



# **From Recovery to Expansion**

**BUDGET ADDRESS 2006-2007**

**BY**

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## **PART I**

### **INTRODUCTION**

Following the severe recession in 2001, Saint Lucia's economy has grown from strength to strength. In 2002, real GDP grew, albeit marginally, by 0.5 percent as the economy emerged out of the deep recession. Since then, the growth rate has picked up strongly, moving from 3.1 percent in 2003 to 4.0 percent in 2004 and now, to 5.4 percent in 2005. This momentum is expected to continue, and, barring any natural disasters, a growth of 6.6 percent is projected in 2006. This is not an accident. Mr. Speaker, it is the outcome of the sound economic policies that this Government has pursued.

### **ECONOMIC FORECAST 2006 – 2008**

I am of the view, Mr. Speaker, that this phase of economic expansion will continue through 2006 into 2008. This growth will be sustained by significant activity in the tourism, construction and banking/financial sectors. It is clear, from the report on economic developments in the country for 2005, that the deliberate counter-cyclical fiscal measures and incentive programs implemented over the last five years have been successful. The economy is therefore poised to benefit over the medium term from the policy yield of the last few years.

Growth, however, is likely to decelerate to more sustainable levels as investment stabilizes and consumption increases.

### **PERFORMANCE OF DOMESTIC ECONOMY**

The expansion in the economy Mr. Speaker, was driven by the Tourism Industry, the Construction Sector, and Manufacturing.

### **TOURISM EXPANSION**

Developments in the tourism industry have had a catalytic impact on the performance of other sectors of the economy. This is evident by the large scale projects currently in progress, and the new plants which commenced operations during the 2005 calendar year. There have been positive spill-over effects into construction activity, tourism transportation, the distributive trades, banking and insurance services, which no doubt have increased the number of jobs available for Saint Lucians.

Mr. Speaker, the growth in visitor arrivals continued despite the emergence of several threats to the sector. These factors included increases in oil prices, continued challenges in major source markets and the impact of an active hurricane season. The Tourism Sector, as measured by the value added contributions of hotels and restaurants, expanded by 6.3 percent

and accounted for 13.6 percent of real GDP, retaining its position as the principal engine of economic growth in Saint Lucia.

Visitor arrivals for January to December 2005 registered significant increases for stay-over and yachting visitors of 6.5 percent and 21.9 percent respectively. The growth in stay-over arrivals is attributable to the Jazz Festival, the strong wedding and honeymoon niche market, increased airlift capacity from the United States and Europe, the hosting of international cricket matches and the marketing efforts of the Saint Lucia Tourist Board. However, U.S. home porting and constraints in the domestic berthing capacity limited the overall performance of the cruise sector, which registered a decrease of 18 percent below figures for 2004. This sector, however, is poised for significant recovery in 2006 – 2007.

The hotel occupancy rate increased by 6.8 percent. This mirrored the performance of stay over arrivals. The all-inclusive category recorded moderate growth in occupancy levels while conventional hotels and small properties showed considerable improvements of 14.2 percent and 5.8 percent, respectively.

## **CONSTRUCTION ACTIVITY**

Construction activity in 2005 posted a 10.4 percent growth, while its share of real GDP increased from 6.7 percent in 2004 to 8 percent in 2005. This growth was led largely by private sector construction activity, particularly in the tourism and housing sectors. Public sector construction expenditure more than doubled to \$134.5 million after recording a decline of 9.2 percent in 2004.

## **MANUFACTURING OUTPUT**

The value of manufacturing output for 2005 increased by 10.2 percent to \$156.7 million, compared to a growth of 3 percent in 2004. The continued strong performance of the food and beverage, paper and paper board, and electrical components sub-sectors accounted for 80 percent of the production of the manufacturing sector. That sector's contribution to real GDP was measured at 5.6 percent. The strides made by the manufacturing sector in 2005 are an important milestone as this sector prepares to face the challenges of operating in a more liberalized and competitive environment.

