



**GOVERNMENT OF THE VIRGIN ISLANDS
BUDGET ADDRESS 2014**



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MINISTRY OF FINANCE
Government of the Virgin Islands

**TOWARDS
STABILITY AND GROWTH**

Presented by
The Minister of Finance
Dr. the Honourable D. Orlando Smith
13 January 2014



Introduction

Madam Speaker, I move that the bill entitled, Appropriation Act 2014, be read a second time and in so doing, I invite this Honourable House to extend its customary courtesies, in permitting me to discuss the basis of how the draft of this Appropriation Act was developed through my presentation of the Budget Address.

Economy in Review

1. Firstly, Madam Speaker, I thank God for his many blessings on this Territory and for allowing me to present my third Budget Address of this term. As I do so, I am reminded of the Proverb that says “The plans of the diligent lead surely to advantage...”.

2. Since my Government took office Madam Speaker, we have indeed been planning diligently to secure that advantage for our people. And rightly so, as in governing, diligence begins in large part with budgeting.

3. Three budgets later, I am proud to say that we are turning the corner as will become evident throughout this address. But most obvious is that just past our midterm, and having recently materially paid off large amounts of inherited outstanding bills, we are optimistic and are looking forward to a budget that begins to deliver that advantage for our people.

4. The patience of our nation was tested during the first two cycles, but our resolve and the resilience of our people have seen us through to today.



This Budget, Madam Speaker, builds on our past achievements and seeks to continue to foster our Vision to build a better Virgin Islands. I am therefore very confident that this Budget Madam Speaker will help to continue our country's progress towards stability and growth.

5. As is traditional, I will begin by putting this Territory's economic situation in context with a brief examination of the current global environment.

6. Madam Speaker, except in very few instances, the world is emerging from the worst global financial crisis on record and global economic growth continues to be sluggish. Advanced economies like the United States and Canada are slowly recovering with the Euro Zone playing catch up. Growth in China and India is still strong but less bullish than in previous years and this has resulted in a reduction in the surge of global economic expansion. Closer to home, many of our Caribbean neighbours are facing difficult times. Their Governments are trying to manage declining economic growth, increased global competition, high debt and unemployment levels, and reduced fiscal space with heightened demand for infrastructural development, job opportunities and social services.

7. Increasingly, the larger economies of the world are employing all means at their disposal to corral their citizens, regardless of where they reside and in so doing, additional pressures are exerted on small economies like ours. Madam Speaker, this is the new world order in which our small Territory must operate. And Madam Speaker, the harsh reality is that it takes the right kind of management to manoeuvre in the global economy and



ensure the economic survival of our Territory. Madam Speaker I am pleased to report to this Honourable House and the hard working people of this Territory that my Government has risen to this challenge and we have delivered the goods. I will elaborate, later.

Our Economy

1. Madam Speaker, permit me to now relate this overview to our own circumstances.
2. As the world economy improves, so we expect a corresponding improvement in the BVI economy. I state the obvious, Madam Speaker, in noting that our primary industries are built on service. We do not manufacture and our farming and fishing are still not developed to sustain us. We live by the services we provide and from those services come the taxes that fund the services our government provides to all residents in the Territory. It therefore stands to reason that strong economic recovery in North America is good news for our tourism industry, since the majority of our visitors hail from that region. Consistent growth in Brazil and Argentina and other countries in Latin America translate into good prospects for expanding our tourism market in the near future to those areas. Indeed Madam Speaker, we have recently hired a competent and experienced public relations firm in that region to make sure that this happens.
3. A growing China means more demand for our flagship BVI business companies and other financial related services as well as tourism in the



future. Madam Speaker, here again we are well positioned to take advantage of these economic opportunities with the establishment last September of BVI House Asia in Hong Kong. As well, Madam Speaker there is no better manifestation of our forward leaning vision for economic growth, than last week's very successful visit to the Territory of a high level delegation from Shenzhen. Shenzhen is one of the wealthiest cities in China. That visit Madam Speaker, was a direct result of opening the office in Hong Kong. After more than thirty years of providing financial services to China, during the visit we moved to the next level by signing a Memorandum of Understanding to strengthen our relationship with Shenzhen.

4. Madam Speaker, the fiscal and economic vulnerabilities facing many Caribbean countries, provides us with a glimpse of a possible similar misfortune if we do not manage our resources carefully, or if we fail to act here in the BVI. But Madam Speaker, let me be clear: that is not the future I see for BVI while I am at the helm. Yes, we will tighten our belts where we need to, but we will also aggressively tap into emerging markets as we have been doing, while shoring up our traditional markets to ensure our continued success.

5. Madam Speaker, while I firmly believe that the BVI's economy has a strong foundation rooted in financial services and tourism, nevertheless, several factors have led to the challenges our economy has experienced in recent times. These factors include increased competition from other tourism destinations and financial services jurisdictions, increased international scrutiny related to tax and transparency matters, a somewhat



frayed physical infrastructure and difficult, inefficient air access from our major tourism markets. These challenges will continue to test our resolve, but today Madam Speaker, I assure the people of this Territory that my Government's economic strategy, which I will outline in this address, is the right approach and it is placing us once more on a growth trajectory.

