

BUDGET ADDRESS 2002

“FACING OUR CHALLENGES WITH SOLUTIONS FROM WITHIN”

INTRODUCTION

1. Mr. Speaker, it is that time of year again. It is time for the presentation of the Government's fiscal plan to this Honourable House and indeed, through this House, to the people of Anguilla. Once again it is my signal duty and responsibility to present the Government's budgetary proposals for the ensuing fiscal year, this time for the year 2002.
2. Mr. Speaker, in keeping with the approach I have adopted over the past seven years, during which I have had responsibility for the portfolio of Finance, I propose to organize this year's presentation around a central theme. My choice for the 2002 address is **“Facing our Challenges with Solutions from within”**. As you know, Mr. Speaker, the process of development critically involves the appropriation of control and decision making over the process, by those achieving development and for whom the benefits are intended. And so as we go forward into 2002 and into the first decade of this new century, it is fitting to remind us all that our historic duty is to develop to the fullest capacity our ability to fashion effective solutions to the challenges facing us here in Anguilla.
3. The world has seen an unprecedented developments over the past year. Mr. Speaker, no one in their wildest dreams, except perhaps extremists and those bent on bringing death and destruction to their fellowmen, could have imagined at the

start of 2001 that we would have witnessed the horrific acts of terror perpetrated on September 11 in New York City and Washington DC.

Yet our plight could have been further compounded by the occurrence of natural disaster, to which we have become accustomed over the recent past. So still in all of this God's providence has prevailed to save us from even further setbacks. We must indeed be thankful.

4. The events of September 11 and the War Against Terrorism in Afghanistan that has followed, have overshadowed all else. As a result, they are almost universally blamed for the economic woes that countries are currently facing, the world over. The truth is Mr. Speaker, the remarkable growth in demand in the United States economy over the preceding 8 years, which stimulated growth in the global economy, had come to an end by the beginning of 2001. Unfortunately, economies have the peculiar characteristic of not showing the effects of major changes in the factors that drive economic growth and development until long after the changes have taken place. Therefore, market watchers and economic analysts had largely ignored the early warning signals in the final months of 2000.
5. 2001 began with the same highly optimistic scenarios that had proven to be realistic in the preceding 8 years. As a result we were all expecting a year of significant growth. But as the US economy showed major signs of reduced growth and staggered towards recession, we in Anguilla in common with countries in the Caribbean and the world over began to drastically lower our expectations for the performance of Anguilla's economy in 2001. The changes in the economic fundamentals leading to reduced economic growth of even

recession in Anguilla were already in place well before the disaster of September 11 and its after effects made the situation infinitely much worse for all and sundry. It is inevitable therefore, given the developments in 2001, that 2002 will present quite a significant challenge to the Government and people of Anguilla. But I believe that we have the capacity and must endeavour to build the confidence needed in **“Facing our Challenges with Solutions from Within”**.

6. Our people over the years have had a tendency, like our Caribbean brothers and sisters, to deny our true capacity to fashion our own futures and to display lack of confidence in anything that we have fashioned for ourselves. Despite increased political self-determination and despite May 30 1967, many of us still believe that what is “from away” is almost certain to be superior to anything that is produced by us. This devaluation of ourselves is anti-development. It must be replaced by great confidence in our ability to make well informed and strategic decisions, to articulate effective solutions to challenges and achieve the betterment of ourselves and our community.
7. We must be prepared to, and should, consider the best advice that we can access from abroad. But we must not yield to external consultants and other organizations our responsibility to properly weigh the various options proposed and make the final decision for ourselves. We are ultimately the best judge of what will work best for us. And therefore it is our duty to squarely face the challenges before us with solutions decided by us. It is an imperative of our quest for a prosperous, peaceful and stable Anguillian community on a sustained basis.
8. But before I go into the body of my presentation let me take time out to once again that the entire staff of the Ministry of Finance and Economic Development,

whose hard work and dedication as a team is responsible for all that goes unnoticed behind the scenes to make things happen. There is no question that my Senior Managers are probably the last public servants to leave office during the week and the ones most likely to be there on holidays and weekends. I would like to single out my Permanent Secretary Finance, Carl Harrigan and his staff for all the effort he put into the budget and my Permanent Secretary Economic Development Marcel Fahie for his exceptional leadership and mentoring of our young brilliant staff members as well as his singular contribution to the preparation of budget address. And in all of this the team effort of my ministerial colleagues in particular the Chief Minister, whose experience as a former Minister of Finance has been a tremendous resource in providing creative solutions to the challenges of this difficult period.

STRUCTURE OF THE ADDRESS

9. Let me now outline how I propose to proceed with the remainder of my presentation. I will undertake a brief review of the current economic and fiscal situation in Anguilla, with emphasis on the challenges facing the Government and people of Anguilla at this time. This will be followed by a discussion of strategic initiatives involving policies, programmes and projects that will be facilitated by the 2002 Budget. Many of the initiatives will constitute the continuing pursuit of the objectives of the United Front set out in its landmark agreement document, which provides the framework for the Government's programmes. The highlights of the Government's recurrent services provision will be addressed in looking at the Recurrent Expenditure Estimates for 2002. Somewhat more attention than has been devoted to the Capital Budget in the past will be devoted to this part of the Estimates for 2002, particularly because some very major projects will begin

implementation or complete their planning in 2002. General remarks by way of conclusion will follow discussion of the 2002 Estimates.

