

"AN AGENDA FOR ECONOMIC GROWTH

AND FISCAL SUSTAINABILITY"

BUDGET STATEMENT 2013

DELIVERED BY

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TO SUPPORT

THE APPROPRIATION BILL

FOR THE FINANCIAL YEAR ENDING MARCH 31, 2014

Tuesday May 14, 2013

Parliament Chamber, Castries, Saint Lucia

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1. INTRODUCTION: AT THE DEVELOPMENT CROSSROADS

Mr. Speaker, we have entered an unprecedented era in our history as a country, as a region and as part of the global economy. The economic environment has become inundated with new and emerging threats. While still grappling with the challenges of globalisation and the growing incidence of natural disasters, our vulnerabilities became further exposed in the wake of the financial crisis and the ensuing global recession.

We are not alone in this predicament. The Eurozone is coming apart at the seams, as news of another bailout hits the airwaves. The Eastern Caribbean Currency Union, the ECCU, is currently combating high and widening fiscal deficits, elevated debt and anaemic rates of economic growth.

In 2010, the International Monetary Fund (IMF) approved a US $1.27 billion dollar loan to Jamaica, to support their reform efforts which, to a large extent, were derailed. Jamaica had then to turn to the IMF once more, and this time, the measures required by the IMF are harsher, more painful, more exacting, more excruciating.

Closer to home, in the ECCU, St. Kitts & Nevis and Antigua & Barbuda have followed in the earlier foot steps of Dominica and have turned to the IMF for assistance to undertake adjustment programmes. These programmes called for debt restructuring and the implementation of expenditure cuts, including wage freezes, outsourcing of government services, corporatization of state owned organizations, decreased spending on goods and services and pension reform.

Grenada is also showing signs of financial distress, evidenced by the recent default on the March interest payments of its sovereign bonds. This has serious implications not only for Grenada but for all the other countries in the ECCU. This increases the risk to the region and could result in higher financing costs for bonds and Treasury Bills on the Regional Government Securities Market (RGSM).

1.1 SOME VALUABLE LESSONS

The experiences of our sister islands present valuable lessons that we can no longer afford to ignore. Dominica undertook an IMF programme in 2002, with an overall fiscal deficit position of 9 percent of GDP and a debt to GDP ratio of 104 percent. Antigua & Barbuda's programme started in 2010 at an overall deficit of 10.6 percent of GDP and debts levels of 117 percent of GDP.

St. Kitts & Nevis followed suit in 2011 with an overall deficit at 7.4 percent of GDP while debt levels soared to 156 percent of GDP. A review of the individual cases reveals similarities in the indicators prior to the crisis.

1.2 OUR CHALLENGE: HIGH DEBT, LOW GROWTH

Mr. Speaker, coming then to Saint Lucia's reality, at the end of 2012, our overall deficit stood at 9 percent of GDP. More specifically, it was at the same level as that of Dominica, and higher than that of St. Kitts & Nevis when these countries started their engagement with the IMF. However, all these countries had debt-to-GDP ratios in excess of 100 percent when they entered into IMF arrangements. Our current debt level is about 71 percent of GDP up from 65 percent in 2011.

If we continue on our current path, without making the necessary fiscal adjustments, then, by 2015 the debt-to-GDP ratio will soar to 90 percent. Under this scenario, we would be diverging from, rather than converging towards our prudential target of a debt-to-GDP ratio of 60 percent and moving closer to the 100 percent debt-to-GDP threshold. This path is clearly not sustainable. With such limited fiscal space, another external shock or natural disaster would then present significant challenges to the country.

Therefore, it is necessary to implement measures which would at a minimum stabilise the fiscal position in the short term, with the medium term objective of significant improvements. We must summon the courage to take these measures now, rather than delay them, only to suffer catastrophic consequences.

Quite apart from the fiscal challenges, growth has been another major challenge for the ECCU. Over the last ten years, Saint Lucia has been growing at an average rate of 2.1 percent, with the highest growth rate of 7.4 percent, in 2006. Following the recession, the growth rates declined to an average of 0.14 percent (2009-2012). This can partly be explained by the corresponding fall in Foreign Direct Investment (FDI) during the same period. However, while global economic cycles account for part of the poor growth performance, there are many structural impediments that need to be addressed. Of great concern is the erosion of competitiveness due to the steady decline in productivity. This is a direct consequence of rapidly growing real wage rates, resulting in high unit costs of production as output has increased no where near as fast. And so, our exports become less competitive and the profitability of firms wanes as a result.

1.3 STUBBORNLY HIGH UNEMPLOYMENT

Low growth along with declining productivity is even more troubling in the context of stubbornly high unemployment. This increases the urgency of the task at hand. Given the limited fiscal space, proactive measures are needed to strengthen private investment in the country to absorb the pool of unemployed workers.

The unemployment data suggest that a large number of people have remained unemployed for extended periods. In addition, a large number of individuals are unable to find jobs which match their skills. The results of Saint Lucia's Labour Market Needs Assessment undertaken in the final quarter of 2012 revealed that 60 percent of the labour market has not attained secondary school education and therefore do not have the requisite skills required for gainful employment.

Also underscored was the mismatch of the skills set for the available jobs in the labour market. Currently, only 3 percent of the population are employed as technicians and associate professionals. However, there is a far greater demand for such individuals to partake in the reorganisation and expansion of businesses. Similarly, craft and related work account for only 2 percent of the employed population while significant demand exists for such workers.

Central to dealing with the issue of unemployment is the need to train workers to meet these demands. Increasing the pool of talent in these deficient areas will increase competition and could lead to increased quality and productivity. This, in essence, is the route towards igniting our hidden growth potential and taking Saint Lucia up the development ladder.

The task ahead is certainly challenging but if we as a country commit ourselves to deal with the persistent problems in a strategic and structured way, there is no doubt that we can emerge from the current situation a stronger and better country. Periods of economic hardship must be used to tackle and correct our weaknesses, structural and otherwise.

To improve our performance and to steer us back on a path towards desired objectives, there is need for a consistent and sustained effort to develop solutions to deal with these challenges and deal with them, we must!

The goal of this Government is to seek cooperative strategies to address the pressing issues of anaemic growth, high unemployment and high debt, while maintaining social stability and cohesion.

2. 2012 ECONOMIC PERFORMANCE

Mr. Speaker, in order to place this Budget in context, I will now review, briefly, the performance of the global economy followed by the regional economy.

I will then move onto domestic economic performance and within that context, I will take the opportunity to update the House on an issue that continues to impact many of our citizens as a result of the global financial crisis: I speak of CLICO-BAICO.

2.1 GLOBAL ECONOMIC PERFORMANCE

Mr. Speaker, the global economy is showing signs of recovery albeit at a slow pace. The IMF, in its latest outlook, estimates that the world economy will expand by 3.4 percent in 2013, a broadly similar pace to what was achieved in 2012. The United States economy, the world's biggest economy for the time being, appears to be entering a period of greater stability as evidenced by the employment figures released so far for this year. However, policy differences within the US Government will most probably result in a significant decline in government expenditure along with tax increases totalling about US $85 billion, the coupled effects of which would be the likely reduction in the US economy's growth rate in 2013.

Continued difficulties in the Eurozone economies, highlighted by the recent Cyprus bailout, will continue to dampen the growth outlook in Europe. Instructively, the UK economy continues to be mired in high debt, a high fiscal deficit, rising unemployment and anaemic growth. The latest forecast indicates that the Eurozone economy will grow by a mere 0.2 percent in 2013.

The financial systems of many advanced economies, particularly in Europe are still vulnerable. Policy makers have attempted to support the banking system by injecting significant amounts of liquidity. However, because of low consumer and investor confidence, the impact of these policies has yet to have the desired or anticipated impact.

The BRIC countries as well as emerging economies in Africa and Latin America, continue to provide hope and optimism to the global economy. However, their rates of economic activity slowed somewhat due to the implementation of tighter measures to contain and counteract inflationary pressures.

2.2 REGIONAL ECONOMIC PERFORMANCE

Here in our region, the global economic crisis has exposed the underlying weaknesses and vulnerabilities of our economies. The small and open nature of our economies, make them extremely vulnerable to external developments. The mainly tourism dependent countries in the Caribbean are challenged by low growth, high debt and weaknesses in the financial system.

Growth in Barbados remained flat reflecting contractions in tourism, construction, manufacturing and agriculture. Despite growth in tourism, Jamaica's economy recorded a marginal decline in output, similarly driven by weak performances in mining, construction and agriculture. The ECCU contracted by 0.2 percent to record a fourth consecutive year of negative growth. Although manufacturing and agriculture recorded increased production, the weak performance of tourism and construction tempered the growth rate of total output.

While the fiscal position of St. Kitts & Nevis and Antigua & Barbuda improved under their IMF sponsored adjustment programmes, that of some of the other islands have weakened.

In contrast, the commodity exporting countries, such as Guyana and Belize recorded appreciable rates of growth in 2012 of 4.8 percent and 5.0 percent respectively. The exception being the Trinidad and Tobago economy which remained flat in 2012 on account of a decline in energy production.

2.3 REVIEW OF THE DOMESTIC ECONOMY

Mr. Speaker, coming home, preliminary estimates suggest that Saint Lucia's economy, as measured as a percentage of GDP at constant prices, contracted by 0.8 per cent in 2012, following a revised growth rate of 1.5 per cent in 2011. The decline in economic activity was due to reduced activity in the construction, distributive trade, transport and communications sectors.

2.3.1 WEAKENED CONSTRUCTION ACTIVITY

Private sector construction activity remained weak reflecting the winding down of works on some major projects such as the ECFH Building and the Johnson Superstore in Gros Islet. There were delays in the commencement of other sizeable investments such as the Sandals Expansion and the Freedom Bay Hotel Development Project. However, work continues at the Financial Complex, Sugar Beach Viceroy Hotels and Resort, the S&S Plaza and the LUCELEC Substation in Cul de Sac.

Expenditure on public sector construction activity declined by 31.6 percent in 2012 reflecting the winding down of construction of the New National Hospital, Hurricane Tomas related infrastructure and the completion of phase one of the Kuwaiti-funded Community and Agricultural Feeder Roads Project.

2.3.2 UNCERTAINTY IN TOURISM

Ongoing uncertainty in the global economy continued to constrain external demand and pose challenges to the tourism sector.

Stay-over visitors fell by 1.8 percent to 306,801 in 2012. The fall in visitor arrivals was influenced partly by global economic weakness, associated with the lingering effects of household budget restructuring in the US and other major source markets linked possibly to a decline in airlift from the US market, and relatively high airfares. Despite the fall in arrivals, preliminary estimates suggest that visitor expenditure increased by about 2 percent to an estimated $1.55 billion, reflecting a probable shift towards higher end properties, and an increase in the length of stay of visitors.

2.3.3 REBOUND IN AGRICULTURE & FISHERIES

Agriculture continued the strong rebound in 2012. Notwithstanding the problems associated with the Black Sigatoka disease and the rising costs of inputs, banana production increased by 25.2 percent to 14,984 tonnes, reflecting the full year's effect of the industry's recovery from Hurricane Tomas. Export earnings also increased by 40.1 percent to $28.2 million driven by a sharp increase in exports to the UK market.

Preliminary data suggest a moderate increase in supermarket purchases of other fruits and vegetables as the effects of the diversification efforts in the agricultural sector seem to have taken effect. Chicken production is estimated to have increased by 2 percent to 1,449 tonnes, while egg production declined by 7.0 percent to 1.17 million dozens.

The fisheries sector also experienced slight increases in both volumes landed and in value of fish caught.

2.3.4 MANUFACTURING

Mr. Speaker, manufacturing output for 2012 remained largely flat at an estimated $328 million dollars, buoyed by some gains in food and chemical production. While there was a 23% expansion of non-alcoholic beverage output due to increased sales of water and soft drinks, there was a net lowering of production in the beverages sector. Generally, performance in the sector was constrained by high energy and labour costs and the rising imported prices of input.

2.3.5 UNEMPLOYMENT

Moving onto employment figures, the rate of unemployment edged downwards influenced by the impact of the various job creation programmes, which was implemented over the past 12 months. The official rate of unemployment fell to 20.2 percent in the fourth quarter of 2012 compared with 22.3 percent in same quarter of 2011. This is despite the slow down in the economy. Notwithstanding the decline in the unemployment rate, the estimated number of unemployed persons stood at over 19,000 at end of 2012.

2.3.6 INFLATION

The rate of inflation increased to 4.2 percent in 2012 compared to 2.8 percent in 2011 driven in part by the impact of the introduction of VAT in October, 2012. The categories of the consumer basket which accounted for the increase included clothing and footwear, recreation and culture, and food and beverages.

2.4 CENTRAL GOVERNMENT OPERATIONS

Lower than anticipated revenue and grants resulted in a widening of the deficit position. The overall fiscal deficit increased to $325.9 million representing about 9.0 percent of GDP, up from the revised $231.5 million or 6.6 percent of GDP in 2011/12.

Total expenditure amounted to $1.17 billion while revenue and grants totalled $845.5 million. The current account balance fell from a surplus of $59.2 million in 2011/12 to a deficit of $45.56 million in 2012/13, owing to some increase in current expenditure while current revenue declined. The increase in current expenditure was driven in part by higher spending on goods and services, interest payments and current transfers, including subsidies and transfers to local and external entities.

Increased expenditure on goods and services reflected payment of outstanding arrears from prior years, payment of VAT on goods and services, increased expenditure on utilities and communications and additional rental expenses for new government offices.

Transfers were also higher due to supplementary subventions to WASCO, the Castries Constituencies Council and St. Jude Hospital. Additionally, subsidies on bulk food items sold by the Government's Supply Department continued to climb owing to rising import prices and unchanged selling prices. Those subsidies currently amount to $18.2 million dollars.

The increase in the fiscal deficit resulted in a higher debt burden which stood at $2.53 billion, about 71 percent of GDP at the end of 2012 compared with a revised 65.0 percent of GDP in 2011. Much of the increase in the Central Government debt represents funding of ongoing capital projects. Spending on ongoing projects represented 85 percent of last year's budget.

2.5 SHORT TERM PROSPECTS

The global economy is expected to continue to recover at a gradual but tepid pace. Global growth in the medium term is expected to be relatively broad based as advanced, emerging and developing economies are expected to move towards the pre-crisis growth levels. However, the pace of recovery may be dampened by continued uncertainty in Europe and fiscal consolidation efforts in the US.

Here at home, we expect some recovery in the domestic economy driven by improvements in tourism, agriculture, construction and manufacturing, premised on the economic recovery of our trading partners and increased momentum of gains from strategic policy decisions.

2.6 THE CLICO-BAICO SAGA

Mr. Speaker, as a Government, we would also like to realise a brighter outlook for the many persons who have suffered due to the collapse of the Caribbean-wide conglomerate, Colonial Life Insurance Company, CLICO, and its subsidiary BAICO, victims of the global financial crisis in the Caribbean. Lives were shattered; retirement investments were lost; many families continue to hurt because of this financial disaster.

Mr. Speaker, since July 2009 when British American Insurance Company (BAICO) was placed under judicial management, policyholders in Saint Lucia have eagerly awaited resolution to this crisis.

At that time, OECS Governments formulated a strategy for resolution based on the following principles:

i. To keep BAICO as a going concern;

ii. To craft a regional (OECS) solution to the crisis;

iii. To protect as far as practicable the interests of depositors and investors; and

iv. To ensure that BAICO did not become a systemic risk to the ECCU financial system.

It has indeed been an extremely difficult and agonising period. The Governments have persevered and can now report a reasonably successful outcome to the effort. Over the period, the restructuring of the Eastern Caribbean branches of the BAICO was pursued in three stages.

2.6.1 HEALTH-RELATED CLAIMS

First, the creation of a $5-million Trust Fund for the settlement of the claims of BAICO's healthcare policyholders resident in the Eastern Caribbean, including Saint Lucia, was completed. Substantially, all health related claims have now been settled. Claims made in lieu of Saint Lucian held health policies totalled EC$ 533,287.61; approved and paid claims amounted to EC$ 228,727.03.

2.6.2 LIFE POLICIES

Secondly, the re-capitalisation of BAICO's traditional life portfolio was undertaken along with the sale of this business to SAGICOR, a CARICOM-based company, was finalised on March 15, 2013. ECCU Governments have provided funding amounting to US$ 38 million to assist in restoring value to the policies to be transferred.

The Government of Saint Lucia is not being required to inject any portion of this funding as the assets of the insurance fund which had been appropriately pledged to the order of the Registrar are being used proportionately for that purpose.