Tourism and Financial Services

1. Madam Speaker, allow me to begin this section by providing a synopsis on the performance of our twin pillars – Tourism and Financial Services.
2. The lingering effects of the global economic crisis were made worse by air access issues to the BVI, which could have had a debilitating effect on our overnight tourist arrival numbers. However, I am pleased to state today that these numbers have instead increased steadily. This was not an accident, Madam Speaker. As Minister of Tourism, in the very early days of my administration, I directed the Chairman of the Tourist Board to aggressively market the BVI with a view to increasing tourist arrivals by ten percent (10%) in the short to medium term. I am very pleased to report that preliminary arrival figures as of November 2013, indicated just over a three percent (3%) increase in overnight visitors, compared to the same period in 2012.
3. A resurgence in international tourism, a solid performance in the yachting industry, growth in high end tourism driven by luxury developments such as Oil Nut Bay, the completion and opening last year of



the new and impressive Maria's by the Sea, the re-opening of the Great House on Necker Island and improvements at other properties such as Little Dix Bay, Peter Island and Guana Island as well as improvements in our small properties and a more focused marketing strategy on the part of the BVI Tourist Board, securing airlift alternatives and recently more reliable ferry services between Tortola and St. Thomas have all combined to increase our market share in a very competitive industry.

4. We will continue to make headway and drive growth by tapping into other markets and improving our tourism offerings and infrastructure. Madam Speaker, I am confident that with these efforts and others all combined to increase tourism arrivals, we will get to that ten percent (10%) growth that I have requested.

5. Madam Speaker, later this week, Rosewood Little Dix Bay will celebrate its 50th Anniversary since it opened its doors in 1964. In so doing, Little Dix Bay Resort not only charted the way forward for BVI tourism, but it also changed the global resort scene by becoming the new Gold Standard for resorts globally. Madam Speaker, I am therefore confident that all members of the Honourable House will join me in extending our collective sincere congratulations to the owners, the management, its loyal and hardworking staff - past and present and the host community of Virgin Gorda on this most significant milestone. We look forward to the next 50 years.

6. We expect several new tourism projects to come on stream including the Prospect Reef Hotel redevelopment among others, which will have a



positive impact on employment, the construction and tourism sectors and also spur more activity in real estate as well as the wholesale and retail sectors.

7. Madam Speaker, turning to another vital segment of our tourism industry, cruise tourism. We are determined to see a return to a path of growth to this sector despite the recent decline due in part to a slower than usual peak season. This is a Caribbean-wide reality where growth in cruise arrivals in some of our neighbouring islands has also dipped. Fortunately, we know what needs to be done to change this trend in the Territory. Madam Speaker, firstly, we must and will extend the cruise ship pier which is critical. Then we must and will provide the infrastructure for shops, restaurants, tours and the like to further support the cruise industry. Madam Speaker, I am also pleased to report to Honourable Members of this House that we have reached an agreement with Norwegian Cruise Lines and Disney for a long term relationship with the BVI and that we will sign that agreement before the end of January.

8. Cruise tourism issues did not begin in 2011, but they are here and it is my job to fix them. I am tackling this matter head on. I know that a growing number of BVI Islanders depend on cruise tourism for their livelihood and I will not rest until we have done right by our people in that sector. Madam Speaker, I expect work on the expansion of the cruise pier to start in the next few months.

9. Madam Speaker, 2013 has been a challenging year in the financial services sector set off by international regulatory changes related to tax



transparency and exchange of information and increased competition from other jurisdictions. Company incorporation figures for the first three quarters of 2013 are, as a consequence, fifteen percent (15%) below the same period in 2012. Fortunately company re-registration figures remain strong and government revenue collections from incorporation fees have not decreased. However, lower incorporation figures do have implications for the stock level of companies re-registered in the Territory annually and future government revenue levels. We are therefore considering ways of widening the scope of our financial services offerings and gradually diversifying the overall economy and Government's revenue base.

10. Madam Speaker, although a further contraction is expected to show up in the final economic statistics for 2013 it is anticipated that we will return to economic growth of approximately 1% in 2014%. This growth will be buttressed by increased investment in the physical infrastructure of the Territory through planned capital projects, such as the Cruise Pier Development, the Terrance B. Lettsome Airport runway Extension Project and the Sewerage project amongst others.

Review of the Last Year and Accomplishments

1. Madam Speaker, I would like to review some of last year's accomplishments. I am constantly reminded through my daily interactions with my fellow citizens that life can be quite difficult in the BVI today but at the same time I am also reminded that my Government has done extraordinarily well in holding this community together and averting a crisis. Clearly, in absolute terms, the BVI's economy has fared very well



when compared to the global economy and especially when we consider our neighbours and those further afield. Undoubtedly that has been the result of the hard work, foresight and the strategies we have deployed. Yes, our economy has faced immense challenges, for which my Government employed prudent and much needed interventions. If that was not so, we would be facing a different future to the future we face today of hope and prosperity.

2. Madam Speaker, when my Government came into office, we found a definite trend of slower growth in the Financial Services sector and a Tourism Industry that had lost its lustre and was treading water at best. The very foundations of our economy were threatened. Immediate action had to be taken and take it we did, to arrest the slide of the BVI. We are slowly clawing our way out of those 'woods' Madam Speaker, and I look forward to the not too distant future when tourism in the BVI will fully return to its former glory days of between 2003 and 2007 under my leadership..

