reliability of the second and third years of the three-year budget.

Mr. Speaker, our goal over the medium term is to increase development project absorption to between \$80 million and \$100 million per year. Development projects programming, starting in 2008/09, would be refined based on the recommendations of the Ten Year Development Plan.

Mr. Speaker, while we intend to renegotiate the borrowing guidelines, during the next three years, we shall place emphasis on reserves build up so that we can increase borrowing to implement a number of special projects. The issuance of the \$100 million Turks and Caicos Islands Development Bond would increase annual debt service by about \$10 million for a total of approximately \$20 million. This would be equivalent to the amount spent on scholarship investment. We are conservatively estimating the outturn for reserves to be about \$45 million by the end of 2009/10.

### **2007/08 Budget Parameters**

I would now like to turn my attention to an elaboration of the 2007/08 Budget parameters.

Mr. Speaker, Ladies and Gentlemen, I am pleased to inform you that no new fees are included in this budget. Ongoing efforts to improve collection efficiency will continue during 2007/08. Accordingly, recurrent revenue is estimated at \$ 237.2 million, which represents a \$34.7million or a 15% increase over the 2006/07 Outturn. The main areas of recurrent revenue remain as in the past and include: customs duties, accommodation tax, labour and immigration related fees, stamp duty on land transactions and airport departure tax. The estimated growth in recurrent revenue is consistent with a growing economy and the efforts being made to improve revenue collection. Given the changing nature of our economy and as is the practice in neighbouring jurisdictions, during the year, we will consider a fee to be charged on money transfer operations; and a progressive fee on insurance premiums.



Mr. Speaker, recurrent expenditure is estimated at \$231.4 million, which represents a \$32.1 million or 16% increase over 2006/07 outturn. Mr. Speaker, the pie chart on page 2-3 of the Budget Booklet shows an objective analysis of recurrent expenditure for 2007/08. However, it is important to inform this Honourable House of the following essential recurrent expenditure programs:

1. As part of our efforts to fight crime, Police General Expenditure is budgeted at \$13.9 million, an increase of \$2.7 million over last year's original estimate. This includes an amount to pay special allowances that were agreed as part of the recent Police Review.
2. Expenditure under the Premier's Office and Ministry of Tourism, Trade, Investment and District Administration is estimated at \$29.8 million, an increase of about \$5 million over last year's estimates. This is as a result of the Film Festival and Music Festival being transferred from the Tourist Board to the Premier's Office and increases in the subvention to TCInvest and the Airports Authority.
3. Pensions and Gratuities are estimated at \$8.7 million, an increase of \$3.4 million over the 2006/07 Budget, to allow implementation of the retirement policy after several years when this policy was not enforced.
4. Development Service cost is estimated at \$10.5 million, compared to the 2006/07 outturn of \$6.2 million. This increase reflects the ending of principal repayment moratorium on several loans and increased payments for new loans proposed to take place during the year.
5. Tertiary Education cost is estimated at \$19.3 million, up from the original estimate of \$15.2 million for 2006/07, given the outturn of \$20.2 million. This level of expenditure is feasible as 145 students would be graduating this year and returning home to work.
6. In the Ministry of Health, medical referral cost is budgeted at \$16 million, up from the original estimate of \$8 million in 2006/7, given the Outturn of \$20.9 million.
7. A Department of Agriculture is being established this year with a recurrent budget of \$578,596. This is consistent with our diversification policies.
8. In all, 172 new established posts have been created, while 176 non-established posts have been added. Payroll costs are estimated to increase from \$52.4 million in 2006/07 to \$68.5 million during 2007/08, an increase of \$16.1 million.

Mr. Speaker, we estimate a recurrent budgetary surplus of \$5.8 million for 2007/08. Some might question this low level of projected surplus but we are not alarmed since this is as result of a conscious policy decision to introduce a number of new recurrent programs this year, rather than waiting until next year. We have made this decision since it is important not to decelerate programs at a time when they should be enhanced.

Mr. Speaker, I would now like to look at estimated transactions on the Development Fund.

Capital revenue for 2007/08 is estimated at \$119.9 million. This amount includes local capital revenue of \$64.7 million, additional loan funding of \$40 million and grant funding of \$15.2 million.

Overall Development Fund expenditure from all sources during 2007/08 is estimated at \$130 million, as follows: TCIG funds transfers and local capital revenue: \$64.7 million; grant funded expenditure: \$15.2 million; loan-funded expenditure: \$43.7 million and joint ventures or private finance initiatives (PFI): \$8.4 million.

