

BUDGET ADDRESS 2003-2004

**ADVANCING INFRASTRUCTURAL DEVELOPMENT AND ECONOMIC
RECOVERY IN AN UNCERTAIN WORLD**

BY

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INTRODUCTION:

OUR CONNECTION TO GLOBAL ECONOMIC FORCES

Mr. Speaker,

Fellow members,

If the citizens of Saint Lucia have, in the past, harboured any illusions about the impact of global economic and political forces on our domestic economic fortunes, then the events of the last two years should certainly put to rest the myth of Saint Lucia's splendid isolation and serene existence.

I say this Mr. Speaker, because, since the period following the September 11th 2001 attacks on the United States, whenever we have sought to warn our people of the implications for our economy, we have been greeted by a chorus of dissenting voices, both inside and outside of this House. These detractors have preferred to convey the impression that our economic fate begins and ends right here in Saint Lucia. When we warned that the war in Iraq and would further deepen our economic challenges, it was suggested by those motivated by mischief born out of desperation, that the decline in economic growth which we experienced in financial year 2002/2003 was due to the shortcomings of this Administration.

It is mismanagement, not September 11 and a global recession, say the Opposition. If it is mismanagement, how then do the naysayers explain that in 2001/02 Grenada's economy experienced a growth rate of -3.0 per cent, Barbados, -2.75 per cent, or St. Vincent a mere 0.025 per cent. It is only those who fail to grasp the workings of global forces who are attracted by the argument of mismanagement. Those of us who know better prefer instead to make the necessary adjustments in order to survive the challenges that we face.

Today, the daily diet of war, death and destruction fed into our bedrooms through the television screen should be a salutary lesson to all, of our inescapable connectedness to world events. Those who wish to deny this reality do so at their peril.

AN UNCERTAIN FUTURE

Mr. Speaker, it should now be accepted by all that these are difficult and perilous times for Saint Lucia and the Caribbean. It would be no exaggeration to suggest that this is undoubtedly the most trying period that the Caribbean Community has had to face since the 1970s. We have had to struggle to maintain economic stability in an environment characterized by the reality of global economic decline, the aftershocks of the September 2001 attacks, the uncertainties associated with the ongoing military conflict in the Middle East, and continuing adjustments in the UK banana market, all of which have impacted negatively on our main income earners - Tourism and Bananas. We now gird our loins as we witness the unraveling of the post-war global architecture and the emergence of a more dangerous world of unilateralism. Economic liberalism, which has cost us so dearly, is now being overtaken by its political counterpart of the law of the jungle, where might is right. The future, Mr. Speaker, is indeed uncertain.

FROM RECESSION TO RECOVERY

But, Mr. Speaker, despite the best efforts of those who conveniently forget that Saint Lucia is a small island buffeted by a global sea, this Government is proud of its record of achievement in this period of uncertainty. Indeed, Mr. Speaker, we do not share the pessimism of those who greet with jubilation every forecast of economic difficulty, whether domestic, regional or global, in the vain hope that this will somehow reverse their political fortunes. Instead Mr. Speaker, we are proud that as a Government we have, in a few short years, carved a proud legacy of modernizing the social institutions and physical infrastructure of this country in the midst of tough global economic challenges. Our ability to maintain a steady public sector investment programme has astonished many. Our work, Mr. Speaker, will not be deterred.

The 2003/2004 budget which I am proud to present to this Honourable House is intended to build on this legacy. Its principal objective is to **ADVANCE INFRASTRUCTURAL DEVELOPMENT** while continuing on the path of **ECONOMIC RECOVERY**. This budget marks the early steps in the recovery process, as the declines precipitated by world recession, debilitating drought and the September 11, 2001 attacks have been arrested. As has become customary, this presentation marks the culmination of a democratic exercise of consultation with a wide cross-section of civil society. As a result, Mr. Speaker, I am confident that the statement which follows will represent the collective response of the people of Saint Lucia to the global economic challenges facing us and will be an indication of our collective commitment to survival and progress. We must not fear adversity; we must triumph over it.

PERFORMANCE OF DOMESTIC ECONOMY

During the last year, the Saint Lucian economy witnessed a marginal recovery, reflected in a real GDP growth rate of 0.1 per cent. Though small, this growth rate is of tremendous significance, following the 4.6 per cent contraction in the previous year. Moreover, Mr. Speaker, one needs to

appreciate the significance of this development in the context of the global economic downturn and against the backdrop of major international trends and events, not least of which are the impartiality of the globalization movement, upheavals in the international financial system, the rise of terrorism and concerns about personal security, of which we are all very familiar.

The performance of the Saint Lucian economy was influenced by a recovery in banana output, expansion in output of the manufacturing and communications, sectors and modest recovery in tourism arrivals. However, the increase in activity in tourism was offset by the prevalence of heavy discounting within the industry.

AGRICULTURE

Mr. Speaker, output in the agriculture sector, which contracted by 22.6 per cent in 2001, contracted slightly by only 1 per cent in 2002. Reflected in this performance, is growth of 36.7 per cent in value added in the Banana Industry. Banana exports increased by 41.5 per cent to 48,160 tonnes, due to the positive impact of restructuring initiatives in the industry. This recovery would have been even greater had it not been for the passage of Tropical Storm Lili.

Despite the improvement in output and the restructuring of the industry, the Banana Industry is still faced with the major challenge of liberalization of the market in 2008. The survival of the Banana Industry beyond 2008 will depend entirely on our ability to produce and market a top grade, world-class fruit at a high level of efficiency.

Non-banana production is a significant component of the agricultural sector's contribution to Gross Domestic Product. During the last calendar year Mr. Speaker, activity in the livestock sub-sector increased by approximately 5 per cent, while there was a decline in output in the fisheries sector.

TOURISM

Against the backdrop of weak demand for travel, the tourism industry began to show signs of recovery over the sharp downturn experienced in 2001. Following an unprecedented 7.3 per cent slump last year, there was a 1.3 per cent rebound in arrivals to 253,463, just over the 1998 level. The comparatively sharp decline recorded in the first quarter was more than offset by strong increases in the third and fourth quarters. This was the result of a lessening of the negative impact of the 9/11 terrorist attacks on the demand for travel, coupled with generally improved economic conditions in source markets. This boost in arrivals was also aided by more aggressive marketing in key markets.

These positive factors notwithstanding, price competition from other destinations, including regional ones, continued to pose the most significant challenge for the island's marketing as a stay over tourist destination. Indications are that the real tourism output, as measured by value added in the hotel and restaurant sectors, slipped by 0.6 per cent. This demonstrates that we have virtually stemmed the sharp contraction of 10.6 per cent experienced in 2001. However, Mr. Speaker, tourism continued to contribute significantly to the economy, accounting for 12.5 per cent of total GDP, which represents the largest contribution by any sector.

With regard to the cruise sector Mr. Speaker, ship arrivals slumped by 21 per cent, from 378 in 2001 to 245 for 2002. Many cruise ship companies decided to re-programme vessel itineraries closer to the United States and Central America in response to concerns about safety. Arrivals fell consistently throughout the past year, with sharp drops in April, July, August and November. Cruise arrivals totalled 387,180 in 2002, slowing from the more robust gains of the past and below the 500,000 mark, achieved in 2001.

MANUFACTURING

Mr. Speaker, I am pleased to announce that tremendous strides have been made in the manufacturing sector during the last year. Activity in that sector increased by 5.0 per cent compared to a decline of the same magnitude in 2001. This is evidence that the current regime of fiscal incentives, technical assistance grants and Consumption Tax rebates have produced much needed dividends in this difficult environment.

The value of food and beverage items produced increased by 17 per cent to \$59.7 million. Despite this significant increase, the export of these commodities to the regional market remained weak. Demand in regional economies slackened, as they too faced the full effects of the global recession. In 2002, output of paper and paper derivatives increased by 28.2 per cent, reflecting the recovery in banana output. The production of electrical components increased by 47.4 per cent to \$25.8 million, while furniture manufacture increased by 39.7 per cent to \$2.7 million. Declines were recorded in the production of copra and its derivatives, and textile and apparel.

CONSTRUCTION ACTIVITY

Construction activity increased during the year 2002. Applications for building permits increased by 12.8 per cent to 503. It should be noted that the increase was mainly due to applications for building for commercial purposes, as residential related applications declined.

During the last calendar year Mr. Speaker, outstanding credit to the construction sector grew by 10.6 per cent to \$110.9 million, consistent with the rise in the number of building permit applications. Also consistent with the increase in applications for commercial buildings, 57.7 per cent of credit to the construction sector was targeted at the commercial sector. This boost in commercial construction can be attributed to government's policy of facilitating businesses in improving the physical image of the City of Castries and other urban areas by allowing them duty free concessions on building materials and a tax write-off for expenditure related to the renovation of commercial buildings.

The Central Government Capital Works Program was driven by the commencement of work on the Road Development Program, continuation of the Northern Water Supply Improvement Project, the Basic Education Project, and the Bordelais Correctional Facility. Under the Basic Education Program, construction work is ongoing on the Ciceron Technology Institute and the Union Primary School.

SERVICE SECTOR

Mr. Speaker, the service sector has been identified as the sector that will provide the impetus for the future development of this country. Despite sluggish economic performance, activity in the banking and insurance sector increased by 1.2 per cent. Value added in the communications sector increased by 7.5 per cent. Declines were noted in the wholesale and retail trade (3.3 per cent) and electricity and water services (0.16 per cent).

FINANCIAL SERVICES SECTOR

Mr. Speaker, the International Financial Services Sector continues to grow at a steady but cautious rate. This pattern is the result of deliberate policy, as St. Lucia has seen the consequences of robust but uncontrolled growth elsewhere in the region. Our cautious and thorough approach has helped us to avoid the scandals and pitfalls that have blackened the reputations of so many other jurisdictions.

To date, a total of eight hundred and forty-eight (848) International Business Companies have been registered. Of this total, four hundred and thirty-six (436) were registered during this financial year.

A total of nine (9) International Insurance Companies have been licensed. As Captive Insurance Companies, they call for less regulation and present fewer risks for the jurisdiction. In addition, the Financial Services Supervision Unit has registered its first Private International Mutual Fund. Thirteen (13) International Trust Companies have also been registered.

So far, we have only one (1) Offshore Bank. However, this should not cause undue concern. Our jurisdiction continues to have its fair share of banking applications, but given the significant risk that banks present, the Financial Services Supervision Unit has been extremely cautious in its approach to granting licences.

Money and Prices

Mr. Speaker, I am pleased to report that St. Lucia experienced deflation during the year 2002. Consumer prices declined by 0.2 per cent, due in part to a fall in food prices, weak domestic demand and wage restraint in both the private and public sectors. Of significant impact on the low inflation rate was the Government's deliberate policy to maintain fixed fuel prices to consumers, despite increases in the price of oil on the global market prior to the US-led war in Iraq.