3. Madam Speaker, the initial strong improvement in our winter season this year that we have seen speaks for itself and there can be no doubt that this is as a result of our fresh thinking, hard work and a coordinated strategy between the Government, the BVI Tourist Board and the private sector.

4. In the tourism arena, Madam Speaker, airlift is critical. The loss of American Eagle as the primary carrier into the British Virgin Islands hurt us, but we refused to remain wounded. We found alternatives. We formed a partnership with the existing airlines serving the Territory, and provided incentives for new ones. Today regular flights fill the gap left by American



Eagle. It is not yet a perfect situation, but we are working hard everyday to improve our air access to the BVI and we will get there.

5. Madam Speaker, I am particularly pleased that our efforts have seen the return of scheduled daily flights into Virgin Gorda on land and on water. The return of Win Air serving the Territory from St. Martin was welcomed news. In addition the development of alternate routes utilizing our ferries to link the Road Town and Charlotte Amalie ports has also provided further access to the BVI from markets in the US and beyond. Madam Speaker, it is important to note that these routes had to be developed by my Government taking an active role in forging alliances to facilitate these travel routes. As we anticipated they have yielded noticeable results. Results such as the soon to be initiated Greeter Services in St. Thomas at the Cyril E. King Airport for our visitors using that facility; results such as the planned nonstop scheduled service using a local carrier between Antigua and the BVI which will meet the needs of our European visitors.

6. Madam Speaker, my heart was overjoyed during the Christmas holidays as I realized that from Anegada to Jost Van Dyke, our waters were filled with all classes of pleasure boats while the piers at our marinas were, for the most part, empty. And the many private jets at the T.B. Lettsome International Airport, was a sight to behold. As a result of efforts of the BVI Tourist Board and its renewed partnership with the private sector combined with a renewed confidence that the BVI is a destination of choice for vacationers, the visitors are coming in their numbers. Service is our business. Let us serve them well and they will come again and again.



7. Madam Speaker, we have established a visible presence in the Asia/Pacific region, by opening the Hong Kong Office, further extending our footprint and positioning ourselves to better serve our customers and establish new relationships in this region. At least 40% of our financial services business comes from Asia and we are hoping to see this increase as a result of our presence there.

8. The recent passage of the Arbitration Act just recently is just one example of how we are intending to position ourselves in order that the existing industry in the BVI and those outside it can be supported in the options available to them.

9. In this regard Madam Speaker, I would like to sincerely thank Dr. Archibald and his team for their excellent work toward making BVI an Arbitration Centre, by the development of this act.

10. Madam Speaker, it is this Government's duty to ensure that its citizens have such amenities as a reliable water supply and sewerage disposal system, a viable and relevant social security system, a decent road network and safe and adequate sea and air ports. These, Madam Speaker, all come at a cost. While for the sake of political gain it may serve some to draw attention to the fact that we are not putting the same levels of cash out into the hands of our citizens as we were able to do in the past, a cursory look around us shows that this Government simply cannot continue to do so and at the same time remain responsible custodians of the finances of this Territory. Thus we have been very selective in choosing infrastructural projects that provide measurable benefits to the entire Territory. Our record of the past two years



bears this out, and demonstrates a wider cross section of improvements across the entire BVI than those which we met.

11. At the same time Madam Speaker we continue to be concerned about the high cost of Government infrastructural projects, for many and varied reasons, and have begun the review of the tendering process.

12. While it is important Madam Speaker that persons get a reasonable return on their investment in public sector projects; It is also essential, and more especially in these difficult times, that the taxpayer gets value for the monies that are being spent. It is unfortunate Madam Speaker that elements among us see no wisdom in the Government of the Virgin Islands setting aside reserves that we can call on in a time of need.

13. Madam Speaker, I must remind my fellow citizens that even in the days before the advent of the successful tourism and financial services industry here in the BVI, our leaders saw wisdom in setting aside funds to be held in the event that some natural disaster or unanticipated disruption in our revenue stream occurred. And they did this. Our leaders understood then as my colleagues and I do today that any institution that fails to plan, for all eventualities, plans to fail. Our Reserve Fund then, Madam Speaker, must be built to a level that is commensurate with the size of our financial obligations. The people of this Territory must be confident that in the event of an unfortunate event that has a severe impact on our ability to maintain our revenue stream and thus in fulfilling our financial obligations to the people of this Territory that their government can still provide for their



needs. Madam Speaker, the Reserve Fund is designed to provide for such eventualities.

14. Bringing this fund up to a level that is acceptable is made especially difficult by the fact that no serious consideration was given to financing this fund when my government was out of office between 2007 and 2011. Hence the burden of getting it to the required level rests on us to do so as quickly as possible.

15. All told, Madam Speaker, we have made great strides in safeguarding our economy. Despite tremendous fiscal pressures, while simultaneously building our bread and butter economic sectors, we have ensured that civil servants were being paid regularly and on time. We have not had a single 'pink slip', not one lay off or salary cut, as our neighbours in the region and farther afield have done. And amid all this, we have understood the importance of building the reserves and continue to do so.

16. Facing the realities of what we are able to do therefore, having set forth on the well-considered path, we must focus on initiatives that will not only build our civil protection and social safety nets, but just as importantly, bring jobs as well as facilitate a stronger economy. I am pleased to report that our Territory has begun to regain its strength. We have been resilient. We have demonstrated the strength and resolve. We are on the right path.