Mr. Speaker, the majority of expenditure on the Development Fund would be allocated to ongoing projects, including: Salt Cay Airport Fencing, Construction of South Caicos Disaster Centre, South Caicos Airport Terminal, Causeway Bridge between Middle Caicos and North Caicos and Middle Caicos Office Block.

Mr. Speaker, Ladies and Gentlemen, for the benefit of the public, I would like to highlight a few of the new locally financed capital projects we plan to commence during 2007/08.

1. In the Office of the Premier, \$3.5 million is to be invested in a Tourism Development Project. This would be the first year of a 'special' \$7 million promotion and advertisement campaign, aimed at attracting high network investors and visitors to the Islands.

2. Also in the Office of the Premier, \$1.5 million would be invested in Sports Tourism initiatives, including \$1 million for the TCI Sports Invitational Event and \$500,000 for the inaugural TCI Grand Prix.
3. Grand Turk would benefit from the construction of a community centre, which is estimated to cost \$1.8 million. The parade grounds will also be upgraded with artificial turf from a project costing \$687,952.
4. Investments totalling \$1.4 million would commence on a Financial Services Sector Revitalization Consultancy and an E-Government Initiative.
5. A project estimated to cost \$1 million would be undertaken to refurbish and expand the Land Registry and computerise its operations.
6. A new administration block would be constructed at the HJ Robinson High School at an estimated cost of \$1 million.
7. Local counterpart funding of \$500,000 is budgeted towards the construction of a new primary school at Cheshire Hall, Providenciales.
8. Funding of \$1.5 million is budgeted for the construction of a National Disaster Centre on Grand Turk.
9. In the Ministry of Home Affairs and Public Safety, \$100,000 is budgeted for a consultancy to inform the establishment of the TCI Defence Force.
10. In the Environmental Health Department, \$3 million is being budgeted for the construction of an improved Solid Waste Disposal site on Providenciales.

Mr. Speaker, some of the projects to be financed from new loan are as follows: South Caicos Runway [\$5.2 million], Counterpart funding to Middle/North Caicos Roads [\$12 million], Long

Bay Hills Sub-division Road [\$3 million], Education Infrastructure Project at HJ Robison High School, Salt Cay Port Development [\$2.4 million] and Cheshire Hall Primary School expansion [\$5.5 million].

### **Institutional Development Initiatives**

Mr. Speaker, I would now like to discuss some of the specific measures proposed for my Ministry and those aspects of the Governor's responsibility that I represent in the House of Assembly.

#### **Ministry of Finance Change Project**

The Ministry of Finance is a major entity within the Government, which needs to be further strengthened. This is also consistent with our commitment to good governance and public sector accountability. In this regard, we plan to commence a multi-component Change Project this year. The objectives of the Change Project are to improve financial control and information management, budget systems, debt management, performance budgeting, revenue collection and administration and statistical capacity through training and greater professionalization within the Ministry. The project will also look at succession planning and staff development plans as part of an effort to retain senior staff and attract and provide career paths for younger professionals. Mr. Speaker, we plan to engage technical expertise from the Caribbean to work along with officials within the Ministry and myself to implement this Project.

At the end of the Project, we should have the following results:

1. A modern Finance and Audit Ordinance, which reflects best international practices, is relevant to the communications era and strengthens the role of the Ministry in controlling financial results.
2. New Financial Instructions and Financial Systems Procedures Manual.
3. A Budget and Financial Management System and Timetable which shows key events, reporting requirements and timelines for financial accountability and reporting.
4. A plan to strengthen budget management and planning within line Ministries.

5. A plan to better integrate economic planning, debt management and the Budget in the context of the new Ten-Year Economic Development Plan.
6. Staff development and succession plans.
7. Staff with at least a first degree and or professional certification in all management positions by 2010.

Mr. Speaker, as part of the Change Project, we also plan to construct a Ministry of Finance Building. Once this building is constructed all key managers would be housed in it. This would give me easier access to key staff, facilitate meetings and coordination and generally raise the profile of the Ministry of Finance.

We also plan to improve security of our financial system, SmartStream, so that there would be different levels of access based on departments and seniority of management. This is necessary to effect greater control to prevent leakage and distortion of financial data by those who seek to cause harm to our country and the Government. In future, we will also put our budget online and improve the Government's website.

We will undertake a review of the operations of the Computer Unit and restructure it to improve its efficiency and reliability as an important element of e-government initiatives.