Activity in the financial sector mirrored the pace of economic activity in the real sector. Accordingly, domestic credit grew by a modest 3.6 per cent to \$1,431.81 million. Credit to the business sector increased by 5 per cent, while household credit declined by 3.7 per cent. Broad money supply (M2) increased by 3.1 per cent, reflecting growth in the real sector. Despite the slow pace of economic activity, private sector savings deposits expanded by 13.8 per cent to \$652.33 million. Liquidity in the banking system improved to 91.9 per cent, reflecting faster growth in deposits relative to loans and advances.

The data on the financial sector suggest that there remains substantial capacity for expansion in

the real sector. With the available capacity and cheaper cost of funds, the private sector is encouraged to see this as an opportunity to increase investments in the productive sector. Creativity and imagination are keys to the leading role that I know the private sector can take in this initiative.

FISCAL OPERATIONS AND PERFORMANCE

Mr. Speaker, like other sectors in the economy, the performance of central government mirrored the outturn in the real segments of the economy. Due to the deceleration in the rate of growth of activity in the domestic economy, the level of imports and activity in the wholesale and retail sector contracted. Consequently, central government has suffered sub-optimal performance in revenue intake from the three major revenue sources: consumption taxes and excise duties, corporation taxes, and as expected, revenue from personal income tax declined in the face of the removal of some 5,500 persons from the Tax Roll.

Overall however, current revenue of the central government increased by 1.7 per cent to \$457.1 million. Increases were noted in the following revenue categories:

Stamp Duty -\$10.2 million above budget;

Hotel Accommodation Tax - \$1.0 million above budget;

Import Duty - \$6.0 million higher than forecast;

Service Charge - \$1.5 million higher than forecast.

Despite this marginal increase, current revenue as a percent of Gross Domestic Product remained flat at 24.2 per cent when compared to the previous year. In spite of the modest performance in the revenue sector, government has pursued an expansionary fiscal policy in an effort to sustain growth prospects in this country. Consequently, Mr. Speaker, capital expenditure increased by 13.1 per cent in 2002. As a percentage of GDP, capital expenditure increased from 7.5 per cent in 2001/02 to 8.3 per cent in 2002/03.

The Fiscal Challenge

Mr. Speaker, in the light of the modest performance of revenue, the expansion of the capital program has come at a cost. It has become necessary for government to borrow to finance the capital program, and it did so largely on the external market. The government's decision to borrow externally was informed by the desire to allow the private sector access to domestic funds to facilitate investment in the local economy.

Moreover, the productive sectors of the economy namely, agriculture, tourism and the distributive trades performed lethargically during the last calendar year, while the private sector, in response to the global economic uncertainties, adopted a very cautious posture with regard to investment, which constricted economic expansion. At the same time, households and individuals accelerated their rate of savings, rather than utilizing their excess funds for

consumption purposes.

In this environment of caution and uncertainty, Government must shoulder the primary burden for investment initiatives. While the benefits of debt financing may not be obvious to the casual observer, it is the responsibility of every government to invest and stimulate economic activity in periods of turbulence and uncertainty, as in the current environment. Mr. Speaker, nearly every Government in the region has had to cope with severe fiscal contraction. Let me give two examples. Last year, the Government of Grenada borrowed US\$96.20 or EC\$279.74 million dollars ostensibly to pay off previously contracted higher interest rate commercial debt. Likewise, in the same year the Government of Barbados borrowed BD\$300 million or EC\$ 405 million to "finance activities for which additional borrowing would have been required".

Mr. Speaker, fiscal expansion can be facilitated by a reduction in direct taxes, and an increase in government capital expenditure. This will result in a larger multiplier effect throughout the economy.

We believe that the benefits of the government's policy to spur economic growth by investing in social and infrastructure projects will far outweigh the costs associated with debt financing over the medium to long term. Indeed, Mr. Speaker, stronger economic growth is the lasting solution to the fiscal challenge that confronts us.

FINANCING THE 2003-2004 BUDGET

Mr. Speaker, against the backdrop of a considerable slowdown in the world economy and the tremendous uncertainty caused by the war, the preparation of this budget was extremely challenging. The management of fiscal policy in such circumstances is extremely demanding. On the one hand, fiscal management has to be used as a counter-cyclical policy tool in order to stimulate the economy, while on the other hand, fiscal management requires the careful management of our public debt in order to ensure the sustainable growth of our economy. Balancing these two objectives is no easy feat and I assure you, Mr. Speaker, it is one of the most difficult challenges of economic management. This budget seeks to provide the optimal combination of tax, expenditure and debt policies that will stimulate the economy.

Our approach to the budget this year, Mr. Speaker, involves three key elements:

Firstly, a deceleration in growth in recurrent expenditure.

Secondly, an expansion in the capital investment programme in order to stimulate growth, enhance competitiveness and accelerate structural transformation in the economy.

Thirdly, the introduction of new revenue measures to yield an additional \$26.04 million. These new measures would assist in paying for the important projects and programmes of the Government, which shall be elucidated later.

Mr. Speaker, with your indulgence, I shall proceed to the details of the Budget Estimates for fiscal year 2003/04. Total planned expenditure, that is recurrent and capital expenditure, amounts

to \$861.3 million, 10.3 percent higher than the previous fiscal year. This year, the planned capital programme, which is targeted at facilitating growth and poverty alleviation, is 21.1 per cent higher than the previous year.

The planned level of Recurrent Expenditure, exclusive of debt amortization, is \$478.6 million and accounts for 55.6 per cent of total planned expenditure, 3.9 per cent higher than in the previous fiscal year.

In an effort to provide added impetus to the incipient growth recorded in 2002, the planned capital investment programme of government is \$348.8 million or about 40.5 per cent of total planned expenditure.

The forecast for debt amortization is \$33.9 million, representing 3.9 per cent of total budgeted expenditure, slightly lower than the 4.1 per cent recorded in fiscal year 2002/03.

FINANCING THE BUDGET

The planned budgetary outlay of \$861.3 million is to be financed from the following sources:

Recurrent Revenue of \$477.1 million;

Capital revenue of \$6.5 million;

Grant funds of \$60.7 million, of which \$44.4 million is from EU sources;

Bond funds of \$91.0 million, of which \$13.5 million represents a surplus from the previous fiscal year;

Treasury Bills of \$22 million; and

Other Loan funds, mainly from multilateral donors and largely secured prior to this Budget, amounting to \$204.0 million.

Total recurrent expenditure, inclusive of debt amortization, of \$512.6 million is more than fully financed from recurrent revenue, the surplus of \$13.5 million from bonds in the previous fiscal year and \$22.0 million from treasury bills. An additional \$6.5 million from capital revenue, coupled with a small surplus, brings the total amount available for funding the capital expenditure programme to \$6.56 million.

As indicated above, total recurrent revenue is estimated at \$477.1 million in 2003/04. This represents a marginal increase of 1.0 per cent over the previous year and 4.2 per cent higher than the year-end preliminary outturn in 2002/03. The projected improved performance reflects in part, the acceleration in recovery of the economy and, to a lesser extent, the new revenue measures.

Tax revenue is projected at \$410.1 million or around 86.0 per cent of total revenue. This represents an increase of 1.1 percentage points over the budgeted figure last year. Non-tax revenue, which includes licence fees, user charges, and fines, is estimated at approximately \$67.0 million or about 14 per cent of total revenue.

The major area of tax revenue that is forecast to increase is taxes on international trade and transactions. This category of taxes moves from a budgeted figure of \$222.1 million in 2002/03 to \$235.6 million. In contrast, the budgeted figure of taxes on income and profits moves downward from \$125.5 million to \$114.3 million over the same period. In retrospect, our forecast last year was a little over-optimistic and did not fully reflect the delayed impact of the recession in 2001.

DISTRIBUTION OF EXPENDITURE

Permit me now, Mr. Speaker, to highlight the distribution of total expenditure, paying particular attention to investment expenditure. Comprehensive details of expenditure by agency, programmes and activities are contained in the Draft Estimates of Expenditure 2003/04.

- ▶ The Economic Services Agencies continue to receive the largest share of total budgeted expenditure. The amount allocated this year to the Economic Services Agencies is \$524.2 million, or 60.9 per cent of total budgeted expenditure. This represents an increase of \$64.6 million or 14.1 per cent over the Financial Year 2002/03. Of this amount, capital expenditure accounts for \$273.0 million or 52.1 per cent, while recurrent expenditure's share is \$251.2 million or 47.9 per cent of the total. The Ministry of Finance will receive \$184.9 million or 36.1 per cent, the largest share of the recurrent budget. It is to be noted, however, that approximately \$128.3 million or 25 per cent of the total recurrent budget is earmarked for debt service payments and retiring benefits. In addition, \$30.1 million or 5.9 per cent of the total recurrent budget is allocated for contingency and reserve funds.
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- ▶ Mr. Speaker, as I mentioned above, the objective of this budget is to accelerate the recovery in economic activity, and it is therefore no surprise that the lion's share of the increase in budgeted expenditure is allocated to the Economic Services Agencies. I propose to allocate to the Ministry of Communications, Works, Transport and Public Utilities a sum of \$119.8 million for capital expenditure, an increase of \$48.8 million over last year's budgeted amount of \$71.0 million. Of this amount, road infrastructure accounts for \$101.4 million. This is one of the largest amounts ever allocated to road infrastructure and reflects this Government's commitment to road improvement and rehabilitation. By any measure of comparison, this is a very significant increase. The major projects to be funded this year include the ongoing Road Development Programme, the Tertiary Roads Rehabilitation Project, which is to be funded by the French Government, and the Castries Gros Islet Highway Improvement, which is to be funded by the Kuwait Fund for Arab Economic Development.
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- ▶ I propose to allocate an amount of \$77.7 million to the capital programme of the Ministry of Physical Development, Environment and Housing, an increase of \$13 million over the previous year. The projects and programmes targeted this year are all ongoing and include the CDB funded Water Sector Reform/Fifth Water Supply Project, the Shelter Development

Programme, PROUD, the Black Mallet/Landslide Response and the World Bank funded OECS Emergency and Disaster Management Project.