SITUATIONAL ANALYSIS

10. Anguilla's Gross Domestic Product estimates for 2000 shows a modest decline of approximately 3 % reflecting the impact of the late season hurricane, Lenny, which battered Anguilla in the middle of November 1999. The projection for 2001 was for a return to modest economic growth on optimistic assumptions about continued significant expansion in the US economy in particular and buoyancy in the global economy in general. The economic slowdown in the USA, which became patently clear by the second quarter of 2001, and the economic, political and social shocks of the terrorist attacks of September 11 have put paid to this optimistic scenario. It is expected that the Anguillian economy in 2001 will, at best, show no growth and, at worst show a second year of decline due this time not to the impact of a natural disaster but to the downward phase of the US business cycle and to a man-made disaster in that country.

11. Mr. Speaker, this is a firm indicator of our integration into the global economy of which I spoke in a previous Budget address to this Honourable House, only three years ago. We are unable, not even by a long shot, to impact the economic trends in the global economy. And yet our economic fortunes are dictated in a major way by the performance of the major players in world trade particularly the USA, Britain and the other countries of the European Union. We in Anguilla have no choice therefore but to adapt and adjust to the external economic and political changes especially those taking place in these economies. Like the pilot fish in its relationship with the shark, we must learn to survive astutely with and by reliance

on the large and powerful economies and by grasping opportunities to further our development, while avoiding the economic pitfalls of being insignificant in the global economy.

12. Government Services, constituting the third largest sector in terms of the production of goods and services in the economy, has faced a quite stringent financial regime in 2001. As a result of the unfavourable external situation throughout the year, a number of core revenue heads on which Government has relied over the years, most notably Customs Duties, have performed significantly below target. In fact, 2001 will be the first year since my tenure as Minister of Finance that Customs Duties will fall short of the budgeted figure. Every year up to now it was the norm for Customs Duties to exceed the target despite the fact that the estimate has been significantly increased each year by 10 to 15 %.

13. Provision was also made in the 2001 Budget for the divestment by way of a share offering to the Anguillian public of some of the Government's shares held in Anglec. Due to a number of delays, it was not possible to implement the public share issue as planned. As a result, revenue of some \$6.0 million that was to be allocated out of the proceeds of the issue to the 2001 budget, primarily to help finance the Local Capital Budget, has not been realized. Government is committed to implementing that divestment in 2002. I am confident that the various matters to be dealt with in the proper planning of the offering will be addressed in good time and that the offering will be implemented in 2002. This is a 'one-time only' revenue measure, Mr. Speaker. It has little long-term significance, except that Government must in the future find sustainable sources of additional revenue to maintain the budget at the level planned for with the inclusion of the revenue from the Anglec share issue.

14. Major revenue shortfalls will also be experienced in Water Rates and Sale of Water and in Domain Name Registration. Without going into the reasons for the shortfalls, suffice it to say that Water Rates are estimated to fall short of its revenue target of \$7.5 million for the year by \$4.6 million. Domain Name Registration for which \$4.0 million was budgeted is expected to miss its target by \$3.9 million.
15. The situation regarding Water Rates and Sale of Water is a grave one in that the Government is obligated by contract to purchase specified quantities of water from Ionics/Aqua Design, whether or not the water is consumed and the revenue realized from the sale. Prior to the start of the Ionics/Aqua design contract in the last quarter of 1999, the Water Department's Expenditure and Revenue Estimates were considerably lower. Expenditure has traditionally exceeded revenue in this Department by more than 300 %. For example, in 1997 expenditure was \$1.05 million (compared to the estimate of \$1.11 million) and revenue \$0.34 million (compared to the estimate of \$0.4 million). The difference of expenditure over revenue was \$0.71 million. Shifting to 1999 Mr. Speaker, when the contract with Ionics/Aqua Design went into operation late in the year, the situation radically changed for the worse financially.
16. The Water Rates estimate in 1999 was \$1.5 million. Actual revenue realized was \$0.38 million, a difference of \$1.12 million. Actual expenditure was \$1.79 million, a difference of over revenue of \$1.41 million or a doubling of the short fall in the space of two years. In 2000 the shortfall of Water Rates revenue compared to the budget was \$1.8 million. More significantly the shortfall of actual revenue compared to actual expenditure was \$4.03 million. It is estimated

that the deficit will grow to \$4.5 million for 2001. The overall effect therefore since the start of the Ionics/Aqua Design contract two and a quarter years ago has been almost a six-fold increase in the annual deficit of direct revenue from water compared to expenditure by the Water Department. This represents a basic disturbance in the equilibrium of the Government's fiscal situation and in effect has contributed an accumulated amount of approximately \$8.0 million to the Government's deficit to be carried forward to 2002.