Policyholders will therefore be comforted in knowing that:

1. All in-force policies – that is home services; ordinary life, inclusive of term life, whole life and endowment policies; and universal life and group pension plans are included in the sale;

2. There will be no change to terms and conditions of the policy (that is policy rates, coverage and benefits);

3. SAGICOR will settle amounts with respect to claims, surrenders, maturities and bonuses within three months of the transfer; and

4. ECCU Governments and SAGICOR are considering whether a solution can be implemented for those traditional life policies which lapsed between the commencement of BAICO's judicial management and the announcement of the sale of the portfolio to SAGICOR.

The scheme of transfer has been approved and the physical amalgamation with SAGICOR Life is scheduled for August 1, 2013.

2.6.3 PROGRAMME FOR BAICO ANNUITY HOLDERS

The final stage, Mr. Speaker, is the programme established by ECCU Governments for providing financial assistance for individuals holding Flexible Premium Annuities (FPA); Executive Flexible Premium Annuities, special edition, and EFPA and FPA II issued by BAICO in the ECCU. It is envisaged the programme will span five phases.

Under Phase I, implemented December last, FPA policies of $30,000 or less were paid out. Cheques written for Saint Lucian policyholders totalled approximately $2.1 million. As at May 7, 2013, all but about $373,000 had been paid out by the Judicial Manager.

Under Phase II, now underway, financial assistance is being made available to policyholders or assignees satisfying both of the following conditions:

i. The policy owner was issued an EFPA (special edition) or an FPA II; and

ii. Their principal balance is EC$ 30,000 or less. The principal balance referred to is the amount of contributions made to the policy, less the amount of any withdrawal or partial payment.

The payout to Saint Lucian policyholders under this phase will amount to nearly $808,000 and covers 53 policies.

Mr. Speaker, we are mindful that some depositors or investors have yet to be assisted. We continue to work assiduously with OECS partners to secure the necessary funding to accomplish this and will commence the remaining phases as soon as is possible.

2.6.4 CLICO WORK STILL IN PROGRESS

Regrettably, Mr. Speaker, progress on a resolution for CLICO International Life is not as advanced as I would have liked. Resolution to the CLICO International Life insolvency continues to pose significant challenges. Notwithstanding the appointment of an independent and separate Judicial Manager for the Saint Lucia Branch operations, we continue to work tirelessly with the ECCU Core Technical Committee, and the Barbados and other OECS Judicial Managers, in our quest to find a solution which is in the best interest of Saint Lucia policy holders. No solution can be found without the active cooperation and involvement of the Government of Barbados.

Various restructuring options have been considered but were deemed unfeasible due to the inadequacy of funding. In the meantime, I wish to assure policy holders that pledged and available assets in respect of the Saint Lucia Branch have been secured for equitable distribution among policy holders and/or the restoring of the value of policies as may be necessary.

3 ASSESSMENT OF BUDGET 2012/13

Mr. Speaker, I have decided to add a new feature to the Budget Statement; that is, to report to the House and the people of our country on the performance of implementing the measures announced in the previous year, in the Budget Statement of 2012/13. This approach should dispel cynicism and attest that we must be transparent and accountable to our electorate.

Mr. Speaker, in last year's Budget Statement, the Government announced a number of policies to stimulate economic growth, create social stability, while preserving fiscal sustainability.

Mr. Speaker, you would recall that job creation was the first in a three point plan for recovery that was announced in the 2012/13 Budget Statement. I wish to give a brief assessment of the performance of each of the programme one year after announcement.

3.1 JOB CREATION PROGRAMMES

Mr. Speaker, I announced that we aimed to create 2,200 jobs under the National Initiative to Create Employment (NICE). I am proud to announce that the programme has been enormously successful in generating more than 2,500 jobs to date.

This programme was always intended to be based on a three-year project, with various components, some of which are short-term, to provide immediate relief to the chronic unemployment situation facing our people, especially our youth. While it was never intended to guarantee long-term employment for programme beneficiaries, it is the hope that many of those employed through NICE would gain the requisite skills to become more marketable and capable of accessing sustainable employment in the private sector.

In the current context, the most critical component of the NICE programme is the National Apprenticeship and Placement Programme (NAPP). This programme has also exceeded our expectation in terms of the number of job placements. To date, a total of 1,740 persons have been placed in various jobs in both the public and private sectors with contract periods varying from six to twelve months.

Under the Short Term Employment Programme, STEP-UP, 8,704 persons gained short term employment for the period July 2012 to March 2013. During the 2012/13 fiscal year, a total of $5.6 million was spent on the programme.

3.2 CONSTRUCTION STIMULUS PROGRAMME

Mr. Speaker, I believe it is premature to pronounce on the success or failure of the Construction Stimulus Programme (CSP) that has only reached mid- way in its 18 month life cycle. In fact, Government believes the full benefits are likely to be realised during this fiscal year.

The programme has been successful to date in enabling persons who were on the verge of building, expanding or upgrading their houses to take advantage of the reduced costs to realise their goals. However, the process of getting full approval to start construction can take up to six months, and it is expected that the full effects of the stimulus will really occur during this financial year.

The data received on the prices of building materials suggests that there are marked variations in the prices of these items on the market. While it is anticipated that the discerning consumer would make the best choice of purchase in a free market, I want to emphasise that the success of the programme depends on the pass through of tax concessions to home buyers; and in this regard, there is a need for a collective approach to realise successes.

Under the Memorandum of Understanding between the Government and East Caribbean Financial Holding Company Limited (ECFH), as at April 9, 2013, a total of 94 loans have been approved under the Construction Stimulus Programme valued at

$20.75 million dollars. The loans were approved for 91 residential homes and 3 commercial properties. To date, $19.2 million has been disbursed. First Caribbean International Bank is also on board with providing concessionary loans.

The Government has foregone an estimated $16 million in revenue on duties and taxes on imports of construction materials under the programme. In addition, revenue from stamp duty and interest earnings on bank deposits is being foregone as part of the package of concessions.

Notwithstanding the costs to Government, the programme is viewed as critical in providing some impetus for growth in a severely dampened construction sector.

3.3 FISCAL CONSOLIDATION

Mr. Speaker, in the last budget presentation, the Government indicated an intention to commence a process of fiscal consolidation to return the financial position of the country to a more sustainable path. This required a change on two fronts.

First, there was the need to implement VAT in order to bring Saint Lucia's tax system in line with regional and international standards as part of continued efforts at moving towards an indirect tax system. In addition, the introduction of VAT would broaden the tax base and increase the effectiveness of tax collections. Furthermore, Government introduced reforms to the property tax framework in an attempt to increase the returns from this source.

The second element was the streamlining of expenditures to contain the growth in the borrowing requirement.

3.4 PERFORMANCE OF THE VALUE ADDED TAX

On October 1, 2012, the Value Added Tax (VAT) was implemented in Saint Lucia, at a standard rate of 15 percent, and a reduced rate of 8 percent on hotel accommodation and food and beverages provided by hotels and restaurants.

With the implementation of VAT, five taxes were repealed, namely Consumption Tax, Hotel Accommodation Tax, Environmental Protection Levy, Motor Vehicle Rental Fee and Mobile Cellular Telephone Tax. The VAT is administered by the VAT Section of the Inland Revenue Department, which employs 39 members of staff.

For the period October 2012 to March 2013, the Inland Revenue Department had a gross collection of $63.6 million, an average of $12.7 million for 5 filing periods.
During the same time period, the Customs and Excise Department collected $77.6 million, an average of $12.9 million for 6 months of importation.

The number of VAT registered businesses to date is 1,366 with 55 new companies registered between January and March this year. The average rate of compliance for filing is 95 percent. The VAT section continues to work diligently to ensure a high level of compliance, and has continued its public education efforts with assurance visits to VAT registered businesses, and advisory visits to newly registered businesses.
The implementation of VAT represented a fundamental change in tax policy and the way we do business. There were and continue to be some teething problems. However, despite this, I must echo the words of Her Excellency during the Throne Speech and applaud the people of Saint Lucia for the overall level of maturity and calm in which this change has taken place.

This is not to suggest that members of the public did not have their concerns, but rather to indicate that despite the anxiety and disquiet, the public has taken the measure in its stride.

Notwithstanding the recognition that some legislative adjustments will be needed in the near future, I commend the level of flexibility and adaptability demonstrated by our citizens.

This will serve the country well as we move towards reorienting the economic landscape and our efforts to grow our economy.

3.5 PROPERTY TAX REFORM

Mr. Speaker, you will recall in my 2012/13 Budget Statement, a number of reform measures to the property tax regime were announced. These included establishing a threshold of $100,000 based on the market value of residential properties, and granting a $100,000 deduction to other property tax payers to ensure fairness and equity. However, the collection rates from this revenue head continue to underperform, mainly due to continued low compliance as well as administrative issues at the Inland Revenue Department.

I will later announce further adjustments to this policy to enhance compliance and the associated administrative costs.

3.6 EXPENDITURE RESTRAINT

Mr. Speaker, efforts at containing capital expenditure were curtailed because of the already established momentum on programmes established by the previous Administration. In addition, the new programmes which this Government introduced to create jobs pushed capital spending upward.

Regarding current expenditure, there were a number of existing obligations which could not be reversed and the introduction of new initiatives which consequently generated increases in expenditure. Among these were the commitment of existing rental contracts, the staffing and operation of the VAT Unit and additional police and nurses. Further increases were due to additional transfers to the water, fisheries and public transport sectors.

In terms of capital expenditure, the majority of projects were ongoing some from the last administration and others dating from the previous Government which I led, such as the New National Hospital. This significantly restricted the ability of this Government to curtail expenditure on this front. In any event, although improvements in the efficiency of capital expenditure must be examined, such expenditures should be protected as much as possible.

However, it should be clearly noted that, of the financing raised for capital expenditure during the last financial year, only about 15 percent was as a result of projects commenced during that fiscal year by this Government.

The broader point, however, is that expenditure based fiscal control should focus on current spending, while targeted capital projects should be protected. In that regard, sustainable reductions in expenditure can only be achieved by curtailing current spending.

However, current spending is largely driven by wages and salaries, which accounts for 43 percent of current expenditure and 53.1 percent when pensions are included.

In addition, some components of transfers largely reflect monies provided to public institutions such as the Sir Arthur Lewis Community College (SALCC) and the Castries Constituencies Council (CCC), which is largely for the payment of wages. Interest payments make up an additional 14 percent. Therefore, as it stands, at least 65 to 70 percent of current expenditure is non-discretionary and would require policy changes to achieve any credible adjustment.

3.7 PERFORMANCE OF OTHER MEASURES

Apart from the principal measures just reviewed, I announced a range of other policy measures. I will now present a status report on the other measures, albeit in an abbreviated form.

Table 1 Status Report on Other 2012-13 Policy Measures

Policy Measure	Status
1. Increase in Personal Income Tax Threshold by $1000 to $18,000.	Implemented, effective January 1, 2013.
2. Increased Application fees for Alien's Landholding Licenses	Implemented, effective October 22, 2012.
3. Reform of Property Tax Regime	Threshold of $100,000 established and removal of exemptions on residential properties from January 1, 2013.
4. Managing Fuel Costs (3 month Pass-Through Mechanism)	Implemented, effective August 6, 2012.
5. Waivers of interest and penalties on outstanding HAT.	Hotels received waivers of interest & penalties on HAT paid from June 2012.
6. Relief to patients Indebted to Victoria and St Jude Hospitals	Implemented, but the responses for both hospitals have not been good.
7. Amnesty to Customers of WASCO	Programme started October 2012 and is due to be completed in October 2013. For the 5 months ending February 2013, 990 customers responded to the amnesty and 601 reconnections were completed.
8. Bois D'Orange Hypermart Property	The property has been offered for sale.
9. Revised Incentives for Manufacturing and Tourism	Revision to the Tourism Fiscal Incentives Act & Fiscal Incentives Act were approved by Parliament in April, 2013.
10. Business Incubation Programme	30 business entities have been identified as potential beneficiaries & are at various stages in accessing funding.
11. Creation of a Commercial Court	The Rules are under consideration for

	enactment.
12. National Trade Export Promotion Agency (TEPA)	21 firms received export related technical assistance and more than 50 firms received direct assistance in promoting their products regionally and internationally.
13. Single Mothers In-Life Employment & Skills Programme (SMILES)	Technical competency training of 102 ladies in various areas such as culinary arts, hospitality and tourism villa services, accounting, early childhood education and IT.
14. Youth Agricultural Entrepreneurship Programme (YAEP)	Substantial work has been completed in training 78 young persons in farming and other aspects of agri-business. Lands have been identified, some equipment acquired but there were delays in accessing grant funding.
15. Youth Empowerment Programme (YEP)	Initially 180 trainees were targeted but currently 192 are undergoing training in various technical and vocational disciplines as well as soft skills.
16. Removal of Airport Development Charge (ADC)	Effected in March, 2013
17. Point of Sale (POS) System	Implemented the POS system at all major revenue generating departments of the Government of Saint Lucia effected in March, 2013

Mr. Speaker, I hope you will agree that this is a good, solid record of implementation. But there were failures and disappointments. The most glaring was on the legislative front. We failed, in large measure, to enact our planned legislative programme. We know that this was due to the unavailability of drafting resources and we are now moving, in this budget, to remedy that problem.

4 STRATEGIC DIRECTIONS FOR 2013 AND BEYOND

Mr. Speaker, while global recovery is forecasted for the near term, it is not automatic for Saint Lucia to benefit unless we position ourselves to take advantage of the opportunities as they present themselves.

To support growth in the short term and to sustain growth over the longer term, we propose to implement a number of structural reform measures aimed at improving the environment for doing business in Saint Lucia, increasing competitiveness, enhancing skills training and increasing support for the private sector.

While the results of these measures will not be realised in the short term, they will set the foundation for increased competitiveness and more sustainable growth of our economy over the medium to long term.

The world economic crisis has exposed a number of underlying weaknesses in the economic structure, some relating to the ability of the private sector to respond in a flexible manner to changes in the global economy. The structural reform agenda is geared at improving the business environment and making the private sector and the economy at large more flexible and resilient to changes in the external environment. The unvarnished truth is that the time has come for us to face reality, unpleasant as it may be.

Following an extended period of direct assistance in the form of increased spending and subsidies, there is no longer sufficient space or resources to continue the level of support previously provided. In that regard, the Government, while cognisant of the fact that too drastic a withdrawal of support would be detrimental, will, from this fiscal year, start a gradual process of realigning expenditures to strengthen the fiscal performance, the details of which will be discussed later in my address.

4.1 ECONOMIC GROWTH: THE KEY TO THE FUTURE

Mr. Speaker, economic growth is the key to resolving many of our developmental and social problems. When the economy grows, job opportunities are created, therefore lowering unemployment, reducing poverty and leading to higher living standards for our people.

To create an environment to facilitate growth, we must remove the structural barriers to growth; enhance the investment climate and business environment while achieving macro-economic stability through fiscal consolidation. Mr. Speaker, in this Budget, our strategic approach will, once again, create an environment to encourage economic growth.

The approach will rest on the following five inter-locking elements, like five gears:

i. Structural reforms to improve both public and private sector output;

ii. Investments in infrastructure;

iii. Expansion of exports and investment inflows through the productive sectors;

iv. Strengthening fiscal consolidation efforts.; and

v. Maintaining social stability and peace, which are prerequisites for growth.

Mr. Speaker, for this five geared approach to development to be a success, the country needs a National Development Plan endorsed and supported by Government, Opposition, our Social Partners and most importantly, the people of our island.

This Development Plan will serve as the national blueprint for our strategy to achieve sustainable economic growth.

4.2 NATIONAL DEVELOPMENT PLANNING FRAMEWORK

Planning is critical to the success of any endeavour and we believe that our medium to long term strategies for growth of this country must form part of a National Development Plan for Saint Lucia. This will ensure the formulation of a more cohesive policy framework, which incorporates the input of all key stakeholders.

There is strong merit in this approach as it has been utilised by many countries with good growth track records such as the Republic of China (Taiwan), Singapore, Malaysia and Mauritius. Closer to home, Jamaica recently formulated a Vision 2030, A National Development Plan for the country.

To this end, the Department of Planning and National Development will, in this financial year, embark on a major National Planning exercise to develop a comprehensive development road map and agenda for the next 30 years. The process will seek to integrate a number of ongoing initiatives that have proceeded in the absence of a nationally accepted development vision, namely the Medium Term Development Strategy, and of course, the *National Vision Plan,* which was essentially a spatial strategy; the World Bank Growth Strategy; and sector plans, among others. The National Development Plan will also provide strategic guidance plans that are to be developed and integrated, for example a Public Sector Investment Plan (PSIP), a National Investment Strategy, a National Physical Plan and local area plans.

The process of developing this plan will be consultative, comprehensive and integrated. It will involve all technical ministries and agencies, economic groups, the private sector; the community sector, that is, organized groups at both the national and local levels, as well as citizens. In this regard, the planning process will involve a high level of community engagement to ensure participation, consensus and ownership.

