

TURKS AND CAICOS ISLANDS

Dollars (\$) throughout refer to United States (USD) dollars unless otherwise stated

1. RECENT ECONOMIC PERFORMANCE

A. Overview

Economic performance in the Turks and Caicos Islands continued to be strong during 2004, driven by increased activity in the tourism sector and growth in construction activities, mainly in tourism-related projects and commercial and residential properties. The principal impetus to growth was provided by tourism, which benefited from favourable economic conditions in the world economy, increased promotional and marketing efforts and increased airlift to the Islands. The financial services sector, however, continued to be challenged by the regulatory obligations imposed by international agencies, the need to develop new financial products and greater marketing and promotion of the products and jurisdiction. The promotion and marketing of both tourism and financial services during 2004 benefited from the opening of investment and promotion offices in New York and London. Investors' confidence remained high during 2004. A noteworthy groundbreaking ceremony took place in December for the construction of the \$35 mn cruiseship port and commercial/leisure facilities in Grand Turk. The fiscal position of Central Government weakened during the first nine months of FY2004/05, ending December 2005. Expenditure growth, particularly related to wages and salaries; scholarships and overseas medical referral, more than offset the increases in revenue, resulting in fiscal dis-savings on the recurrent account. The deficit on the recurrent account in FY 2004/05 resulted in a loss in reserves. This was a reversal from previous periods and in direct contrast for the need to build reserves, in order to meet borrowing guidelines as agreed with the British Government. The Government was, however, successful during the year in securing permission from the British Government to borrow up to \$28 mn in FY 2004/05 to undertake infrastructure projects in the transportation sector.

B. Sectoral Performance

(i) Tourism

The tourism sector recorded strong performance for the second consecutive year, benefiting from higher growth in the world economy, particularly the US, despite security concerns of global terrorism and the continuing war in Iraq. Total visitor arrivals are estimated to have increased by 8% for the period, January to October 2004, to 145,300 compared 135,545 for the corresponding period in 2003. Increased

visitor arrivals also resulted from greater promotional and marketing efforts, increased airlift to TCI, increased room capacity with the completion of expansion/renovation of a number of hotels/condominiums and the introduction of a new tourism product (TCI Music Festival). The major market continued to be the US with approximately 77% of total visitor arrivals, with Canada and Europe accounting for 10% and 8% of the total, respectively. Continued promotional efforts were made to diversify the tourism destination toward the European and Asian markets, in recognition of the vulnerability of a concentration on the US market. Tourism and investment offices were opened in the United Kingdom and Brussels during the year to promote investment and tourism in TCI.

Increased tourism traffic to TCI has created some discomfort and congestion at the Providenciales International Airport at certain peak times during the day but mainly on weekends. Discussions are ongoing between the Government and financial investors with regard the financing of the re-development of the Providenciales International Airport. The main development in the tourism sector during 2004 included the ground breaking ceremony in December for the construction of the cruise terminal and pier project in Grand Turk, which includes commercial shopping and leisure facilities. This project will be built by investors for the Carnival Cruise Line at a cost of approximately \$35 mn and is expected to be completed by first quarter of 2006. The other noteworthy development in the tourist sector in 2004 was the hosting of the first Turks and Caicos Music Festival in October.

(ii) Construction

Construction sector activities were buoyant throughout 2004, reflecting an increase in the number of tourism related projects, commercial and residential properties as well as projects in the PSIP. Construction continued on a number of hotel properties, including the Grace Bay Club, the Palms Grand Resort, the Somerset, the Amman Resort, the Sands, the Mandarin Oriental and the Miramar Resorts. Similarly, strong growth was also evidenced in the construction of private residential dwellings and commercial properties. The PSIP focused on expansion of infrastructure in the transport sector including, the Leeward Highway and road re-development in Grand Turk.