17. I have dwelt on this issue of the financial situation of the Water Department Mr. Speaker, because in the planning of the upgrading of the public water supply, it was assumed that an effective billing system would have been in place. Further, it was assumed that sufficient water would have been delivered to consumers and properly billed for to cover the increased costs of the Department and cover the deficit in net revenue realized in earlier years. To the contrary, the present situation has resulted in the most significant new source of additional cost and a drain on the Government's financial resources from a service that is expected to pay for itself. This situation cannot be permitted to continue much longer, or the Government's finances will worsen even more. The correction of the problems in the Water Department represents therefore a most urgent challenge that we must face up to, and find, a solution from within.
18. The Domain Name Registry Project finally commenced operations in September 2001, at a most unfavourable time in economic terms. As a result of the pessimistic global economic prospects the principals, Sterling Technologies have revised their projections downwards, but are still optimistic that the business should produce quite significant results in 2002. The good thing about this revenue source however, is that the Government of Anguilla, under the terms of

the agreement with the licensees Sterling Technologies, does not have to meet any of the costs of operating the domain name registry with the exception of providing local information technology support for the server (that is) located at the IS & T Department. The running costs for maintaining the server and for telecommunications to provide Internet access are the responsibility of Sterling. I am therefore optimistic that this revenue source will perform as we have been expecting since the issuing of the license in 2000.

19. The under-performance of revenue for 2001 will also be impacted in two other areas where significant revenue was projected but it appears that the revenue will not be realized before the end of the year. The first is the provision for receipt of a dividend of \$1.0 million from Anglec and the second is the provision for a contribution to the elderly of \$1.0 million from the Social Security Board. Both of these represent challenges for the future. Anglec, as a commercial company driven essentially by business objectives, will be required to generate sufficient profit to pay dividends to its shareholders and reserve significant amounts for future development of the Company. The Social Security Board, in common with the direction being followed by other Social Security programmes in the Caribbean and elsewhere, must consider ways and means to expand the social safety net not only to those who are able to contribute to the Fund, but also to those less fortunate elderly who for whatever reason have been unable to do so.
20. The Government's response to the non-realization of revenue in the key areas outlined has been twofold. Substantial efforts have been made to try and maximize revenue collection in the other areas, where it has been estimated that significant under-collection has occurred. Perhaps more significantly, much attention has been paid to controlling and limiting expenditure during the year.

This has met with some success. And the challenge going forward is to exercise the same restraint or even greater restraint in 2002 and beyond, in order to ensure that expenditure is incurred in line with revenue intake.

21. It has been necessary to retain essential services at existing levels, because to reduce them in a cost cutting programme would have led to the violation of certain minimum standards of service delivery set by the international community (especially) in areas such as airport operations and health delivery in general, especially to the mentally ill. Similarly it was imperative that the provision of educational, immigration, police and similar services be maintained at current levels. The challenge therefore is to maintain at least existing levels in 2002 and at the same time try to obtain greater value for money in the process and more generally to find more cost effective ways of providing the same levels of service.
22. We face major challenges in effectively managing the recurrent budget. At the same time, Government has to find the wherewithal to improve Anguilla's economic and social infrastructure as a necessary condition to achieve economic, social, and environmental sustainability. Government must do so in the face of severely reduced capital investment aid grants. We are challenged therefore to find new ways of mobilizing and accessing finance which limit the impact on the country's borrowing position.
23. We are challenged to aggressively and prudently promote the development of commercial projects and businesses to expand and diversify the tax base, generate additional good quality employment for the expanding work force, and generate wealth for the owners and investors and for the people of Anguilla generally. In this regard, I am happy to report to this Honourable House that the Government

recently took a decision to enter into an agreement with Flag Luxury Properties LLC for the development of an international championship golf course and tourism accommodations in the Rendezvous area. I am also happy to report that the Government is at present actively engaged in talks with the principals of the St. Eustatius (Offshore) Medical School for the establishment of a major offshore medical school on Anguilla catering to medical students from the United Kingdom and other European Union members.

24. Government has also recently approved the sale of Cinammon Reef Hotel to Boutique Resorts International. This will enable the property to be taken over by the new owners for the 2001/2002 tourist season and should enable new vigour to be breathed in the operation of that hotel immediately. We are also actively engaged with Mr. Bob Johnson of BET fame on the development of a mega yacht marina in Anguilla. As everyone is aware by now, the two sites that are most suitable are Sandy Ground and the Cove. Government is ensuring that this matter is handled with the greatest care and professionalism. All of Anguilla favours the development of such a facility that would bring major benefits to the island's economy. However, it could cause great damage to either site if not done properly and with due regard for the environmental issues and the protection of the coastal zone from serious harm. We believe that an open and transparent approach to the analysis of all the issues involved is the best way forward and in the end the decision on this project will take into account the best interest of the people of Anguilla now and in the future.

MAJOR STRATEGIC INITIATIVES TO BE EMPHASIZED IN 2002

25. Mr. Speaker, permit me to address the major initiatives to be facilitated by the 2002 Budget both on the recurrent side and on the capital side. I propose for simplicity to look at them on a Ministry basis. A number of initiatives will involve both recurrent and capital expenditure. I will therefore speak generally on them covering recurrent and capital aspects together.