## **AGRICULTURE AND FISHERIES**

Notwithstanding an increase in livestock production, Mr. Speaker, indications are that the agricultural sector struggled in 2005, with reduction in the output of bananas, non-traditional crops and fish landings. The real output of this sector fell by 22 percent in 2005 following marginal growth of 1.8 percent in the previous year. Banana production fell by 36.2 percent, as a result of the combined impact of Hurricane Ivan in September 2004, which destroyed an estimated 1400 acres, and Leaf Spot disease. Further, there were also significant declines in the value added contribution of non-traditional crops of 16.9 percent and fisheries by 6.8 percent.

In contrast, the livestock sub-sector expanded for the second consecutive year, with a growth of 2.1 percent.

## **FINANCIAL SECTOR**

Developments in the financial sector during 2005 were reflective of activity in the real economy. The banking and insurance sector expanded by 8.7 percent, following a growth of 4.9 percent in the previous year. The banking sub-sector, which grew by 9.9 percent, contributed significantly to that strong performance.

In 2005, Mr. Speaker, consistent with the expansion taking place within the economy, domestic credit increased by 21.3 percent to \$1.8 billion, largely on account of increased demand for loans by the private sector. Households and business credit grew by 13.3 percent to \$951.01 million and 19.2 percent to \$966.3 million respectively. The net credit to Central Government fell by 33.7 percent to \$84.9 million, as a result of strong growth in deposits of 14.6 percent.

Deposit liabilities grew by 13.3 percent to \$2.5 billion in 2005. Of this amount, 41.0 percent were savings deposits, which grew by 12.8 percent to \$1.04 billion, following moderate growth of 6.9 percent in 2004. Time deposits grew by 5.8 percent to \$797.5 million, following marginal growth of 0.4 percent in 2004. By contrast, demand deposits grew by 20.3 percent to \$621.3 million, building on growth of 38.7 percent in 2004.

During 2005, there was a tightening of liquidity as measured by the loans and advances to deposits ratio. The ratio rose from 80.7 to 85.7, as the growth in loans and advances of 20.3 percent outstripped the 13.3 percent expansion in deposits.

Rising international petroleum prices increased inflationary pressure during 2005. The inflation rate, as measured by the percentage change in the 12-month average of the Consumer Price Index (CPI), increased to 3.9 percent, compared to a rate of 1.5 percent in 2004. On the domestic front, movements in the CPI were influenced largely by the Food, Fuel/Light and Transport/Communications sub-indices, reflecting the pass-through effects of rising global oil prices.

## **TRADE AND BALANCE OF PAYMENTS**

Mr. Speaker, in 2005 the value of imports increased by 11.1 percent to \$1.2 billion compared with growth of 4.1 percent in 2004. Exports, on the other hand, declined by 31.9 percent to \$170.6 million, on account of the decline in banana production. Consequently, this led to a widening of the trade deficit by 29.3 percent to \$906.2 million.

In contrast to the performance in the merchandise trade account, the surplus in the services account grew by 9.6 percent to \$640.3 million, following a growth of 24.9 percent in 2005. This performance was supported by a 9.3 percent increase in inflows associated with activity in the tourism industry.

The surplus on the capital and financial account rose by 28.2 percent to \$448.9 million, representing 20.4 percent of GDP. On the capital account, Mr. Speaker, capital grants declined from a low base of \$6 million to \$4.2 million, reflecting the delayed implementation of new and revised procedures by the European Commission for accessing and spending grant funds. The surplus on the capital and financial account was insufficient to offset the current account deficit and as a result an overall balance of payments deficit of \$46.9 million was recorded. This, Mr. Speaker, was financed by drawing down on Saint Lucia's share of the imputed reserves in the Eastern Caribbean Central Bank.

## **CENTRAL GOVERNMENT FISCAL OPERATIONS**

Mr. Speaker, I am delighted to report that Central Government's Fiscal Operations improved significantly in 2005/2006, reflecting strengthened revenue performance as a result of continued economic expansion and moderate growth in expenditure. The current surplus increased to \$83.0 million or 3.5 percent of GDP, mainly due to improved revenue performance of 7.7 percent, and moderate growth in expenditure of only 3.7 percent.