(iii) Agriculture

The fisheries sector registered improved performance during 2004 with higher production of lobster and conch as compared with the previous year. However, lobster production continued to be adversely affected by 'over-fishing' with illegal fishing during the closed season and by poaching from foreign vessels. The major challenge to the fisheries sector relates to the ineffective monitoring and control of illegal fishing due to the absence of adequate patrols. The problem of poaching is expected to be addressed in the near future with the purchase of new vessels, which is expected to improve surveillance and monitoring. During 2004, progress was made regarding detecting indiscriminate process of harvesting lobsters. In addition, a policy decision was taken to have no lobster served during the "closed season" (April-July). Hotels and restaurants have complied with this policy. A workshop was conducted during 2004 on the diversification in the fishing industry, focusing on smoked fish and shell craft, using conch shells. The Ministry of Natural Resources is currently working on a new fisheries management policy, which is expected to streamline the fishing sector. Efforts have been made during the year to stimulate some agriculture production in the Caicos Islands. A UN volunteer Agriculture specialist was recruited and a Draft Policy was prepared for the sector.

(iv) Financial Services

Activities in the offshore financial services remained stagnant during 2004, mainly on account of the regulatory and supervisory obligations imposed by international agencies and a lack of development of new financial products. Uncertainty in the sector remained due to the intense scrutiny and regulation relating to money laundering and its link to the financing of global terrorism. The authorities are concerned about maintaining the jurisdiction as "clean" and reputable and continued to emphasise quality in the provision of services and to ensure that the jurisdiction meets internationally acceptable standards on financial regulation. The Financial Services Commission (FSC) was strengthened with the appointment of a Managing Director in August. The FSC held several meetings in the last quarter of 2004 to foster closer working relations and partnership with industry stakeholders and the Financial Industry Association (FIA). The critical issues identified for promoting the development of the financial services sector were the need to modernise the sector, through the development of new products in the market, and increased marketing and promotion of the products and the jurisdiction. Legislative review of the sector

was undertaken during 2004 with a consultant from the Attorney General's Chambers, to address the issue of modernisation of the sector and the development of new products. The financial services sector also benefited from increased marketing and promotion with the establishment of Investment Offices in New York and London during 2004.

C. Prices, Wages and Employment

No official statistics on inflation are available in TCI. However, in the context of openness of the economy and the high level of trade between TCI and the US, the domestic price movements tend to closely reflect movements in the US CPI. However, the domestic factors which tend to exacerbate price increases above the US price level include temporary shortages, arising mainly from irregular supply of imports associated with transportation problems; mark-ups by retailers; and, excess demand generated by wage increases.

Expenditure on wages and salaries in the civil service during the first nine months of FY 2004/05 was estimated \$36.6 mn, 18.1% higher than \$31 mn for the corresponding period FY 2003/04. Higher total personal emoluments in FY 2004/05 reflected the expansion in public sector employment in both established and non-established positions, particularly in the security forces, as well as salary revisions made during the year. The higher level of employment was accounted mainly by the need for greater security at the ports as well as domestic security (policemen). Pay increases during the fiscal year reflected an overall average of 10% rise for most of the civil servants, except nurses, firemen and teachers who received a 15% increase.

D. Fiscal Policy and Debt Operations

(i) Fiscal Policy

Fiscal performance deteriorated in FY 2004/05 mainly on account of expansionary fiscal policy. The performance of the financial operations of the Central Government during the first nine months FY 2004/05 ending December 2004, generated a recurrent deficit estimated at \$9.4 mn in contrast to a surplus of \$6.5 mn for the corresponding period in FY 2003/04. This fiscal outcome was disappointing in context

of the Budget theme of “Maintaining Fiscal Prudence while Implementing our Development Agenda”. The weak fiscal performance reflected a significant increase in recurrent expenditure which more than offset the robust growth in recurrent revenue. Recurrent revenue grew by an estimated 16.3% to \$84.8.1mn in FY 2004/05 from \$72.9 mn in FY 2003/04 due to improvements in administrative efficiency resulting from consolidation of the SIGTAS and the Revenue Control Unit and the Customs Reform and Modernisation Programme as well as higher levels of economic growth. Recurrent expenditures rose by 41.7% to an estimated \$94.1 mn in the first nine months of FY 2004/05 ending December 2004, from \$66.4 mn for the corresponding period in FY 2003/04, reflecting significant increases in personal emoluments (wages and salaries), medical expenses and scholarship expenditure programme. Notwithstanding the fiscal imbalance on the recurrent account, capital expenditure also rose appreciably by 75.2% to \$21.2 mn for the first nine months of FY 2004/05 mainly due to expending of loans from prior years. Consequently, the overall fiscal deficit amounted to \$29.3 mn in the first nine months FY 2004/05 compared with \$1.5 mn for the corresponding period in FY 2003/04 due to policy weaknesses which affected expenditure control and prioritisation. The Government acknowledged the urgent need to improve the structural imbalance between revenue and expenditure in order to replenish the reserves to meet the borrowing guidelines agreed with the British Government and/or seek new modalities for attracting investments. In context of the difficult fiscal position the Government is contemplating taking mitigation measures to contain recurrent expenditures in order to reduce the fiscal imbalance. Firm fiscal policy is required to limit expenditure growth in the future.