The process will be supported by the Department of Planning and National Development, guided by the National Vision Commission to be created as announced in the Throne Speech, and assisted by the Commonwealth Fund for Technical Cooperation.

5 STRUCTURAL REFORMS

Mr. Speaker, while this planning process is ongoing, it is imperative that we begin to address the structural deficiencies that exist in our economy, particularly given our limited fiscal space. And so, Mr. Speaker, with your indulgence, permit me to outline some of the structural reforms that the Government intends to undertake this fiscal year.

5.1 ENHANCING COMPETITIVENESS & PRODUCTIVITY

Our international partners such as the IMF and the World Bank have attributed our slow growth to our lack of competitiveness and low productivity when compared to other developing countries around the world. As a Government, we are deeply concerned about our low productivity and levels of competitiveness, not only in the Public Service but for the entire country.

As we move into our 35th year of Independence, we must embrace the reality that reforms which increase productivity will build a stronger economy and improve quality of life. There is no doubt, Mr. Speaker, that sustainable growth of the economy requires a joint effort between the Government and the population. In this regard, Government has embraced a multi-faceted approach in tackling the issues of competitiveness and productivity in this financial year.

5.1.1 NATIONAL COMPETITIVENESS AND PRODUCTIVITY COUNCIL

The former Government had commenced work on establishing a National Competitiveness and Productivity Council. We will now operationalise those early efforts by establishing a Technical Secretariat and appointing the Council.

I am cognisant that Government has unsuccessfully attempted in the past to establish forums for public-private dialogue.

However, with funding from the Inter-American Development Bank (IADB) through *Compete Caribbean*, the Council will be supported by a robust technical secretariat based in the Ministry of Finance that will develop evidenced based policy recommendations relating to competitiveness and productivity.

For this financial year, Mr. Speaker, the Council along with the Secretariat will undertake the following:

i. Establishing a vision for competitiveness and productivity;
ii. Undertaking a national productivity assessment of the various sectors of the economy and begin the process of benchmarking Saint Lucia's competitiveness vis-à-vis other countries;
iii. Completing an Action Plan for improving productivity and competitiveness in both the public and private sectors; and
iv. Undertaking selected pilot projects to boost productivity and competitiveness.

5.2 IMPROVING THE BUSINESS AND INVESTMENT CLIMATE

Mr. Speaker, Government is anxious to improve the ease of doing business in Saint Lucia. While we boast of being the best place in the Caribbean to do business, there is still much more to be done in order to make it easier to conduct business as well as promoting investment in Saint Lucia. We remain *"No.1"* in the Commonwealth Caribbean but we are slipping while others are catching up. In last year's Budget, we gave our full commitment in ensuring that existing impediments affecting our business environment will be tackled.

5.2.1 ESTABLISHMENT OF COMMERCIAL COURT

Mr. Speaker, as indicated in the Throne Speech, plans are well underway to establish a Commercial Court to hear and adjudicate on all commercial disputes. Once the rules have been promulgated, Saint Lucia will finance the cost of appointing a resident puisne judge.

We expect this measure to reduce the length of time for commercial cases to pass through the court system and eventually improve on our ranking with regards to the enforcement of contracts.

5.2.2 FACILITATING FINANCIAL CONSOLIDATION

Mr. Speaker, our economic and financial realities and uncertainties have already taken a toll on most local businesses, resulting in continuing operating losses, lower liquidity and higher financing costs.

Banks have not been able or prepared to finance continuing losses, due to the continued erosion in the value of loan security. Shareholders have not been able or willing to provide additional capital or security to shore up declining capital adequacy ratios.

A number of businesses have therefore offered their operations or assets for sale, or are considering consolidations, amalgamations, mergers or restructuring arrangements that will ensure the continuation of the businesses as going concerns.

If successful, these options could ensure the survival of their core businesses, provide job security for the majority of the local employees, and strengthen the ability of the companies to compete in domestic and foreign markets. One of the major issues affecting consolidations, amalgamations, acquisitions, mergers and restructuring is the high transaction costs involved.

These include, but are not limited to:

i. Stamp duties on the transfer of property (Vendor's tax and registration), which can be as high as 12% where alien investors are involved, or 7% in the case of domestic owners;

ii. Legal fees, based on the Bar tariff, to convey property and prepare mortgages and debentures associated with the new arrangements; and

iii. Stamp duties to register mortgages, leases and other financial documents.

Mr. Speaker, Section 42 of the Income Tax Act was designed to provide some relief to taxpayers in respect of the application of tax losses within a group of companies. Section 42(k) provides for exemption from Stamp Duties for companies taking part in a group restructuring or reorganisation approved by the Comptroller, as indicated below:

> *"42(k) Notwithstanding anything to the contrary in the Stamp Duty Ordinance Cap 219, any instrument relating in any way to the assets or activities of a company taking part in a group restructuring or reorganization approved by the Comptroller, is exempt from the payment of stamp duty."*

However, the application of Section 42 has been limited to local companies only, and only those companies experiencing financial difficulties.

I propose Mr. Speaker, that Section 42 be amended to apply to both local and foreign-owned companies doing business in Saint Lucia, and not only to companies in financial distress.

The rationale to widen the application would be to allow for consolidations, amalgamations, mergers, acquisitions and restructuring arrangements that would strengthen the surviving entities, create and maintain employment, and facilitate economic investment in the private sector.

Companies considering these arrangements would have to apply to the Comptroller of Inland Revenue, where the requests would be analyzed and then forwarded to Cabinet for its determination.

The relief and exemptions could then include:

i. An exemption from the payment of Stamp Duty on the transfer of any property involved in the arrangements;

ii. An exemption from the payment of Stamp Duty on the transfer or registration of mortgages, debentures, leases and other financial instruments necessary for the arrangements;

iii. Full transfer and application of any available losses of companies that are party to the arrangements, by the surviving or other group companies involved in the arrangements, for the remaining period for which the losses are available; and

iv. The extension of the relief and exemptions to entities purchasing the assets of companies that are in receivership or liquidation, to allow for the faster and less costly transfer of assets and operations of companies in receivership.

5.3 PUBLIC SERVICE MODERNISATION INITIATIVES

In keeping with the focus on productivity and improving the effectiveness of the delivery of services to the public, Government has established a Public Sector Modernisation Unit within the Ministry of the Public Service to coordinate the modernisation agenda.

The objectives of the Unit are to:

i. Assist with the development and implementation of the policy and the legal and regulatory environment to foster good governance and accountability;
ii. Provide support to ensure that appropriate systems and processes are in place to optimize the use of the human resource capacity in transforming the operations and improving the levels of the Public Sector service delivery; and
iii. Design, develop and deploy innovative solutions to improve productivity, enhance efficiency and streamline Public Sector service delivery.

Mr. Speaker, during this financial year, Government through the Unit will be implementing a number of innovative initiatives namely, the development of a

Government Web Portal, the development of an Integrated Citizen Contact Centre, an Electronic Document and Management System and a Fleet Monitoring and Tracking System of government vehicles. Permit me, Mr. Speaker, to explain each of these initiatives further.

5.3.1 GOVERNMENT WEB PORTAL

The Government's current web presence may have served the basic information dissemination needs at the time of its initial deployment. However, it is proving to be obsolete and unattractive in a world where citizens and other customers demand better quality and interactive online services. This was underscored by Saint Lucia's falling e-Government score in the United Nations E-Government Survey. In 2003, the island was ranked 59th in the world and number one in the Caribbean. By 2012 our world ranking had fallen to 90th and our Caribbean ranking to 10th.

Therefore, during the financial year Government will develop a Government Web Portal to update its current web presence and offer fully transactional online services, including the implementation of online payments within selected departments. This initiative is complementary to the reforms for enhancing the doing business environment and completely changes the way our people and the Diaspora will access Government services.

5.3.2 INTEGRATED CITIZEN CONTACT CENTRE

This multi-channel centre will become the focal point for access of Government communications services and will be reached through the easily recognisable toll free numbers 311, 911 or 999. This will allow for simpler, swifter and more reliable access to Government operations, including emergency response. More importantly, this new centre will allow many citizens that cannot reach Government through online platforms to call in and access information and services, as the case may be.

5.3.3 ELECTRONIC DOCUMENT MANAGEMENT SYSTEM

We plan also to develop an Electronic Document and Record Management System to replace our current methods of recording and storing correspondence and information,

which in many instances today, still depend on manual systems. This will significantly improve the efficiency of information sharing, search ability and retention.

5.3.4 FLEET MONITORING & TRACKING SYSTEM

We shall, in this cycle, also implement a fleet monitoring and tracking system for Government vehicles. During the financial year, Government will develop and implement an electronic system based on prioritisation of vehicles to be monitored across all ministries. This system will allow us to know the location of public service vehicles at any point in time and therefore deal, decisively, with the abuse of Government vehicles. This is also expected to improve service delivery, particularly with respect to law enforcement and emergency response operations.

5.4 LEGISLATIVE AND REGULATORY REFORM

Mr. Speaker, in addition to the competitiveness and productivity enhancing measures previously outlined, it is increasingly clear that our laws and social rules and conventions have to be re-examined so as to support these very measures. Put simply, Mr. Speaker, the slow pace of change to the regulatory framework that governs both social and economic life is a serious development impediment.

However, Mr. Speaker, there are serious constraints in the area of legislative drafting, which must be removed if we are expected to realise the socio-economic progress that we desire. An estimate from the Ministry of Legal Affairs indicates that there are approximately 60 pieces of legislation awaiting drafting.

Mr. Speaker, Government proposes to ameliorate conditions in the Legislative Drafting Section by recruiting a Director of Legislative Drafting, a junior drafter and increasing the funding available to hire drafting consultants to support the work of the unit. Moreover, Government will be working with the Commonwealth Secretariat to provide both short term consultancies for specific pieces of legislation as well as long term drafting consultants to reduce the existing bottlenecks the Unit.

Mr. Speaker, the provision of these resources, even in our time of fiscal difficulties, is critical to moving the legislative agenda forward. Many of the proposed economic and social reforms to improve growth, create jobs and enhance productivity hinge on hastening the pace of legal reform. Mr. Speaker, I will now outline some of the legislative reforms to be undertaken in this fiscal year.

5.4.1 REFORMS TO FACILITATE GROWTH IN PROFESSIONAL SERVICES

Mr. Speaker, as Government continues to focus on regulatory reforms, it is necessary to highlight the need to improve the business environment for the services sector. Many trade agreements have been negotiated, such as the EPA with others ongoing such as with Canada and the Caribbean.

These agreements provide the opportunities for professionals to trade their services. However, domestically there exist both regulated and non-regulated markets for professional services; thus resulting in a fragmented, rather than a single, space for professional services.

Mr. Speaker, Government will take the first steps to guide the development of this sector. First, we will introduce incentives to encourage the development of the sector, in much the same way we provide incentives to other sectors.

Secondly, we will create a unit within the Ministry of Commerce dedicated to the development of the services sector. We will also continue to work with the CDB in developing a *Services Policy,* coming out of the review of services sector done by Coalition of Services and the CDB.

Assistance will be given to the sector through the additional resources provided to the Ministry of Legal Affairs review, to develop the legislative framework for various professional services with the initial focus being on the engineering and architecture professions.

5.4.2 DESIGNATION OF UNIVERSITY TOWN

Mr. Speaker, in an effort to build economic resilience, Government is actively seeking non–traditional economic drivers to serve as catalysts for business development without stretching our limited fiscal space.

Along this line, the Government is seeking to further the edu-business sector. Mr. Speaker, internationalisation has always been a part of higher education, with students flowing from developing countries to university campuses in developed countries.

However, increasingly, there has been a trend of globalisation of higher education. Many countries both regionally and internationally have "exported" education services by facilitating the development of offshore campuses. The economic benefits to edu-business are clear: they attract students who may not have otherwise attended these institutions at home. The benefits for the host country are also obvious: students spend significant amounts in accommodation, food, entertainment and other services.

Mr. Speaker, Government has decided to spur further investment in this sector by designating our second town, Vieux Fort, as a "University Town." Later this year, following receipt of a report by a Cabinet appointed committee to review offshore medical training, the Government will announce a special package of incentives for investment in offshore education.

The incentives will be available to both foreign investors as well as nationals who invest in accommodation for overseas students.

The initial spark for this development is expected to come from improving the environment for offshore medical schools. It is estimated that increasing demand for medical school places in the United States significantly exceeds availability. Based on data for 2011-2012, only 44% of applicants were accepted into US medical schools, leaving some of those who are not accepted to look to foreign schools.

Graduates of foreign medical schools in the Caribbean and elsewhere constitute more than a quarter of the residents in United States hospitals. Our sister islands, particularly St. Kitts, Dominica and Grenada, have long benefitted from having large offshore medical and veterinary campuses.

Mr. Speaker, cognisant of the benefits of offshore universities and to position Saint Lucia to benefit from these opportunities, Government will first establish an appropriate regulatory framework for the sector. This will include, inter alia, provisions for accreditation.

The proposed legislation will include provisions to establish a National Accreditation Council of Saint Lucia which will be responsible for the evaluation, accreditation and re-accreditation of all external tertiary level institutions and programmes. In order to expedite this process, Government proposes to fund an Executive Director and ancillary staff to begin the work of establishing the Council.

As it pertains to offshore medical schools, this new regulatory regime will be supported through formally becoming a signatory to the Caribbean Accreditation Authority for Education in Medicine and other Health Professions.

The ultimate aim of these reforms is to increase the number of offshore medical students and Government intends to work through Invest Saint Lucia, with existing medical schools to increase the size of the campuses and expand enrolment.

Additionally, Mr. Speaker, Government has invested tremendously in the construction of the New National Hospital and the reconstruction of St Jude Hospital in the south of the island. As is customary in countries with medical schools, Government intends to capitalise on opportunities to partner with schools in utilising the new hospital infrastructure in a manner that will result in financial benefits to the Government and people of Saint Lucia.

6 INVESTMENTS IN INFRASTRUCTURE

As indicated earlier, the aim of this Government is to create a platform for long term economic growth; growth that will ensure that economic benefits are widely distributed in Saint Lucia.

To this end, a national integrated economic development programme, utilising the following key national strategic infrastructural projects as a springboard for growth, will be actively pursued in the new financial year.

The Government of Saint Lucia will focus on projects in the following four areas:

i. Roads infrastructure, including the north-south highway;

ii. Water infrastructure, including a new dam for the south;

iii. International gateway infrastructure, including our international airport at Vieux Fort and the Castries Harbour; and

iv. New Government Buildings to reduce rental costs and improve services.

6.1 PUBLIC/ PRIVATE PARTNERSHIPS

Mr. Speaker, some of the projects which we value today are the results of partnerships between the public and private sectors. You may recall that the first wave of such significant public investments occurred in the 1970s with the development of the Castries-Gros Islet Highway, the Rodney Bay Development and La Toc Road in the north. The more significant infrastructure investments in recent times have been undertaken by the public sector. These include the Millennium Highway, the Southwest Coast Road, several schools, public buildings, and sporting facilities.

These public investments have catalysed private sector investment and development, the benefits of which are immeasurable.

In light of current fiscal constraints, the Government is exploring new forms of financing, in particular public/private partnerships, to implement this second wave of strategic investments. Traditional modes of financing will also be pursued.

In particular, we are looking towards the involvement of PPPs in infrastructural developments in the water, transport and Government accommodation sector. This we shall explore in further detail shortly.

Government will establish a special unit in the Ministry of Finance to monitor the rollout of PPPs. Government will also be pursuing the establishment of a suitable regulatory framework to safeguard the State's interest in these undertakings.

6.2 ROADS INFRASTRUCTURE

Mr. Speaker, the Government, through the Ministry of Infrastructure, Port Services and Transport, will continue on its path of stimulating the economy by undertaking several infrastructural projects. During the 2013/2014 period, that ministry will undertake some major projects such as the maintenance of bridges and culverts, watershed management, the de-silting of rivers and drains as well as the rehabilitation and reconstruction of roads island-wide.

Our vulnerability to climate shocks which was so evident during Hurricane Tomas mandates that we undergo island wide slope stabilisation to mitigate the likelihood of future natural disasters. In light of this, an amount of $4.0 million has been approved in this year's Budget for this important exercise.

Despite commendable strides made in 2012, the effects of Hurricane Tomas continue to remain visible today as we traverse the island. Rehabilitation work will continue on the four remaining slides on the Barre de l'Isle, now that we have satisfied preconditions set by the CDB. The infrastructural demands will be met by the continuation of the Disaster Recovery Programme in the amount of $9 million and the commencement of the Bois d'Orange Bridge, hopefully by June 2013.

Overall, approximately $25.6 million has been allocated to the Ministry of Infrastructure for the implementation of several projects during this fiscal year.