HOME AFFAIRS, NATURAL RESOURCES AND TOURISM

26. The Chief Minister's Office and Ministry of Home Affairs, Natural Resources and Tourism will be focused on such programme areas in 2002 as revision of immigration, labour and tourism policies, promotion of the offshore fisheries sector including a fish processing plant, implementation of the Fountain National Park Project, establishment of a National Environmental Management Strategy and establishment of a biodiversity and national parks management programme. It will also implement the major part of the constitutional review exercise the preparatory organization for which has been undertaken in the course of 2000 and 2001. The Fountain National Park and the biodiversity and national parks programme will require significant capital investment and technical assistance. Funding will therefore be sought from external sources and from non-government sources within Anguilla during the year.

MINISTRY OF FINANCE, ECONOMIC DEVELOPMENT, INVESTMENT AND COMMERCE

27. The Ministry of Finance, Economic Development, Investment and Commerce will be playing a major coordinating role in terms of project management and the

administration of the 2002 Capital budget, even more so than it has in the past. This is necessary in order to ensure that capital expenditure, especially the local capital budget, is incurred only when funds are available.

28. The Ministry will be closely involved with the Ministry of Infrastructure, Communications, Utilities and Housing in the planning of the major infrastructure projects including the Expansion of Wallblake Airport and the transformation of the Water Department into a statutory corporation or commercial company, and the capital investments to be associated therewith.

29. More directly, the Ministry will concentrate on improving the Treasury Offices to improve the functioning of the Smart Stream financial management system implemented under the Caribbean Overseas Territories Government Accounting Reform (COTGAR) Project. I must say that the implementation of this programme is another Anguilla success story. And the hard work of Treasury staff and the resourcefulness of our IS&T Department must not go unnoticed. Indeed I must express my pride in our IS&T Department which is considered as second to none in the region. Senior Management of this department must be commended for its role in ensuring that Government remains at the cutting edge of technology in data collection and the online delivery of critical services. We will also give priority to rolling out the system to all ministries and departments of Government, to fully implementing the budget module and programme budgeting as well as planning for the implementation of the tax system, the Standard Integrated Government Tax Administration System (SIGTAS). Coupled with this, we will build on the work of the Revenue Task Force and other efforts in my Ministry to improve revenue collection and undertake the planning for an Inland Revenue Unit or Department to be created in the near

future. We remain committed to the principle that there must be fairness and equity in the sharing of the tax burden. This can only be achieved by efficient collection and universal compliance.

30. The Ministry will develop a medium-term financing strategy and programme including a borrowing strategy and programme as well as a policy on Government savings and reserves. This is a high priority particularly because steps are to be taken immediately to deal with the present fiscal deficit that has accumulated over the past several years to a level that cannot be covered by surpluses in the ensuing fiscal year, given the conservative economic and fiscal forecast. At the same time new (Government) financial legislation to govern the operation of the online system installed under the COTGAR Project will be introduced in 2002.

31. Other significant areas of focus will be the establishment of a Financial Services Regulatory Commission, completion of the e-commerce policy framework, expansion of the legal infrastructure for the expansion and diversification of financial services, the commercialization of ACORN technology, development of Government's central internal telecommunications system, implementation of an economic diversification programme funded by the British Government, institutional strengthening of the Ministry in Statistics, Internal Audit, economic and social planning and corporatization of the Post Office. The Ministry will also play the lead role in coordinating the CDB/UK funded Country Poverty Assessment. There will also be greater focus on investment promotion of such business ventures as the development of a duty free shopping and water front complex in Blowing Point, the development of the Valley Commercial Complex, relatively small scale to medium sized (by Anguilla's standards) high value

manufacturing industries and e-businesses. These are in addition to the work currently in hand on the golf course, medical school and marina.

MINISTRY OF SOCIAL DEVELOPMENT AND LANDS

32. Mr. Speaker, the Ministry of Social Development and Lands accounts for the largest percentage of the Government's recurrent expenditure on an annual basis and a significant component of capital expenditure. In Education, the focus will be on completing the auditorium of Campus B of the Albona Lake-Hodge Comprehensive School (ALHCS), completing the first phase of the technical assistance programme component of the overall project, and implementing a follow-on technical assistance programme over the next 18 to 24 months. The first phase of the new West End Primary School will be commissioned in January 2002 and thereafter the other phases of the project will be pursued during the year.
33. The Education Ministry boasts a detailed draft five year development plan, which though not officially adopted by the Executive Council and laid before this House, is being employed to guide that Ministry's programme in 2002 and beyond. The devolution of power and the expansion of participation by the stakeholders in education, exemplified in the Education Advisory Board and in the Board of Governors of the ALHCS, will be further developed in 2002 to achieve efficiency improvements in the Education System. Attention will also be focused on planning for the rehabilitation and upgrading of the facilities at the ALHCS and the expansion of educational service delivery to include tertiary level programmes especially in tourism, technical and commercial occupations and subjects. There will also be emphasis on improving the learning environment in

the primary schools. Additionally, it is expected that significant planning for an expanded programme of adult and continuing and tertiary education will take place, including initial discussions on the need for a community college. Equally, plans need to be developed to replace the current Education Department offices that are in a seriously deteriorated condition.