Revenue administration was strengthened during 2004 with on-going efforts with the implementation of the new software programme, SITGAS; the completion of the establishment of the Revenue Control Unit; and the continuation of capacity building at the Customs Department, through the Customs Reform and Modernisation Programme. Likewise, expenditure control measures were continued by the implementation of the computerised accounting system (Smartstream), which is the main output the Caribbean Overseas Territories Government Accounting Reform Programme (COTGAR). A Public Service Review has commenced during 2004 to carry out job evaluation and classification for all positions within the Civil Service. The review is intended to rationalize the pay structure of each position in accordance with its relative importance and competencies; re-position the civil service wages and salaries so as to be competitive in the labour market; re-design jobs to reflect the new mandates of the Government, new technologies and appropriate competencies; and to create a data base of each job position so that decisions relating to training, deployment and recruitment can be better made by the Human Resources Management Unit. A policy review to the scholarship programme is currently being conducted and a new overseas medical referral policy has been approved by

the Government. It is expected that the re-organized scholarship programme will reduce costs by (i) gaining economies of scale and by administrative efficiency, through the placement of students at selected universities, and (ii) by revising the curriculum of the Community College, with the expansion of the number and range of programmes offered. A new scholarship policy is expected to be implemented in the next fiscal year. The new medical referral policy will place financial limits on the amounts the Government will pay per case. In addition, efficiency of the programme will be enhanced with the introduction of a “means test” to ensure benefits accrue to the “most needy” in TCI.

(ii) Public Debt

The total debt outstanding at end October of FY 2004/05 was \$45.7 mn compared with \$20 mn at end FY 2003/04. The composition of the debt in FY 2004/05 was as follows: commercial banks - \$33 mn; statutory boards - \$6.4 mn and other debt - \$6.3 mn. At end of FY 2003/04, the composition of the debt was commercial banks: \$10 mn; statutory boards: \$6.4 mn; and other debt: \$3.6 mn. Commercial borrowing by GOTCI increased by \$23 mn during FY 2004/05. There was a \$15 mn (10 year) non-callable bond issue through a foreign commercial bank and \$8 mn from a local commercial bank. The bond will bear interest payable quarterly at a floating rate of 2.95% per annum above the three-month LIBOR from time to time for US dollars and the principal is to be repaid by 20 equal installments of \$0.75 mn, beginning January 2010. The proceeds of this bond issue will to be used for reconstruction and other infrastructural works at the South Caicos Airport and for sea port construction on North Caicos, Providenciales and Grand Turk. In addition, the Government has also borrowed \$8 mn from First Caribbean International Bank during 2004. The Government’s ability to contract commercial borrowing was secured from permission from the British Government to borrow up to \$28 mn in FY 2004/05 to undertake infrastructural projects. However, further borrowing will depend on meeting the borrowing guidelines as agreed with the British Government.