17. If there are any lessons to be learnt from the events of the last year, it is that as a society we must never rest on our laurels, or form the opinion that success is preordained, but instead that the continuous improvement



and ingenuity that we have exhibited should be the norm in times of plenty as well as in times of challenge.

18. To this end Madam Speaker, I am thankful to God for his mercies and also for endowing this Territory with the asset of natural environmental beauty and hardworking citizens who work tirelessly to make this Territory great. Some of our citizens, Madam Speaker, have made sizeable investments into the future of this Territory. I am reminded for example of the mini hospital and clinic built by one of the sons of the Territory, Dr. Heskith Vanterpool whose investment in conjunction with the Peebles Hospital should well serve this Territory's health care needs for many years to come. This was only possible Madam Speaker, because my government provided the incentives for him and many others to make these investments.

19. Madam Speaker, the completion of the external and internal works of the New Peebles Hospital by this government over the last two years has been a seminal accomplishment for this Territory. It, has brought to an end a saga that threatened the ability of the Government of the Virgin Islands to meet its numerous other commitments. This achievement was not by chance Madam Speaker but rather as a result of the leadership of my Government and the choices we have made, specifically, Madam Speaker, the hard work and leadership of the Minister for Health and his team.

20. You may have noticed, Madam Speaker that a stroll or a drive through Road Town is now done without the worry of an encounter with the odour or spillage of sewage due to a dysfunctional sewerage distribution and disposal system. This was a vexing problem with which my Government



was faced on assumption of office in 2011. It was a problem that plagued our Territory's capital for years; it was a problem that my government solved. Furthermore as the 2014 Budget indicates, this year we will continue the Sewerage project in Road Town and East End.

21. Our fishermen are now confident today, after not having used our Fishing Complex for years that through their experiences under the leadership of this administration, that they will receive compensation for product brought into the fishing complex in a timely manner, and customers are now able to get a regular and wider variety of fresh seafood in various forms of presentation caught in BVI territorial waters. Madam Speaker this is a major boost for our fishermen. Some businesses within the Territory that support these fishermen have reported an increase in business by as much as thirty percent (30%) in the past year. Madam Speaker, this can only be attributed to the good and solid leadership of this administration.

22. Madam Speaker, a significant increase in our infrastructural development is evident by a cursory look at the Budget. This suggests a capital investment plan of complex proportions when rationalized in the face of the fiscal challenges we are facing. It is thus worth asking, 'how is this possible?'

23. This capital investment programme Madam Speaker, is only possible as a result of the analytical fiscal and economic planning that we mandated for ourselves. It has enabled my ministers and I for the first time in the history of locally elected government in the British Virgin Islands to have a bird's eye view of the resources available now and into the near future. We can



also appreciate the effect that our decisions now will have on current and anticipated fiscal resources in the future. This is allowing us to manage our resources more efficiently in the present and into the future and indications are that this capability will get even better as we progress.

24. Madam Speaker, the bird's eye view to which I have just referred has only been achievable as a result of the improvements made to our financial management practices. Madam Speaker the movement to best practice financial management procedures and standards, enhancements to the Public Finance Management Act and the production of a Medium Term Fiscal Plan as part of a three-part budget process, demonstrates a heightened level of fiscal and economic management in the Territory. The emphasis on planning and careful analysis of the current state of play and what needs to be done to improve it while allocating fiscal resources efficiently is now providing confidence in the management of our Territory's fiscal resources. As a matter of fact Madam Speaker, due to the significant progress we have made in the past two years, the British Virgin Islands is now recognized as a clear leader in public financial management in the region.

25. The question arises: how does all this translate into a better BVI for each citizen of the BVI. Madam Speaker these accomplishments bring confidence in the BVI as a place to live, as a place to work and as a place to invest. In turn this translates into jobs and jobs mean that our people are employed, whether it be as self-employed persons or as part of a greater organization. It translates into more money into the pockets of our people. It means that we will be able to easily meet our mortgages, take vacations, our



children will be educated to the highest standards and we will be able to lead less stressful and more productive and satisfying lives.

Our Vision

1. Madam Speaker you would recall from my previous Budget Addresses that our overarching goal for the people of this Territory has been “to improve the quality of life and the standard of living for the people of the British Virgin Islands”. As a result, Madam Speaker we are having an on-going conversation with all the people of this Territory including children, investors and community groups. We do not have all the answers. As your elected representatives we believe that dialogue is important to better understand your expectations and to tap into your vast reserves of experience and knowledge. This conversation, Madam Speaker, has further crystallized our vision for the BVI to create “a prosperous Virgin Islands, that is ideal to live, work, visit, and do business.” It has also resulted in a Medium Term Development Strategy with four main goals:

1. A healthy, vibrant and engaged populace, well-prepared to fully participate in the development of the Territory.
2. A thriving and buoyant economy fostering balanced growth through entrepreneurship and trade.
3. Respect for the Territory’s natural resources and promotion of sustainability in physical planning and management.
4. And finally; transparency, in governance while ensuring the safety, security and cohesion of the populace.

2. Madam Speaker, these are lofty goals but it is our considered opinion that our people deserve nothing less. We are determined to see to it that they are achieved, and it is this determination to do what is best for our people as opposed to what is politically expedient, that sets my government apart from other governments that have managed our affairs.