## **TAX REVENUE COLLECTIONS**

Tax revenue collections exceeded the approved Estimates by \$72.0 million or 13 percent and amounted to \$554.6 million. This year's collections were also 10.1% higher than last year.

The Customs and Excise Department collected \$326.4 million - approximately \$21.8 million or 7 percent more than the approved Estimates. Revenue from the Inland Revenue Department amounted to \$237.5 million and was \$49.8 million or 26.5 percent above the approved Estimates.

Mr Speaker, I know that the usual sceptics will question the growth rate of 5.4 percent for last year. However, as they say, the proof of the pudding is in the eating. Revenue can only grow as fast as the economy is expanding, so one provides proof of the other.

Current expenditure increased by 6.2 percent to \$512.7 million over 2004/2005, reflecting higher wages and salaries, pension contributions, rental payments, utilities and communications. Capital expenditure on the other hand continued to be affected by implementation delays and consequently declined by 3.8 percent to \$158 million.

Current revenue increased by 7 percent to \$595.6 million in the fiscal year 2005/2006 and was significantly influenced by a 17.4 percent increase in revenue from International Trade.

Mr. Speaker, total outstanding public debt, which stood at \$1.53 billion, declined slightly as a percentage of GDP from 64.9 percent in 2004 to 64.1 percent by the close of 2005. However, Central Government debt increased by 9.7 percent to \$1.30 billion or 55 percent of GDP. It is important to note that as a result, Saint Lucia remains within the prudential limit of the 60 percent Central Government debt to GDP ratio prescribed by international institutions and is the only independent CARICOM member State, with the exception of Trinidad and Tobago, which is below the limit.

In keeping with Government's debt management policy of refinancing high cost loans with cheaper financial instruments, interest payments fell by 7.7 percent to \$72 million in 2005/2006, compared with an increase of 19.7 percent in the previous year. In 2005, the average cost of debt declined, leading to a corresponding drop in the weighted average cost of debt to 5.93 percent from 5.96 percent in 2004.

## **DECLINE IN UNEMPLOYMENT**

Mr. Speaker, the progressive improvement of real output growth over the period 2001 to 2005 has also reflected positively on the labour market. Trend analysis of the data derived from the labour force survey indicates that the unemployment rate has declined considerably during the economic expansion phase 2003 to 2005. According to the Department of Statistics, the unemployment rate dropped by 3.6 percentage points from an average of 22.3 percent in 2003 to 18.7 percent in 2005. It is also important to note that as economic activity intensified during 2005, there was a corresponding fall in unemployment within the country. Thus, an unemployment rate of 15.7 percent was recorded over the period October to December 2005, a full four (4) percentage points lower than the rate recorded during the same period in 2003. This is one of the three lowest unemployment rates recorded since 1992, when the Department of Statistics commenced the compilation of data on unemployment, and it is instructive to note that even in the heyday of the banana industry, the lowest unemployment rate that Saint Lucia recorded was 15 percent.

According to Mr. Edwin St. Catherine, the Director of Statistics and I quote him,

“The main driver for the decline in the unemployment rate is growth in the number of employment opportunities available in the hotels and restaurants and the Construction Sector, with employment in hotels and restaurants skewed towards the employment of women by a factor of two women to every one man employed and a factor of six men to every one woman employed in the construction sector. The Hotels and Restaurants Sectors added approximately 3,500 persons, while the Construction Sector added approximately 2,500 persons. While this is a healthy development, it must be sustained since the situation can be reversed due to the cyclical nature of construction activity and the fickle nature of the Tourism Sector.

For the first time, quarterly employment statistics for the 2nd and 3rd quarter of 2005 are indicating that the number of persons employed in the Hotels and Restaurants Sector has surpassed the Agriculture Sector, recording in the third quarter a total of 8,980 persons employed when compared to 7,460. The Construction Sector employed



approximately as many persons as did the Agriculture Sector in the 3rd Quarter of 2005”.