2. MAJOR POLICY ISSUES

A. Fiscal Management

The fiscal position has weakened significantly during 2004 due mainly to expansionary fiscal policy. The fiscal outturn for the first nine months in fiscal year 2004/2005 does not reflect the budget theme of ‘Maintaining Fiscal Prudence while Implementing Our Development Agenda’. Improving the fiscal position to generate surpluses on the recurrent account is important to build reserves. The financial

management priority of the Government should aim at generating recurrent surpluses to allow for timely attainment of reserve targets, which underpin the Government's borrowing plans; to finance development projects as well as to be able to withstand shocks emanating from adverse international economic conditions and natural hazards. Efforts at improving government finances should focus on sustaining growth in revenue collection; containing recurrent expenditures, particularly personal emoluments, scholarships and medical referral abroad programmes; and the prioritisation of capital projects, to lessen ad hoc approval of projects. Expenditure controls systems need to be strengthened, procurement practices upgraded but more importantly, recurrent expenditure categories need to be contained within budgeted levels. Fiscal performance is likely to improve in the medium term with the introduction of the Standard Integrated Government Tax Administration System (SIGTAS) during 2004; increased use of outputs from Smartstream for more effective budget monitoring and improving decision-making; and plans for the second phase of Caribbean Overseas Territories for Government Accounting Reform (COTGAR II), which will improve budget reform efforts and continue the strengthening of critical financial management departments.

B. Infrastructural Development

The rapid growth of TCI over the years has placed significant pressure on the existing physical infrastructural with grave potential for environmental degradation. The provision of public infrastructure capital is a critical element in the future growth in TCI. Given the important role of the tourism sector in economic development, the Government has placed high priority on developing physical infrastructure to promote the development of tourism and the general development in all the Islands, since port facilities (sea and air) and roads development are generally inadequate. The provision of economic (physical) infrastructure in the less populous territories is viewed as necessary in arresting economic stagnation in these islands. The public sector investment programme for the medium term focuses on upgrading TCI's transport system; particularly the road transport network, airport and sea port infrastructure; medical facilities; Government offices; and sporting facilities. However, the major challenge is raising adequate levels of resources to finance the development programmes without incurring excessive debt. Approval for borrowing is required by the British Government under agreed borrowing guidelines. The fiscal programme must focus on attaining the agreed targets as set out under the borrowing guidelines. An Infrastructure Development Fund was established during 2004, from a \$0.25 increase in fuel tax, to provide additional capital resource to finance the provision of infrastructure in TCI. In addition, public/private sector financing initiatives are being considered in the provision of critical infrastructure in TCI. An additional challenge in the provision of infrastructure is increasing the absorption of the capital

projects. The Government has completed an assessment of project absorption capacity and has approved the creation a Project Management Unit to augment the capacity of departments in project appraisal, implementation, monitoring and supervision. The recruitment of specialist staff for the Unit would need to be made on a competitive basis.

C. Economic Diversification

TCI's economic development has been concentrated on tourism and is consequently highly vulnerable to sector specific shocks. This dependence also exacerbates the unbalanced nature of the growth process since the tourism sector is concentrated mainly on Providenciales. Tourism will continue to be the most important economic sector in TCI but the sector is vulnerable to exogenous shocks, natural hazards and security concerns. There is the need to improve competitiveness in the sector while at the same time explore further the option of economic diversification. Economic diversification is important to reduce economic vulnerability, particularly when tourism is adversely affected. The Government's strategy is economic consolidation of the tourism sector through broadening the types of tourism products offered; developing linkages between the tourism sector with other economic sectors such as, agriculture, craft and fisheries; and increasing market shares of visitor arrivals from European and Caribbean countries, in order to lessen its dependence on the US market. The Government is keen to promote the financial sector as the second major pillar of the economy. However, the critical issue is the revitalization of the sector by the introduction of new products and greater marketing and promotion efforts. Plans are in place to amend and enact new legislation related to development of new niche market products in the areas of Mutual Funds and Charitable Foundations. The Government aims to improve marketing and promotion of the financial services through conferences, high profile magazines and the Investment Offices in New York and London. The maintenance of the image of the financial jurisdiction as clean and reputable together with the introduction of new financial products and increased marketing efforts will likely improve the performance of this sector. However, the sector continues to face many challenges, including the shortage of skills and inadequate level of monitoring and supervision.

The diversification programme also targets the manufacturing and agriculture sectors. Discussions are on-going between the Government and South Korean investors with the intention of attracting investments in light manufacturing. The Government will support foreign investors in manufacturing through its package of incentives including tax concessions, land concessions,

infrastructure development, immigration arrangements and assistance in procuring utilities. The Government also hopes to promote agricultural development in TCI. An agricultural policy is being developed for the Islands with assistance **from a United Nations Volunteer sponsored** agricultural consultant. A Department of Agriculture is expected to be established sometime in the future.