3. Madam Speaker there are many ways to achieve this vision of a prosperous Virgin Islands but dependence solely on central government or elected representatives for our survival is not one of them. Empowerment of our people with the tools and opportunities to create and manage their own destiny is our preferred way and this is what my Government has been doing. Along the way, we are instilling, national pride (We now have a BVI song that is sung at all our official celebrations) and together with our people, we are working to make these islands a better place. We are teaching independence, self-reliance, an ethos of helping each other. We believe our citizens must be able to paddle their own canoes, make their own decisions and stand on their own without being indebted to anyone. This is who we were and this is who we will be again under my leadership.

4. Madam Speaker, while my government will always ensure that our people are able to invest at home it is also important to recognise the role of foreign direct investments in our success story. Our economic development has been and continues to be very much dependent on our ability to educate and train ourselves to participate in the global environment as well as attracting foreign investment. Madam Speaker, we have had several successful examples of this in very recent history, with Oil Nut Bay and

YCCS in North Sound Virgin Gorda being prime examples, Madam Speaker, lest this fact is lost on any of us, these two projects were initiated by my previous administration, and the fruits borne as a result has meant that between these two, there has been additional employment of over two hundred people during a period in time when new employment was on the decline throughout the entire Caribbean region. These projects have made noticeable enhancements to our tourism product, and were such significantly visionary decisions that they provided much needed employment to our people, economic activity for the Territory and millions of dollars to the Treasury during a time when we were not even in office!

But there are '*some realities*' we must face, Madam Speaker.

1. Madam Speaker, this discussion now brings me to the issue of employment. Madam Speaker, in very recent times, we have seen some layoffs in the job market that gives all of us cause for concern. I am aware that these job losses and other changes within businesses are being frequently pointed to as evidence of the weakness of the economy as this is a basic indicator used to measure economic strength. However, in many of the cases here in the BVI these actions were based on the relevant organisations' quest to become more efficient, not a failing BVI economy.

2. But, regardless of the reason, this Government pledges to do everything within its power to facilitate the reintegration of persons into the work force as well as to create new jobs. However in doing so I would like to make it clear Madam Speaker that we are focusing our energies on creating meaningful jobs for our people so that they can have long term employment



security and pursue meaningful careers. This will positively boost their sense of pride and affect the quality of life they and their families will have in addition to promoting economic development.

3. Already, Madam Speaker, we see some of those persons who have lost jobs being re-absorbed into the job market, even within Government itself and we see new job market entrants being facilitated through programmes such as the youth unemployment programme. This has not happened by chance Madam Speaker, but as a result of the positive efforts of my administration.

4. Madam Speaker, I am confident that there will be greater resilience in the job market. This confidence arises in part from the major infrastructural projects that have been selected to positively affect economic growth and to which I referred earlier, as well as describe later. These projects will provide jobs in the short and long term and facilitate skills transfer and training to our people that will enhance their employability. Couple this with the entrepreneurial spirit of our citizens and the prospects for the future look bright. In addition Madam Speaker we are currently helping by creating a business friendly environment through more efficient processes surrounding license approvals, hotels aid, pioneer status, and the efforts of the National Business Bureau. I am pleased Madam Speaker that in 2013 we were able to grant two loans to deserving BVI Islanders to support their businesses.

5. In addition, beyond the new job prospects from new businesses, evidence suggests that traditionally the number of new work permits being



issued far outweigh job losses. Therefore empirical evidence seems to suggest that indeed there is a supply of jobs that needs to be filled in the Territory.

6. Madam Speaker a significant part of the success of the BVI and the Government's ability to provide the services it does today rests with the success of our financial services industry. This industry has faced challenges in the past year, and though I remain optimistic, it is clear that in this sector we have some hurdles to overcome if we intend to remain competitive. We will not, however, compromise on our reputation of a well regulated jurisdiction.

7. We have provided our support on and will continue to support the UK's agenda on Tax, Transparency and Trade and our commitment to the role and work that is done by bodies such as the Global Forum on Tax Transparency and Exchange of Information for Tax purposes (Global Forum) and the Financial Action Task Force (FATF) remains. Nevertheless, Madam Speaker, you can rest assured that we will conduct this business in a manner that promotes the interests and economic success of the BVI.

8. Madam Speaker, I believe that you share our profound disappointment in the French's inclusion of the BVI on its list of non-cooperative jurisdictions, and the other challenges we have been facing with some international banks. These events singularly and together have caused us to look very closely at not only our regulatory regime but additionally at the role that the financial services industry in the BVI plays in ensuring that we comply with our commitments in our campaign against the nefarious use of BVI financial services products.

9. To this end we are currently aggressively pursuing all avenues necessary to ensure that our systems, where they do not already do so, meet the revised standards on anti-money laundering and combating the financing of terrorism standards of the FATF. We are also, now reviewing and evaluating all of our current information exchange procedures under the various mutual assistance and information exchange programmes which are in force in the BVI. As a result, we have been able to engender a more pronounced culture of due diligence and compliance in the industry here in the British Virgin Islands.