Given the forecast for a greater level of economic activity in 2006, I predict that the unemployment rate will be even lower in 2006. Saint Lucia is therefore positioned to experience its lowest rate of unemployment over the last fifteen years.

## **REGIONAL ECONOMIC FORTUNES**

Having reviewed the performance of our economy and the challenges ahead, it would be interesting to compare our performance with that of our regional neighbours.

Mr. Speaker, growth in CARICOM countries was generally weaker than anticipated in 2005, as persistently high international oil prices eroded the already weakened fiscal and external positions of member States. Expansion in real economic output was driven by construction activity, and to a lesser extent, by tourism. Most countries, however, experienced a marginal downturn in the tourism industry during 2005. This may have been due to increases in transportation costs, especially from long-haul destinations.

Inflation was moderately higher in 2005 than in the previous year. This was fuelled mainly by rising energy prices and higher food prices. Many governments in the region were forced to increase the prices of fuel and liquified petroleum gas.

During 2005, the *Trinidad and Tobago* economy posted its twelfth consecutive year of growth. Driven by a buoyant energy sector, the economy registered real GDP growth of 6.5 percent. However, the economy faced the challenge of combatting rising inflation. Escalating food prices pushed inflation to a high of 7.2 percent.

Real GDP growth for *Jamaica* slowed to 1.5 percent in 2005. Adverse weather conditions caused a 24.4 percent decline in output in agriculture, forestry and fishing in the first half of the year. This outcome, combined with high international oil prices, resulted in a 15 percent increase in annual inflation.

Driven by significant public and private sector investment in preparation for Cricket World Cup 2007, the *Barbados* economy recorded real output growth of 4.1 percent in 2005. However, output in the traditional foreign exchange earners, sugar and tourism, remained sluggish. Against the backdrop of strong import growth and a decline in export receipts, the Central Bank of Barbados raised the minimum deposit rate in an attempt to dampen spending. The rate of inflation rose to 5.0 percent, reflecting the effects of high energy prices.

A 2.5 percent contraction in real economic growth in *Guyana* was explained mainly by the decline in value-added from the agriculture, fishing and bauxite sectors. Given the marginal exchange rate appreciation against the US dollar in 2005, inflation in *Guyana* increased by 5.5 percent.

Among the economies of the **Eastern Caribbean Currency Union** (ECCU), there was a general increase in economic activity in 2005. The economies of the ECCU registered an average inflation rate of 3.5 percent in 2005, while real output for their economies expanded on average by 4.0 percent.

Output in *Anguilla* was estimated at about 9.0 percent compared to the 14.0 percent upturn in the previous year, owing mainly to robust tourism activity. *Grenada* continued to recover from the devastating impact of Hurricane Ivan with real GDP growth estimated at about 2.0 percent, but that country faces a huge financing gap for development projects. *Antigua and Barbuda* recorded economic growth of over 3.0 percent on the strength of construction activity, while output in the tourism sector stagnated. In *Dominica*, economic activity is said to have “expanded robustly” with real GDP growing at about 3.5 percent. Expansion was fuelled by strong domestic demand, consumer imports, and credit. Growth was achieved despite declines in tourist arrivals, banana and non-banana agricultural exports.

This review, Mr. Speaker, would be incomplete without reference to developments in the international economy.

## INTERNATIONAL ECONOMIC INDICATORS

During 2005, economic activity in the global economy was challenged by exogenous shocks such as rising international oil prices, a very active hurricane season in the United States and macroeconomic imbalances of some major economies. Global oil prices increased sharply by 27.2 percent over the period January to December 2005, driven primarily by growing demand, supply constraints and geo-political uncertainty related to tensions between the US and Iran. On the demand side Mr. Speaker, the economies of China and India continued to expand significantly, thus placing an upward pressure on prices. The supply of petroleum was constrained by refinery capacity as Hurricanes Katrina and Iris forced the closure of refineries in the Gulf of Mexico. Social and political instability in some oil producing regions, as well as concerns about low refinery capacity in the petroleum market, also increased speculation on the oil market, thereby increasing prices. Consequently, growth in global output continued at a brisk pace of 4.3 percent in 2005, relative to a strong outturn of 5.1 percent in 2004.