D. Human Resource Development

The high rate of economic growth in TCI has resulted in increased demand for labour. The lack of suitable skills has meant that an increasing dependence on immigrant labour to meet labour shortages in the country. This development has resulted in a perceived conflict between the need to maintain the flow of workers if the level of economic activity is to be maintained and the desire to preserve existing cultural values and Belonger control over the economy. Partly due to the sensitive nature of foreign labour importation, the issuance of work permits has in some cases been delayed, which in many instances frustrate the expansion plans of the private sector. The Government recognises the importance of immigration and the integration of immigrants for continued development of TCI and is in the process of implementing the recommendations of the Blue Commission Report on Immigration, which are consistent with societal trends in family planning and the assimilation of non-nationals in the population. An office is being established to address issues relating to the granting of residency/citizenship status to immigrants. Human resource development, including entrepreneurial development, is also critical in TCI's development strategy. The Government continues to invest heavily in human resource development through its education (scholarship) programme. However, the increased expenditure on overseas scholarship in the past year has had adverse implications on the fiscal accounts. There may be the need to 'cap' expenditure on overseas scholarships to achieve fiscal stability. Moreover, there needs to be more specific targeting of scholarships to skill requirements of the country, in the absence of a clearly defined human resource plan.

E. Environmental Sustainability

Continued rapid development in TCI will be premised on maintaining and safeguarding the environment. Tourism development and sustainability is based upon the preservation of the natural beauty of the islands. However, pressures have been building-up on the beaches and the reefs with the

expansion of tourist traffic and the growing immigrant workforce. Greater focus on environmental protection is necessary because of the fragility of the ecosystem and the dependence of the un-spoilt environment for the further development of the tourist product. In recognition of the importance of environmental sustainability for tourism development, the Department of Environment and Coastal Management has initiated a consultancy to formulate a national plan for the management of protected areas as well as coastal zone management. Moreover, the development of a solid waste management programme and greater enforcement of building regulations and zoning rules will be key components and mitigation efforts to reduce vulnerability to natural hazards and to maintain environmental sustainability.

F. Enhancing Social Development

The enhancement of human and social capabilities is important in promoting economic development and growth sustainability in TCI. Despite rapid economic growth and high per capita income over the years, TCI has high levels of poverty and a skill-deficient labour force. The recently conducted Country Poverty Assessment found a poverty rate of 26% in TCI. Providenciales was the only island with a poverty line below the national average due to superior economic conditions. Poverty was most severe in North, Middle and South Caicos followed by Grand Turk. Persons living below the poverty line (\$2,424) comprise both TC Islanders and other nationalities. The poverty problem in TCI is partially 'imported' as high poverty rates exist in Haiti and Dominican Republic, from which most migrants originate. Poverty reduction is one of the urgent issues to be addressed. The Government has drafted a poverty reduction plan which includes the following: human resources development, provision of credit and other support services for small enterprises, public programmes for the management of cultural diversity and increased thrust in community development and community empowerment. Improving social services (education, health and community development) as well as increasing opportunities for employment will aid significantly in enhancing social development and poverty reduction poverty in TCI.

G. Macroeconomic Planning and Management

The general lack of suitable trained personnel in most areas of public management has affected the preparation of adequate planning and the implementation of programmes in the public sector. This deficiency has also inhibited the ability of the public sector to effectively implement its capital

programme. The Government has attempted to address the skill shortage by recruiting foreign skilled labour to fill voids in the civil service as well as to train its citizens. Plans are in place to establish a project management unit to assist in the monitoring and supervision the capital programme in the medium term. However, there is need for a clear policy on the overseas scholarship programme as well as a human resource development plan. In addition, the absence of a medium term and long term national strategic plan limits the co-ordination and integration of sectoral plans. The Government has indicated its intentions to develop ten-year development plan as well as a medium-term economic and social sustainable policy.