6.2.1 NATIONAL TRANSPORT STUDIES TO DEVELOP THE ROAD NETWORK OF THE FUTURE

Mr. Speaker, the Government is cognisant of the need to develop the entire island through an efficient road network. This is in keeping with plans for the redevelopment of key gateways such as Hewanorra International Airport and Port Vieux Fort, and also expanding sustainable tourism and housing opportunities.

Already, the Government of Saint Lucia (GOSL) has received assistance from the Caribbean Development Bank (CDB) to finance the services of consultants to undertake a study to strategise investments in transport, particularly a major arterial link between the north and the south.

We also intend to undertake studies which will look into measures for parking and public transport. These must, of course, address in an integrated manner, the issues of connectivity between our major urban centres. For instance, we are undertaking a study to look at major junctions along the Castries Gros Islet Highway, particularly the Marisule and Reduit Junctions, in a view of redesigning for greater traffic flow.
The Ministry of Infrastructure has been given $500,000 this year to begin this initiative, starting off with Reduit Junction.

6.3 HEWANORRA INTERNATIONAL AIRPORT

Mr. Speaker, I now move to the redevelopment of the Hewanorra International Airport. As it is well known, the redevelopment of the Hewanorra International Airport did not materialise as planned by the former administration.

The financing institution, Deutsche Bank, declined to finance the project because of its unhappiness with the consortium led by Asphalt and Mining, A&M.

Since then, the Government of Saint Lucia has been advised by SLASPA that the airport's runway is deteriorating rapidly and must be rehabilitated. Since that is the case, priority has had to be given to the runway.

Consequently, there will be a shift in focus on the development of the airport from an immediate emphasis on upgrading of the terminal, towards a more holistic approach which now includes the runway, the terminal and ancillary facilities. The redevelopment of the airport will therefore proceed with three critical components.

First, immediate attention will be given to the rehabilitation of the runway. It is estimated that this will cost upwards of $54.0 million dollars. The engineering design for this has already been commissioned, with work expected to commence within the next eight to twelve months.

Secondly, the Government will proceed with the project to construct a new terminal but at a significantly reduced cost. SLASPA has been given approval to review conceptual designs that would incorporate improved functionality of the facility.

Thirdly, work is to proceed with immediate effect to construct ancillary airport facilities to accommodate a Fixed Base Operator, FBO, to serve private jets and high end passengers and visitors to our shores. I am advised, Mr. Speaker, that over five hundred small jets land at Hewanorra annually and the number continues to grow at a steady pace.

Obviously, these developments raise once again the issue of financing the redevelopment of the airport. In this regard, the Government recognised the issues associated with the contingent liability of borrowing by SLASPA and various options will be considered in arranging the financing for the project. As a result, the Ministry of Finance is expected to give further study to the implications of the financing arrangement to be undertaken and the impact on the overall liabilities of the country.

Meanwhile, SLASPA has been authorised to negotiate a suitable financing package for the project.

As indicated earlier, with regards the Airport Development Charge (ADC), the Government, by Statutory Instrument No. 8 of 2013, published in the Gazette on February 11, 2013, reduced the rate of the charge to $0.00. Consideration will be given to re-introducing the ADC once financing for the project has been secured and construction commences.

6.4 PORT CASTRIES REDEVELOPMENT

Mr. Speaker, in 2006, in my earlier life as Minister of Finance and Economic Affairs, I presented to Parliament proposals to redevelop the Castries Harbour. The General Elections of 2006 interrupted the implementation of those proposals.

The former Government, for reasons of its own, decided to employ new consultants, who essentially embraced and refined the earlier proposals of the former SLP Government. On the eve of the General Elections of 2011, the Government of the day hurriedly signed an agreement with Royal Caribbean and Asphalt and Mining (A&M) to develop the harbour.

I am pleased to inform the public that based on the advice of Government, A&M is no longer a partner and, through SLASPA, we are at an advanced stage in finalising the agreement related to this project.

With this, I am now in a position to confirm that the overall plan for the redevelopment of Port Castries into a modern Inner Harbour remains at the forefront of the strategic development of Saint Lucia as a "Marquee" Cruise Destination.

In recent years, Saint Lucia has grown tremendously as a cruise destination moving from just over 300,000 passengers before 2005 to averaging over 600,000 passengers annually.

The proposed development will see the creation of a waterfront touristic mixed-use cruise terminal to consist of retail outlets and restaurants, commercial office space, a small yacht marina, bus and taxi staging area, local vendors and artisan market, a casino, car park and other retail entertainment elements.

Government is exceedingly mindful that any development must protect the interest of our micro-entrepreneurs, namely our arts and crafts vendors, to remain a viable part of our tourism product. This initiative will not be a bust but rather a boon for the vendors, who will be engaged, and whose interests will be integrated within the design of the redeveloped Harbour area.

The potential to create commercial opportunities for Saint Lucia remains a key objective of this redevelopment project.

Therefore, the plan entails the creation of activity hubs around the harbour perimeter that will capitalise on local food, culture, and entertainment and will attract attention and motivate visitation to the island, by both cruise and stay over visitors, while providing an even more beautiful place to live, work and play for Saint Lucians.

6.5 INVESTMENTS IN THE WATER SECTOR

Mr. Speaker, the development of a more efficient and reliable water and wastewater service is critical to the economic growth and development of the country. This became even more apparent following the passage of Hurricane Tomas. It is a priority and an objective of the Government of Saint Lucia that every resident receives a safe and consistent supply of water and that the poor and disadvantaged groups in our country, also have adequate access.

6.5.1 RESTRUCTURING WASCO

Premised on this objective, WASCO has the mandate to provide potable water and waste water services for the island. However, WASCO continues to face a number of challenges which limit its ability to efficiently fulfil this mandate. The company's weak financial performance during the period 2005 to 2012 significantly constrained its operations. WASCO's position was further compromised by the extensive damage to the water infrastructure following Hurricane Tomas.

This included damage to access routes and production facilities, storage tanks, water transmission and distribution mains and pumping facilities.

The company now carries a high debt burden, an unviable liability-to-asset ratio and a large stock of doubtful debt estimated to be $32.0 million. Prior to the recent review, rates were last changed 13 years ago, in the year 2000. The previous rate was unable to generate sufficient revenue to even allow for the recovery of operating costs, resulting in a major liquidity crunch and an inability to service its debt, conduct routine maintenance, or finance the replacement of depreciated assets. Currently, the company is insolvent with total liabilities greater than total assets. This greatly impairs the company's ability to raise much needed financing and, therefore, its capacity to invest in future assets.

The Government has given extensive assistance to WASCO over the years including:

i. The payment of principal and interest on outstanding loans of $106.6 million;
ii. Total advances of $19.0 million during the period 2008 to 2012 to assist with operating costs;
iii. A commitment of $7.0 million to assist in rural system improvements, of which $4.95 million has been disbursed;
iv. A sum of $3.1million to assist with the restoration of the John Compton Dam, with a commitment to mobilise a further amount; and
v. Payment of about $9 million in outstanding arrears to LUCELEC.

Given the current fiscal constraints, Government cannot maintain this level of assistance to WASCO. Every effort must be made to bring the company onto a more sustainable path. Therefore, the Government proposes to implement a series of measures, which will seek to chart a new course for WASCO.

Returning WASCO to a more sustainable position will require the creation of an environment to explore a public/private partnership (PPP) arrangement to finance the company's medium to long term strategic plan.
This would require the following actions to complement the recent tariff decision:

i. Restructuring of the balance sheet through some form of debt equity swap;
ii. Internal reorganisation of the administrative and technical operations of WASCO; and
iii. The creation of an appropriate legal framework to govern the management and operations of WASCO.

Let me expand on each of those proposals.

6.5.2 DEBT/EQUITY SWAP FOR WASCO

WASCO's balance sheet needs to be restructured and one mechanism through which to achieve this is a debt/equity swap. The Government will therefore implement a debt equity swap with WASCO. This will result in debt forgiveness of the outstanding balances on loans of $77.6 million and accrued interest of $26.0 million, in exchange for equity holdings from the company. This would increase the company's capital, thereby increasing WASCO's ability to attract private investment.

This will hopefully pave the way for domestic stakeholders to inject capital, and technical know how into the management of the company to bring its processes and standards to what is required for success.

6.5.3 TARIFF REVIEW DECISION

While the debt/equity swap takes care of the capital position of the company, a review of the current tariffs was essential to bring cash flow in line with expenses.

As it is well known, the National Water and Sewerage Commission (NWSC) approved an award of a 66.15% increase in water rates. Of that increase, 10.43 percent would go towards the dredging of the Dam and 55.72 percent would represent the rate increase. The sewerage rate has also increased by 50.8 percent. This represents a much needed boost as, at the pre-adjusted rates, it was impossible for WASCO to be a viable company.

The Government understands the uneasiness among some consumers but pleads that without this rate adjustment WASCO will simply wither and die.

6.5.4 EFFECTIVE AND EFFICIENT ORGANISATIONAL FRAMEWORK

In tandem with the financial restructuring efforts, WASCO will be required to implement measures to improve the organizational and operational efficiency of the company.

Implementation of the recommendations of a review and the accompanying change management is already ongoing. This includes a non-revenue water reduction programme, an intensive campaign to reduce receivables, the adoption of effective utility management principles and practices, certification of its operators and the revision of its organisational structure, among other initiatives.

6.5.5 A PRIVATE/PUBLIC PARTNERSHIP (PPP) OPTION

The Government is cognisant of the urgency of the situation with WASCO and proposes to develop a new business model that will allow for a public and local private sector partnership that will foster a stronger and more efficient water company, which has the wherewithal to manage its operations in an efficient manner and in the process ensure that the poor, disadvantaged and high-risk groups retain needed access to water.

I will now turn to other planned investments in the water sector.

6.5.6 DREDGING THE JOHN COMPTON DAM

Mr. Speaker, the first priority of business has to be the dredging of the John Compton Dam.

Following Hurricane Tomas the capacity of the dam was reduced by 30 percent. Since that incident, there has been a gradual accretion of silt. Therefore, the dredging of the dam is imperative. Funding for the mobilisation of the first phase of the dredging in the amount of $3.1 million has already been approved. We are in discussions with a development partner to mobilise some additional grant funds to assist with the water

sector, included in which will also be a provision for the desilting of the dam. We hope to be in a position to speak more on this within the next few weeks.

6.5.7 RURAL WATER SYSTEMS

Resolving the chronic problem of providing reliable potable water to our towns, villages and communities must also be given priority, even while addressing the concerns for the north. The water infrastructure supporting the communities of Dennery North, Micoud, Desruisseaux, Vieux-Fort, Delcer, Soufriere, Anse La Raye and Canaries are in urgent need of restoration. This has not been possible due to WASCO's financial constraints. The former Government committed the amount of $7.0 million to assist in funding rural system improvements. To date, some $4.95 million has been disbursed.

Modifications have been done to some rural systems, notably, in Canaries, Upper Grace and Beauséjour in Vieux Fort. Work is on-going on other systems.

Planning for extreme weather has included modifications to rural intakes and expansion of storage capacity, for instance in Vieux Fort. However, a more long term solution to the problems of the water sector in these regions is required.

6.5.8 SOUTHERN AND EASTERN WATER SUPPLY IMPROVEMENT PROJECTS

The Dennery water system is plagued by a number of issues, resulting in a less than efficient supply of water to surrounding communities. Also, the water supply system which serves Vieux Fort, Laborie and environs comprises water abstracted from the Grace and Beauséjour intakes. The water supply in the South has been unreliable and inconsistent in both the dry season as well as the rainy season due to the inadequacy of the systems.

The Government plans to initiate what may be described as the Eastern and Southern Water Supply Improvement Project. This project will focus on the preparation of a

technically and financially feasible programme of works which will lead to an improvement in the reliability of the Dennery and Vieux Fort Water Supply Systems.

This will result in a medium-term water supply redevelopment plan for the two systems, Vieux Fort and Dennery, as well as preliminary designs, performance and other relevant specifications, and tender documents for the proposed capital works.

6.5.9 MEDIUM TERM: GROUNDWATER MAY BE IN THE MIX

Finding and mapping underground water resources is another option which is being explored for the two regions. Although groundwater exploration has met severe water quality challenges, the Groundwater Exploration Study completed by Professor Dale Morgan of the Massachusetts Institute of Technology (MIT) in 2012 suggested a short-to-medium term solution to many of the problems of the east, west and south coast communities.

The study attempted to explore extraction points along rivers that would provide higher yield than is currently being realised from existing intakes. This exploration has been successful and several productive extraction points have been identified namely on the *Grande Rivière du Vieux Fort* near Grace and near Tournesse in the Mabouya Valley Catchment. However, the required works for getting the water into the existing networks are significant. It will require pump stations and additional pipe-work for integration.

To this end, Government has engaged the CDB to secure a grant in the sum of US$150,000 to finance a consultancy towards the redevelopment of the Vieux-Fort water supply. The consultancy will, inter alia, review the water resource assessment studies conducted by Professor Dale Morgan in 2012; review existing infrastructure; conduct cost benefit analyses; develop bid documents including cost estimates; and prepare proposals for a design and build consultancy for the Vieux Fort water supply.

The consultancy will also consider some preliminary considerations for the Dennery area in the east, for which WASCO has already completed the design of infrastructure for the Mabouya Valley, based on a new intake at Tournesse.

In addition, the CDB has agreed, in principle, to fund, through a concessionary loan, the redevelopment of the Vieux Fort water supply to the tune of approximately US$10 million, based on the consultancy referred to herein, and it is our intention to extend this work to also address the supply for Dennery.

6.5.10 LONG TERM: CONSTRUCTION OF SOUTHERN DAM

However, Mr. Speaker, if we are to pursue major expansion of economic development in the southern region from Choiseul through to Dennery, we must then be able to provide a water system that can provide cover for periods of extended drought. Long term solution options are desalination or the construction of a new dam.

Desalination plants require heavy technical and engineering inputs both during construction and regular functioning, and operational costs are generally high. Therefore, a dam to service the south and east of the island is viewed as an inevitable long term solution to meeting the demands for water.

What is envisaged is the construction of a new dam on the Troumassee River, the second largest water catchment on the island.

This was identified in a feasibility study conducted since the late nineties, and Government will begin taking preparatory steps to secure this long term investment.

6.6 GOVERNMENT OFFICES: AN OPPORTUNITY FOR PARTNERSHIP

Mr. Speaker, this Government is in search of new partnerships with the private sector to resolve some of our other old problems.

One of the burning issues facing the Government is the high cost of rental of properties to accommodate its offices. This fiscal year, the Government of Saint Lucia is projected to spend $39 million on rental of properties. It is true that this figure includes lease payments for properties abroad to house our diplomatic missions and to provide accommodation for our foreign officers. However, even when these payments are subtracted, the financial outlay remains significant.

While the Government is aware that the private sector benefits from the rental arrangements, the present situation results in very inefficient delivery of services to the public. Government offices are located in diverse places and sometimes it is taxing and difficult to locate them, much to the annoyance of members of the public.

However, it is clear that the current fiscal situation does not allow the Government to borrow to construct new offices.

We therefore propose to enter into partnerships with the Private Sector, whether local or regional, either utilising the BOLT mechanism or alternatively, in joint partnership with reputable firms or entities.

In the case of the joint partnership, the following shall apply:

i. The Government is prepared to accept 49% of the investment and concede 51% to its Private Sector partner;
ii. The Government will enter into a long term lease with its partner;
iii. The Government will concede the management of the leased property to its private sector partner; and
iv. The Government is prepared to contribute the value of the land on which the building is constructed towards its equity in the partnership.

The Government proposes commencement of works on one such building within this financial year.

6.6.1 VIEUX FORT ADMINISTRATIVE COMPLEX

Mr. Speaker, in addition to the proposed building above, one of the major projects planned by this Government is the construction of a major Administrative Complex for Vieux Fort.

Throughout the island, there is a constant plea by citizens that government services be brought to them. Citizens often have to travel from remote corners to Castries to access basic government services. Admittedly, there has been some improvement over the years, but this has largely been rather piecemeal.
Currently, the few services offered to the citizens of the southern half of the island are dispersed in several buildings in the Vieux Fort community, at great cost to the Government of Saint Lucia and inconvenience to the public.

Mr. Speaker, I am pleased to advise Honourable Members, that the National Insurance Corporation has agreed to construct and lease to the Government of Saint Lucia, an Administrative Complex to house all of the operations of the Government including the Vieux Fort Constituency Council. The building will also accommodate a Civil Status Registry, so no longer would citizens have to travel to Castries to obtain copies of vital civil status records.

My Speaker, there is one other dimension that merits mention at this time. Undoubtedly, the National Insurance Corporation has played a vital role in enhancing our national infrastructure. There is good evidence of its investment efforts.