Mr. Speaker, it is anticipated that further institutional changes within the Ministry of Finance would be required to ensure capacity to implement and monitor development goals recommended in the Ten-Year Development Plan. In addition, we would continue to make efforts to strengthen our statistical capability through staff training, a localization program, and by the introduction of the Statistical Ordinance.

The Gaming sector has enormous potential in these islands. During the year, we plan to strengthen this sector through a consultancy program and staff capacity building.

## **National Insurance Issues**

Mr. Speaker, I would now like to address a few issues related to the National Insurance Board. The Board commemorated its fifteenth (15<sup>th</sup>) anniversary earlier this month. I am pleased to inform the nation that its asset base has now surpassed \$100 million. The Board continues to receive commendable audit reviews. During the year, there was improved collection efficiency; the unaudited outturn for collections was 10% higher than budgeted due to increased economic activity in the country.

As we promised during our campaign, we have completed an actuarial review and non-contributory old age pension and other related pensions would be increased by 25% within a few weeks. This will improve the well-being of our senior citizens.

During 2007/08, the Board will enhance efforts to improve compliance through collaboration with government departments. The Board also plans to review collection ceilings as part of an effort to increase benefits to contributors. To improve coverage of its long-term liabilities by its investments from 33%, as is currently the case, the Board plans to reclassify its investments to increase the rate of return.

## **Public Service Issues**

Mr. Speaker, I would now like to make a few remarks on issues affecting the Public Service.

To begin, we have successfully completed the transition from the former arrangements, which governed the Public Service to the new ones under the 2006 Constitution. The Public Service Commission (PSC) is now fully functional. Mr. Speaker, consistent with the new arrangements, a number of measures are ongoing or would be implemented to improve performance and efficiency within the Public Sector.

More emphasis is to be placed on human resources development - in its widest sense. The Chief Secretary's Office is being restructured and renamed the Department of Human Resources. The PSC would be assisted in carrying out its mandate by the creation of a new senior executive post,

which would combine the disciplines of human resources and financial management, with a sound understanding of how Government works. The holder of this post would head the Department of Human Resources, supported by a Permanent Secretary. They would be assisted by a number of highly qualified human resources managers who would be assigned to specific departments to handle all personnel matters in the first instance.

A number of other initiatives are proposed to take place over the next few years, including the following:

1. A Training Needs Survey of the Public Sector would be undertaken, in line with the Ten-Year Development Plan. This would ensure that the service is equipped with the appropriate skills to meet emerging demands.
2. Plans to institutionalise the process of localization and succession planning of key positions, service-wide, would be formulated and implemented. This would offer opportunity to returning students and lessen our dependence on expatriate skills.
3. General Orders and other regulations governing the service would be revised to bring them in line with modern Industrial Relations and Human Resources Management principles and practices.
4. A further review and rationalization of the salary scale of the public service would be undertaken to attract and retain highly qualified and experienced professionals.
5. A staff recognition and reward program for outstanding performance would be introduced.

### **Conclusion**

In closing, Mr Speaker, I want to thank my constituents in Overback, for the confidence they have shown in me by re-electing me for a further term to be their servant in the House of Assembly. I pledge to do my utmost to work for them individually and collectively to maintain their trust and transform Overback to a little beacon on Grand Turk.

The man I am today is as a result of the love and support I have received from my parents and the rest of my family. I will like to especially recognize my mother, who has been a tower of strength in all my endeavours, and who continues to be a source of inspiration to me.

My wife, Lisa, and daughters Alexandria and Lauren, are the tripod of my existence. My work is long and tireless and I could not do it without the support and understanding of my family.

Mr Speaker, Ladies and Gentlemen, we are the descendants of slaves, salt merchants, sea farers, subsistence farmers and fishermen. We have become doctors, teachers, lawyers, accountants, skilled workers, who have transformed this country and are taking it to higher heights. Our story is one of survival and resilience.

This is why I know our best days are ahead.

This is why I have outlined comprehensive measures towards self-sufficiency in a globalized world.

This is why we have set measurable indicators to hold us accountable. Our policies will have positive impact for this and future generations.

This is why I want my people, all across the country, to join me in the spirit of love and unity as we walk hand-in-hand towards a future of progress and prosperity for all.

This is our time, our best days are ahead!

Ladies and Gentlemen, I thank you for the privilege of addressing you today, and I now commend the Appropriation (2007/2008) 2007 Ordinance to this House for debate and passage. May God bless all of us and these Turks and Caicos Islands!