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- In keeping with the need to enhance the competitiveness of the banana sector and to strengthen agricultural diversification, an amount of \$32.0 million is allocated to the capital programme of the Ministry of Agriculture, Forestry and Fisheries, of which grant funding, predominantly from the EU, accounts for \$23.9 million. The banana sector is targeted to receive allocations of \$8.7 million and \$5.9 million for Banana Commercialization and the Banana Emergency Recovery Projects respectively. An allocation of \$6.5 million is earmarked for the Agriculture Development Project, which is to be utilized to strengthen agriculture diversification.
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- Mr. Speaker, last year I allocated \$20 million for tourism marketing and promotion. This represented an increase of \$5 million over the previous year. This year, I propose to maintain our significant investment in the tourism sector and have allocated \$20.5 million for tourism marketing and promotion.
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- Mr. Speaker, this Government also recognizes the importance of the Social Services Sector. I propose to allocate a total of \$232.0 million to this sector, an increase of \$3.7 million over last year's budgeted expenditure. A total of \$176.5 million is allocated to recurrent expenditure, while \$55.5 million is allocated to capital investment. Recurrent budget allocations of \$109.4 million and \$53.2 million are allocated to the Ministry of Education, Human Resource Development, Youth and Sports and the Ministry of Health, Human Services and Family Affairs, accounting for 21.4 per cent and 10.4 per cent of the total recurrent budget respectively.
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- In the area of capital expenditure, the Ministry of Education will receive an allocation of \$32.3 million, approximately \$3.1 million more than the allocation in Financial Year 2002/03. The goal of Universal Secondary Education will move closer to realization on completion of the CDB funded Basic Education and the World Bank funded OECS Education Development Projects. This year, amounts of \$7.5 million and \$7.0 million are allocated for these projects. I would also like to announce that a sum of \$9.0 million is allocated to Major Repairs and Rehabilitation of Schools. I shall elaborate on this project later in my presentation. Another project, about which I shall provide further details later, is the Rehabilitation of Health Centres, for which an allocation of approximately \$8.0 million is provided.
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- In keeping with this Government's strong commitment to reducing poverty, an allocation of \$3.6 million from Special Framework of Assistance (SFA) funds is earmarked for a Rural Employment Programme. This programme is to be administered by the Poverty Reduction Fund (PRF), which shall also receive an allocation of \$1.8 million for other poverty related projects.
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- The Justice Sector, which consists of the Attorney General's Chambers, the Ministries of Justice and Home Affairs and Gender Relations, is to receive an allocation of \$65.9 million, an overall increase of \$3.2 million over the previous year. Mr. Speaker, this Government has injected significant sums of money into this sector over the last six years, in keeping with our objective of reducing crime, modernizing the Saint Lucia Fire Service and establishing a

modern correctional facility. We recognize, however, that we need to continue to devote significant resources to this sector in order to deal effectively with the many problems that we have encountered. The recurrent allocations of the Ministry of Home Affairs and Gender Relations and the Ministry of Justice are to be increased by \$4.2 million and \$0.7 million respectively. These increases are required for, inter alia, the increase in operational cost for running the Bordelais Correctional Facility, and lease payments for the new fire and police stations. The major highlight of capital expenditure this year, Mr. Speaker, is an allocation of \$5.9 million, which represents St. Lucia's contribution to the establishment of the Caribbean Court of Justice. The Government of Saint Lucia, like other Caribbean Community States, agreed to finance the operations of the Court from a "one off" loan from the CDB. An allocation of \$2.5 million, representing the final installment, is made for fire fighting vehicles and equipment.

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➤ I propose, Mr. Speaker to increase the allocation to General Service Agencies by \$9.1 million to \$34.3 million. This increased allocation is targeted mainly at the capital expenditure programme, of which \$6.0 million is earmarked for Private Sector Development, \$3.0 million is to be utilized for the Establishment of a Rural Small Business Credit Facility and \$2.0 million is provided for the establishment of a Low Income Housing Facility. I am pleased to inform Honourable Members that all three capital programmes are EU funded.

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➤ The Office of the Governor General and the agencies of Parliament, namely, the Legislature, the Service Commissions, the Electoral and Audit Departments, will receive a total allocation of \$4.9 million, marginally lower than the \$5.0 million allocated last year.

Against this background, I will now summarize, for ease of reference, the economic strategy of the Government for this financial year.

ECONOMIC STRATEGY FOR THE FISCAL YEAR

Mr. Speaker, given the challenges that we face, our economic strategy will be one of recurrent cost containment, directing the resources to stimulate capital investment programmes, maximizing revenue collection, containing inflation and significantly reduced borrowing. Our strategy though, is predicated on the absence of major changes to the current regional and international situation. Should there be an adverse change to the prevailing circumstances, it will be necessary for us to review our strategy to make the necessary adjustments.

Mr. Speaker, growth in recurrent expenditure has averaged over 6 percent over the last four fiscal years. This year, the planned growth in recurrent expenditure over the previous year is 4.0 per cent. To accomplish our objectives in cost containment we will pursue a number of measures. Firstly, we will be closing down the Miami Consulate by September as part of a wider process of adjustment in the overseas Missions of the Ministry of Foreign Affairs. Also, the operations of the Gaming Authority will be suspended and a desk will be established at the Ministry of Tourism to handle queries from potential investors. In addition, we will be continuing the freeze on hiring of public servants to vacant positions, and also containing expenditure on external training.

We intend to re-direct resources to continue the expansionary fiscal stance that we have adopted to stimulate our capital investment programme. We will be concentrating primarily on the construction sector. Our focus will be on housing and road construction, as these are significant employment generating sectors. Our goal will be to spread these employment opportunities island wide. In addition, we will be continuing to devote our resources to the agriculture and tourism sectors and directing resources to the private sector.

We continue to enjoy a low and stable inflation rate and we will endeavour to continue maintaining inflation at the current levels.

Our revenue agencies will continue to receive attention, so that revenue collection may be maximized.

Mr. Speaker, our development strategy required us in recent years to seek authorization to borrow funds largely for the capital investment programme. However, with the exception of funds to be borrowed from the AFD for the Tertiary Road Development Programme and the CDB for Saint Lucia's Economic Recovery Programme, we are confident that sufficient funds have been programmed from previous borrowing to continue our investment thrust for this year.

I wish to reiterate that the strategy that I have just highlighted assumes that international conditions do not materially change. The international situation continues to be unpredictable and we must accommodate some flexibility in our strategy. Honorable Members will be kept abreast of any changes that we may have to make during the fiscal year. We have to be realistic about the future.

PREPARING FOR THE FUTURE

Mr. Speaker, as Her Excellency advised earlier today in the Throne Speech, Saint Lucia will be caught in a vortex of economic forces of unimaginable consequence.

We cannot run away from them, neither can we pretend that these forces will spare us. It is time to face up to the realities. We did not face up to the realities in the banana industry and we paid a price. We did not face up to the realities of the WTO and were led blindfolded into it by the UWP administration, and we paid a price.

Every year, we are required to defend before the WTO, concessions to our manufacturers. We have been told that we have seven years to abolish these concessions. The FTAA is upon us. If we join, we will be required to dispense with duties and other related revenue measures on imports. Then, too, there is the approaching Single Market and Economy of the Caribbean Community that will revolutionize the way we do business in the region. The IMF is constantly recommending that concessions and incentives to investors and the private sector be abolished, because of the cost to the economy.

We cannot re-invent the past. For example, it is a disservice to Saint Lucia to suggest that the past glory of the banana industry could be recreated. Just as the glory days of the Sugar Industry in Trinidad, Jamaica, Barbados, Guyana and Saint Kitts are no more, so too is Green Gold no

more. Everywhere in the Caribbean, large-scale export agriculture is in its nadir. The days of protectionism are over.

We must stop pretending that these realities do not exist. We must not only change our mindset and our thinking, but we must change the way we do things. We do not have time at our disposal. One of the things we can do is to begin the process of re-designing and reforming our institutions to prepare for the future.

ESTABLISHMENT OF REVENUE AUTHORITY

Mr. Speaker, for some time now our two main revenue collecting agencies, the Inland Revenue Department and the Customs and Excise Department, have gone through business process re-engineering exercises which have seen the adoption of modern business practices. The reorganisation efforts have resulted in the strengthening of the administrative structures, the revision of legislation, the introduction of integrated computer systems, and more focused training programs.

The Inland Revenue Department has recently upgraded its integrated computer programme, SIGTAS, which will result in faster processing of income tax returns, more secure cash handling functions, and fewer technical problems. Soon the Department will be offering web-based services to its customers. The Customs Department is presently preparing for the upgrade of ASYCUDA to "ASYCUDA Plus Plus".

While these improvements are occurring, the operational relationships between the Departments have not been formalized. Thus, the significant synergies that can exist are not realized. For example, both Departments often deal with the same customer. The businessperson who imports items for sale and processes an entry at the Customs Department is the same person with whom the Inland Revenue Department has to interact when that individual reports the results of the sale of those imported items. There is, therefore, an opportunity for both Departments to share information seamlessly. Further, the clients of both Departments are getting more sophisticated. Therefore, the Departments must find creative ways to keep ahead of the curve.

As the Departments become more developed in their operations, it is necessary to ensure that administrative procedures are put in place to sustain and enhance the gains that have been achieved. Consequently, Mr. Speaker, I wish to announce that the Government will establish a Revenue Authority, which will become an administrative entity to govern the operations of both the Inland Revenue and Customs Departments.

The concept of a Revenue Authority or Commission is not unique, as such entities exist in quite a few of the countries of the Commonwealth. In the Caribbean, Revenue Authorities already exist in Jamaica and Guyana, while several other countries are contemplating the creation of Revenue Authorities. This initiative is consistent with our Manifesto Pledge to appoint a Revenue Commission to undertake a comprehensive review of the revenue collection units and provide recommendations on the streamlining of operations and improving collection efficiency.

The objectives of the Revenue Authority will be:

- ▶ To rationalize the operations of the Customs and Inland Revenue Departments;
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- ▶ To introduce more professional, efficient and cost-effective management practices;
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- ▶ To streamline the common services of personnel, training, accounting, development and maintenance of IT systems, document processing and administrative support;
- ▶
- ▶ To increase the effectiveness of technical activities resulting from the synergy of the merged agencies, such as audits and collections.

As you can appreciate Mr. Speaker, we are contemplating the merger of what hitherto were two separate and distinct cultures. The operations of the Customs Department are largely influenced by law enforcement imperatives, while the operations of the Inland Revenue Department are influenced by attestation responsibilities. Therefore, the merging of these two agencies will have to be carefully planned.

I propose, Mr. Speaker, within this year, to set up an interim committee chaired by the Permanent Secretary of the Ministry of Finance and Economic Affairs, and comprising private and public sector officials to look at the administrative, legal and technical arrangements for the establishment of this Revenue Authority.

ESTABLISHMENT OF AN INTEGRATED REGULATORY UNIT

Mr. Speaker, the Government of Saint Lucia proposes to establish an integrated regulatory framework for the financial institutions operating within its jurisdiction. These institutions include banks, trust and insurance companies operating in both the domestic and offshore sectors, credit unions, building and loan societies and money transfer agencies. This approach is consistent with a recommendation of the Monetary Council of the ECCB, which urged that efforts be made to have a framework established by December, 2002.