### SELECTED GLOBAL ECONOMIC INDICATORS

	Growth	Inflation
<b>Global</b>	4.3 percent	-
<b>United States</b>	3.5 percent	3.4 percent
<b>United Kingdom</b>	1.7 percent	2.2 percent
<b>Euro Zone</b>	1.4 percent	2.2 percent
<b>Canada</b>	3.0 percent	2.2 percent
<b>China</b>	9.3 percent	3.2 percent

Despite slower growth in real output of 3.5 percent, the *United States* economy remained the main engine of global economic growth. The modest expansion in the U.S. economy in 2005 occurred against the backdrop of an intense 2005 hurricane season, record energy costs, high consumer spending and supportive financial market conditions. The inflation rate in the United States rose to 3.4 percent in 2005, following a rate of 3 percent in 2004. In response to inflationary pressure, the Federal Reserve Bank increased the Federal Funds rate from 2.25 percent to 4.25 percent in 2005.

The *Canadian economy* grew by 3.0 percent in 2005, despite a marked appreciation of the Canadian dollar, which was driven by high commodity export prices and relatively flexible monetary policies.

In 2005, *China, India* and a few other large developing economies exerted tremendous influence on the growth outturn for the global economy. *China* maintained its substantial growth momentum, despite administrative and monetary measures to curb overheating in selected sectors. Buoyed by strong investment and manufacturing exports, real GDP expanded by 9.3 percent. Similarly, Mr. Speaker, economic activity in India grew by about 7.0 percent in 2005, on the strength of increased agricultural output, growth in the textile and services sectors, and strong industrial output. Economic output in *Japan* slowed to 2.2 percent in 2005 supported by healthier bank and corporate balance sheets, and higher consumer and business confidence.

Mr. Speaker, conditions in the *Euro zone* remained weak in 2005 as real output was estimated at 1.4 percent, compared to an increase of 2.0 percent in the previous year. This outcome was a result of slow growth in most of the twelve countries of the region. However, it must be noted that weak domestic demand in *Germany*, and *Italy* in particular, impacted on the growth performance for that region. Despite rising oil prices, the *Euro zone* registered relatively low inflation of 2.2 percent, consistent with weak domestic demand. In the **United Kingdom**, Mr. Speaker, economic activity in 2005 slowed to 1.7 percent, largely due to weaker consumption as the housing boom slackened. Inflation grew to 2.2 percent, reflecting the continued increase in crude oil prices and transportation costs.

Mr. Speaker, this completes the economic report card. I am sure that Honourable Members would now be interested in knowing the reasons for Saint Lucia's remarkable turnaround.

## **PART 2**

### **MAINTAINING BALANCED GROWTH**

Our Government has created an economic environment that has engendered confidence and attracted significant investment. We took the bold decision to encourage investment in tourism and provided special concessions for hotel and guest house developments, particularly for Cricket World Cup. This policy has proven to be a major success. The challenge we now face in the tourism industry is actually one that I am sure many Governments would love to have, and that is to manage the growth from these investments. Indeed, Mr. Speaker, even more investments are forecast this year. I shall, however, await the pronouncements by the investors.

We have made considerable investments in infrastructure, because we have a major problem of aging and deteriorating physical assets. We have had to undertake significant investments in our roads, schools, police and fire stations, and health centres.

Our Government also made judicious and timely fiscal policy decisions that catalysed the growth of the economy. While we have pursued countercyclical fiscal policies to stimulate economic recovery, these have been done within a medium term framework of ensuring that our debt position remains sustainable.

