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SUBJECT: ANNUAL REVIEW 1998 : CAYMAN ISLANDS

SUMMARY

1. A good year for Cayman. All sectors of the economy had another outstanding year. [REDACTED]

Government and Opposition united though in commitment to defend Cayman's position in relation to EU/OECD/G7 initiatives. Steady growth for financial services industry. Monetary Authority and Stock Exchange doing well. Some achievements on environmental issues though Ministers continued to dodge issues which cost money. Positive signs for the economy on the Sister Islands. Efforts intensified on drug abuse prevention and another successful year for drugs seizures. Public sector reform and Cayman's Strategic Plan coming on well. Good relations with US and Cuba despite more problems with Cuban migrants. Outlook for 1999.

DETAIL

POLITICAL

2. 1998 was a difficult year for the National Team Government. As a result of the defection in late 1997 of three of its supporters to the Opposition the National Team entered 1998 in a weakened position. No longer could it steamroller legislation through the Legislative Assembly (LA). The Opposition made the most of the Government's difficulty. Issues were debated at length with individual contributions from members sometimes lasting for four hours. Consequently 1998 has seen the LA in more or less permanent session. But the Opposition did not show any interest in toppling the Government. [REDACTED]

3. The Government had no alternative but to take a pragmatic approach to its difficulties. Informal briefings and discussion with the Opposition aimed at achieving broad agreement on key items of legislation or expenditure were regular occurrences. 1998 was therefore a year of consensus politics but with the Opposition in the driving seat. However, one issue which united all the politicians was the perceived threat to Cayman's national interest from the EU/OECD/G7 initiatives. The Opposition and the Government were at one in their determination to commit resources to fighting what they saw as an attack on Cayman's way of life and economic prosperity.

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ECONOMY

4. Another outstanding year with GDP growth estimated at 6%. All sectors of the economy performed well. The government ended the year with an estimated surplus of USD6.25m after transferring USD1.25m to the reserves.

5. After the Government refused to give permission to a cruise ship containing 900 homosexuals to visit Cayman the gay lobby in the US attempted to discourage tourists from visiting Cayman. Their campaign did not affect tourist arrivals. Indeed some here would argue that it had the opposite effect and attracted more families to Cayman. Tourism therefore continued to be the main contributor to the economy. The total number of visitors in 1998 was estimated to be 1.25m (1,246,383 in 1997) of which 404,205 (381,000) were stayovers and 845,000 (865,383) were cruise ship passengers.


6. The financial services industry continued to be the second major contributor to the economy. 1998 saw steady growth with an increase in quality corporate business. This was a reflection on the Government's commitment to promoting Cayman as a quality financial services jurisdiction. At the end of 1998 there were 2003 (1685 in 1997) licensed or registered mutual funds, 511 (450) captive insurance companies, 45,775 (41,173) registered companies and 584 (594) bank and trust companies. The reduction in bank and trust companies may well be a reflection on the tighter regulation by the Cayman Islands Monetary Authority.


7. The Stock Exchange has also played its part in attracting more business. The total number of listings is now 130 (41 in 1997). These include 81 mutual funds and 47 specialised debt listings. One disappointment was the failure of the Exchange to achieve recognition from the International Organisation of Securities Commissions (IOSCO). The US Securities Exchange Commission (SEC) refused to support Cayman's application for membership until the Exchange agrees a cooperation agreement with the SEC. Progress on this front has been slow but agreement should be reached in the first half of this year. The Exchange could then see some significant progress and make it a net contributor to Government revenues.

8. Land and property sales were also buoyant. Although less than the record USD350m in 1997, which was an exceptional year, the estimate for 1998 is USD315m. Investor confidence in Cayman is reflected in the increase in the number of new bank and office buildings as well as housing developments. The construction industry therefore enjoyed a year of good growth. But this has had an impact on demographics with the need to import more labour.

FINANCIAL SERVICES - REGULATION AND LEGISLATION

9. The Cayman Islands Monetary Authority made steady progress.





In 1998 the introduction of on-site inspections of banks, closer cooperation with international regulators and increased attention to training helped in the process of establishing the credibility of the Authority as a serious regulator. But progress on achieving full independence for the Authority was slow. However at a meeting which I chaired in December which was attended by an official of the UK Financial Services Authority, EXCO made a commitment to give the Authority its independence with a target date of April of this year. Until the Authority is seen to be fully independent it will not be taken seriously by other international regulators. Another significant step was the conclusion of the Authority's first Memorandum of Understanding on cross border supervision with the Central Bank of Brazil. MOU's with other countries are also being negotiated.