34. In the area of Lands and Physical Planning, efforts will be focused on improving the operations of the Department of Physical Planning through the enactment of the relevant legislation and codes, development of the building inspection capability and updating and completion of the draft National Physical Plan. Financing for a project to update the geographical and land information systems and mapping will be sought. Essential improvements will be made to the Lands and Surveys office building, which has been in need of repairs for some time.
35. There has been a long history of complaints about the unsatisfactory standard of health services delivery within the Primary and Secondary Health Care Departments. The Government took a decision to transform these Departments into a Health Authority and to this end established a project board to plan and oversee the process. The establishment of the Health Authority is expected to take place in 2002 after careful planning by the project board for more than a year. It is expected also that the programme of institutional, management and service improvement pursued over the past year and a half, will continue until taken over by the Health Authority when it is established.
36. The completion of several facilities including expansion of the Water Laboratory, completion of the first phase of the Island Harbour District Polyclinic, completion of the maternity suite at the Princess Alexandra Hospital and completion of the

dialysis facility are critical to the programme of service improvement in the Government's medical and health organization.

37. Perhaps the one department in Government that has yet to be resourced commensurate with the challenges it faces, and which plays a critical role in dealing with the negative social situations in the community is the Department of Social Development. In 2002, considerable attention will be paid to planning for the appropriate strengthening of this Department and on determining an improved strategy and medium-term programme to improve the Department's effectiveness. The British Government has provided assistance with initial studies and is funding the Country Poverty Assessment with the CDB. Following this analysis, it is expected that they will determine the size and scope of any further assistance. However, given the current situation facing some 'at risk' groups, they will be approached for support in dealing with the challenges for improving care for the elderly, care for juveniles that are at risk and for other disadvantaged groups.

38. The area of Sport Development is much more important than can be gleaned from the allocations made by Government to the Sports Directorate annually. However, we can take comfort in the fact that other partners have over the years made generous contributions to sport development and are continuing to do so. For this reason, in 2002 a start should be made on the development of a national indoor sports facility with grants from overseas and domestic non-government donors who have committed to or indicated their willingness to commit substantially to the cost of building the facility. Other programmes and projects will also continue to benefit from the sponsorship especially of the Anguillian private sector and NGO community.

MINISTRY OF INFRASTRUCTURE, COMMUNICATIONS, UTILITIES AND HOUSING

39. Mr. Speaker, in the coming year the Ministry of Infrastructure, Communications, Utilities and Housing (MICUH) will be implementing a major programme of infrastructure works and heavily engaged in undertaking the advanced planning of other projects, in addition to attempting to improve on the quality of road maintenance.
40. MICUH will be involved in constructing the Blowing Point to Little Harbour Road at a cost of over \$6.0 million. It will also oversee expenditure of approximately \$5.0 million on the CDB loan funded Hurricane Lenny Road Rehabilitation Project out of a total project of over \$10.0 million during 2002, the remaining works to be completed in 2003. It is projected that in excess of \$2.0 million will be spent from local capital alone to move the Airport Project forward, and an additional amount in technical assistance estimated in excess of \$3.0 million will be spent on the detailed design drawings, quantities, costing and tender documents and on project advice from an experienced professional in the field of airport development and corporatization or commercialization. At the same time, preliminary studies will be undertaken of Anguilla's port development needs with the aid of a loan from the CDB.
41. Three other programmes on which MICUH will concentrate attention are the Liberalization of Telecommunications, the transformation of the Water Department discussed earlier and the development of a new Government Headquarters Office Complex, to be funded by a novel method that does not add

to Government borrowing. The schedule for telecommunications liberalization has January 2003 as the month when the market should be fully opened up in accordance with the Government's approved Telecommunications Policy. The planning for the new headquarters complex should be fully completed in 2002 with construction commencing early in 2003, provided matters proceed according to plan.

PUBLIC ADMINISTRATION, HOUSE OF ASSEMBLY, ATTORNEY GENERAL'S CHAMBERS, POLICE, JUDICIAL, PRISON

42. The Departments that do not fall under a Ministry include Public Administration, House of Assembly, Attorney General's Chambers, Judicial, Police and Prison. Among these major initiatives are the completion and sustaining of the Court Reporter and Case Management information technology systems for the Judicial Department, repair and rehabilitation of the Police Marine Branch vessel the Dolphin, the continuation of the work started and developed under the Law Revision/Law Reform Project, and the strengthening of the Prison Services.

PROVISION OF RECURRENT SERVICES IN 2002

43. Mr. Speaker, the Estimates for 2002 provide for \$95,679,152 to meet recurrent costs during the year. This represents \$6,488,226 a 7.27 % increase over the approved estimate for 2001 of \$89,190,929. Most of the increase is accounted for in the Treasury (\$3,566,094) made up mainly of increases in debt service in anticipation of increased borrowing to finance the sizable accumulated deficit. Additionally, significant increases are also estimated for Education Department,

\$1,416,870 and Water, \$881,426. Estimates have been reduced for 2002 compared to 2001 for a number of Ministries and Departments including Public Administration, the Chief Minister's Office and Ministry of Home Affairs, Customs, Community Development and Welfare/Social Development Department and the Department of Infrastructure, Communications and Utilities.