The rationale for establishing a Regulatory Unit is compelling as we observe the changing landscape in the financial sector. No longer are banks relying on traditional banking practices to derive income. There is now the introduction of E-banking and telephone banking. We are witnessing mergers and acquisitions in the banking and insurance communities. Insurance companies are beginning to offer non-insurance products and services, while banks are engaging in non-banking business. In some countries of the OECS, Credit Unions have asset bases that are larger than indigenous banks. The establishment of money transfer companies is a relatively recent phenomenon that has introduced challenging regulatory issues.

As a result of these changes, it is necessary to review the way that these institutions are regulated and supervised. It is perhaps time for us to look at the melding of our resources. In many respects there are variances in the quality of our resources in the various regulatory agencies that have been established. For example, in the International Financial Services sector, because of the pressures exerted by international institutions, we have found it necessary to employ specialized expertise. However, this may not necessarily be the case in the domestic regulatory environment.

Consequently, we believe it necessary to review the current regulatory and supervision practices. Therefore, we will be pursuing the establishment of an Integrated Regulatory Unit for the supervision and regulation of financial institutions in the domestic and international financial services sector.

ENERGIZING THE HOUSING SECTOR

Mr. Speaker, I have often said that this little island belongs to all of us, whether we live in the north or in the south, in the east or the west. Equity must prevail throughout its length and breadth. We cannot afford social or geographic imbalances in our development. That is why housing cannot be for some and not for others. This Government will continue to reach out to the poor, the dispossessed and the marginalized. We have done so with STEP. We have done so with the Poverty Reduction Fund. We have done so with Belfund. We have done so too with PROUD. Now we will do so with Low Income Housing.

LOW – INCOME HOUSING CREDIT FACILITY

Low-income housing has a central importance in economic and social development. Owning a home improves the quality of life. It builds self-esteem and it affords low-income families an opportunity to enhance their equity base.

Commencing this month, the Government of Saint Lucia will be implementing a Low-income Housing Credit Facility to assist low-income persons in our rural sector to acquire land and build their homes. Under the Low Income Housing Credit Facility, a grant will be provided to persons wishing to borrow money to build their homes or to purchase land. The borrower will, of course, be required to satisfy certain criteria, principally, a specified annual family income.

This project will result in the establishment of a facility made up of grant resources from the EU, and supported by loans from Financial Institutions. The grant will contribute to land purchase and various services and fees linked to the purchase and construction of homes.

Priority will be given to loans for land and to meet the payment of fees related to the construction of low-income houses. The contribution from participating Financial Institutions will be made as a loan to the final borrower and will be subject to the internal regulations and conditions of the lending institution. The facility will enable low-income households in rural areas to become house owners and landowners. Eventually, it will lead to the improvement and/or construction of about 500 houses.

For low-income persons who already have land, the Government will provide a Grant Support of 10 per cent of the loan up to a maximum of EC\$10,000.00 per borrower. The grant may be used, in order of priority, for the payment of the cost of house design, legal and registration fees, retrofitting, payment of yearly insurance premium and partial financing of the acquisition of the land. Again, I wish to emphasize that the Facility establishes a maximum grant of \$10,000.00 per borrower.

For those persons who do not have land, the Government will provide Grant Support of 20 per

cent of the loan up to a maximum of \$20,000.00 per borrower. The grant may be used to partially finance the purchase of land, up to a maximum of \$10,000.00 per borrower. The additional \$10,000.00 may be used to facilitate, in order of priority, the payment of the cost of house design, legal fees, retrofitting equipment and the payment of yearly insurance premiums attributed to the building of a house.

Mr. Speaker, the Facility can also assist low-income persons to get loans for the repair and expansion of low income houses.

In the language of the Honourable Member for Laborie/Augier, I wish, to make it "pellucidly clear" to Honourable Members and to potential beneficiaries, that this is a grant. It does not attract interest and it is not repayable.

The Government of Saint Lucia has allocated 7.6 million towards this Low Income Housing Credit Facility and it is expected that approximately 500 low-income persons will benefit from this initiative. In this fiscal year, \$2.0 million will be utilised during the fiscal year. The grants and loans will be administered by approved banks, Credit Unions, the National Research and Development Foundation, and the Saint Lucia Mortgage and Finance Company. The list of banks and financial institutions participating in this programme will be announced by the Office of the National Authorizing Officer in the next few days.

THE CHOC GARDENS DEVELOPMENT

Mr. Speaker, in the Budget Address of 1999/2000, Honourable Members were presented with a range of proposals to spur investment in the housing sector. These proposals are now in various stages of implementation.

The time is right to give a further boost to the housing sector. There is an acute shortage of housing stock in the Northern Corridor from Gros Islet to Castries. Mortgage rates are at their lowest ever, ranging from 7.99 per cent to 12 per cent.

Moreover, we must continue to do everything possible to reduce unemployment, by boosting activity in the construction sector. Investment in housing will help to provide additional stimulation to the economy.

The problem which faces the Government is the unavailability of Government-owned lands in the north. In actual fact, the Government of Saint Lucia owns just about 27 per cent of Saint Lucia's total land acreage, exclusive of our forest reserve. It is always a challenge to identify lands in the northern corridor. Usually, Government has to purchase or acquire land from private individuals for housing development.

Once again, Government has to take that route. In that regard, Cabinet has agreed to purchase eighty-nine acres of land from Choc Estates Ltd for the purpose of developing a new housing estate, Choc Gardens. It is estimated that approximately 493 homes can be constructed on lot sizes between 5,000 and 6,000 sq. ft. Of the 89 acres, Cabinet has agreed that fourteen (14) acres will be reserved for Public Officers, hopefully to be developed jointly by them and financed by

their Credit Unions, or on their behalf, by the National Housing Corporation. This housing development, Mr. Speaker, will be the single largest housing development ever undertaken in Saint Lucia.

In addition to the Choc Gardens Development, the National Housing Corporation will also be embarking on a new housing project in Black Bay, Vieux Fort. Approximately twenty two acres of land, sub-divided into 126 lots will be developed for sale. In the course of this year, therefore, there should be considerable activity in the housing sector. Indeed, Mr. Speaker, the Government of Saint Lucia has already welcomed the decision of Clico Holdings Ltd, a regional insurance company, to invest \$31 million in a middle income housing development at La Caye, Dennery.

INVESTMENT IN OUR PRIVATE SECTOR

Mr. Speaker, I want to confirm, or if you prefer, re-confirm this Government's commitment to the development of our Private Sector. I may boldly say that the only Government in the Caribbean Community with a programme that specifically targets the development of the Private Sector is the Government of Saint Lucia. This Government does so through a uniquely Saint Lucian programme, managed by the Office of Private Sector Relations, better known as OPSR.

Allow me, Mr. Speaker, to highlight the accomplishments of the OPSR and to introduce a new three-year programme which will make available \$15.8 million to the overall development of the Private Sector.

TECHNICAL ASSISTANCE INITIATIVES

Consistent with Government's policy of supporting and strengthening the domestic private sector, the OPSR delivered assistance over the past three years valued at \$792,646.81 to 20 companies for product development, diversification, marketing, systems development, and human resources development. This assistance was rendered to large and small firms alike, seeking new export opportunities within the region as well as in Canada and the UK.

A National Information Technology Training Fund was established with \$1.3 million in start-up capital at the Bank of Saint Lucia to make loans available to individuals and businesses interested in pursuing IT training. Two Information Technology companies received assistance to train new and existing employees under the OPSR sponsored National Information Technology Training Fund.

With assistance from OPSR, the St Lucia Coconut Growers Association was at last able to pursue product diversification, and in so doing brought new products to the market.

OPSR also delivered support to such business associations as the Chamber of Commerce, the Saint Lucia Hotel and Tourism Association, the Small Business Association, the Employers' Federation, the National Research and Development Foundation, and the Manufacturers' Association, in their efforts to improve their delivery of services to their members and clients. This support amounted to \$898,000.00

These efforts sustained over 600 new jobs and facilitated the training of over 250 persons in business development, Hazard Analysis Critical Control Point (HACCP) principles, quality control and information technology. Taken altogether, the Programme disbursed a total of \$3,336,600.00 to strengthen the private sector.

THE PRIVATE SECTOR DEVELOPMENT PROGRAMME – PHASE II

At the request of the OPSR, the EU conducted an early evaluation of the Programme in consultation with beneficiaries. The result was that this programme received highly favourable reviews on its implementation and management. Consequently, the OPSR was given a mandate to proceed with a second phase, the emphasis of which is more intensive and involves more direct business support services to individual firms. With funding already approved, deposited and in Saint Lucia, the OPSR will now be inviting Saint Lucian companies to participate in a \$15.8 million Business Upgrading Programme, spread over the period 2003 to 2006.

Under this programme, Saint Lucian businesses will be able to obtain grant funding for the following activities:

1. assessments of business needs and commercial viability;
2. the design, development and implementation of business plans;
3. the training of management and staff;
4. product and market development;
5. adjustment to meet international trade standards and regulations;
6. forging joint ventures/strategic alliances with overseas corporations; and
7. accessing external and domestic funding.

Moreover, Saint Lucian consultants will be trained to deliver these business support services, and business associations will be able to obtain assistance to meet the needs of their members.

At the public sector level, technical assistance and training will be provided to relevant Government Ministries in the fields of:

- ▶ Procedures and legislation affecting business competitiveness; and
- ▶ Preparing and implementing policy reform pertaining to investment promotion, consumer protection, and competition policy.

Mr. Speaker, this year \$6.0 million is being allocated to this programme.

RURAL CREDIT FOR SMALL BUSINESS DEVELOPMENT

Mr. Speaker, this Government emphasizes equity. It is not only concerned about established businesses. It is concerned about embryonic businesses as well.

So, it is with pleasure that I am able to formally announce the establishment of a Rural Credit

Facility. This facility is made up of grant resources from EU funds, other resources of participating Financial Institutions and resources from the Government of Saint Lucia. The EU/Government contribution will be disbursed as a grant to the final borrower, with priority given to the financing of various business services linked to the loans for the establishment of viable small and medium businesses. The Financial Institutions' contribution will be made as a loan to the final borrower, subject to its internal regulations and conditions.

This facility seeks to provide much needed financial support in the form of a grant to help persons establish small and medium businesses and to help strengthen those businesses which have already been established. Through this project, \$25,000.00 in grant funds will be made available per borrower to pay for the services which are part of the business loan. These services include:

1. preparation of a business plan;
2. preparation of market studies,
3. payment of legal and other fees;
4. payment of insurance premium;
5. payment for accounting services; and
6. payment for other business related services.

A key feature of this facility is that \$10,000.00 can be made available to assist banana farmers to access loan funds for on-farm irrigation equipment and other inputs by offsetting the debt which they incurred by way of the EU funded Production Recovery Plan (PRP).

After the various services have been paid for, the grant from this Rural Credit Facility can be used to directly fund required supplies. This Credit Facility will be available at the leading financial institutions, including the various Credit Unions around the island.