The Corporation has constructed a car park and three major office buildings in Castries, and several fire and police stations throughout the island, the latest in Babonneau. Now, it has a Financial Complex under construction at Pointe Seraphine.

While these investments are critical, it is also important that there is geographic equity in the spread of public buildings, after all, as the NIC is fond of saying it exists "for the good of us all." I look forward to the day when investments will also take place in other towns and villages.

7 EXPORT & PRODUCTIVE SECTOR EXPANSION

As a small open economy, Saint Lucia is highly dependent on international trade. The generation of foreign exchange is therefore critical to the maintenance of a healthy balance of payments. We must continue to expand our exports of goods and services.

7.1 HELPING COMPANIES EXPORT

In the year under review, the Trade Export Promotion Agency (TEPA), embarked on a vigorous programme aimed at exposing Saint Lucian goods and services in existing and new markets. Hence, local exports were showcased in Canada, Trinidad and Tobago, Guadeloupe, Cuba, Dominican Republic, Barbados, Guyana and the United Kingdom. Twenty-one firms were provided with marketing support while fifty were assisted in participating in export promotion events.

A new trade information network was developed with a database of all Saint Lucian exporters, while work was undertaken with the Caribbean Export Development Agency to build market intelligence on the identified export markets.

Activities to impact on the supply side of the private sector, Mr. Speaker, will include a complete review and development of a new National Export Strategy, funds for which have been secured from the International Trade Centre in Geneva, implementation of a structured programme to assist potential exporters to overcome market constraints and support for quality improvements at the firm level to access markets by introduction of internationally recognised standards. In addition, Mr. Speaker, emphasis will be placed on supporting sectors build institutional capacity such as associations and cooperatives so that the concerns of entities with similar interests can be dealt with in a coordinated manner.

7.2 FISCAL INCENTIVES REFORM

Government, through the Ministry of Commerce and Business Development will implement a new incentives regime which will replace the outdated Fiscal Incentives Act of 1974. This new instrument will seek to tie the grant of incentives to performance.

It will emphasise a strong monitoring mechanism and will seek to grant more incentives to the sectors deemed as priority within the *Medium Term Development Strategy*. As mentioned earlier, the Ministry of Commerce will also seek to develop a services policy out of which will emerge a regime of incentives for the services sector.
In addition, Mr. Speaker, that ministry will complete an *Investment Policy and Strategy* framework, which will guide the investment promotion activities of Invest Saint Lucia so that our investment promotion activities will be more targeted and strategic.

7.3 INVESTMENT IN TOURISM

Mr. Speaker, Tourism plays a vital role in our economy and Saint Lucia's near and medium term prospects continue to depend on the vibrancy and innovativeness of this sector.

The industry's role in the recovery effort is critical on two levels, especially in this period. First, in the short term we have to rely on the sector as a source for attracting Foreign Direct Investment (FDI) into the country to facilitate increased short term employment. Any expansion of the tourism plant associated with these investments would provide the basis for some sustainable increase in tourism arrivals and growth. For this to succeed, we need the right type of investment into the sector.

Saint Lucia is doing exceedingly well in the high end boutique type segment of the market and the Government will seek ways to encourage investment in these type of properties.

7.3.1 MARKETING AND PRODUCT DEVELOPMENT

Despite the challenges and the cut backs made in the capital programme, the Government will maintain the same level of support as provided during the last financial year for marketing.

This level of support will enable the Saint Lucia Tourist Board to broaden its activities this year relative to the previous year on account of the fact that a significant portion of

last year's vote was used to deal with the debt overhang left during the tenure of the former Minister of Tourism. Having significantly reduced the level of outstanding obligations, the planned allocation will free up resources to engage in actual marketing and product development.

7.3.2 GROWING ARRIVALS IN THE SHORT TERM

Creating a sustained and substantial increase in visitor arrivals would require an increase in the stock of rooms. While we await the enactment of the *Tourism Stabilisation and Investment Bill* announced by Her Excellency in the Throne Speech, a mix of alternative strategies will be pursued in the short term to generate higher arrivals.

These will include:

i. Increasing airlift;

ii. Increasing yacht arrivals;

iii. Stimulating summer travel and on-island expenditure;

iv. Exploration of new markets; and

v. Support for small properties.

7.3.3 INCREASING AIR CAPACITY

In some quarters, it is perceived that increasing airlift is the magic bullet needed to increase arrivals. However, this can only really be viewed as one aspect of the challenge to increase arrivals. This Government will take measures that are sensible, realistic and cost effective to increase airlift as part of the overall strategy for boosting tourist arrivals.

In this regard, SLTB continues to negotiate with the existing carriers (American, Jet Blue, Delta, US Airways) to increase capacity and frequency.

The introduction of United Airlines in July 13th 2013 and an additional 1300 seats for the winter from Virgin Atlantic, starting in November this year, along with the introduction of a weekly winter service by Thomas Cook out of Manchester will result in an increase in airlift to the island.

Seat capacity from the US market is expected to increase by more than 10 percent and this is likely to result in a commensurate growth in arrivals.

7.3.4 INCREASING YACHT ARRIVALS

In 2012, yacht arrivals in Saint Lucia grew by 6 percent from the previous year. These noticeable increases suggest that Saint Lucia is being repositioned as a "*Southern Caribbean Charter Hub*."

The marketing at two international boat shows and formal relationships with *American Yacht Charter Brokers* have made the destination a growing favourite for mega yachts and super yachts chartering the Caribbean.

In 2013, the Ministry of Tourism will be working to increase yacht arrivals to the island by another 15 per cent. This will be achieved by the implementation of yacht registration, aggressive marketing in key markets and further investment in building capacity in the critical services needed to service visiting yachts.

A programme to teach maritime skills will be initiated and supported by a maritime fund to give young persons access to finance to establish maritime-related businesses.

We will also seek to explore fully a strategic alliance with boat builders in the Republic of China (Taiwan) to promote the development of our own Maritime Sector.

7.3.5 STIMULATING SUMMER TRAVEL AND ON-ISLAND EXPENDITURE

The SLTB will be launching a destination-wide programme in North America to encourage travel during the summer into the fall (June 1st to September 30th). The programme will include a discount card which will complement the summer packages to be offered by the hotels. The discount card will be given to arrivals from North America and the Caribbean, incentivising them to take more tours, shop, dine, use car rentals and other services.

This will serve as an incentive for wider movements around the island and yield greater overall spending.

7.3.6 NEW MARKET EXPLORATION: BRAZIL AND PANAMA

The tourism sector is now actively seeking to expand its frontier by moving into potentially new markets such as Brazil, Panama and other countries in Latin America. We will do so by developing a link with *Copa Airlines,* whose hub and home base is Panama.

The Saint Lucia Tourist Board will be attending the major trade and travel shows in Brazil and will also participate in collaboration with the private sector in a number of activities to generate awareness of the destination. Those initiatives could start bearing fruit as early as September and likely to spur arrivals in the seasonally low summer months.

I am pleased to advise Honourable Members that the Government plans to invest US$2.0 million dollars in a bid to develop the Latin American market for Saint Lucia to increase our arrivals from that region. This amount will be matched by a further US$1.0 million from the Sandals Group of Companies. The parties will sign a Memorandum of Understanding to seal their agreement. This is a welcome gesture for which the Government is exceedingly grateful.

7.3.7 SPECIAL PROGRAMME FOR SMALL PROPERTIES

Mr Speaker, the needs of small properties in the sector will not be ignored by this Government.

A pilot project is being tested in Martinique and Guadeloupe to promote and market a cross section of small properties. SLTB is working with a selection of 12 properties within the small hotels sector to develop a strategy for marketing their properties in the French Caribbean. To start off, the hotels will introduce their properties as a group to the travel agencies and tour operators in Martinique. The idea is to have a centralised booking system for all participating hotels, with special rates being offered to the travels agencies and tour operators.

An agreement has to be reached on the commission to be paid to the travel trade. This initiative should commence in June 2013 and if it is successful, additional properties will be invited to join.

This will allow participating properties an avenue to take advantage of the Caribbean Tourism Organisation's new room inventory management system which is available for smaller properties. In addition, Government will support the training and development for small properties to boost skills sets. It will continue to host marketing boot camps and focus training on areas which can aid these properties in self-marketing.

The SLTB will also be offering an accommodations credit to visitors staying at properties in the "Small and Private" collection for a specified booking and travel window. The credit will take the form of an extra night accommodation at the targeted small properties subsidized by the Government though the Tourist Board. This, we believe, is more advantageous than airline credits as it targets a market segment more in need of assistance.

7.4 SUPPORT FOR CREATIVE INDUSTRIES

Mr. Speaker, this Government continues to be committed to the young people of our country. In particular, we wish to continue supporting their dreams and enterprise.

One of the sectors that matters significantly for our youth is the Creative Industries Sector. Art, Design, Music and Entertainment continue to present significant opportunities for the spread of wealth, and the creation of new wealth for our economy. This continues to be highlighted as a services sector in which the Caribbean has a natural advantage. And so, we in Saint Lucia must leverage our natural talent.

This year, the Government has committed $2 million towards the promotion of the Creative Industries.

We intend to focus these funds on the following sub-measures:

i. Legislative and regulatory development;
ii. Small Grants for Creative Development;
iii. National Performing Arts Programme;
iv. Art in Public Spaces; and
v. Enhancement of Skills and Talent.

7.4.1 LEGISLATIVE & REGULATORY STRENGTHENING

Mr. Speaker, Government will set aside funds for the development of a Creative Industries Policy and Action Plan. A *Creative Industries Act* will be enacted, which will provide the framework for incentives and concessions for our artists, creative designers and cultural entrepreneurs.

This will build on consultations which have already been held in 2012. We hope that this initiative will begin moves towards the establishment of a National Festivals Commission.

We will also support strengthening capacity of creative sector groups, with an eye to support standards, quality and competitiveness.

7.4.2 SMALL GRANTS FOR CREATIVE ENTERPRISE

While we wait for the passage of this Act and other regulatory mechanisms, we will establish a *Creative Industries Grants Fund* in the amount of $500,000 or 25% of the budget head, to provide, in the interim, small grants for creative industries.

Grants will be for up to a maximum of $20,000 and will be selected through a defined and transparent process. Selection will be through a competent *Grants Committee* which will review submissions every quarter. The terms and application details will be announced subsequently by the responsible Ministry. The emphasis must be placed on investments that enhance the competitiveness and exportability of our creative products.

7.4.3 PERFORMING ARTS IN THE COMMUNITIES

We will also continue to support the *National Performing Arts Programme* launched last year, with venues throughout the island, and supported initially through NICE. This programme has the power to provide live entertainment and pageantry to our community festivals and in fact can find synergies with enhancing our tourism product, so that our visitors might get a taste of the richness and diversity of our talents. As such, Mr. Speaker, at least $500,000 will be allocated towards this programme.

7.4.4 ART IN PUBLIC SPACES

Art in public spaces, particularly our parks, thoroughfares and public buildings, is another initiative which the Government wishes to promote. We need to find means of embellishing our island, so that its natural beauty is complemented by the creations of man. As such, we will support this initiative by an initial amount of $100,000 to assist with the commissioning of murals, paintings and sculptures.

However, in addition to this Government will introduce a policy, consistent with *Our Blueprint for Growth*, that all new Government facilities must make allowance for the provision of public works of art.

7.4.5 ENHANCING TALENT THROUGH TRAINING

Finally, Mr. Speaker, we shall support the development of talents through providing opportunities for growth and development of specific target groups to channel creative energy. These may be directed towards the hosting of seminars, workshops and master classes in particular sectors such as fashion design, web design, music and the like. A sum of $200,000 has been earmarked for this.

7.5 INTERVENTIONS IN AGRICULTURE & FISHERIES

I now turn to initiatives in Agriculture. Our Government believes the Agricultural Sector has a very important role to play in the revitalisation of our rural communities. Government wishes encourage young people to engage in modern agricultural practices which add value to our range of primary products. This is not only a means of promoting food security but also encouraging greater consumption of local products in our Tourism and Hospitality Sector.

It is for these reasons we will be focusing significant efforts from this Financial Year on the transformation and reenergising of our Agriculture Sector.

7.5.1 AGRICULTURAL TRANSFORMATION PROGRAMME

Mr. Speaker, as Honourable Members are aware, the European Union has allocated 10.35 million euros or about 37 million EC dollars in support to Saint Lucia under its Banana Accompanying Measures (BAM), to begin rollout in the financial year and through to the year 2018. For our purpose, the initiatives have been named the Agricultural Transformation Programme.

The BAM is expected to fulfil the goals of EU cooperation with ACP countries: reducing poverty, fostering sustainable growth and ensuring these countries' smooth integration into the world economy. The measures will support the adjustment process in ACP banana exporting countries, taking into consideration the countries' own policies and adaptation strategies and they will focus primarily on three goals:

i. Boosting the sector's competitiveness by supporting banana exporters to become more competitive in countries where producers stand a good chance of adapting to developments in international trade in the long term;

ii. Promoting economic diversification by helping areas which currently depend on banana exports to generate income in other ways that can help reduce their vulnerability, whether this new income complements or replaces income from banana exports; and

iii. Addressing the broader impact of adaptation on employment, education and healthcare, land use and the environment.

The approved areas with individual budgets are as follows:

Table 2 Agricultural Transformation Programme

Project	Budget €
Agri-Enterprise for Youth	1,836,000.00
Agri-Enterprise Facilitation	1,310,000.00
Disaster Risk Reduction in the Agricultural Sector	2,605,000.00
National Diagnostic Facility	2,480,000.00
Total	**8,231,000.00**
Other budget lines include operating costs, technical and financial audit, visibility, programme evaluation and monitoring, and contingencies.	2,119,000.00
Grand total	**10,350,000.00**

7.5.2 UPGRADE OF FISH LANDING SITES

This year, Mr. Speaker, the Government has decided to bring some relief to the fisher-folk of Praslin and Savannes Bay.

The Government will rehabilitate the fish landing facilities in both communities to the amount of $1.1 million. Of this amount, $600,000 will go towards upgrades at Praslin and $500,000 for a new jetty at Savannes Bay. It is expected that both projects will be submitted to the Republic of China (Taiwan) for financing.

7.5.3 COCONUT REPLANTING PROGRAMME

Additionally, Mr. Speaker, I wish to draw the attention of Honourable Members to the initiative of the Government to commence a programme to replant coconuts throughout the island. The coconut and its by-products, once repudiated, are now in very high demand, in the United States and elsewhere. We plan to capitalize on this global interest in one of our traditional crops. An amount of $100,000 has been allocated to this programme.

7.5.4 INCENTIVES FOR HOUSEHOLD GARDENS

Mr. Speaker, we have long spoken to the issues of food security and for our people to grow more of their own foods.

While there has long been a tradition of farmers not falling within the remit of taxation, a number of persons engage in small scale farming, in their backyards and on other properties, but as a part-time venture. This, we should certainly encourage. Government wishes to support these ventures, particularly because they may result in additional employment within the agricultural sector.

Mr. Speaker, I wish to advise that a task force will be established, to be spearheaded by the Ministry of Agriculture and the Ministry of Finance to develop recommendations on supporting hobby farming.

In particular, Government will consider the placement of an individual income tax allowance of $5,000 per annum. Individuals would of course have to be properly certified by the Ministry of Agriculture.

8 MEASURES TO SUPPORT ENERGY AND THE ENVIRONMENT

Mr. Speaker, I wish to turn to a matter which affects our livelihoods from the way we travel to what we eat out of, that is the interwoven issues of energy and our environment. As our world gets hotter, we can now see the effects of Climate Change in nearly all parts of the world, and in particular, Saint Lucia. As a small island state in the Caribbean, Saint Lucia is particularly vulnerable to its negative impacts.

Beyond this, Mr. Speaker, even while we are not major global contributors to Climate Change, we depend very heavily on the fossil fuels that cause it, whether directly through our travel, when cooking, or when we turn on the lights; or indirectly when we purchase items made of plastic, or food grown by fertilisers which are derivatives of fossil fuels.

Last year, Saint Lucia imported the equivalent of 1.4 million barrels of oil in the form of diesel, gasoline and LPG, representing a 4 per cent increase over 2011. In dollar value, it costs the country over $300 million to import.

In fact, this is about three times our fuel costs a decade ago. This of course impinges on operating costs for all sectors of the economy, whether for electricity or for transport.

8.1 FUEL PRICES & PUBLIC TRANSPORT

Mr. Speaker, as indicated earlier, last year the Government implemented the pass through mechanism to enable a three month revision of prices at the pump, so as to allow some stability for vehicle operators.

I wish to point out that, contrary to suggestions in some quarters, the Government's collection of Excise Tax under this mechanism has not increased. In fact, it remains far below what was collected under the former Government. Last year, the Excise Tax on gasoline averaged $1.63 per gallon and diesel $2.29 per gallon, well under the $3.00 per gallon which both fuels were pegged at one time, under the former administration.