10. Madam Speaker, my government's establishment of the International Tax Authority in July of 2012 occurred as a result of us realising that there were matters to be addressed in the BVI's tax information exchange procedures. Once the International Tax Authority was established, we introduced it and its new procedures to our treaty partners internationally and to the industry in the BVI. This unit has already made significant inroads in the management and fulfilment of the BVI's international tax obligations and I am expecting a paradigm shift in the manner in which the BVI deals with its international tax obligations as we continue to resource this unit.

Some Updates

1. We will also forge ahead in the development and improvement of our social services system, to ensure that the less fortunate in our community are protected and afforded the respect and civil liberties that they should have in a civilized society. Madam Speaker the Public Assistance Act that was passed



in the House a few weeks ago demonstrates quite clearly that not only are we determined to do and make unprecedented strides in this area, but also that we are focused on ensuring that this assistance is provided in an objective manner to those who need it.

2. Our comprehensive approach to keeping our people healthy is progressing swiftly. Madam Speaker, a healthy population is a productive and happy one, and by developing our programmes that promote healthy lifestyle choices while simultaneously providing a health care system to detect and treat ailments early is part of our strategy of keeping our people productive and happy.

3. The completion of the Peebles Hospital is expected to bring significant benefits to our people through the services it will be able to provide and as a centre of excellence in the health tourism sector which we are now developing. Madam Speaker, we have progressed immensely in the protection of our environment and our leadership in this area throughout the region is recognized. We are being especially careful with our Natural Resources Madam Speaker, whether it is our people our environmental assets, as these are the basis on which our future must be built. The more efficient processes now used as a matter of course in the Labour Department, and the work we have done in Climate change and renewable energy bears this out.

4. Madam Speaker, we remain steadfast in our commitment to the development of the Territory's Road, Transportation and Sewerage Infrastructure, Port Facilities, Telecommunications and the use of



Renewable Energy Sources. Although in recent history, we have been faced with sizable challenges in these areas; our resolve to do what is best for our people has been enhanced as a result of these challenges.

5. We have completed all the conditions precedent, in relation to the Biwater Water Purchase Agreement. As such, Biwater is moving to complete the Desalination Plant at Paraquita Bay. Madam Speaker, I expect that by the start of the fourth quarter of 2014, the Paraquita Bay Desalination Plant would be fully operational.

6. The BVI Ports Authority during 2014 will roll out its plans to upgrade and construct new passenger arrival facilities at West End and on Virgin Gorda.

7. Madam Speaker, as part of our energy modernisation efforts, and to reduce our dependence on fossil fuels, my Government has completed a pilot study on the use of Solar and LED Street lighting. I am delighted to confirm, that this study has been quite successful. We have already placed a number of solar lights on the Paul Wattley Road among others areas and over the next two years, we intend to fully replace all street lights in the Territory with a mixture of LED and Solar Street lighting. Additionally, Madam Speaker, the BVI Electricity Corporation will embark on a programme to assist all home owners, with replacing their traditional light bulbs with LED bulbs, and traditional water heaters with solar water heaters. We anticipate that these initiatives will position the Virgin Islands, as one of the regional leaders in energy reduction strategies. But more importantly for our people, we expect reductions in the fuel variation component of our electricity bills.

8. And this year Madam Speaker, it is our attention to merge the Wickham's Cay Authority with the Road Town Management Authority. A committee has already been formed for that purpose.

9. Madam Speaker, my Government continues to hold the education of our citizens in high regard as we continue on a path of creating a culture of excellence. In 2014 continuous improvements will be made in the system to ensure that our people and particularly our youth are offered opportunities to prepare themselves to take us into the future. We are forging ahead with plans to open the new technical high school which is important to our economy as we ensure that the skilled personnel needed for a number of areas in our Territory can be filled. Our hospitality industry and construction industry need skilled persons and we must begin the process of preparing our people. Training will also continue for our principals and teachers of the other schools, Madam Speaker, and to that end, we will continue our collaboration with Hertfordshire County Council together with local in-service efforts.

10. For the first time Madam Speaker all students in our secondary schools will be exposed to the Caribbean Secondary Education Certificate examinations during the period May to June as we raise the bar and encourage them to be on par with their counterparts in the region.

11. Madam Speaker, we are determined, to build a community where every young person has the opportunity to realize their full potential, a community that knows and respects our culture, a community dedicated to helping our youth excel in all their endeavours, a community Madam

Speaker, where our people will be able to compete effectively with their counterparts around the world

The Budget Document

1. Madam Speaker the budget before you projects revenue of three hundred and one million, seven hundred and forty six thousand dollars (\$301,746,000). Of this Madam Speaker, taxes account for some two hundred and eighty two million, six hundred and fifty five thousand dollars (\$282,655,000) while nineteen million and ninety one thousand dollars (\$19,091,000) comes from other fees. Expenditure accounts for some two hundred and forty six million, five hundred and forty nine thousand, five hundred dollars (\$246,549,500). Contained within this expenditure Madam Speaker is some one hundred and seventeen million, two hundred and thirty thousand one hundred dollars (\$117,230,100) in employee compensation, fifty three million, nine hundred and seventy two thousand six hundred dollars (\$53,972,600) for Goods and Services and ten million one hundred and sixty thousand, one hundred dollars (\$10,160,100) in social benefits. In addition Madam Speaker fifty million, forty nine thousand, four hundred dollars (\$50,049,400) is appropriated for grants, mostly to statutory boards and government owned companies such as the BVI Tourist Board, Health Services Authority and the BVI Airports Authority. Finally Madam Speaker, nine million, nine hundred and forty three thousand, eight hundred dollars (\$9,943,800) have been appropriated for property costs and other expenses.