The total cost of this grant initiative is \$14 million and it is expected to facilitate approximately 600 businesses. Of this amount, \$3.0 million is allocated in the estimates for this fiscal year.

INVESTMENT IN BLUE CORAL LTD

Mr. Speaker, the shoddy appearance of the centre of Castries has always drawn concern from locals and visitors alike. In order to encourage businesses in the center of the city to redesign and refurbish their buildings, Government introduced a regime of duty free concessions on building materials. The regime ends on December 31, 2003 and has worked well. New buildings have been constructed and old buildings have been redesigned and renovated. A new appearance is emerging.

Perhaps the most imposing building on Bridge Street is the J.Q. Charles Building. I believe that everyone breathed a sigh of relief at the modest changes to the building over the past weeks. Honourable Members are aware that the firm of J. Q. Charles Ltd is in the middle of restructuring its operations. I am advised that the National Insurance Corporation and the Bank

of Saint Lucia purchased the J. Q. Charles Building on Bridge Street. To do this, the parties created a Special Purpose Vehicle (SPV), which will give birth to a new company that I understand is to be called Blue Coral Limited.

As a result of the 2/3 shareholding of the NIC in this special purpose vehicle, Government has agreed to provide certain concessions towards the purchase and the refurbishment of the property. It is expected that the refurbished building will enhance the city center and at the same time provide additional top class office and commercial space for entrepreneurs desirous of participating in commercial activities, particularly, activities related to the tourism sector, such as duty free shopping. This will help the drive to transform Saint Lucia into the premiere shopping destination in the Eastern Caribbean.

It is understood that in time, the public will be given a chance to participate in the ownership of Blue Coral Limited. This will be consistent with Government's policy of encouraging the development of a shareholder democracy in Saint Lucia.

Later in this presentation, I will discuss the proposal to develop the William Peter Boulevard into a promenade to allow for easier access and for closer integration of the city into the tourism industry, particularly the cruise tourism sector. A new look to the J.Q. Charles building will be critical to the new ambience that we seek to establish in the Boulevard. All of this will require firm resolution of the parking issues in the city. This will be done this year. We must end the chaos in the city.

INFRASTRUCTURE INVESTMENTS

Mr. Speaker, earlier in my presentation, I pointed out that the Government has opted for a significant increase in capital expenditure this fiscal year. Some of the investment reflects expenditure in previously announced projects. The years of planning are now beginning to yield results.

MODERNISATION OF THE ROAD SECTOR

Mr. Speaker, this Government proposes to embark on what is perhaps the most ambitious and comprehensive road development programme ever designed and undertaken in Saint Lucia. The objective is to modernize the road infrastructure of this country.

The Vieux Fort to Soufriere Highway is now under construction. Sod Turning Ceremonies have been held to signal construction of the Trois Piton/Deglos Road and the Grand Riviere/Monier/La Croix road. Within the next two weeks, a Sod Turning Ceremony will be held to commence construction of the La Ressource - Deniere Riviere Road and the Richfond-Grande Riviere Road, both in the Dennery North Constituency.

Mr. Speaker, this Government has embarked on a multi-faceted approach to maintain, rehabilitate, and modernize the current road network island-wide, all with a view to providing an environment for attracting and facilitating touristic, commercial and residential development throughout the island.

THE ROAD DEVELOPMENT PROGRAMME

In the Budget Presentation of 2002/2003, I provided Parliament with details of the CDB financed Road Development Programme. The first two phases are underway, while the third phase, mentioned earlier, has just commenced. The fourth phase, which involves the re-paving of the highway from Castries to Vieux Fort, will commence later this financial year, hopefully in the fourth quarter of the budgetary cycle. In this phase, styled RDP 4, the section of the highway from the Manoel Street Bridge to Cul-de-Sac and from Cul-de-Sac to the Barre d’Lisle will be re-surfaced. This work is timely, as there is much evidence to indicate that the surface is showing signs of stress and is slowly falling apart.

Honourable Members will note that overall, \$57.9 million is allocated to the Road Development Programme.

TERTIARY ROAD REHABILITATION: THE AFD PROGRAMME

Mr. Speaker, the Government accepts that the modernization of our road infrastructure must not be confined to our highways. If we are to maximize the potential returns from eco-tourism, then it is necessary that we provide decent access roads to the principal sites of exploration and enjoyment. Unquestionably, too, there has been some deterioration of our tertiary road network over the past decade, and urgent remedial action is necessary. Government has heard the cries, of the farmer in Fond St. Jacques and the motorist in "Cas En Bas".

Financing for these roads could not be secured from the traditional sources such as the Caribbean Development Bank. The Bank places a low priority on financing of roads for eco-tourism. The Government therefore turned to the Agence Francais de Development (AFD), which agreed, after undertaking a consultancy, to provide a loan of \$27 million on extremely generous terms. The terms include a seven year moratorium on the payment of principal and interest, and an interest rate of 4 per cent. These terms are exceedingly generous and are almost unheard of in these times. I wish to formally express the appreciation of the Government and people of Saint Lucia to the French Government and indeed, the AFD. They continue to be committed partners to our development.

Under this project, fifty four (54) sections or 130 kilometres of tertiary road will be targeted for rehabilitation over a period of twenty one months, at a total cost of \$33.03 million. The works will be divided into three separate contract packages comprising roads in the (a) North, (b) Central Region and (c) South of the island. Work is expected to commence this financial year, and a sum of \$12.3 million is allocated for the purpose.

Under this programme, some of the roads which will receive attention include:

BABONNEAU	Fond Assau - Chassin Marquis Estate Road
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	<p>Marquis - Boguis</p> <p>Garrand - Des Barras</p>
GROS ISLET	<p>Monchy - Desrameau</p> <p>La Borne</p> <p>Cas-En-Bas</p> <p>Bois D'Orange - Windjammer</p> <p>East Winds Road</p>
FORRESTIERE	<p>Guesneau - Forrestiere</p>
ANSE LA RAYE/ CANARIES	<p>Venus - Millet</p> <p>Canaries Valley Road</p> <p>Anse La Raye - Venus</p> <p>Millet - Tete Chemin</p> <p>Bellevedere - Anse La Liberte'</p>
SOUFRIERE	<p>Fond St. Jacques - Migny</p> <p>Chateaubelair</p> <p>Esperance - Raveneau</p> <p>Diamond - Fond St. Jacques</p>
CHOISEUL	<p>Etangs - Union Vale - Delcer</p> <p>Le Riche - La Pointe - Delcer</p> <p>Victoria - Martin - Mongouge - Le Riche</p> <p>Delcer - Bois Dimde - Raveneau</p>
LABORIE	<p>Morne Le Blanc</p>
VIEUX FORT NORTH	<p>Grace - Augier</p> <p>Augier - Cartien</p> <p>Grace -Joyeau - Belle Vue</p>

VIEUX FORT	Moule-a-Chique
MICOUD	Mahaut - Six Lien Volet - Mahaut Mamiku Loop Road Mahaut - Calypso Der Cartier
DENNERY	Dennery - St. Joseph-Errard Erard - Deux Branches Bois Canoe Road

The complete list of roads under this project appears as Appendix I to this Budgetary Statement.

REHABILITATION OF AGRICULTURE AND FEEDER ROADS

Mr. Speaker, Honourable Members would wish to be updated on the details of the "Agricultural and Economic Feeder Roads Programme" that is currently underway.

The preparatory phases (designs, feasibility studies) are on target. We are expected to begin actual road works by the 1st quarter of the next financial year. Whilst the preliminaries are being finalized, given that these roads have deteriorated significantly, the Government of Saint Lucia through the 2003/2004 Capital Budget, will be allocating a total of \$6.9 million towards the rehabilitation of Agriculture and Feeder Roads. Of that amount, \$3.9 million will be sourced from SFA 2001 and will be spent through the Poverty Reduction Fund, using its labour intensive, community contracting approach. The roads targeted under this programme are identified in Appendix III and IV of this Budget.

CASTRIES GROS ISLET HIGHWAY

Mr. Speaker, for some time now, the Government has expressed its intention to improve the Castries - Gros Islet Highway to ease congestion and to reduce travel time. Indeed, only a few months ago, Government commenced the rehabilitation of the road from the Gros Islet Highway, through the C.O. Williams yard to Corinth, in order to provide a secondary alternative route.

By all accounts, construction of improvements along the highway would lead to major delays and, I am sure, acute irritation and flared tempers. Moreover, the cost of effecting the improvement would be phenomenal, with a substantial amount incurred as a result of land acquisition. In view of these factors, Government has decided to phase the project over time and concentrate this financial year on the Choc Bay Interchange. Even this requires substantial work. It includes the construction of a new bridge over the Choc River, a multi-grade interchange, re-

design of the roads from the Allan Bousquet Highway and the roundabout at the termination of the feeder roads, and all associated lighting, drainage and utilities work.

Construction of the Interchange is crucial, as the new Union Primary School is scheduled to open in September. This school will be the largest Primary School in Saint Lucia and will accommodate 1,000 students. Its presence will add to the traffic congestion in the area. Remedial action is necessary and urgent. The Interchange will be financed from the Kuwait Fund for Arab Economic Development at an estimated cost of \$21.9 million.

URBAN TRANSPORT AND DEVELOPMENT STUDY

Mr. Speaker, the city of Castries serves as a conduit for motorists travelling to the North and South of the island. In addition, between the hours of 7 am and 6 pm daily, the city of Castries is home to thousands of Saint Lucians who report to work at business houses, government offices and schools, which are all situated within the Castries Basin. The resolution of the central traffic and transportation issues within the city will be vital to the overall success of the "road modernization strategy" which is being implemented by the Government of Saint Lucia.

Accordingly, the Government of Saint Lucia, with the assistance of the Agence Francais de Development (AFD), is in the process of conducting a study aimed at upgrading the transportation network within Castries. An amount of approximately \$250,000 is proposed as a counterpart contribution to a "Castries Basin Transportation Study", aimed at developing an integrated multidisciplinary approach for dealing with the transportation issues which plague the Castries basin.

WILLIAM PETER BOULEVARD THOROUGHFARE

One initiative which will proceed, at least in its design, is the designation of the William Peter Boulevard as a pedestrian thoroughfare, with cobble stone sidewalks and cafés. This is a project which has been championed by the City Council. Obviously, this initiative will require discussion with the City Council, the occupiers of the Boulevard, the Banks in particular, and indeed, our friends on the other side, Her Majesty's Loyal Opposition. After all, the Boulevard is their stage, as the Market Steps is the University of the Labour Party. Meanwhile, LUCELEC and Cable and Wireless should accelerate their respective underground cabling/wiring programmes in the area to facilitate this initiative.