Mr. Speaker, our economy is now in an expansion phase. Investment, particularly in the tourism sector, is at a record level. Business confidence is very strong, and employment is increasing.

The greater our economic success, the greater is our challenge to sustain it and keep the forward momentum. But, Mr. Speaker, I must caution that our recent economic success has brought its own set of challenges.

The economic challenges we face now are different from those of three years ago. Three years ago, we were concerned with the slow rate of economic growth. Today, we face the prospect of an economy that may be expanding too rapidly. The signs are evident. Demand is outstripping supply. We are beginning to see labour shortages in the construction industry and shortages of construction material. It is vital for us to guard against the overheating of the economy, as this could result in higher inflation, which can erode some of the gains that we have achieved.

We are all aware that labour shortages lead to higher wages. Shortages of goods lead to higher inflation, which, in turn, lead to higher wage demands, resulting in a vicious cycle that would seriously affect Saint Lucia's long term competitiveness and growth. This is a matter that must be monitored very closely.

As the pace of private sector investment increases, Government will have to adjust the implementation of new programmes. The focus this year, Mr. Speaker, is to continue implementing projects that have already commenced. Few new major projects will be announced.

We will continue to press on with our policy of restructuring and transforming the economy in order to create new jobs that will replace old ones in industries that are either stagnant or stalled.

This means, Mr. Speaker, that we must press ahead with developing the Financial Services Sector and strengthening investment in the Information Technology Sector. This sector has the potential to absorb the hundreds who graduate from our secondary schools. Helen IT, for example, appears to have weathered the storms of recession and now employs 230 persons. By the end of May, the number will increase to 300. On June 01, 2006 e-Services Group (St. Lucia) Limited, intends to commence operations in Saint Lucia. The operations will be introduced in four phases. At the end of Phase Four, which is scheduled for December 2006, the company hopes to employ 480 persons. Already, the company has placed advertisements in the local newspapers for its first 120 employees.

This sector, Mr. Speaker, has potential that must be explored.

Our ultimate goal, Mr. Speaker, is to provide all Saint Lucians with the opportunity to enjoy a better standard of living. This can only be achieved by increasing productivity and in particular, by targeting economic sectors that offer the potential to increase productivity. While we strive to achieve balanced growth so as to minimise our vulnerability, it is also true that the service sectors offer the greatest potential to increase productivity and hence the standard of living of our people. Our strategy is to diversify, with a strong focus on developing the services sector, ensuring in the process, stronger and more direct linkages with the Agriculture Sector.

The strategy in the past of relying on preferential treatment for our bananas and insulating our industries from competition can no longer work in today's world. Sadly, Mr. Speaker, some politicians who are patently out of touch with present day realities are recommending an impossible return to these policies.

With the advent of the CARICOM Single Market (CSM), there will be both threats and opportunities. We must, therefore, focus on exploiting the opportunities and minimising the threats. I know that some of our manufacturers will be wary of the competition, viewing it as a threat to their survival. We understand their fears and we will encourage our manufacturers to re-tool and modernise their operations to allow them to compete and take advantage of the larger market. Our Government will, therefore, through its private sector development programme, continue to provide assistance to the private sector to enhance competitiveness.

## **STRENGTHS, WEAKNESSES AND OPPORTUNITIES**

Mr. Speaker, lest we be judged adversely from our own pronouncements, I wish to bring to the attention of Honourable Members a recent assessment of our economy by the International Monetary Fund (IMF). For the sake of clarity, let me quote what the Executive Directors had to say in their report, which was issued on February 9, 2006:

*“Directors welcomed the recent strong growth performance of St. Lucia's economy, with a recovery in tourist arrivals and strong investment in tourism infrastructure more than offsetting the continued decline in banana exports. Directors commended the authorities for their record of prudent public debt management—the best within the ECCU—and for the progress made in fiscal consolidation over the past two years.”*

Now, while these comments undoubtedly represent an excellent report card, we should not be complacent, as the economy continues to face difficult challenges, particularly from external forces over which we have little or no control. The report from the IMF gives us an opportunity to assess and benchmark our performance and to evaluate the challenges that we need to confront.