This has, of course, resulted in a notable reduction in Excise Tax as Government sought to provide relief to the population. Government also provided a $2 million subsidy in the past year for the Public Transport Sector to offset costs.

However, Government no longer has the fiscal space to provide such subsidies and so we collectively must begin to look seriously at actions to contain or reduce our fuel usage over the medium term. We will however, continue to maintain the subsidy, or the negative Excise Tax, on 20lb LPG cylinders, within reasonable means.

8.2 PROMOTING SUSTAINABLE ENERGY

One area which Government will move vigorously to pursue this year is the use of alternative sources of energy to reduce electricity consumption from fossil fuels.

8.2.1 A COMMITMENT TO RENEWABLE ENERGY GENERATION

Our Government made a commitment in *Our Blueprint for Growth* to have Saint Lucia meet 20% of its energy needs from renewable sources by 20% by the year 2020 and to reduce traditional electricity consumption in the Public Service by 20%, also by the year 2020.

This commitment is anchored in the understanding that renewable energy as part of the mix would have positive impacts in myriad areas such as:

i. Reducing operating costs in the productive sectors such as tourism and manufacturing;
ii. Shrinking of our carbon footprint;
iii. Buffering our island from the volatilities of the world oil market;
iv. Improving Saint Lucia's attractiveness and competitiveness for FDIs and doing business;
v. Long term savings to consumers through a reduction in the cost of electricity; and
vi. Creating of the sustainable energy sector as a new sphere of economic growth and jobs.

We have started working toward these goals by vigorously pursuing the establishment of renewable energy generation facilities in the areas of geothermal, wind and solar photovoltaic. More will be said on these initiatives during the course of this Financial Year.

8.2.2 AMENDING THE ELECTRICITY SUPPLY ACT

The Electricity Supply Act will be revised this year to make possible commercial operations of independent renewable energy power producers and to set up an independent regulator for the energy sector. It will thus, also make way for net metering so that small renewable energy producers can feed into the grid.

There is a strong possibility that we will follow a model that has worked very efficiently in other jurisdictions by establishing one Office of Utility Regulation to cater to both the water and energy sectors.

8.2.3 ENERGY USE IN THE PUBLIC SECTOR

Mr. Speaker, as alluded to in the Throne Speech, Government will also embark on the introduction of solar PV arrays at selected Government facilities. We will also be undertaking energy efficiency measures.

We started in the last Financial Year with the installation of 50 LED street lights in the City Centre to replace the existing high-energy sodium lights. This Financial Year we will continue this project in Castries, Vieux Fort, Soufriere and Gros Islet. When completed, this will result in significant savings in Government's electricity bill.

8.2.4 TAX CONCESSIONS & INCENTIVES FOR RENEWABLE ENERGY SYSTEMS

However, if this sector is to grow, it will require incentives for businesses and individuals to make the transition. Just as a power plant is an expensive undertaking for a country, so too would a "micro-plant" be for a household or business due to the relatively high initial costs. Therefore, Government will then provide the enabling environment through a mix of tax concessions, the possibility of a favourable tariff structure and concessionary financing.

During the financial year, Government will pronounce on a range of special tax measures that will provide a tax write-off for renewable energy systems for both businesses and households.

These concessions will include:

i. Income Tax deductions for installed renewable energy systems and energy efficiency measures;

ii. Import duty exemptions for all imported components of renewable energy and energy efficiency components following approval of the specifications from Government;

iii. A Property Tax deduction on new properties that are built using approved energy efficiency techniques and utilise energy efficient lighting and/or cooling equipment; and

iv. A Duty and Excise Tax exemption on the importation of all vehicles and vehicle conversion equipment that allow operation on sustainable fuels.

Mr. Speaker, Government is also pleased to indicate that there will soon be a special loan facility through the Saint Lucia Development Bank to finance renewable energy and energy efficiency initiatives.

8.3 PROMOTING PLASTICS RECYCLING

Mr. Speaker, one of the by-products of fossil fuels is plastic. And while we all use it, it poses a particular challenge for disposal because it is non-biodegradable.

In particular, we also see its negative side effects not only on marine life and garbage on beaches and waterways, but particularly when it rains. Our flooding problem in Castries can in some measure be attributed to plastic bottles which easily clog our storm drainage systems.

In 2003, when I addressed this House on an occasion such as this, I had proposed the introduction of a *Refundable Containers Act*. The benefits of this legislation, once enforced, would have provided for a refund for plastic bottles and other containers.

It would encourage the compaction of recycling of plastics and would of course have the benefit of keeping our country clean, reduce flooding, extend the life of our land fills, promote recycling and creating new jobs.

While there was opposition to this in the past, and I am sure there may well be opposition in a few quarters now, I think that our country can no longer afford to allow such an obvious solution to go unimplemented any further.

As such, I trust all Honourable members will support this timely intervention when put to the House this year.

9 HUMAN AND SOCIAL DEVELOPMENT INITIATIVES

Mr. Speaker, I wish to now turn to some noteworthy initiatives to be undertaken to boost our human development efforts and promoting social stability.

9.1 DEVELOPMENTS IN EDUCATION

I speak first, Mr. Speaker, to the matter of educating our children. By now it is almost cliché to suggest that the world in which we live is changing rapidly. Advances in technology and improved methods of communication and networking have radically altered the landscape in which we live, work and play. Our work force requires not just employees who are literate and numerate, but people who can think strategically, can communicate effectively with a range of audiences, can work efficiently within a team structure, and have the ability to adjust to changes in a dynamic labour market.
Therefore, the challenge for us is to develop an education system that can respond to these new demands and create the Saint Lucian citizens of the 21st Century.

9.1.1 CURRICULUM REFORM

Mr. Speaker, we have made immense strides in expanding access to education. In our previous term in government we introduced Universal Secondary Education and we have pledged to implement Universal Early Childhood Education in this current term of office.

Unfortunately, however, the internal workings of our education system have not changed much, and the structure and content have not kept pace with the era in which we live or the needs of our society.

We cannot speak to becoming more competitive and productive if we do not attend to the human element of economic growth, that of skills, knowledge, aptitude, attitudes, the nurturing of abilities.

A number of reviews have occurred during the past year. They all speak to the need for curriculum reform. These include the already mentioned Labour Market Survey and the discussions raised by the *Post-2015* and *Caribbean Growth Forum* consultations.

As such, Government will begin the process of shaping a curriculum which prepares our people for present and future realities. This review will be undertaken by the Ministry of Education in tandem with the National Vision Commission.

9.1.2 LAPTOP PROGRAMME

Mr. Speaker, not only must we change the substance of what is taught, but also the media for learning and delivery. In the Saint Lucia Labour Party's *Blueprint for Growth* on page 34, we promised to "provide every secondary school student, upon entering fourth form, with a laptop computer." I am pleased to announce that we will fulfil that promise this academic year.

We will do so with the help of the Government of Trinidad and Tobago.

That Government has an established programme to provide laptops to secondary school students in Trinidad and Tobago. At the request of the Government of Saint Lucia, the Government of Trinidad and Tobago has agreed to purchase, on our behalf, the laptops which we require for this academic year. We hope to benefit from bulk purchasing, thereby paying less per computer.

The Government of Trinidad and Tobago has agreed to train our teachers in the use of

the laptops in order to properly guide our students, who I am sure, may be tempted to use them for other purposes.

A Memorandum of Understanding will be signed by both parties to give effect, inter alia, to these basic points of agreements.

However, the Government will revise its approach to providing laptops to students. It seems that it would be far more beneficial to provide computers or tablets to students at the commencement of their secondary education, rather than the terminal stages.

Government will, therefore, revise its laptop programme and commencing the 2014 academic year, provide laptops to students of Form 1 in secondary schools rather than in Form 4 as originally indicated.

This would serve as an initial step towards integrating ICT into the learning system in schools. The Government is in the process of exploring opportunities to improve the capacity of our IT infrastructure and human resources to ensure that the students gain the maximum benefit from these tools being provided to them.

9.1.3 PARTIAL ZONING OF SECONDARY SCHOOLS

Mr. Speaker, in the coming academic year, that is for students sitting the Common Entrance Examination in June of this year, we will introduce a system of partial zoning in our schools. The details of this initiative have already been provided in the Throne Speech and so will not be repeated, save to say that in the coming weeks the ministry will engage in island wide consultations to explain the proposed system to parents.

9.1.4 SCHOOL REHABILITATION WORKS

Meanwhile, Mr. Speaker, the Government will continue rehabilitation works at our schools, all financed under the basic Education Enhancement Project (BEEP). Works have already commenced at four schools, Dernière Riviere, Dennery Primary, Desruisseaux, and Saltibus Combined.

Work will commence on an additional eight schools this financial year. An amount of $8.2 million has been allocated in this Budget to meet the cost of these projects. Two secondary schools will benefit, namely Corinth and Clendon Mason Memorial. Clendon

Mason will also benefit from a covered space for assemblies. The learning environment of five other institutions will also be improved. These are the La Guerre, Fond Assau, Vide Bouteille Primary, Methodist Primary and the Vieux Fort Infant.

9.2 HEALTH INFRASTRUCTURE

Mr. Speaker, let us now turn to the health sector, and in particular, the progress on the construction and commissioning of our new hospitals.

9.2.1 NEW NATIONAL HOSPITAL

Progress on the commissioning of the New National Hospital continues at a vigorous pace, with the support from the NAO and other stakeholders.

With handover of the site expected before year end, the activities related to Government of Saint Lucia's counterpart construction are anticipated to commence in May 2013, with the largest deliverable, construction of the cafeteria, to be completed early 2014.

Other activities towards commissioning include, the supply of equipment and furniture, information technology systems and architecture, telecommunications, statutorisation and governance, human resource assessment, security assessment and organizational polices and procedures. The work plan envisages that the official handover and operationalising of the new hospital can reasonably take place in the latter part of 2014.

9.2.2 ST. JUDE HOSPITAL RECONSTRUCTION

The St. Jude Hospital Reconstruction Project is progressing, but at a pace none of us could applaud.

When this projected was first conceived, an amount of $33.8 million was allocated to it. It quickly became clear that the hospital could not be partially restored but that the entire property had to be demolished in parts and rebuilt.

The former Government increased the allocation towards the construction of the hospital to $46.4 million dollars.

This Government has now been advised that this estimate is far below the real cost of the hospital and additional resources will have to be identified to ensure its completion.

Indeed, the cost of the hospital, including the purchase of equipment, is now estimated at $115 million dollars. As at the end of the 2012/13 Financial Year, the Government had spent some $47.4 million on rebuilding St Jude, leaving a shortfall of nearly $68 million. This could not have come at a worse possible time given the fiscal challenges facing the country. For all practical purposes, the St Jude Hospital will be a totally new hospital.

Elements of construction that were critical to the functioning of the hospital will be prioritised to expedite implementation and speed up the reopening of the new St Jude Hospital.

9.3 ELEMENTS OF A STRATEGIC PLAN FOR HEALTH SECTOR

Mr. Speaker, I want now, to focus more closely on the elements of our strategic plan for the Health Sector.

The EU has funded a project under the 10th EDF with the objective to support the Government's health sector reform process. The purpose is to support implementation of four specific areas of the National Health Strategic Plan.

9.3.1 IMPROVED MANAGEMENT AND DELIVERY OF SERVICES

The first and most important is the improvement in the management and delivery of services. Specific activities to enable this are, inter alia, review and update of health legislation, management training for health personnel, development and implementation of a quality assurance system for all levels of the health sector, and strengthening of the Epidemiology Department to effectively analyse and utilise data from the health management information system.

9.3.2 A SUSTAINABLE HEALTH FINANCING SYSTEM

Mr. Speaker, it is pointless to build new health infrastructure if we do not resolve the issue of financing the cost of health care. A sustainable health financing system must be developed and implemented.

Specific activities to enable this are, implementation of the recommendations of the Universal Health Coverage Policy Analysis which was recently approved by the Government, and obtaining further technical assistance in finalizing and implementing the system.

9.3.3 HEALTH MANAGEMENT INFORMATION SYSTEM

It is equally vital that if we are to modernise the delivery of health care, we must have an accurate and accessible Health Management Information System (HMIS). This will entail expansion of the present system to all levels of the health sector and the training for staff at all levels in the health system. A sum of $1.5 million has been allocated for this initiative this fiscal year.

9.3.4 MANAGEMENT OF CHRONIC NON-COMMUNICABLE DISEASES

Diseases such as diabetes, hypertension and cancer continue to impact in a significant way on the health of our people. As such, we need to manage better these chronic non-communicable diseases, known by the acronym CNCDs. Specific activities to enable this will include the development and implementation of a broad-based multi-sectoral wellness and prevention programme for CNCDs; improving diagnostic capability and including quality assurance within this programme; development of modern management programmes for mental health and oral health; improvement of maternal and child health services; and the rationalisation of pharmacy services.

9.3.5 UNIVERSAL HEALTH COVERAGE

The Government of Saint Lucia is committed to moving forward with the decision to implement a Universal Health Coverage (UHC) strategy. The initiative aims to provide equitable access to quality health care services in a cost effective manner that is also affordable to all residents in Saint Lucia, especially the most disadvantaged in society.
In 2006 the UHC pilot project was launched providing screening and free medication for persons suffering from diabetes and diabetics who also had hypertension. The

Ministry of Health is currently finalising a plan to expand the UHC policy to cover all other persons suffering from hypertension. This is urgent given the fact that hypertension often accompanies diabetes and is by far the most common non-communicable disease.

The Ministry of Health is working assiduously towards the full implementation of the UHC initiative. This will include the design and costing of the essential package of health services, followed by a position paper on the health financing strategy, which will include options for delivering this package of services. The expected completion date for the sign off of the health financing strategy is March, 2014.

Once approved, the actual implementation can be completed in approximately one year. The UHC will revolutionise the way healthcare is delivered in Saint Lucia.

9.4 A SAFE AND SECURE ENVIRONMENT

Mr. Speaker, permit me to now turn to on-going initiatives under citizen security.

In addition to the employment of 56 new special police constables and 51 new regular constables to increase the capacity of the Royal Saint Lucia Police Force (RSLPF), strides were made in improving the technological infrastructure to employ modern methods of crime solving and prevention.

During the course of last year, the Automated Fingerprint Identification System, or AFIS, donated by the Caribbean Basin Security Initiative in June 2012 was installed and operationalised. The first success of the system was recorded when the police was able to identify the killer in a homicide in the Vigie area, using the AFIS.

Additionally, the former Government embarked on a CCTV project whereby video surveillance cameras have been placed in areas prone to criminal activity, gangs and violence.

This Government continued this programme despite the exceedingly high cost of its installation and maintenance. This project is 88 percent completed and is expected to continue in the 2013/14 financial year. This project has proven useful to the Police in assisting them in solving two high profile murders. However, these cameras, negotiated by the former government come at a huge and unanticipated cost.

Other initiatives are on-going as we strive to fight crime and create a safer and secure environment for all.

9.5 TACKLING UNEMPLOYMENT

Mr. Speaker, the employment initiatives introduced last year will be continued and gain momentum this coming year. However, in an effort to build efficiencies to ensure that we are constantly providing excellent services to the general public, we will seek to consolidate various employment initiatives to improve delivery and impact.

9.5.1 CONSOLIDATION OF VARIOUS EMPLOYMENT INITIATIVES

Given our current economic climate, the Government will seek to bring together the number of the social/employment programme under a single administrative structure to achieve better coordination, greater efficiency of operations and cost savings. The focus should be on expanding one or two agencies to absorb the social initiatives in a more cohesive and targeted manner in order to promote succession, accreditation and improved results.

9.5.2 STRENGTHENING THE TRAINING ELEMENTS OF EMPLOYMENT INITIATIVES

Mr. Speaker, it is our intention to ensure that the training programme that we are funding for the short term employment workers is market-driven to guarantee that our youth become employable not only for the short term but for the long term as well. In the training programmes, we will see to it that the beneficiaries are trained in the soft skills and that they have the right work ethic.

9.5.3 MAKING STRATEGIC EMPLOYMENT PLACEMENTS

Mr. Speaker, given the workload of some departments within the public service, the general public has to wait long hours, days and even weeks to get the necessary services that they require. We will utilise the persons from the employment initiatives in order to reduce the bottlenecks that exist in those areas. In this way, we will improve on our efficiency and at the same time create the opportunities for our young persons to be gainfully employed. Some of those departments include the Land Registry and the Civil Status Registry.

9.6 CONSTITUENCY DEVELOPMENT PROGRAMME

The Constituency Development Programme, conceived by the former Government, continues to exceed expectation both in speed of delivery and in the creation of employment at the community level.