In summary Mr. Speaker, the Government of Saint Lucia has designed and is in the process of implementing a holistic, systematic approach towards modernizing the road sector, with a view to abating the critical bottlenecks that the road sector faces. You would be hard-pressed, Mr. Speaker, to find any period in the history of this nation when so many roads have been targeted for attention in any one year.

ENHANCING QUALITY EDUCATION

Mr. Speaker, for twenty or more years the parents of Saint Lucia have nurtured a long standing dream. They have yearned for the day when the Common Entrance Examination will no longer

be the sentence of death for their children's future. They have longed for the day when every child will have the opportunity to enter a secondary school.

Parents of Saint Lucia that day is soon to arrive. The Government of Saint Lucia has successfully negotiated a new loan package with the World Bank for a total of \$13.2 million to bring us to universal secondary education. The project involves the construction of two new secondary schools at Anse La Raye and Gros Islet. Each of these schools will have a capacity for 700 students and will reflect the new standards for secondary schools established by the Ministry of Education. Each school will have an auditorium or multi-purpose hall, canteen, computer lab, learning resource center, science lab, technical workshop, counseling room and staff room.

A study undertaken by the Ministry of Education revealed the major locations where secondary education places were deficient; Anse La Raye and Gros Islet were among the worst. Dennery was another that the location study showed was in dire need of additional secondary places. We have therefore decided Mr. Speaker, that the Grande Riviere Senior Primary School in Dennery will be upgraded to full secondary status. This upgrading will lead to the creation of an additional 280 places. The rehabilitation and upgrading of the Clendon Mason Secondary will also yield 150 additional places and new facilities for that school. A total of 13 existing Secondary Schools will be rehabilitated under this project.

Mr. Speaker, while I have focused on the capital dimension of this project, there is a broader and bigger vision at work. This project is not simply about better physical conditions but also about improving the quality of education. It will also pay attention to teacher development, equipping of schools with specialist equipment, and establishing an innovation fund to promote creativity in schools. The curriculum of our secondary schools will be revised – with the help of the Caribbean Examinations Council – to ensure that all students follow a core curriculum. It will include English, Mathematics, Information Technology, a Foreign Language and Integrated Science, and will provide subsequent career opportunities in the humanities, the sciences, technical areas and the expressive arts for students of different aptitudes.

The other outcomes of this project include:

- ▶ A new system of continuous assessment at primary level that will ensure that students are promoted to secondary level when they are academically ready. This assessment system will also take into account the involvement of students in sporting and other activities in the school;
- ▶
- ▶ The provision of support services to secondary students (counselling and other welfare support);
- ▶
- ▶ The provision of literacy and numeracy support programs to primary and secondary students;
- ▶
- ▶ Establishment of school development plans.

Mr. Speaker, with this project we are writing a new chapter in the history of education in Saint Lucia. The attainment of universal secondary education is a milestone that signals that a country has reached a particular threshold in its human resource development and its capacity to develop

itself.

REHABILITATION OF SCHOOLS

The Government of Saint Lucia has consistently demonstrated its firm commitment to the development of the Education Sector as part of its strategy to enhance the socio-economic development of the country. This sector on average, receives a sizeable share of the national budget and accounts for approximately 25 per cent of the recurrent expenditure.

The success of this strategy is consistently reflected in the academic performance of our students within all spheres of the education system. It is no secret that the improved quality of our country's human resources contributes to enhancing productivity in every sector of the economy.

However, despite this positive reflection, there are some concerns, which, rest assured, this Government will continue to address. A large number of schools in Saint Lucia are aged, and their physical condition continues to deteriorate rapidly, despite the sustained efforts to maintain and rehabilitate them. Through the "Basic Education Project", 19 primary schools were rehabilitated, and a further 14 were retrofitted under the OECS Disaster Management Project. Moreover, this Government continues to allocate approximately \$1 million annually, to undertake general rehabilitative works island-wide. Much still, has to be done.

Mindful of this, the Government of Saint Lucia, in collaboration with the Caribbean Development Bank (CDB), has devised a multi-faceted approach to addressing this situation. As part of Saint Lucia's "Economic Reconstruction Programme", 11 primary schools will be rehabilitated this financial year at an estimated cost of \$8.9 million, of which the Government of Saint Lucia will contribute \$1 million and the CDB \$7.9 million.

Furthermore, this programme will include some major rehabilitative works, which will be implemented in the following financial year. The relevant details will be announced at a subsequent date.

MOVING TO EFFICIENT, QUALITY HEALTH CARE

In the words of Nobel Laureate Amartya Sen, health (like education), is among the basic capabilities that give value to human life. As such, the primary objective of our health system is to provide efficient quality health care.

A healthy work force is one of the major factors that contribute to increasing economic productivity. The economic costs of avoidable disease as well as the cost of provision of services, when taken together, are staggeringly high and continue to rise with demographic changes as well as population increases. Disease reduces national productivity and annual incomes of society, the lifetime incomes of individuals, and prospects for economic growth. Because disease weighs so heavily on economic development, investment in health is an important component of our overall development strategy.

In the course of this year, work will accelerate on the design of the new psychiatric hospital and

the new national hospital. In the case of the new national hospital, Government will engage a Project Technical Advisor to provide technical assistance in the recruitment and supervision of hospital designers, health planners and engineers.

Already, the Government of the Peoples' Republic of China has advanced the initial funds for the design and construction of the psychiatric hospital. At long last, Mr. Speaker, we will humanize the environment in which health care is delivered to our psychiatric patients.

REHABILITATION OF HEALTH CENTRES

Over the period 1998-2003, the health sector's share of the national budget averaged \$54 million or 8.3 per cent annually. Despite that, budgetary provisions have not been sufficient to maintain existing assets. The provision of primary health services through the health centres is faced with a number of constraints. Sixty-five percent of the centers are in urgent need of rehabilitation or upgrading, because of inadequate maintenance, weak security and in some cases lack of adequate space for accommodation of health personnel in the discharge of their duties. Additionally, the Ministry badly needs vehicles for the transportation of equipment and supplies to health centres.

The Caribbean Development Bank has agreed to finance the refurbishment of fifteen (15) health centers to assist in strengthening the country's human capital base in support of its broad social and economic development agenda. The project is part of Saint Lucia's Economic Reconstruction Programme (ERP), approved by CDB to assist member countries to reposition their economies in the light of the attendant fiscal and structural challenges they currently confront. The rehabilitation of health centres is estimated to cost \$9.471 million, of which approximately \$1.515 million is the Government's counterpart contribution. It is expected that the project will be approved at the CDB Board meeting in July.

The project aims to enhance the efficiency of the physical operations of the health sub-sector, to increase the standard of delivery of health care and to provide vital information to the Ministry of Health, Human Services and Family Affairs on the physical condition of its facilities. This, in turn, will facilitate the completion of a comprehensive current schedule of capital maintenance interventions with the corresponding budgetary proposals.

The major component of the project is Civil Works. Minor repairs, fencing and provision of security bars for the following health centers will be undertaken:

- ▶ Grand Riviere
- ▶ Fond Assau
- ▶ La Ressource
- ▶ Richfond
- ▶ Micoud
- ▶ Mon Repos
- ▶ Desruisseaux
- ▶ Belle Vue
- ▶ Grace
- ▶ Mongouge

- ▶ Fond St Jacques
- ▶ Canaries
- ▶ La Croix
- ▶ La Clery, and
- ▶ Bexon

The project includes the replacement of defective equipment and furniture and the provision of additional equipment, furniture and fixtures. Provision is also made for the acquisition of three vehicles, including two panel vans, to service the Health Centres.

FLOOD CONTROL INVESTMENT: ANSE LA RAYE, CASTRIES, DENNERY

Historically, the City of Castries and the village of Anse La Raye have been hard hit by floods from tropical storms such as Debbie in September 1994, which caused four deaths and injured 24 persons. In Castries, recurring floods typically produce disruption to vehicular and pedestrian traffic, public transport, deposition of silt and debris in streets, and aesthetic depreciation of the urban area. The village of Anse La Raye experiences regular damage to homes and businesses, to the extent that there is significant disruption to the day-to-day activities of the village. In both cases, the economic impact runs into hundreds of thousands of dollars in damage to property and loss of income – with each successive flood.

We have allocated the amount of \$635,754.60, through a loan from the Caribbean Development Bank, to undertake designs and preparation of tender documents for improvement of the drainage systems in Castries and Anse La Raye. This project is of high priority and upon completion, is expected, among other things, to minimize disruption of commercial and economic activity in Castries and Anse La Raye and provide the people of Anse La Raye the flood protection that they have so long craved.

The project entails the implementation of flood control measures and the reconstruction of drainage structures in both areas at a cost of \$29 million. These entail for Anse La Raye, the widening and construction of flood channels, the construction of flood berms, and the construction of a new 35 metre span bridge to replace the existing box culvert on the highway. In the case of Castries, the intention is to reconstruct the Jn Baptiste drain, replace box culverts, reconstruct the drain in the Botanical Gardens, increase the outfall of the Parris drain to the sea, redirect ravines, and improve the Chisel Street to Victoria Street section of the Parris drain.

A Statement of no-objection has been received from the CDB for the award of the contract for Designs and Tender Documents to Halcrow (St. Lucia), and this is expected to take six (6) months. Project implementation is estimated to take 12–18 months, and is expected to start during the last quarter of this fiscal year.

CONSTRUCTION OF ANSE LA RAYE JETTY

Mr. Speaker, Honourable Members, two years ago, the Government embarked on a programme of construction of jetties. Jetties have been constructed and commissioned in Laborie and

Canaries. The next and most obvious site for a jetty is the community of Anse La Raye. The construction of a jetty would facilitate the movement of persons by sea from the north to Anse La Raye, particularly to enjoy the popular Fish Friday activity.

This jetty will cost the Government of Saint Lucia \$3.5 million. It is proposed that construction commences towards the end of the financial year and to that end \$800,000 has been allocated in this year's capital expenditure.

HUMAN RESOURCE DEVELOPMENT CENTRES

The Government, Mr. Speaker, proposes to continue its investment in Human Resource Development Centres. It is expected that work will commence on the center for Laborie, later this year. A sum of \$1,600,000 has been allocated from SFA 2002 for the construction of a center in the Mabouya Valley. Design work will commence this year.

INVESTMENT IN PRODUCTIVE SECTORS

I now turn, Mr. Speaker, to investment in the principal productive sectors.

AGRICULTURE

Mr. Speaker, our Government has consistently allocated significant levels of resources to the agricultural sector, and this trend continues in this Budget. We recognize that the agricultural sector underpins much of our economic development, and while this sector has been overtaken by tourism in terms of the contribution to our GDP, it remains an important factor in our continued economic development.