## **NEED FOR FISCAL CONSOLIDATION**

In the fiscal sector, there is need for us to continue to pay attention to fiscal consolidation. This would require ensuring stability in our revenue base and improving the efficiency of expenditure, with particular emphasis on the public sector investment programme.

## **COPING WITH HIGH FUEL PRICES**

As you are aware Mr. Speaker, fuel prices have been the focus of our attention over the last year. Undoubtedly, you have been following the erratic movements in the international price of oil and I am sure that you, along with the citizens of Saint Lucia, have been concerned about the impact that oil prices have had on the price of items that we import for consumption. There should be no doubt in our minds now that oil prices have a significant impact on the cost of living in Saint Lucia. More importantly, we continue to be concerned about the effects that the escalating prices have on eroding our revenue base.

A significant percentage of our Consumption Tax on imports comes from oil imports. Whenever international oil prices increase and we do not make the commensurate adjustments, Government loses revenue. This, of course, has the effect of limiting our ability to fund our operations. The IMF has identified this as a threat to our fiscal position.

Mr. Speaker, the present situation is precarious and untenable. Over the period 2002-2005, oil prices have increased by more than US\$30 per barrel, reaching as high as US\$70 per barrel. While oil prices averaged in the range of US\$60-\$66 per barrel over the first three months in 2006, prices have increased considerably in the month of April, reaching a peak of US\$75 per barrel on April 21. Given the continued geo-political uncertainties in the Gulf, especially Iran's nuclear standoff with the international community and disruptions in the supply in Nigeria, the prognosis is that oil prices will remain in the range US\$65-US\$70 per barrel.

## **CONSUMPTION TAX ON PETROLEUM**

Government has, to the extent possible, adopted an energy pricing policy which aims at keeping retail prices fixed in the face of rising oil prices. This policy has been undertaken at great cost, resulting in the erosion of Consumption Tax revenue from petroleum. Mr Speaker, as I speak, the Consumption Tax rate is negative, which in effect means that Government is subsidising the cost of fuel. The current subsidy is around 19 cents per gallon. While the Government will do all in its power to minimise the inflationary impact on the consumer, the current policy, is simply unsustainable.

## **SUBSIDISING THE COST OF LPG**

It is not only unleaded fuel that is subsidised from time to time. The Government has continued its policy of subsidising the cost of LPG or "cooking gas" as it is more commonly known, in an attempt to reduce the cost of living to consumers. The current subsidy on LPG is 59 cents per pound, which in effect amounts to a subsidy of \$14.75 per 25 pound cylinder. In other words, Mr. Speaker, every single time someone buys a small cylinder of "cooking gas", Government is paying \$14.75 to ensure that the price of that cylinder remains at a level that Saint Lucians can afford.

We will continue to monitor the situation. If prices remain high and do not recede, then the Government will have no choice but to join other CARICOM States and announce increases.

The constant movement in oil prices points to the need to look into alternative ways by which revenue can be collected on a more transparent and consistent basis. So, during the course of the year, Government will be undertaking an assessment of a mechanism that will accomplish this objective. We are aware that other CARICOM States have implemented procedures to stabilize their revenue intake, and so we will be pursuing this initiative along with a proposal that was tabled at a recent ECCB Monetary Council meeting in February this year.

This review will also include an assessment of the request by Petroleum Dealers for an increase in dealer margins. They have been knocking on the door for some time.

## **EXPENDITURE MANAGEMENT**

Another challenge for which we see an opportunity is to improve our expenditure management policies. While we have been able to contain our expenditure within tolerable limits, resulting in a current account surplus, we must be vigilant in containing costs, improving the efficiency of expenditure and in particular, improving the quality of the services delivered by Government. We must ensure that taxpayers get value for money. Our objective is to formulate a sustainable medium term framework, which will be underpinned by a comprehensive three-year Capital Investment Programme. In the area of Current Expenditure, we must aim to improve public service delivery and reduce wastage. By curbing wastage, more resources become available for other important Government services.