44. Mr. Speaker, considerable effort was put into paring back the Recurrent Expenditure Estimates, but in the end we had to settle on the total of \$95,679,152 if we were to avoid having to cut services or delay the implementation of vital services necessitated by international obligation or by the requirements of minimum acceptable service standards and quality.
45. The imperative to continue improving on the social and economic infrastructure of the Anguillian community and economy requires us, Mr. Speaker, to commit to funding out of the Consolidated Fund some portion of our capital expenditure requirements. This amount of the minimum requirement is fast becoming larger as we must rely more on our own resources or do without the infrastructure improvements. Therefore, provision has been made to contribute \$6.0 million dollars from Government revenue to essential capital projects in 2002. They range from the projects in Health and Infrastructure to improvements to the Treasury and the Lands and Surveys Department. Having made the commitment, we must and will redouble our efforts to raise the funding.
46. The Government's overall capital budget is also financed with grants from overseas and from domestic non-government sources, as well as from loans and, beginning in 2002, from other financing arrangements new to Anguilla, but well tried and proven elsewhere. Mr. Speaker, the Estimates for the externally funded

capital programmes amounts to over \$25.0 million, divided among over 30 projects from the multi-million dollar road projects to projects costing as little as \$20,000.

RECURRENT REVENUE 2002

47. The question is how will the \$95,679,152 in Recurrent Expenditure and the \$6,000,000 in Capital Expenditure for a grand total of \$101,679,152, be financed. I now turn my attention to this.
48. A total of Ninety-five Million, Eight Hundred and Forty Thousand, Eight Hundred Dollars (\$95,840,800) have been projected in Recurrent Revenue for the year. The largest single source of revenue will be Customs Duties estimated at Forty Million, Two Hundred Thousand, Nine Hundred Dollars (\$40,200,900) or 42 % of total Recurrent Revenue. Although the revised forecast for Customs Duties Revenue for 2001 has been reduced to Thirty Four Million, Two Hundred and Sixty Eight Thousand, One Hundred and Twenty Five Dollars in the face of the sluggish performance of the economy this year, increases have been catered for in Import Duty Fuel and Gas and in Import Duty Other. Import Duty Oil and Gas has been forecast to increase by Two Million dollars (\$2.0 million) in 2002 to Seven Million Five Hundred Thousand Dollars (\$7.5 million). 60 % or One Million Two Hundred Thousand Dollars (\$1.2 Million) of the increase will come from the collection of Duties at Forty Cents (\$0.40) per Gallon on diesel sold to Anglec. Since its establishment in 1991, Anglec has enjoyed duty free concessions on its imports of most products used in its operations. It will for the first time pay Duty on diesel. It is expected that with world oil prices substantially reduced and expected to remain that way for some time, the

Company will be able to absorb this increase in its costs without requiring any adjustment in tariffs in the short-term. The remainder will come from the increase in consumption of fuel and gas arising mainly from the increase in the number of motor vehicles and equipment and from the growth in businesses and housing.

49. Import Duty Other is Estimated at Thirty Million Dollars (\$30.0 million), an increase of Four Million over the Revised estimate for 2001, but exactly the same as the approved estimate for 2001. A significant portion of the increase is expected to come about as a result of the liberalization of telecommunications and the issue of a new operating license to Cable and Wireless under which the Company will no longer enjoy duty free status for imports used in its operations. In addition, it is expected that there will be increased investment expenditure in the Public and the private sectors as a result of the commencement of a number of projects. Increased Customs revenue will be realized directly in the first instance from those projects not enjoying duty free status and indirectly from duty free projects when the employees spend their income on consumption goods. Additionally, even greater vigilance will be exercised by Customs to collect as high a percentage of the collectible, revenue as possible.

50. Mr. Speaker, I draw your attention to the fact that no provision has been made for the realization of revenue from the transshipment trade. As you know the transshipment was a great boon to Anguilla until it was interrupted in 1999. I am happy to report that the transshipment clause has been favourably modified in the new EU-OCT Decision that is due to become law early in fiscal 2002. My Permanent Secretary Development, officials in the FCO and our agent Corbis Trading made important contributions to the final wording of the transshipment

clause. The modified principles and procedures should not lead to any disputes to interrupt the trade in the way that occurred in 1999. However, limits will most likely be placed on the volume of trade. Although I am quite optimistic about the resumption of this trade albeit on a somewhat reduced basis, it may take months before all the necessary paper work and negotiations are completed and the trade resumed. Hence, no figure has been included in the 2002 Estimates. The effect of all this Mr. Speaker is to produce a budget that is realistic.