Our strategy, since assuming office six years ago, has been to systematically modernize the banana industry, through strategic investments in infrastructure and re-engineering of the institutional arrangements. This has paid dividends, as is evident from our consistently high fruit quality scores, our quick rebound from the effects of Tropical Storm Lili, and the fact that our production currently accounts for fifty five (55) per cent of the total Windward Islands production.

Banana Commercialization: Irrigation and Drainage Infrastructure

Our Banana Commercialization programme will be completed this year with the official commissioning of 180 acres of off-farm irrigation infrastructure in Roseau, 51 acres in Canelles and 420 acres in Cul de Sac. A total of 116 farms will benefit from this investment. By the end of the coming financial year we will have a total of 651 acres of banana farm land under irrigation. In effect, Mr. Speaker, we would have accomplished in three years, since the inception of the European Union's SFA programme, what previous administrations failed to do over a thirty year period. A sum of \$8.7 million has been allocated in this year's Estimates for this activity.

Banana Emergency Recovery Plan

Mr. Speaker, in last year's Budget Statement, I informed Honourable Members of the initiation of a comprehensive Banana Emergency Recovery Programme to increase productivity and restore farmer confidence in the industry. This was to have been preceded by the establishment of a Banana Emergency Recovery Unit (BERU).

I am pleased to report that the BERU has been commissioned, and that within a very short period of time, it has already made a significant positive impact on the industry. During the 2002 Financial Year, our Government was able to conclude negotiations with the Caribbean Development Bank on the funding of the Banana Emergency Recovery Programme. A total of \$1.192 million of funds derived from Local Revenue will augment \$10.962 million of CDB funds to finance this programme during the coming year.

Agricultural Development Programme

Mr. Speaker, our Government has expended significant resources over the past six years in redesigning the environment within which the agricultural sector operates. As much as we may be uncomfortable with their far-reaching effects, trade liberalization and competition are very real factors which our agricultural sector must confront. Therefore, it was necessary that we made certain changes to the way in which we conducted business in the sector and to the laws that govern and regulate the sector.

Under our Agricultural Development Programme, a total of \$6.54 million is allocated from European Union SFA resources to fund a range of activities designed to further reengineer the sector.

Support will be provided to the Saint Lucia Bureau of Standards for the development of standards for the fish and meat industries. These standards will allow us to ensure that our consumers can always be confident of the integrity of the products that are offered to them for sale from all sources.

Praedial Larceny has long been a scourge on the agricultural sector, and currently ranks as one of the most serious disincentives to further investment in the sector. With the support of the European Union, we will initiate a pilot project to combat praedial larceny, which will focus, in the initial stages, on the areas hardest hit by this serious and frustrating form of criminal activity.

The incursion of exotic pests and diseases also constitutes another serious threat to our domestic agriculture. In recent years we have had the misfortune of having to deal with the economic losses caused by the Pink Hibiscus Mealy Bug, the Varroa Mite, and the Giant African Snail. The future viability of our banana industry depends on our continued ability to keep the dreaded Black Sigatoka disease away from our shores. Therefore, during this financial year, we will establish a port-based quarantine facility, which will ensure that there is greater scrutiny and surveillance to detect the possible entry of pests of economic significance. Once again, this project is being funded under the European Union's Special Framework of Assistance programme.

Mr. Speaker, in our continuing effort to improve the infrastructure available for the post-harvest

handling of our agricultural produce, and in so doing, enhance the quality of that produce, we will construct two (2) strategically positioned pack houses for fresh produce and cut flowers.

Our coastal fisheries development programme is almost complete. Within a few weeks after the passage of this Budget we will commission the Soufriere and Choiseul Fish Landing Facilities that have been built under our Japan-funded development programme. These facilities will allow us to consolidate the impressive gains that we have already made in this important sub-sector.

Our policy in agriculture has always been to stabilize and modernize the banana industry, while providing opportunities for the further growth and development of the non-banana sector, and the interventions planned for this year are consistent with that overarching policy.

TOURISM

Over the years Mr. Speaker, this Government has invested heavily in tourism, by providing marketing funds for promoting Saint Lucia overseas. In addition, Government has catalyzed the development of the industry by providing the necessary infrastructure, largely in the form of capital works. We have also encouraged the enhancement of the product by extending incentives to entrepreneurs desirous of setting up new facilities, as well as for the expansion of existing operations. In return, these investments in the industry assist in sustaining full-time employment for over twelve thousand (12,000) Saint Lucians in various areas of productive engagement within the tourism industry itself.

Over the past six (6) years, visitor arrivals to Saint Lucia have grown by more than fifty percent (50%) overall, from 421,746 at the close of 1996 to 648,346 for the year 2002. Except for the price-led destinations in the Spanish Caribbean and Trinidad and Tobago, Saint Lucia has the distinction of having one of the highest growth rates in stay over arrivals (17%) over the six year period. Unquestionably, this expansion has underpinned our economic development, as other sectors have experienced less favourable returns.

Several new developments are expected to commence this financial year. These include Beau Estate in Soufriere comprising 50 villas, and the Discovery Bay project at Marigot with an additional 30 villas.

In the same vein, Mr. Speaker, I am pleased to advise Honourable Members that all financial arrangements have been completed between NDC and the new operators of the former Club Med in Vieux Fort. After learning of Club Med's intention to close the property, the Government made it clear to Club Med that it was desirous of having a say in determining the future of the hotel. The National Development Corporation was immediately directed to commence negotiations for the transfer of the resort to Saint Lucia. The outcome of negotiations resulted in the purchase of the remaining life of an Emphyteutic Lease on the property, plus improvements to the buildings for US\$12 million. Concurrent negotiations were held with the new operators, who will be responsible for the payment of this amount to Club Med through a loan from the Bank of Nova Scotia. The hotel operator will spend a further US\$7 million in refurbishment work. It is expected that the hotel will open for business in November of this year.

FISCAL ADJUSTMENTS AND REFORMS

Mr. Speaker, I now wish to focus on the package of fiscal adjustments and reforms which underpins this Budget. With the challenges that we face, it has been difficult to do all that we would like, but I am confident that the proposals will be revenue enhancing as well as provide some measure of relief to our citizens. First, allow me to clarify the position of the Government on the Value Added Tax Debate.

THE VALUE ADDED TAX (VAT) DEBATE

Mr. Speaker, it has been interesting listening to the debate on VAT that has been carried in the media over the last few weeks. Ever since the recommendation of the OECS Tax Commissioners was placed in the public domain, the debate has been robust. Like most discussions in the media these days, the debate on the Government's position has been without fact. Mr. Speaker, permit me to outline the facts:

- ▶ The Government of Saint Lucia, along with other Governments of the East Caribbean Currency Union, mandated the establishment of the Tax Commission. The mandate of the Commission is to advise member States on the administrative and technical changes in tax administration that are necessary to cope with the changing circumstances being experienced in the region and indeed, the world.
- ▶
- ▶ The Commission is headed by a renowned economist and former Vice Chancellor of the University of the West Indies, Sir Alister Mc Intyre, and comprises private and public sector officials from the countries in the Currency Union.
- ▶
- ▶ Members of the Commission visited all member States and had discussions with private and public sector representatives, as well as with representatives of Opposition Parties. I understand that they met representatives of the Opposition United Workers Party. As a result of these discussions, the Commission is formulating a set of recommendations ostensibly to modernize and strengthen tax administration in the Currency Union.
- ▶
- ▶ The suggestion that the Commissioners would be making a recommendation to introduce VAT or some form of transactions-based tax, came from an oral presentation made on behalf of the Commission by Sir Alister Mc Intyre, at a recent meeting of the Monetary Council of the Eastern Caribbean Central Bank.

So where does the Government of Saint Lucia stand on the implementation of VAT, Mr. Speaker? Only yesterday, we received the draft preliminary report of the Tax Reform and Administration Commission. The report of the Commissioners will be studied by our officials and made available to the public.

Our preference, Mr. Speaker, is to adopt a regional approach to the implementation of the recommendations of the Commissioners, that is, if we accept them. Presently, it is difficult to judge the reaction of our OECS partners to the report of the Commissioners, although there are some countries that may have more compelling reasons to introduce a VAT at this time.

At any rate Mr. Speaker, the implementation of a VAT or any form of transactions-based tax has to be carefully planned. Therefore, it would be reckless to assume that an immediate implementation of such a tax would be in the offing. The simple truth is that the Government of Saint Lucia has not had an opportunity to explore the recommendations of the Commission and has made no decision on this matter. I expect that a decision will be made in the course of the year, after appropriate consultation with our social partners.

REDUCTION IN THE CORPORATE INCOME TAX RATE

Mr. Speaker, despite the tight economic situation, we still feel it necessary to continue our adjustments to the income tax regime. Over the last few years we have made adjustments to the allowances and deductions that can be claimed by individuals, as well as some adjustments to the corporate tax regime. Indeed, as of this financial year, persons who earn up to \$16,000.00 will no longer pay income taxes. This Government has increased the threshold from \$12,000.00 to \$16,000.00. Some 5,500 persons no longer pay income tax as a result of this measure. Our goal is, and continues to be, to simplify the income tax regime while at the same time to offer incentives and relief to income tax contributors.

This year Mr. Speaker, we will be offering some relief to Corporate Tax Payers. This was promised in the 2001 Manifesto of the Saint Lucia Labour Party. We propose to reduce the Corporate Tax rate incrementally, over a period of three years. This approach has been adopted to avoid too sudden a loss of revenue from Corporate Tax, especially in this difficult time of adjustment.

The reduction will take effect as follows:

Income Year 2003 1/3 percent

Income Year 2004 1 percent

Income Year 2005 2 percent

These adjustments mean that by Income Year 2005 the Corporate Tax rate would have been reduced from 33 1/3 percent to 30 percent. The reduction will only apply to firms that have fully paid up all outstanding arrears.

Mr. Speaker, the trend in the other Caribbean states is to reduce Corporate Tax rates. By reducing the Corporate Tax rates we are signaling to the business community that we are willing to be competitive and that Saint Lucia will continue to lead the way in ensuring that our Corporate Tax rates remain competitive. Further, we are announcing to our Corporate neighbours in the region that Saint Lucia continues to be tax competitive. Indeed, we hope that this measure will encourage the development of more regional business in Saint Lucia.

CONTINUATION OF TAX ARREARS PAYMENT PLAN

Mr. Speaker, last year we introduced the Tax Arrears Payment Plan (TAPP). The objective of the

plan was to offer an incentive to taxpayers who had arrears with the Inland Revenue Department to make arrangements to settle their arrears. The plan gave generous incentives should taxpayers agree to quickly retire their arrears. It was the intention of the plan to gradually reduce the incentive over time.

Mr. Speaker, I am happy to report to this Honorable House that the TAPP has been a resounding success. In fact, the Inland Revenue Department was able to surpass its target for arrears collection by \$1.7 million. The budgeted amount for arrears collection was \$16 million. This is a remarkable feat and the officers of the Inland Revenue Department must be commended for their efforts in widely promoting the incentives of the TAPP.