3. PUBLIC SECTOR INVESTMENT PROGRAMME

A. Development Objectives

The developmental objectives of the Government as outlined in its Budget Speeches over the last five years are focused on promoting economic growth and development as well as enhancing social development in TCI. The achievement of these general development objectives will be premised on: (i) effective governance; (ii) economic diversification; (iii) improved social service delivery; (iv) infrastructural development; and (v) environmental preservation. TCIG has identified the development of tourism and offshore business sector as the major pillars of its development strategy and is pursuing a programme of economic diversification to reduce economic vulnerability.

B. Composition of the PSIP

The total public sector investment programme (using TCIG own funds) is estimated at \$51 mn for the period FY 2005/06 to FY 2007/08 with estimated allocations of \$16 mn to be spent in the first year, \$17 mn in the second year and \$18 mn in the third year. Grant funding estimated at \$12 mn from the EU under the Ninth European Development Fund is expected for implementation of projects, mainly in the transportation sector. In addition, external commercial loan funding is scheduled at \$21.6 mn for the period 2005/06 to 2007/08. The focus of the PSIP is primarily infrastructural projects in the key sectors in the transportation sector, health, community development and sports, consistent with TCIG's development strategy. Economic infrastructure development is focused mainly on port (airport and seaport) and roads development. The major projects include the extension of the Providenciales International Airport Runway, taxiway and apron rehabilitation; Providenciales Airport Terminal

Expansion; the upgrading of the South Caicos Airport Terminal; North Caicos Port; South Dock Re-development project in Providenciales; road development in Providenciales, Grand Turk, South and North Caicos; North/Middle Caicos Causeway Project; Government office blocks in Providenciales and South Caicos. Other major projects include the National Integrated Solid Waste Management Project, sporting complex (Ball Park construction) and the new integrated medical facilities at Grand Turk and Providenciales.

C. Financing

The financing of the PSIP will comprise mainly of loans, grants and the use of locally generated revenue. Careful financial planning and management will be required to ensure that adequate amounts of counterpart financing are available for the proposed projects since the Government intends to place greater reliance on external borrowing in the future. The ability to finance the development programme will depend significantly on the stabilisation of government finances to build acceptable levels of reserves, which underpin planned borrowing requirements as well as to generate increasing recurrent surpluses to expand local fund contributions to the PSIP. The British Government and GOTCI had agreed on a borrowing policy, which would encourage prudent borrowing and safeguard against the build-up of burdensome contingency liabilities for the UK. This policy imposes restrictions on the type and extent of borrowing by incorporating operational guidelines and limits. The Government proposes to negotiate the borrowing guidelines to reflect a 90 day recurrent expenditure cover target. The policy restricts the accumulation of public debt to within a maximum net debt to recurrent revenue ratio of 80%, a maximum debt service to revenue ratio of 8% and GOTCI will be required to hold minimum liquid reserves (excluding cash in hand for cash management purposes) of 90 days or 25% of recurrent expenditure. The policy requires that borrowing be rigorously evaluated and that investment proposals submitted for British approval be subjected to technical, financial, economic, social and, where appropriate, environmental appraisals. Under the agreed policy, the UK would not be required to approve new borrowing once there is compliance with borrowing ratios, however, British approval would be required once the ratios are breached. The failure to achieve the agreed targets under the Borrowing Guidelines will limit the ability of the Government to finance its capital programme. During FY 2004/05, there was no need for the UK to be involved with appraisal of any of the projects funded from the \$28 mn borrowing that was approved.

The Government has contemplated new modalities for infrastructure financing in context of

limitations of the borrowing guidelines. The Government is considering a number of joint venture arrangements and private sector initiatives with regard the provision of infrastructural projects. Some projects which are likely to be financed by private initiatives include the construction of the medical facilities at Grand Turk and Providenciales, Government Office Block at Providenciales, and Port re-development at Providenciales. There will be repayment commitments due to these initiatives, which would require that they be used prudently otherwise the effect would be the same as an excessive increase in public debt. An Infrastructure Development Fund was established to assist in the financing strategy for the medium term. The income from this fund will be used to finance, maintain and pay debt service related to the provision of essential infrastructure.