51. Eight Million Dollars (\$8.0 million) constitutes the target for revenue to be realized from Accommodation Tax. The increase in the rate from 8 % to 10 % took effect in October 2001. The revised estimate for this tax for 2001 is the same as the Approved Estimate. This figure will be achieved essentially without the higher tax rate being in place until October. Moreover, Government has committed to the active management and development of Internal Revenue functions, which in Anguilla's case has traditionally been added to the Treasury's functions. An active programme of monitoring, inspection and reconciliation of Accommodation Tax returns and records returns will be instituted to obtain as much of the potential revenue as possible. Studies have concluded that this tax has been under-collected by as much as 20 to 25 per cent and have recommended measures especially to deal with tax collectible from private and stand alone villas and with the regulation of these operations. All of this will be addressed in 2002 and in particular the Immigration Department and the Revenue Task Force will collaborate closely in efforts to ensure the highest level of collection, of and greatly improved management and administration of, Accommodation Tax.
52. Mr. Speaker, the Revenue Task Force has done much to sensitize the Anguillian community to the fact that it is their duty to pay taxes and to make their

contribution to the revenue required to deliver the Public Services. This has been achieved against great difficulties and deeply ingrained attitudes. The vehicle through which this was accomplished was the collection of Property Tax. Sadly, Mr. Speaker, the rate of Property Tax in Anguilla is so ridiculously low when compared with the rates charged in other countries of the Caribbean. As a result the revenue returns realized from their efforts is relatively insignificant. Everywhere else in the region millions of dollars are collected from this revenue source. Those who have lived in the USA and Territories are aware of the level of tax paid by property owners annually. It is time to consider rationalizing this tax to make it more meaningful and to make it into a significant revenue raising measure to provide additional resources to be used to further improve the services delivered to the people of Anguilla.

53. The Ministry of Finance will carefully review the Property tax rate in 2002, as well as the valuation rates and the property register. We intend to hold discussions in the community about this tax. We do not propose to make any adjustments in 2002 and have catered to raise only Eight Hundred and Fifty Thousand Dollars (\$850,000). By comparison, administrations such as Montserrat and Nevis raise Four to Eight Million Dollars (\$4.0 to \$8.0 million) from Property Tax annually.
54. It has been found that there are a number of significant gaps in the system. These create an inequitable situation in that some property owners, who should be paying are not on the register, properties on the register are grossly under-valued by reason of additions to properties that have not been valued and recorded and the valuation rate per square foot has not been updated for quite some years. We must make this tax more equitable and meaningful and use it to collect a realistic

and not a nominal amount of tax such as is currently the case. At the end of the day Mr. Speaker our people desire improved services and the only way to obtain improved services is to contribute to their cost of provision.

55. I draw your attention Mr. Speaker to Embarkation Tax for which the 2002 estimate shows a modest increase from the Revised Estimate of Two Million, Two Hundred Thousand Dollars (\$2.2 million) to Two Million Five Hundred Dollars (\$2.5 million), the same as the approved estimate for 2001. Mr. Speaker, in addition to the revenue to be raised as shown in Revenue Head, Government has taken a decision to concretize its commitment to implementing the Wallblake Airport Expansion Project and to this end approved as part of its decision on the Airport, a further increase in the Airport Embarkation Tax sometime in the near future. All of the revenue raised from the increase will be deposited into a special Airport Project Fund to be used to help fund the Government's contribution to the project on an ongoing basis. The tax is to be raised to Fifty Four Dollars (EC\$54.0) per person or Twenty US Dollars (US\$20.0).
56. I have commented on Domain Name Registration earlier on. Suffice it to state that we are optimistic that with the start of trading in September, 2001, revenue in 2002 will increase dramatically. We have therefore budgeted for Four Million Dollars as in 2001.
57. Revenue from Water Charges has been set at Seven Million Dollars (\$7.0 million). Although this represents quite a large increase of Four Million, Five Hundred Thousand Dollars (\$4.5 million) over the revised 2001 figure, it is half a million dollars less than the approved 2001 Estimate. The Water department has now installed its water billing system which is expected to greatly assist

improvements in billing. The replacement of sections of iron pipe will continue in 2002 and this as well as the improvement in the call out system to deal with leaks and breaks in the distribution system will also help the situation. With much greater focus being placed on the transformation of that Department, the revenue estimate for Water charges should be realized.

58. Since the commissioning of the ACORN system, Mr. Speaker, revenue from the Financial Services Department has been growing at an annual average rate of approximately 30 %. This trend is expected to continue in 2002. Approximately Four Million has been Estimated to be raised from all sources under the Financial Services Department. And despite the negative impacts of September 11 on the Financial Services Industry, we can look forward to 2002 with guarded optimism that recent trends will continue and perhaps the Estimate may even be surpassed.
59. Greater and more focused marketing efforts will be made to increase business for the private sector service providers and the more revenue for the Companies Registry. Anguilla's name is becoming known as a sound and high quality financial services jurisdiction. And this will only improve the financial performance of the sector as a whole.
60. The other Recurrent Revenue sources are relatively small, but nevertheless significant in the overall scheme of things. Departments will be asked to continue in their efforts to collect as much revenue as they can so as to maximize Recurrent Collections and if possible not only achieve the target but exceed it.