Consequently Mr. Speaker, I wish to announce that first year incentives of the TAPP will be extended for another year. Thus, taxpayers in arrears can expect that the following arrangements will be in place for another year:

For arrears that are settled before March 31, 2004, a waiver on interest of 70 per cent and penalty of 100 per cent will be offered.

EXEMPTION OF PENSIONERS FROM LAND AND HOUSE TAX

Mr. Speaker, in the course of the 2001/2002 Budget presentation, I announced that Government will exempt from the payment of land and house tax, the owner-occupied dwelling houses of persons who qualify as pensioners as defined in the National Insurance Corporation Act. The exemption was intended to apply to properties occupied by these persons for the sole purpose of providing accommodation to themselves and their families rent-free. Properties or portions thereof, which are used for generating income, were not granted exemption.

This exemption has now been cast into law. However, the exemption did not apply to non NIC pensioners, for example, former public officers. The Pensioners Association has complained that though well intentioned, the exemption can result in an appearance of discrimination against a group of taxpayers.

I have accepted these submissions and propose to invite the House to further amend the Land and House Tax Ordinance to extend the relief to all pensioners whose sole source of income is a pension. These exemptions will not apply to persons who are in receipt of pensions from abroad.

REDUCTION IN STAMP DUTY FOR MORTGAGE REFINANCING

Mr. Speaker, due to the efforts of this Government, we attempted to encourage banks to reduce their lending rates. While some banks have responded more positively than others, I believe that we are beginning to see a trend in falling interest rates. I am also anxious to encourage increased competition among the banks.

To further encourage competition, I propose to reduce the stamp duties applicable in cases when

homeowners would wish to re-finance their mortgages. Presently should a homeowner desire to refinance his mortgage, stamp duty is payable in the following instances:

- ▶ In cases where the house owner decides to transfer a mortgage to another institution; or
- ▶ In cases where the house owner refinances an existing mortgage with the same institution and additional funds are acquired.

Should a homeowner desire to refinance a mortgage to take advantage of a lower interest rate offered by a competitive bank, then the stamp duty would be reduced. I propose to reduce the stamp duty by 80 per cent.

Should a homeowner desire to refinance a mortgage with the same institution and wish to obtain additional funds, then the stamp duty would also be reduced. I propose to reduce the stamp duty by 75 per cent.

I intend to allow homeowners to take advantage of these changes for two years, starting from May 1, 2003.

Mr. Speaker, I feel certain that the foregoing measures will continue to foster the competitive spirit among the banks, as customers now will have the financial leverage to encourage greater competition.

REDUCTION IN EXCISE TAX ON MOTOR VEHICLES

Mr. Speaker, one year ago, changes were introduced to the Environmental Levy and Excise Duty regime governing new and used vehicles. I am satisfied that these changes have succeeded in meeting the policy objectives of the Government. There is now greater parity between the respective markets in new and used cars. Under-invoicing has been significantly reduced, though not totally eliminated. The secondary market for used vehicles is beginning to show signs of recovery.

Now that the market has stabilized, I propose to reduce excise duties for motor vehicles, whether new or used, as follows:

- ▶ A 10 percent reduction for coaches and buses of seating capacity exceeding 21 persons, from 60 per cent to 50 per cent. This will yield an effective reduction of 16.7 per cent;
- ▶
- ▶ A reduction for coaches and buses of seating capacity exceeding 29 persons, from 60 per cent to 50 per cent. This will yield an effective reduction of 16.7 per cent;
- ▶
- ▶ A reduction for vehicles between 1000cc and 1500cc, from 40.5 per cent to 30.5. This will yield an effective reduction of 32.7 per cent;
- ▶
- ▶ A reduction for vehicles between 1800cc and 2000cc, from 70 per cent to 60 per cent. This will yield an effective reduction of 14.3 per cent;

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- A reduction for vehicles above 2000cc and up to 3000cc, from 95 per cent to 85 per cent. This will yield an effective reduction of 10.5 per cent; and
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- A reduction for vehicles above 3000cc, from 100 per cent to 95 per cent. This will yield an effective reduction of 5 per cent.

It will be noticed that the most significant reductions have occurred at the lower end of the market, particularly in the category of vehicles between 1000cc to 2000cc.

INCREASE IN DRIVER'S LICENSE FEES

Mr. Speaker, over the two year period 1999 to 2001, the number of registered drivers increased by 23.9 per cent. In 1994, the triennium system for the payment of licences was introduced. This means, Mr. Speaker, that drivers are required to pay their licences every three years. As a result, drivers are not burdened with the trouble of seeking an annual renewal. This makes the process simpler and less cumbersome.

However, Mr. Speaker, the greater number of drivers on the road and consequently, the increasing number of vehicles are placing a strain on our road network. Our road maintenance costs are increasing and we need to find the means of meeting these costs. In addition, we have witnessed over the past few years an increasing recklessness and irresponsibility among some of our drivers. A driver's license confers on the holder a serious responsibility, which unfortunately, many of our drivers choose to ignore. We must begin to tackle with resolve the issue of road safety. We cannot afford to lose our citizens to recklessness and irresponsibility on our roads.

Therefore, in addition to meeting the increasing cost of maintaining our road network, we must also allocate resources to address the serious issues pertaining to road safety. More developed countries use a system of tolls as a means of raising revenue to meet the cost of road security and safety. We have chosen not to go this route primarily because of the cost of introducing a toll system. Consequently, we need to pursue other means.

I therefore propose to increase the triennium charge for a driver's license from \$150 to \$300. In other words, each driver would be required to pay \$50.00 more per year. I expect that this measure would yield an additional \$1 million for this fiscal year. Some of these funds will be used to strengthen police traffic patrols and improve overall law enforcement on our streets and highways.

ADJUSTMENT IN SERVICE CHARGE

Mr. Speaker, it is well known that the Customs Service Charge is currently levied on the CIF value of imported goods. The last time that the Service Charge was increased was in 1994. I propose to increase the service charge by 1 percent to 5 percent. I expect that this will yield an additional \$7 million in revenue.

ADJUSTMENT IN THE CONSUMPTION TAX

Mr. Speaker, Honourable Members will recall that in the 1999/2000 Budget, the Government of Saint Lucia adopted, in obedience to its commitments to CARICOM, the fourth phase of the Common External Tariff. I indicated then that the conversion was a monumental task and mistakes would inevitably be made. And so, Mr. Speaker, there have been errors. Indeed, some two thousand five hundred (2500) items were zero rated, meaning that these items did not attract any Consumption Taxes. The exclusion of some of these items is inexplicable. For example, Cornish hens and lubricating oil were both zero rated.

There are some items which must remain zero rated, either because they are basic necessities, or because zero rates are necessary to protect local producers. In other words Mr. Speaker, since Consumption Taxes are to be applied equally on regional goods as well as domestic goods, Government sometimes foregoes revenue by declining to apply any Consumption Taxes on imported goods in order to protect domestic producers. Alternatively, Government may cast the Consumption Taxes at very low rates, to minimize the disadvantage to local producers. Hence, for example, Consumption Tax rates of 5 per cent may be set for certain commodities.

The items which will remain zero rated are reproduced in Appendix II for ease of reference. In other words, Government treats these items as basic necessities and will continue its policy of refusing to levy Consumption Tax on these items. Other items will be adjusted in accordance with existing policies, some will attract 5 per cent, others 10 per cent.

DEPOSIT REFUND FOR PLASTIC RETURNABLES

Mr. Speaker, from time to time detractors and supporters of the Government arrive at common points of agreement. One such common point is the cleanliness of our country. All are agreed that Saint Lucia is now a cleaner environment. Garbage collection and disposal of waste products are now under control and better managed.

But there is one outstanding problem that continues to defy solution. I refer to the disposal of plastic containers, particularly soft drinks. They are strewn everywhere, on roadsides, in gutters, drains, and on pavements. Just visit the Castries Harbour or the Marchand River after heavy rains. Plastic bottles are everywhere. This has drawn adverse comments from cruise ship visitors, as well as locals.

Some progress has been made to address this problem of littering. Recently, Government granted concessions to a young Saint Lucian entrepreneur to collect and recycle plastic bottles. He will not succeed unless a system is put in place which places a value on returned plastic bottles. Moral suasion is not enough. It has not worked in the past.

Accordingly, I propose to invite Parliament to enact a "Refundable Containers Act" to deal with the collection and disposal of containers. Presently, soft drink manufacturers pay a refund to purchasers of bottled drinks on the return of empty glass bottles. I propose to extend this to plastic bottles and cans. A dealer or distributor may be exempted if he or she has in place an adequate system for the recycling of beverage containers. Otherwise, the dealer or distributor will be required to accept at his or her place of business from a redeemer any empty beverage container sold by the dealer, and will pay to the redeemer the refund value of each such beverage

container.

Likewise a distributor will accept from a dealer or operator of a redemption center any empty beverage container identical to that sold by the distributor, and will pay the dealer or operator of a redemption center the refund value of each such beverage container.

A dealer or operator of a center to collect containers will be protected from abuse. The Act will make provision to allow them to refuse any broken bottle, corroded or dismembered can, or any beverage container that contains a significant amount of foreign material.

The refund value will be determined by the Minister by Order published in the Gazette, after consultation with Beverage Manufacturers.

CONCLUSION

Mr. Speaker, this is undoubtedly a period of economic and political uncertainty. We read daily of the economic distress taking place in countries of this hemisphere from Argentina to Dominica. Despite these difficulties, we have been able to avoid the pain and hemorrhage that is now commonplace in other parts of the world.

Clearly Mr. Speaker, we are doing something right, and we will continue to exercise the fiscal prudence and responsibility that has now come to symbolize our Administration.

The Budget Statement that I have presented is a clear testimony of this Government's commitment to meeting the needs of every sector of the community in an environment of economic uncertainty. In addition to its emphasis on the development of the physical infrastructure, it provides institutional support to assist the Private Sector to weather the storms of a difficult global economic environment.

The budget also provides assistance to low income families in sourcing finance for housing and other productive activity, which will assist in poverty alleviation. The practice of abandoning the poor in periods of difficulty is now a thing of the past. This is a Government for all. This is a budget for all. It recognizes and responds to the needs of every section of the society in these difficult times. Members will note that this budget places deliberate emphasis on capital investment. This is because in the face of the current economic climate, Government has a key role to play in stimulating the economy and creating jobs. We have restated our commitment to the poor and underprivileged and to the modernization of the social infrastructure. It should be noted that physical infrastructure is not just about bricks and mortar, but is very much about social issues and improved services in schools, hospitals, housing and more. I therefore commend this Budget to this House and urge support for its acceptance.

I am therefore, honoured, Mr. Speaker, to move the second reading of the Appropriation Bill 2003/2004.