2. Madam Speaker, Capital Acquisitions, that is purchases that increase the physical plant owned by the Government of the Virgin Islands, accounts



for some nine hundred and nineteen thousand dollars (\$919,000), and funds utilized for capital development, excluding any public private partnerships total some twenty three million, one hundred and twenty two thousand (\$23,122,000) from debt financing, while some twenty seven million, six hundred and ninety six thousand dollars (\$27,696,000) will be directed towards capital development projects.

3. Madam Speaker, not included in this budget, but well on the way towards resolution is the consolidation and refinancing at a lower rate of interest of over eighty million dollars of debt held by the Government of the Virgin Islands, such that more fiscal headroom can be created and more borrowing done in order to finance much needed infrastructure development. Madam Speaker you will be pleased to know that this consolidation is made possible by the production of the Medium Term Fiscal plan laid in this House in December, which allows us to plan more responsibly in the medium and long term. We have also budgeted for principal repayments before consolidation of eleven million, eighty one thousand, five hundred dollars (\$11,081,500) in addition to some four million eight hundred and ninety three thousand five, hundred dollars (\$4,893,500) in interest.

4. Contribution to the Reserve Fund Madam Speaker, which in addition to the Medium Term Fiscal Plan is an important part of our risk management and fiscal sustainability programme will be fifteen million five hundred thousand dollars (\$15,500,000). Madam Speaker, I must also take some time to point out, that it is the intention of this Government to begin funding the



pension fund and that we will provide seed funding for the National Health Insurance programme as well, however the ever pressing fiscal pressures have forced us to find alternate means of funding these two very important programs.

5. The unfunded pension liability being carried by Central Government is approaching three hundred million dollars. Madam Speaker, we have a solemn responsibility to address this issue once and for all, and to this extent are currently examining ways in which to ensure that this ever growing problem is addressed. Madam Speaker, we cannot continue to bury our heads in the sand and ignore this problem as other governments around the world have done and now are faced with the harsh and brutal reality that this topic will bring if not addressed early. The fact is currently that this is a problem that is getting bigger and bigger and becoming more difficult to address. Although we do not have a concrete solution at this time we expect to have one in the very near future.

6. The National Health Insurance program will be prefunded through monetary advances which we expect to have paid off within a few years after the fund has been established.

7. Madam Speaker, the budget that is here before you today reflects the work done in the fiscal strategy outlined in the Medium Term Fiscal Plan, and is continued evidence of the responsible manner in which we are reversing the path of unaffordability that we found ourselves on when my government took office in 2011, to one that is on a trajectory of long term fiscal sustainability. Though not perfect Madam Speaker, it does provide a



good balance between the various factors to be considered. To achieve this Madam Speaker, it was necessary to institute several fiscal measures to enhance revenue and increase expenditure efficiency. As outlined in the Medium Term Fiscal Plan which was tabled in this house in December 2013 this strategy is comprised of five main objectives:

1. Build the Reserve Fund balance as a means of buffering public finances from unexpected future shocks;
 2. Manage contingent liabilities;
 3. Improve the financial management structure within Central Government and its parastatals;
 4. Improve the recurrent surplus balance by implementing revenue generating and expenditure efficiency initiatives. Decrease the overall deficit in 2014 and 2015, and convert the deficit into an overall surplus by 2016; and
 5. Maintain the borrowing ratios within limits outlined in the Protocols for Effective Financial Management.
8. The specific revenue generating initiatives are stated in the Medium Term Fiscal Plan and will be brought to this house shortly as separate initiatives. Madam Speaker recognizing the struggles that many of our citizens are having in making ends meet, these revenue generating initiatives seek to raise revenue while yet minimizing the tax burden on the average citizen in the BVI.



9. Heightened success is within our reach Madam Speaker. My colleagues and I have demonstrated that we are forward on the road of progress and will continue to do so.

10. In the budget Madam speaker we have placed particular emphasis, despite the tight fiscal constraints, with capital development on carefully selected projects to serve the dual role of repairing and constructing the much needed infrastructure for economic development, and facilitate our developing sectors on one hand to promote economic activity on the other hand.

11. Madam Speaker, I would reiterate that we are implementing our key public infrastructure projects like the cruise pier, airport, and others, as a means of creating modern, efficient infrastructure in order to build and support our twin pillar economy, create new employment and new businesses opportunities.

12. Madam Speaker it is first important to note that the capital investment programme in this budget is in excess of fifty million dollars (\$50,000,000), with over twenty seven million dollars (\$27,000,000) being funded from projected revenues in 2014 and over twenty three million dollars (\$23,000,000) from loans.