Over the last year, the focus continued on creating jobs while at the same time upgrading and enhancing community infrastructure aimed at improving the quality of life throughout Saint Lucia.

With 171 small contracts awarded and spread throughout all 17 constituencies, we created a total of 2,400 short term jobs under the project.

We must, at this time, express heartfelt thanks on behalf of the Government and people of Saint Lucia, to the Government and people of the Republic of China (Taiwan) for their contribution to the Programme. We feel immensely satisfied with the sentiments expressed by the Minster of Foreign Affairs from the Republic of China (Taiwan) at the opening of the road improvement works undertaken at Bon Air.

Once again, we have lived up to a promise made: that all contributions from the Republic of China (Taiwan) intended to be used for community projects will get to these communities, through transparent Government processes.

Last year, a total of $7.7 million was spent on the implementation of new community projects, and meeting some financial obligations and commitments from the previous Administration.

This year, in keeping with the focus of job creation and the improvement of life at the community level, a total of $24.0 million will be injected into the programme. This grant comprises $2.2 million dollars still remaining from the first contribution received from the Republic of China (Taiwan) in the last Fiscal Year and a new grant of $21.8 million for this Financial Year.

Through this programme, we are learning to assess our community interventions, not by the value of our financial expenditure, but by the level of satisfaction they bring to the beneficiaries whose houses used to flood in the past every time it rains; by the fact that some people no longer have to keep an old pair of shoes at the neighbour's house

so they might walk through the mud when it rains; and by the satisfaction that emergency service vehicles can now drive into communities that were once not accessible.

9.7 RELIEF FOR RESIDENTIAL ROADS

Mr. Speaker, it is true that the Constituency Development Programme, along with a small allocation within the Ministry of Infrastructure, will bring long awaited relief to many persons living in residential areas who suffer with poor road conditions, I am aware that the problem is of a mammoth proportion. Residential streets and roads throughout the country are in a poor condition due to unplanned or incomplete developments by private developers. In many instances, the developers have died, leaving the living to suffer their losses.

In many neighbourhoods and communities, property owners have come together to contribute towards road rehabilitation and such actions should be encouraged and appropriately channelled. As such, the Government wishes to propose that residents of subdivisions who wish to pool their resources towards such efforts will find support from the State.

The Ministry of Infrastructure will develop a structured method of rehabilitation support in which residents might place moneys into a special fund for the purpose of road rehabilitation. Property owners would then be able to redeem a tax allowance, up to a limit of $5,000.00 per individual. This tax allowance may be deductable against either income or Property Tax.

The Ministry of Infrastructure would then be responsible for ensuring that road and drainage infrastructure and other works are designed and constructed to acceptable standards.

9.8 SOCIAL HOUSING PROGRAMME

Mr. Speaker, under Housing and Urban Renewal, the Programme for the Regularisation of Unplanned Development (PROUD) will continue the rationalization of unplanned land developments in Saint Lucia.

This programme is designed to improve the poor infrastructural and housing conditions prevalent in informal/squatter settlements and to provide land tenure.

Communities that have benefitted so far include Piaye, Derrière Morne, La Ressource in Vieux Fort, La Tourney, Pays Perdu (Garrand), Des Barras, Ravine Poisson, Sarrot, Cendre De Feu, L'Abbayee, Bexon and La Croix (Laborie). Under the PROUD II, infrastructural works will continue at Bexon, La Croix, La Ressource, L'Abbayee, Sarot and Cendre de Feu.

Noting that a key element of the programme is the ability for the funds to revolve, the proposed sites for the next round of rationalisation are as follows: Eau Piquant, Cantonment, Bruce Ville, Rock Hall and Aux Lyons.

9.8.1 THE ROSEAU RESETTLEMENT SCHEME

Mr Speaker, one of the last remaining vestiges of our plantation legacy is the distressing condition under which the people of the small community of Roseau reside. Their ancestors toiled on sugar estates and then on banana fields for years. They live in difficult and congested conditions. They endure their conditions silently, waiting for amelioration.

The Government will take the first steps to ease their plight. The Government has acquired a nearby parcel of land to relocate the residents.

The land will be provided with infrastructure and modern amenities. For all practical purposes, it will be a new community, a new start for the residents of Roseau. In this year's budget a sum of $162,000 has been allocated to commence preliminary activities, including a social survey of the community to determine who will be eligible for the new homes.

Once resettlement is completed, at a projected cost in the vicinity of $15 million, the Government will offer the site of the existing community for sale to contribute to the financing of this development.

9.9 SOCIAL PROTECTION PROGRAMMES

This Government seeks to foster inclusive development by securing livelihoods and employment through the implementation of a number of poverty reduction and social protection programmes and initiatives.

In line with the country's Poverty Reduction Strategy and Action Plan, the Basic Needs Trust Fund (BNTF) 7th Programme seeks to support poverty reduction efforts through enhanced access to basic economic infrastructure and human resource services. This will include improvements to living conditions, improved access to water and proper sanitation, quality education and enhancing institutional frameworks within communities and build their capacities to monitor development interventions.

The *After School Programme* will be continued given the positive impact that it has had on youth within various communities around the island.

The implementation of the Social Safety Net Reform Project will continue in this financial year in order to formulate a National Social Protection Policy, reform public assistance programme and facilitate the review of relevant legislation and the establishment of Management Information System and a Beneficiaries Registry.

Holistic Opportunities for Personal Empowerment (HOPE) and National Initiative to Create Employment (NICE) Programme, will also continue in this financial year given that this Government has recognised that a comprehensive strategy is necessary to mitigate the negative effects of the global financial crisis by securing the livelihoods of our most vulnerable and expanding their employment opportunities. These social protection programmes have been designed to spread benefits to the poor and at risk groups within our society so that inclusive socio-economic development is achieved.

9.9.1 SOCIAL SAFETY NETS

Mr. Speaker, we understand the difficulties that some of our citizens are facing in their daily lives. In this Financial Year, Government will endeavour to begin the process of developing new modes of better targeting the poor and indigent in our midst. This will be geared towards ensuring that those who are most in need of assistance are reached. Furthermore, this will help contain Government expenditure on subsidies by eliminating the errors of inclusion.

Currently, the existing framework provides a number of blanket subsidies, which benefits individuals who are not necessarily in need of these services.

9.9.2 SUPPORT FOR DIFFERENTLY-ABLED CHILDREN

Mr. Speaker, there are many parents and families who do their best to take care of the differently-abled children in our midst. It is not easy for these parents, financially or emotionally. It is true that we have advanced in providing special education for these children but we have never singled them out as a group for special support and assistance. While some parents do receive some help from the Public Assistance Programme, not all do.

Some of these parents cannot work because they have to provide care and support on a continuous basis. The Government appreciates that these parents and families will, even in the best of times, require assistance. Their need is, therefore, even more compelling in these challenging times.

I am pleased, therefore, to announce that after confirming the number of children involved, the Government will give a grant of $200 per month per child to assist these parents to meet the cost of maintaining their differently-abled sons and daughters among us. This is a modest amount but it is a start to ease the distress of families.

10 FISCAL CONSOLIDATION

Mr. Speaker, I turn to the fifth element for securing economic growth, that is the consolidation of Central Government's finances. This shall take a mix of initiatives including:

i. Measures to increase revenue;
ii. Measures to reduce expenditure; and
iii. A medium term strategy to reach desired prudential, fiscal targets.

10.1 REVENUE MEASURES

I turn first to the revenue side.

10.1.1 REVIEW OF VAT RATE FOR THE TOURISM SECTOR

In last year's Budget, a reduced rate of VAT of 8 percent was pronounced for the hotel sector and related services. This rate extended until April 30th, 2013, to allow the sector time for adjustments to existing contracts, and provide the opportunity for an impact assessment of this policy before a final determination on an appropriate rate was made. While the Government supports a differential rate for the hotel sector, given its large export component and the ensuing implications for growth, it is now time to address the issue of the long term VAT rate for the sector.

In introducing the VAT, one of the key objectives was to ensure neutrality for the sector. That is to say, the level of tax extracted from the sector should remain unchanged following the implementation of the VAT.

In that regard, data suggest that the amount of revenue collected from the sector has declined by about 30 percent with the implementation of VAT. This implies that at the rate of 8%, VAT has resulted in a tax deduction to the sector.

However, we accept that the distributional effects might vary depending on the type of operation, and the net benefit of the lower rate to the sector relative to the HAT would be less for some entities.

10.1.2 MARKETING SUPPORT FROM HOTELS

In settling on an acceptable rate of VAT for the sector the Government has considered the proposal from the St. Lucia Hotel and Tourism Association to establish a *Tourism Marketing and Product Development Fund*. This fund would be established to assist in financing the marketing activities for the Tourism Sector and would entail a statutory contribution of US $2.00 per room night.

The fund would be managed by a joint public-private sector board. Two-thirds of the membership would comprise persons appointed by the SLHTA. Priorities to be funded would include "minimum revenue guarantees, airlift support, marketing or other related tourism activities.

The fund will be reviewed after one year to determine if it met its objectives. The Government believes that this is a step in the right direction.

Using last year's figure of 2.2 million bed nights, the Ministry of Finance estimates that the fund may yield in the vicinity of $11.9 million per year, once all hotels duly meet their contributions.

Taking into consideration the contribution of the proposed fund to marketing the island, and after due consideration to the possible options, the Government has decided to contain its adjustment to the rate for hotel accommodation by increasing the VAT rate on hotel accommodation by 1.5 percent to 9.5 percent, while the rate of 15 percent would apply on other related services including tours, food and beverages.

The Government would continue to dialogue with sector partners and would to be amenable to revisit this VAT rate subject to successful establishment of the *Tourism Marketing & Product Development Fund*. To allow the sector to adjust contracts, this new rate will become effective on April 1st 2014.

10.1.3 PROPERTY TAX REFORM

Further to the reforms to the Property Tax regime in last year's Budget, this year we intend to grant a further concession to residential property owners by doubling the threshold, from $100,000 to $200,000.

This means that home owners who are eligible to pay Property Tax can now deduct $200,000.00 instead of $100,000 from their assessed property value. This will remove a further 3,196 residential property owners from the Property Tax net bringing the total number of exempted persons to 12,160.

With this further concession, we are hoping to increase the compliance rate given the expected reduction in Property Tax liability.

The increase in the residential Property Tax threshold will become effective January 1, 2014. This year we also intend to increase the capacity of the Property Tax Unit to improve compliance.

10.1.4 SPECIAL LICENSE PLATES

Mr. Speaker, I move onto a matter that may seem frivolous and superficial to some, but may well resonate with many. I speak of vehicle number plates. There continues in our small island a fixation to special number plates. These may take the form of three or four digit numbers without letters, or special combinations of numbers, or even numbers which are reminiscent of people's birthdates. This affinity or sentimentality towards particular numbers has also created a special market for persons who are desirous of special numbers. As such, these number plates often at times catch a tidy price.

This phenomenon and fascination has led to an increased number of persons wishing to reserve their vehicle license numbers, sometimes even when the vehicles they were assigned to are no longer on our roads.

The Government is therefore proposing two measures which would realise some increased revenue collected by the Licensing Department of the Ministry of Infrastructure, while at the same time offset the administrative costs associated with the current unofficial system of reserving 'special' licence numbers.

Reservation of License Numbers

First, we propose that persons desirous of reserving vehicle license numbers but which are currently assigned to any vehicle which has not been reinsured in over 12 months must seek a special reservation of the license number. Otherwise, the number will return to the pool of numbers available for assignment by the Licensing Department.

A reservation fee of $300.00 is proposed. This will also be applied to license numbers which are attached to vehicles that are being sold but for which owners wish to transfer to a new vehicle.

Personalised Number Plates

Secondly, the Government proposes to introduce the option of personalised number plates. These "customised" or "vanity plates", as they are called in the United States, are generally regarded as luxury items.

However, restrictions will be placed on the types of words or messages denoted on these plates to ensure they are not obscene or offensive, and do not denigrate symbols of the State. Persons will be able to then have plates of up to eight alphanumeric characters.

The personalised license plated will be issued for a one time fee of $2000.00. I am certain, Mr. Speaker, I am certain that many an identity conscious member of this Honourable House may want to indulge in such an opportunity for their private vehicles.

The Motor Vehicle and Road Traffic (Registration) Regulations will be amended to enable these new measures.

10.2 EXPENDITURE REDUCING MEASURES

Mr. Speaker, I wish to move onto measures to reduce expenditure.

On the current path, our current debt-to-GDP ratio estimated at 71 percent, as at end of March 2013, will surpass 90 percent by the end of fiscal year 2015/16. Although Saint Lucia's debt position is currently better than most of the other ECCU member countries, it is important that we ensure that we stay within manageable, prudential limits. While, as stated above, we remain in a better position than most of the ECCU member countries, we have to implement strong measures to ensure that our position is further improved.

The challenge is to restrain expenditure while at the same time staying the course in implementing policies which aid the economic recovery which is expected to benefit from our ambitious structural reform agenda. Essentially, we need to address our fiscal situation and better align revenue with expenditure.

This current situation has generated extensive discussion on Government's recurrent expenditure and many appear to believe that there are opportunities available for a sizeable reduction by Government in its non-wage expenditure. First, let me indicate that Government's expenditure can be classified into four broad categories:

i. Wages and Salaries stands at $450m and accounts for 48 percent of recurrent expenditure;

ii. Goods and Services which amounts to $196 million and accounts for 21 percent of recurrent expenditure;

iii. Debt Servicing which amounts to $204 million and absorbs 22 percent of recurrent expenditure; and

iv. Transfers in the amount of $95 million, or 10 percent of total recurrent expenditure.

Mr. Speaker, in order to place those figures in context, the Government's projected recurrent expenditure for the financial year 2013/2014 is expected to come in at $947 million which is about a 1.5 percent contraction from the approved figure of the 2012/2013 Budget.

Mr. Speaker, we are constitutionally obligated to pay our debts. We will not compromise on the timely payments of such obligations**.** It therefore begs the question, where is it that we, as a Government, can practically and meaningfully reduce expenditure in the short term?

10.2.1 SPENDING ON GOODS & SERVICES

Mr. Speaker, let us examine in greater detail the expenditure group referred to as goods and services. The major sub-categories of this expenditure grouping with associated outlay for this Financial Year are as follows:

i. Travel and Subsistence, $12.24 million;

ii. Supplies and Materials, $27 million;

iii. Utilities, $31 million;

iv. Communication, $11 million;

v. Operating and Maintenance, $23.7 million;

vi. Rental, $39 million;

vii. Refunds, $8 million;

viii. Professional and Consultancy, $5.3 million;

ix. Insurance, $4.8 million; and

x. Training, $6.7 million.

The travel and subsistence amount represents basic car allowance, mileage as well as local and overseas subsistence allowance. Approximately 90 percent of the Travel and Subsistence vote goes towards basic car and mileage allowances to Government workers in the discharge of their duties. Therefore, given the current size of Government, cutting the travel and subsistence budget may have the effect of reducing productivity. Some persons are of the view that the travel and subsistence vote is used to facilitate the purchase of airline tickets but this is not the case.

The amount budgeted for this purpose in this Financial Year is only $705,000, not millions as some gleefully claim.

A significant component, approximately $22 million or 90 per cent of the Supplies and Materials vote, is spent on supplies to the hospitals and schools. Payments for pharmaceuticals as well as stationary for schools are the main items purchased under this line item. Mr. Speaker, cutting back on expenditure for Supplies and Maintenance will have an adverse effect on caring for the sick and the performance of our school children.

Seventy five (75) per cent of the utilities budget is earmarked for street lighting as well as for the lighting of schools and hospitals. The remaining 25 per cent is for Government departments and offices.

Mr. Speaker, this Government will not compromise on the safety of its citizenry by not providing adequate street lightening so that persons can feel safe when walking the streets at nights. Most of our schools have computer labs, Mr. Speaker, which must be lit and cooled throughout the entire day. It therefore means that there is little flexibility in reducing the utilities budget.

That notwithstanding, Mr. Speaker, there are initiatives currently being discussed by the Government to utilise more energy saving measures which we anticipate will, over the medium to long term, provide cost saving measures worthy of note.

The Operating and Maintenance budget is shared primarily by the ministries of Home Affairs, Health, Education and Finance. Mr. Speaker, our ability to reduce crime and keep the streets of Saint Lucia safe has a direct correlation with the level of patrols that the police department conducts.

Additionally, our ability to respond effectively to emergency situations, whether it is for fires or accidents, is a function of the proper maintenance of the vehicles assigned to assist in the performance of those functions.