10. The key item of legislation in 1998 was the removal of the fiscal exemption clause from the Proceeds of Criminal Conduct Law. But it was a struggle and took most of the year to achieve. The combination of a weakened Government and the Opposition relying on advice from the private sector, who for most of the year fought against the amending legislation, made the whole affair difficult and time-consuming. However, after much lobbying and many meetings the private sector and the opposition were eventually persuaded that the clause must go. In the end the amending legislation was passed unanimously by the LA.

11. We did not achieve our objective of introducing new companies' management legislation. This was postponed until March of this year so that it can reflect some of the findings of the Edwards Report on the Crown Dependencies. The new legislation will be unpopular with some company managers but at present the Government has the support of the Opposition to press ahead with this important piece of legislation.

ENVIRONMENT

12. It was difficult again in 1998 to get Ministers to focus on environmental issues, particularly if financial expenditure was involved. The decision to allow the construction of a Ritz Carlton Hotel, part of which would be on an area of mangrove wetland, resulted in confrontation between Government and the environmental lobby. It was an unnecessary battle as the mangrove in question is in an area that is already highly developed. It would have been more useful for the environmentalists to work with the developer to keep the environmental impact to a minimum. By doing so the developer could have been persuaded to purchase and donate acreage in the central mangrove wetland to the National Trust. As a result of growing public awareness, particularly amongst the young, Government restated its commitment to the preservation of the central mangrove wetlands.

13. There were, however, some achievements during the year. The Ministry of Environment hosted a successful CITES regional training workshop, funded from the Command Programme Budget, to address the



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difficulties in implementing the CITES Convention. At the Biodiversity Conference in Jamaica it was also announced that Cayman would be the first Overseas Territory to have the Protocol on Specially Protected Areas and Wildlife (SPA) extended to it. The Command Programme Budget also funded a successful project to assess wild turtle stocks on Little Cayman. A complete revision of Cayman's environmental legislation, which will include the drafting of legislation to implement the CITES Convention, is being carried out by a consultant and should be complete in the first half of 1999.

SISTER ISLANDS

14. The fiscal incentives introduced in 1996 to encourage economic development in Cayman Brac are continuing to work. For the first time condominium developments are being constructed as well as new housing, mainly for retirees. The Brac's future however lies in developing the island for eco-tourism as well as diving. The allocation of ECU100000 in 1998 to the Brac matched by Government funding to develop nature trails and birdwatching should result in the development of a new birdwatching destination for the estimated 40 million "twitchers" in the US. For the first time in many years the population of Cayman Brac is growing. The people now have more confidence that there will be a future on the island for their children.

SOCIAL WELFARE

15. The introduction of compulsory National Health Insurance and a National Pensions scheme was seen by all as a positive step. The new hospital, which will reduce the need for referrals to the US, and health insurance will help reduce the Government's expenditure on health.

16. The Government, in cooperation with voluntary organisations, continued to put resources into the welfare and support of families, in particular single parent families. The police also tackled the issue of domestic violence with more vigour. The opening of a dedicated Women's Resource Centre will maintain the pressure to continue tackling this problem.

DRUGS

17. The fight against drugs continued to be given a high priority. The National Drugs Council conducted several high profile campaigns designed to test and heighten public awareness of drug issues including a comprehensive census survey to determine the nature and extent of alcohol and drug use among students of all ages. The results showed, amongst other things, that alcohol was more of a problem than marijuana in the 10 to 18 year old age group. The data from this survey, the first of its kind in Cayman and we believe in the Caribbean, will be used to identify priority areas and to formulate future policies and programmes. It will also act as a benchmark to which future surveys can be compared.

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18. The main threat to Cayman continues to be from Jamaican drug traffickers.

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In 1998 2500lbs (2320 in 1997) of cocaine and 8940lbs (7530) of marijuana was seized. This includes joint operations at sea and several controlled deliveries into the US.

DEMOGRAPHICS

19. In 1998 the population increased by 3.2% to an estimated 38,000. The main increase is in foreign workers and their families. This trend will continue, as there are not enough Caymanians to support the growing tourism, financial services and construction industries. More than 50% of the workforce is now non-Caymanian. Until the government tackles the issue of granting either status or permanent residence to the foreigners who have made their permanent homes here this distorted picture will remain. The public polling exercise conducted as part of Cayman's 10-year Strategic Plan established that immigration is a key concern for both expatriates and Caymanians. However, the poll also showed that most Caymanians would support giving permanent residence to expatriates who have committed themselves to the country. The Select Committee on Immigration is still taking evidence on all immigration issues, especially in relation to long-term residents. The Committee will report in the spring of this year.

PUBLIC SERVICE

20. Reinvention of Government has now become part of the culture of the public service. In December 1998 the Grand Court announced that as a result of reinvention it has cut the waiting list for trials by 50%. The same trend is reflected in other areas of government. Not all have embraced change with enthusiasm. Some have needed more pushing than others. But the introduction of an Award scheme with financial incentives should help to encourage the laggards.

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