CAPITAL REVENUE

61. I turn now to Capital Revenue Mr. Speaker. The Six Million Dollars (\$6.0 million) to finance Local Capital Expenditure will not be sourced from recurrent revenue surpluses. This surplus is an insignificant One Hundred and Sixty One Thousand, Six Hundred and Forty Eight Dollars (\$161,648). Mr. Speaker, Six Million Dollars (\$6.0 Million) was included in the 2001 Budget to be raised from the sale of shares in Anglec to the general public. It will not be possible to implement the sale before the end of the year. However, considerable progress has been in planning for the launch of the issue. I am therefore confident that all the remaining issues that need to be addressed will be dealt with shortly and that the share offering will be implemented in the coming year. Part of the proceeds from the Anglec share offering will provide the revenue for the Local capital Budget.
62. The Government's Public Sector Investment Programme comprises in addition to the projects included in the Local Capital Expenditure Estimates, projects funded by grants from overseas donor countries and organizations, loans from external financial institutions as well as loans from domestic institutions and grants from the domestic Private Sector and Non-government Organizations. All Capital Expenditure not financed out of the Government's Local Capital Revenue has been grouped as Externally Funded Capital Expenditure even where it is raised locally from the private sector or NGO community.
63. A total of Twenty Six Million, Eighty Nine Thousand, Seven Hundred and Sixteen Dollars (\$26,089,716) in Externally Funded Capital Expenditure has been included in the 2002 Estimates. Nine Million, Forty Two Thousand and Ten Dollars (\$9,042,010) of this amount will be provided in the form of approved British Development aid grants for ongoing projects. A grant of Five Million,

Four Hundred and Thirty Thousand Dollars (\$5,430,000) from the European Development Fund will be used for the Blowing Point to Little Harbour Road.

64. Loan funds from the Caribbean Development Bank will also be utilized in the amount of Five Million Three Hundred and Sixty Eight Thousand Dollars for the Hurricane Lenny Road Rehabilitation Project. The total of grants and loans is Nineteen Million, Eight Hundred and Forty Thousand and Ten Dollars (\$19,840,010) leaving Five Million, Four Hundred and Eighty One Thousand, Nine Hundred and Six Dollars (\$5,481,906) for which funding has to be raised, the remainder being financed from insurance settlement and from the United Nations Development Programme. I must point out however, Mr. Speaker, that the projects for which funding have yet to be finalized have been included because the funding sources identified have given clear indications of strong interest in providing the finance required none of which, will involve borrowing.

EMPLOYING NEW WAYS TO FINANCE THE PUBLIC SERVICES

65. The Government has been in discussions with the Social Security Board and with the Director over the preceding months to determine how best the Social Security Programme can, on behalf of all contributors, play a part in caring for some of the economically less fortunate members of our community. We had included One Million Dollars (\$1.0 million) in the 2001 Budget as a contribution from Social Security to be used to assist the elderly. The discussions have pointed to an alternative option whereby the Social Security Board would establish a non-contributory pension scheme for elderly citizens not in receipt of any form of pension and who are otherwise lacking the financial means to take care of themselves. This will be a scheme free from political interference and disbursed

along transparent guidelines so that it will not be a subject to abuse as in the past. The Board has agreed to develop such a programme in 2002 along lines similar to a programme recently introduced in the Turks and Caicos Islands.

66. The Social Security Board will also be embarking in the coming year on a major expansion of the coverage of employed persons to include the important category of the self-employed. It is noteworthy that this will be implemented in the twentieth anniversary year of the Social Security Board. It reflects the fact that the Board has in a very real sense come of age.
67. At the same time, the Government will be looking to the Board to play an increasing role in helping to facilitate development without taking undue risks. In this regard, discussions will be held with the Board to consider involvement the funding of new Government headquarters offices as a commercial opportunity for the Board to make income, while meeting the need of the Government for office space. Also the Board will be approached to make a determination of the strategy for the financing of the Coronation Avenue to Albert Lake Drive urban enhancement project with a view to starting implementation during the year.
68. More and more Mr. Speaker, people are coming to the realization that we are all interdependent and that the Government cannot take care of the public and community needs all by itself. As a result the bonds of partnership between the government, statutory corporations, the private sector, NGOs and civil society are growing stronger. As a result we are able to pursue significant projects in sport and community development generally benefiting young and old and all genders alike. This partnership will be built on in 2002 and the Estimates of Capital Revenue and Expenditure have catered for grants pledged by the private sector

and NGOs. The Social Security Board in particular has committed to provide funding for several sporting facilities over the next year notably a replacement West End Community Basketball Court, and the Indoor Sports Facility,

69. The development and launch of the Eastern Caribbean Securities Exchange opens up a new avenue for the raising of capital by the Government and the private sector in Anguilla. Government will pass enabling legislation for the issue of treasury bills and bonds and will obtain any necessary technical assistance to work with and train Ministry of finance officials to implement and manage the issue of treasury Bills and Bonds.
70. Mr. Speaker, it is clear that there are a number of tried and tested methods of raising financing to meet the requirements of the Public Sector that we have not yet employed in Anguilla. The changing times and the enhanced expectations of our people for an improved quality of life of our people demand that we begin to employ some of these methods.

CONCLUSION

71. Mr. Speaker, I have attempted to provide more of the background and rationale for the Estimates presented in the Bill for 2002 Appropriations Ordinance I have sought to focus attention on the key programmes and plans of the Government that will be facilitated by the 2002 Budget. And I have drawn attention to the need for us to be creative and to make use of alternative means of financing to meet our objectives. I have highlighted some of the major development challenges facing us at this time and emphasized the need for us to face these challenges with solutions from within and of our own making.