The Government has set aside $23 million for this expenditure item of which 22 percent will be allocated to the Ministry of Home Affairs to perform the functions that were just highlighted. Another 13 percent will be allocated to the Ministry of Health for the provision of transportation to medical personnel as well as to facilitate repairs needed to be done to vital machinery for the hospitals and health centres. The Ministry of Finance accounts for 21 percent of the expenditure, as Computer Centre Limited (CCL), the company that has been contracted to provide computer and other related assistance to the entire Government Service, is paid under this expenditure vote. Another 10 percent is allocated to the Ministry of Education, which goes towards the maintenance of 21 day cares centres, 75 primary and 23 secondary schools.

Mr. Speaker, as discussed much earlier, in an effort to provide suitable accommodation for Government offices, there has been a consistent increase in our rental budget over the past five years. It is therefore difficult to immediately reduce the rental budget given the sizeable capital outlay which this would require. I have already pointed out earlier steps that Government will take to reduce this in the long term through the use of PPPs, but these will not result in short to medium term reductions.

10.2.2 SPENDING ON TRANSFERS

Mr. Speaker, let us analyse another major expenditure item, that of Transfers, which is made up of grants and contributions, subsidies and public assistance.

Twenty one percent of transfer payments are directed towards the Ministry of Education for payments towards Sir Arthur Lewis Community College as well as bursaries and transport subsidies for students. The attempt by Government to implement partial zoning may in the medium to long term reduce this expenditure item, but not in any dramatic way.

Institutions such as the National Conservation Authority, Castries Constituencies Council, Belfund and Saint Lucia Social Development Fund play a pivotal role in the social stability of the country. It is in this light that the Government provides an annual subvention to those institutions. An allocation of approximately $6 million is made for direct transfer to the destitute though the Ministry of Social Transformation as welfare contributions.

10.2.3 SPENDING ON WAGES AND SALARIES

Mr. Speaker, as indicated earlier, wages and salaries is the major expenditure line in the recurrent budget and accounts for 48 percent of recurrent expenditure and represents almost 13 percent of GDP. Among ECCB member countries it has been agreed that an ideal ratio of wages-and-salaries-to-GDP should range between 9 and 10 percent. As such, to achieve the ECCB guidelines would require a reduction of over $100 million in the category of wages and salaries.

The current model of the public service renders it very difficult to reduce the public service by this magnitude.

Mr. Speaker, the recent industrial action is a stark reminder of the enormity of the challenges faced by any Government in trying to keep a lid on increases in the wage bill and hence current expenditure.

The 4 percent increase that has been awarded to most categories of workers will cost the taxpayers of this country over $28 million, representing both back pay and the increase in the annual wage bill.

The recent wage negotiations also highlighted the need to re-examine the existing processes for deciding on wage increases. Should wage increases be tied only to inflation with no regard to productivity, output growth, revenue growth, the level of unemployment and the overall impact on the country's deficit position?

In many countries, specific mechanisms are designed to deal with wage increases which take into consideration not just one of these factors but an agreed combination. In this regard, I have instructed the Ministry of the Public Service to work with the stakeholders to start discussions on a modern framework for wage negotiations.

There is no doubt, Mr. Speaker, that we need to reduce our recurrent expenditure in order to place our finances on a sustainable path. However, when we examine the figures closely, it becomes clear that expenditure reduction is not an easy task. It is not easy for the simple reason that most of the cost incurred by Government is directly related to the number of teachers, nurses, and police officers that we require.

Mr. Speaker, we will continue to review the operation of Government to reduce wastage where possible and attempt to deliver services to the public in a more efficient manner. This is the objective of our Public Sector Modernisation Programme.

However, let me caution that the belief that we can solve our debt and deficit problem by cutting supplies is misguided, as it will affect schools and hospitals. The belief that we can solve the debt problem because of $700,000 spent on travelling is wrong. If no one travels, the savings will make not a dent in the current deficit and moreover financial and technical benefits to be gained from regional and international contact would be compromised.

But, of course, we will work to eliminate any unnecessary travel. Yes, we do need to become more efficient in the use of communications in Government and strive to find ways to reduce this bill. However, this will not solve our debt and deficit problem.

We need to be realistic about the current challenges and have a constructive debate on the way forward. We must admit that there are synergies and efficiencies to be gained. However, the magnitude of the reduction that is needed will not be achieved through efficiency gains alone.

We must, therefore, urgently address the structural imbalances before we might see any notable reductions in recurrent expenditure. There are no examples of countries solving a deficit problem through elimination of waste, and though the effort to reduce waste must be continuous, it will be difficult to contain the deficit unless we find ways to reduce our wage bill.

10.2.4 REDUCTION IN WAGE BILL

The Government recognises that to successfully reduce recurrent expenditure, the wage bill must be targeted. However, as highlighted above this is challenging and would require active policy decisions. During this year, we propose to carefully examine this matter and after consultation with key stakeholders, devise an efficient a credible strategy to tackle this issue.

10.2.5 REVIEW OF SUBSIDIES ON RICE, FLOUR AND SUGAR

Mr. Speaker, as stated above, we have to review the level of subsidies provided by the central government. In most instances, we provide blanket subsidies on a number of commodities at great cost to the tax payers, while the benefits of such subsidies are not entirely certain. Mr. Speaker, since 1970, Government has been the sole importer of bulk rice, flour and sugar.

To date, these items have remained under fixed price control regime, administered under the Distribution and Price of Goods Act, No. 54 of 2008. While international commodity prices have increased sharply over the past years, the wholesale and retail prices have remained unchanged since the initial prices were amended by Statutory Instrument No. 43 of 1984.

So the prices at which these commodities are sold on the domestic market have not been adjusted in almost 30 years. During that period, the international price of these commodities increased as follows:

i. Rice, up by 104 percent, or in other words it has more than doubled;

ii. Wheat flour, up by 92 percent, or in other words it has nearly doubled; and

iii. Sugar, up by 194 percent. In other words, it is now almost three times the original price.

While the import costs of these items have escalated, the price at which they are sold to the public have not been adjusted and Government continues to absorb the full effects of these increases by providing these items at a subsidised rate to every company, business, or individual in the country.

The level of subsidies has increased every year over the last five years and reached $18.2 million in 2012/13 with a further increase projected for 2013/14 if left unchanged. Not only does Government have to directly subsidise the cost of the commodities but also absorb the rising cost of operating the Supply Warehouse where these items are stored.

To address this situation, we are proposing two measures. First, we propose to eliminate the subsidy on white sugar in its entirety. We do so, not only for health reasons but more importantly, because white sugar is not consumed by the majority of our people.

Secondly, we will effect a reduction of 50 percent in subsidies on bulk rice, flour and brown sugar with effect from June 1, 2013. This, it is estimated, will reduce Government expenditure on subsidies for these commodities by $10.5 million this year. However, the anticipated impact on consumers will be as follows:

Table 3 Price Adjustments to Rice, Flour & Brown Sugar

	Wholesale		**Retail**		**Percentage Change**	
	Current Price Per 100 lb bag	Proposed Price Per 100 lb bag	Current Price Per lb	Proposed Price Per lb	Wholesale Price per 100 lb bag	Retail Price per lb
White Rice	$72.30	$90.65	$0.80	$1.00	25.4%	25.0%
Parboil Rice	$100.00	$110.50	$1.10	$1.25	10.5%	13.6%
Wheat Flour	$73.10	$92.05	$0.80	$1.00	25.9%	25.0%
Whole Wheat Flour	$86.00	$97.50	$0.95	$1.10	13.4%	15.8%
Brown Sugar	$74.98	$78.93	$0.82	$0.90	5.3%	9.7%

10.2.6 MITIGATING IMPACTS ON THE POOR & INDIGENT

However, to minimise the impact of these price increases on the poor and vulnerable, the Government will increase the basic amount provided through public assistance by roughly 25%.

As such, the new rates as of June 1, 2013, shall be as follows:

Table 4 New Monthly Rates for Public Assistance

Current Rate	Revised Rate	% Change
$170	$215	26.4 percent
$225	$280	24.4 percent
$275	$340	23.6 percent
$315	$400	27.0 percent
$375	$465	24.0 percent

While this will raise the total cost of Public Assistance by an additional $1.4 million, we believe this is a timely and necessary intervention.

In addition, work will continue towards a more targeted social assistance regime under a new Social Protection Strategy. This will incorporate future measures to provide greater targeted support through medical, disability and school feeding programmes.

10.2.7 REDUCTION IN FUNDED VACANCIES

Mr. Speaker, the number of vacancies in the Public Service for which budgetary provisions are made, is exceptionally high totalling 372. It amounted to $14.8 million in 2012/13.

Some of these vacancies were not filled, not necessarily due to the lack of appropriately qualified personnel, but because Government has maintained a deliberate policy of not filling them due to financing constraints.

In light of the increases awarded to public officers and the need to minimise the potential impact on the budget, we are proposing an 80 percent reduction in funded vacancies. This would have the effect of reducing the budgetary allocation for salaries by $11.8 million.

However, with the agreed salary increase this funding will be used to offset the increase in the wage bill, thereby reducing the impact of the salary increases on the current deficit.

10.2.8 REDUCTION IN CAPITAL EXPENDITURE

Mr. Speaker, historically growth in the economy has been supported by Government's capital expenditure. This was evident during the period leading up to Cricket World Cup (CWC) when GDP growth averaged 4.5 percent per annum during the period 2004 to 2006.

While much of the growth was driven by FDI flows and other private sector financing, Government's capital spending averaged about 10 percent of GDP and was mainly directed at upgrading the infrastructure in preparation for the hosting of the CWC in Saint Lucia.

However, in recent years there have been a sharp decline in FDI inflows and private sector financed construction activity.

While Government's capital budget has increased, about 40 percent of the capital budget was not directly related to actual investment to increase the capital stock. The

implication is that the impact of the capital budget in generating growth has diminished over time.

The challenge is to rationalise the composition of the capital budget to achieve the desired objective of adding to the country's capital stock and supporting growth.

To this end, and with the objective of reducing overall expenditure, we are proposing to reduce the capital budget from 9.3 percent of GDP in 2012/13 to 6 percent in 2015/16.

It should be emphasised that the proposed reduction in capital expenditure will be targeting the non-investment component of the capital budget. Furthermore, it would entail same streamlining of the existing programmes. This is required to reduce the overall borrowing requirement of the country.

Given the number of issues associated with reducing recurrent expenditure in the short term, some adjustments must fall on the capital side. It must be emphasised, however, that Government will continue to protect the tourism marketing budget in the short term and also strive to increase the prospect for implementing a number of signature projects, through collaborative agreement with the private sector, domestic and international.

10.3 MEDIUM TERM FISCAL TARGETS

The policy adjustment measures mentioned above is a first step in stabilising the deficit, but would be insufficient to lead to a reduction in the deficit over the medium term. The overall deficit would remain elevated at over 9 percent of GDP or about $350 million. This level would imply continued increased borrowing and a constant rise in Government's debt burden.

In other words, even with the implementation of these measures, the deficit as a percentage of GDP will actually increase over the medium term.

This level of adjustment is insufficient to stabilise the debt. In fact, the IMF has proposed an $80.0 million adjustment, or about 2 percent of GDP, annually for the next three years to safeguard Saint Lucia's financial future. With such a high non-discretionary component of current expenditure and the momentum from ongoing initiatives, credible adjustment would imply far-reaching policy decisions. This will not be an easy task but it is one that must be undertaken nonetheless.

The Government will commence this financial year with a comprehensive examination of its operations in an effort to rationalise the current level of expenditure. This will involve various pilot audits at the ministerial level, and a far more efficient alignment of the work plan of ministries and resource allocations with the strategic objectives of the Government.

During this process, we hope to identify and eliminate areas of leakages and pockets of inefficiencies and reduce or reallocate the level of manpower if plausible. Our aim is to formulate policies that are effective in increasing productivity while reducing costs of operations. As we work towards streamlining the resource utilisation of the Government, we will be consulting all key stakeholders as we recognise that a delicate balance is needed to minimise the impact and social disruptions of adjustment measures.

Following this comprehensive review, we will present a realistic strategy in our next budget for implementation from 2014/2015 financial year.

11 FINANCING THE BUDGET

Mr. Speaker, the Estimates of Revenue and Expenditure for this financial year indicate that the Government intends to spend $1.327 billion to finance its recurrent and capital expenditure for 2013/2014 financial year.

This represents a 9 per cent reduction of the projected budgeted expenditure for the 2012/2013 fiscal year.

Of the total budget outlay, $947.08 million represents the Recurrent Expenditure component and accounts for 71 per cent of total expenditure whereas Capital Expenditure totals $380.3 million and represents the remaining 29 per cent of total expenditure.

Mr. Speaker, it is important to highlight that maturing debt payments in the amount of $63.2 million is included in the recurrent expenditure figure.

11.1 SOURCES OF FUNDING

Mr. Speaker, as indicated in the Estimates of Revenue and Expenditure, the Budget will be financed in the following manner:

i. Recurrent revenue of $839.91 million of which tax revenue is projected to be $765.6 million, representing 91 per cent of the total projected recurrent revenue;
ii. Capital revenue from the proceeds of the sale of lands in the amount of $0.16 million;
iii. Grants in the amount of $137.92 million which represents a 32 percent increase from the last year's budget. The main donors are the Republic of China (Taiwan) whose contribution is $58.98 million, the European Union with a contribution of $56.72 million; and the Caribbean Development Bank (CDB) whose contribution is $8.86 million. Mr Speaker, once again on behalf of the Government and People of Saint Lucia I would like to thank all friendly governments and multi-lateral organisations who have contributed in one way or the other to this budget exercise. We continue to remain indebted to those governments and institutions for their support especially in this critical period;
iv. Government Instruments, including Bonds of $266.5 million and Treasury Bills of $43.9 million; and
v. Finally, Mr. Speaker, other loans of $38.97 million consisting of $20.61 million from the Caribbean Development Bank and $18.36 million from the World Bank.

Mr. Speaker, the figures highlighted point to a deficit on both the recurrent and overall expenditure of 3 and 7.4 percent respectively of the projected GDP for that period.

While the overall deficit is an improvement over last year, it is the intention of the Government, Mr. Speaker, to reduce the overall deficit to the acceptable level of 3 per cent of GDP over the next three years.

12 CONCLUSION

And so, Mr. Speaker, I wish to commend this Budget to the members of this House, and to the people of Saint Lucia. It is a Budget which seeks to realign our paths to secure a bright and prosperous future.

It is a Budget that is realistic and meets our challenges head on. We have not tried to hide our current financial constraints. Instead, it underscores a Government that is dealing with the issues, as difficult as they may be.

I have laid out the Government's economic and fiscal sustainability agenda, which sets our way for growth and development. While there will be sacrifices to be made, we believe that no one is being asked to give more than their fair share.

Our Government commits to seeing a fair, equitable, just and prosperous Saint Lucia. May we see the efforts of all – in the Public Service, in the private sector, in civil society – congealed, collaborative and conscious of the aspirations of all our people.

And so, Mr. Speaker, I wish to move for the second reading of the Appropriation Bill, for the Financial Year 2013/2014.

13 LIST OF ACRONYMS

ACP	Africa, Caribbean and Pacific
ADC	Airport Development Charge
BAM	Banana Accompanying Measures
BEEP	Basic Education Enhancement Project
BNTF	Basic Needs Trust Fund
BOLT	Build, Own, Lease, Transfer
BRIC	Brazil, Russia, India & China
CARICOM	Caribbean Community
CARIFORUM	CARICOM and Dominican Republic
CCC	Castries Constituencies Council
CCTV	Closed Circuit Television
CDB	Caribbean Development Bank
CNCD	Chronic Non-communicable Disease
CSP	Construction Stimulus Package
CTO	Caribbean Tourism Organisation
CWC	Cricket World Cup
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
EGRIP	E-Government Regional Integration Project
EPA	Economic Partnership Agreement between EU & CARIFORUM Countries
EU	European Union
FBO	Fixed Based Operator
FDI	Foreign Direct Investment

GDP	Gross Domestic Product
HAT	Hotel Accommodation Tax
HOPE	Holistic Opportunities for Personal Empowerment
IADB	Inter-American Development Bank
IMF	International Monetary Fund
LED	Light Emitting Diode
LPG	Liquefied Petroleum Gas
LUCELEC	Saint Lucia Electricity Services Ltd.
MIT	Massachusetts Institute of Technology
NAO	National Authorising Office
NICE	National Initiative to Create Employment
OECS	Organisation of Eastern Caribbean States
PROUD	Programme for the Rationalisation of Unplanned Development
PPP	Public/Private Partnership
RGSM	Regional Government Securities Market
SALCC	Sir Arthur Lewis Community College
SLASPA	Saint Lucia Air and Sea Ports Authority
SLHTA	Saint Lucia Hotel & Tourism Association
SLTB	Saint Lucia Tourist Board
TEPA	Trade Export Promotion Agency
VAT	Value Added Tax
WASCO	Saint Lucia Water & Sewerage Company