D. Implementation Issues

Weak institutional capacity continues to affect performance in project implementation especially in the Ministries of Works and Utilities and Finance. These ministries are involved in the implementation of a significant portion of the public sector investment programme. There is also deficiency in the project monitoring and supervision mainly because of skill shortage at the executing agencies. A major concern is the limited supply of skilled labour to meet the increased demand associated with the implementation of a larger PSIP. To address this particular weakness, the Government has approved the establishment of a Project Management Unit to augment the capacity of departments which are involved in project appraisal, implementation, monitoring and supervision. It is expected that the recruitment of skilled staff will assist to improve the absorptive capability of TCI to implement planned projects as well as to incur financial savings from reduced contraction of consultants on a short term basis.

4. MEDIUM-TERM ECONOMIC PROSPECTS

The economy of TCI faces a number of challenges over the medium-term including strengthening of public finances, to increase savings to finance capital projects and to build reserves; promoting economic diversification, to reduce vulnerability to exogenous shocks; and enhancing the prospects for sustaining economic growth. Additional challenges include coping with the effects of globalisation and trade liberalisation, addressing critical issues related to the provision of infrastructural development in all the Islands and enhancing social development through education, health, community development and poverty reduction. The medium-term economic prospects for the TCI appear favourable supported by strong investors' confidence, reflected primarily by continued expansion in tourism and tourism-related

investments. Continued strong growth in tourism is anticipated given TCI's market niche as an unspoilt low-keyed up-market resort, with expansion of room capacity, increased air lift, greater promotional campaigns and marketing and with the introduction of cruiseship tourism. Available room capacity is also expected to increase over the medium-term to satisfy increased demand. Current investment projects under construction to increase the room stock include the Water Cay Property Development project, the Queen Angel Resort, the Ritz Carlton in West Caicos; the Mandarin Oriental Hotel, the Mandalay Resort, the Royal Reef Resort in West Caicos; Turks and Caicos Sporting Club at Ambergris Cay; the Amman Resort, the Seven Stars, the Pinnacle, the Palms, the Summerset in Providenciales. Other major projects planned are the Toscana and the Village and the Grand Turk Cruiseship project. Hotel development in Grand Turk is also projected to be in the pipe line in the medium term. The Government is also committed to support the diversification of the tourism industry. However, improving competitiveness and service delivery will be key challenges for the sector.

Infrastructural development remains a major challenge particularly given the archipelagic nature of the country and the rapid growth of economic activities in Providenciales. The Government plans to enhance infrastructural development with emphasis in the transportation sector, mainly in port development (sea and air) and road development in all the Islands. The airport projects include the extension of the runway and airport terminal facilities of the Providenciales International Airport, upgrade of the South Caicos Airport terminal. The sea- port projects include construction of the North Caicos Port, the South Dock re-development project at Providenciales, North/Middle Caicos Causeway project. Road construction includes the widening and re-development of Lower Bight Road, Chalk Sound Road, South Dock Road and continuation of the Leeward Highway in Providenciales. A solid waste management project is also planned to be implemented. However, the acute shortage of skilled human resources will continue to pose significantly constrain to the capital development programme in the Turks and Caicos Islands.

The sustainability of growth in TCI depends critically on the conservation of the fragile and pristine environment of the island, which form the basis of the tourism market niche. This underscores the need for sustainable development policy and effective enforcement of strategies that are in harmony with the local eco-system and socio-cultural practices. The implementation of the National Solid Waste Management project will account significantly in the managing the environment. Further, the consultancy to develop policy and plan for the management of protected areas as well as coastal management programme will aid significantly in ensuring environmental sustainability of the Islands.

The medium-term policy framework is also likely to be dominated with fiscal management issues. Efforts to improve the fiscal position will be pursued to enhance the revenue collection and contain recurrent expenditure, particularly on overseas medical referral, overseas scholarship programme and wages and salaries. Budgetary reforms are currently undertaken to improve budget management. The introduction of SITGAS programme; increased use of outputs from Smartstream, for more effective budget monitoring and improved decision making; and the planned introduction of Phase 11 of COTGAR, which will improve budget reform, will assist to improve the financial performance of government operations in the future. This is necessary to build the required level of reserves, necessary to meet the borrowing guidelines as agreed with by the British Government and also to expand locally financed capital projects to lessen the need for borrowing. Civil service reforms are undertaken with a focus of attracting and retaining qualified staff. However, economic and budgetary forecasts need to be strengthened.