13. In addition to the mega projects such as the expansion of the T.B. Lettsome Airport runway and the Cruise Pier, I will now describe some of the more significant projects:



1. One project of high importance which we have made provision for is the Sewerage System. To expand on this: we are continuing to upgrade the Road Town Sewerage System, which will recommence by the end of March 2014. Additionally, works will commence on the Blackburn Highway Sewerage Infrastructure, from Chapel Hill to Parham Town, within the next two months. By the fourth quarter of this year, major sewerage works will advance from the Road Town round-a-bout down to Burt Point. (\$8,800,000)
2. The Iris O’Neal Clinic in Virgin Gorda must be built to bring the required level of health care to this island, and with completed plans and a tender process that has begun we are confident that this project will commence in the coming months. (\$1,500,000)
3. We expect to commence the East End Fat Hogs Bay harbour Development in earnest in 2014. Madam Speaker this project is necessary for the economic development of this major community and extensive consultations have been held to come up with a solution that serves the interests of the entire community. (\$1,000,000)
4. Madam Speaker we must look after our senior citizens and we have ensured that the funding required to build the much needed Adina Donavon Home at Spooner estate is provided. (\$2,000,000)
5. Extensive repairs on our Road Network including specific allocations for works to be identified by the representatives of each of the nine districts have been provided for in our capital development allocations. Madam Speaker, through the Public Works Department,



we aim to maintain and repair all of the major roads on Tortola and Virgin Gorda, while extending new roads-ways on the Sister Islands of Anegada and Jost Van Dyke. You will notice through a careful look at the budget document that we have placed some noticeable emphasis on this. Works on the many Caribbean Development Bank loan CDB-funded projects, which only received final approvals from HMG under my administration, are slated to start by March 2014. Although some of these projects are now ready to begin, after having reached the stage of being awarded to individual contractors, some are yet still in the tender stages, and contractors are encouraged to submit their bids by the required deadlines, in order to improve their opportunities to participate in the Territory's development. (\$18,372,000 which includes \$13,072,000 from the CDB loan)

6. Allocations for the construction of a Fishing Complex on Anegada are provided as part of our on-going strategy to be totally self-sustaining in respect to seafood caught in our territorial waters and to have a facility that is closer to the product being harvested. (\$900,000)

7. Madam Speaker an important part of urban planning entails the provision of "green space"; a location where citizens can relax with their friends and family, have social activities and generally take a break from the hustle and bustle of their daily lives in a natural environment. During our previous term in office we provided one such setting in the development of what is now recognised as the Noel



Lloyd Park. We see the need in looking after the well-being of our people to offer another such location in the development of the Queen Elizabeth Park. Work has already commenced and we expect to complete this project in 2014. (\$800,000)

8. Our students must be nurtured and educated in an environment that is conducive to learning. The Completion of a Technical Vocational School as well as much needed works to the Elmore Stoutt High School and primary schools is thus necessary and we have provided funds to meet this requirement. (\$1,100,000)

9. And finally, Madam Speaker, but by no means the end of the exhaustive list of projects in the budget, is the provision for the building of homes for individuals not able to build homes for themselves, through the embryonic social housing programme in the Ministry of Health and Social development. (\$300,000)

14. Madam Speaker, these projects along with the others will be managed and implemented by a committee of the Ministers and chaired by myself. I expect that this new arrangement will yield admirable results in the coordination and implementation of our capital investment program.

Closing Remarks

1. In conclusion, Madam Speaker, I would like to again express my deep and profound gratitude to the people of this Territory who have demonstrated resolve, patience and faith in us over the years, and especially so in 2013. Understanding that the BVI is faced with tremendous challenges,

both from within and from outside our borders, the people of this Territory have engaged each other and the Members of this House in dialogues that have led my colleagues and me to examine our own views in a manner that serves the people of this Territory better.

2. Madam Speaker, I can only pledge and endeavour to continue to do what we know must be done to protect and promote the interests of the people of this Territory, although, unfortunately, this may mean that in many instances these decisions and actions may not be politically expedient or self-promoting. Many observations and conversations I have had have strengthened my faith in the people of this Territory and their high standards and expectations of those who lead them. It is from this that I have also realized that the loud minority of discontent is not representative of the people of this Territory, but it is the large majority of patience, high expectations and insightful thought to which we need to pay particular attention. Madam Speaker, I am grateful, for your leadership and probity in this House. To my colleagues and especially those members of Her Majesty's loyal Opposition, I commend you for your hard work and determination in ensuring that we remain as pledged; a "Government in the Sunshine".

3. To the public servants of this Territory Madam Speaker we are extremely grateful for the support that they provides to us and on a wider front to all the people in this Territory who do their tasks day in, day out and call this place home, I say thank you as well.

4. Madam Speaker, I must also add a heartfelt thank you to the men and women of the armed services who protect us daily. The police have been

doing a fantastic job keeping us safe and as a result, there is now a 14% decrease in crimes reported in 2013 when compared to 2012. Madam Speaker, crime and tourism do not mix and I will be looking for even sharper reductions in the crime statistics, going forward.

5. Madam Speaker, I must here recognize the commitment and hard work of the men and women who protect our borders, Customs and Immigration; I am eternally grateful to them you for a job, well done. Madam Speaker, I would also like for us to remember and to express posthumously our gratitude for the service given to the people of this Territory by such officers as Superintendent Richard Holder and Officer Maxwell Smith and to thank their families for the sacrifices that were made in their service and to the people of this Territory.

6. Madame Speaker, in spite of the challenges, God has been good to this Territory and its people.

7. Thank you Madam Speaker. May God bless you and may he continue to bless these beautiful Virgin Islands.



MINISTRY OF FINANCE
Government of the Virgin Islands