We will continue our objective of streamlining the way the Public Service does its business. For the avoidance of doubt, Mr. Speaker, I must restate and re-emphasise that Government is not contemplating the laying off of Public Servants. However, we must agree that we can do things better, more cost-effectively and with greater efficiency. This is the challenge and the opportunity that can make a difference in improving our expenditure management. So during the financial year I will be imploring our Public Sector Reform Unit, Permanent Secretaries and Heads of Departments to pursue initiatives that will enhance service delivery to citizens and improve productivity.

Mr. Speaker, during the course of our Budget discussions with agencies, many expenditure initiatives were submitted on the basis of a priority need for Cricket World Cup 2007. It was interesting to see the number of proposals that were submitted. Unfortunately, many of these proposals could not be entertained because of their costs. But I want to challenge Public Sector managers that in the same way that a proposal can be submitted to incur additional costs, they should submit proposals that improve efficiency and reduce costs. Surely, the creativity that was used in submitting these new initiatives can be used to fashion ways of keeping expenditures down.

## **PRIORITISATION AND MONITORING**

Another challenge aligned with expenditure management is the need for improving prioritisation and monitoring of the Capital Budget. We have observed that Government agencies, with the best intentions, program expenditure for which there are inordinate delays in implementation. We know, Mr. Speaker, that delays in the receipt of donor funding has been a major problem. However, another major reason for the tardiness is the capacity of agencies to manage their capital programmes. A common problem is that projects are poorly

prepared and an unstructured approach is often taken with respect to monitoring. Hence, there is a need to approach project preparation and planning more scientifically and include only well-conceptualised projects on our work agenda. Yes, the Government will want to ensure that its priority projects are pursued. But herein lies the challenge and the opportunity. Get it right and we would have achieved the objective of timely completion at the least cost possible. This challenge is not insurmountable, as there is evidence in recent times, of projects that have been started and completed on time and with cost savings. We therefore need to learn lessons from the successful projects that have been implemented.

## **IMPLEMENTATION OF ECONOMIC STRATEGY**

Mr. Speaker, the most critical constraint that we face in transforming our economy is the limited skills of our labour force. Human resource development is at the heart of the success of economies that have recorded sustained growth and development. Recognising this, our Government has embarked on the implementation of Universal Secondary Education, the establishment of the Vieux Fort Technical Institute and the continuation and expansion of skills training programmes by the National Skills Development Centre (NSDC). These programmes will go a long way in providing the new skills required for the new economy.

Government will continue to implement measures that will support and catalyse the growth and transformation of the economy. In particular, Government will aim to eliminate bureaucratic hurdles and bottlenecks that impede the growth of business. I understand that the implementation of the ASYCUDA++ pilot project in Vieux Fort has significantly improved the efficiency of the Customs Department, resulting in reduced processing time for clearing goods. While Government will focus on simplifying the bureaucracy, there is also a need to ensure that parallel measures are taken to safeguard our revenue.

Mr. Speaker, Government will continue to make the necessary investments in infrastructure that are required for a growing economy. Investments in roads and water are critically needed to support the growing economy. I will expand on the specific programmes later on in my presentation.

Finally, Saint Lucia will need to review its tax policy and tax structure in the light of the changing structure of its economy and the regional economy. I shall again elaborate on this matter a little later on.

## **PART 3**

### **BUDGET PROPOSALS**

Mr. Speaker, everyone knows by now that we will be hosts to the 2007 Cricket World Cup. Indeed, the Government of Saint Lucia has borrowed funds to facilitate the development of facilities and for other necessary preparations, including some very important legacy components. It is perhaps opportune that I remind Saint Lucians that it is the Government of Saint Lucia, and not the ICC or any other entity that is funding all of our preparations for the Cricket World Cup. Therefore, every playing facility that is upgraded, be it the Mindoo Phillip Park or the Gros Islet Playing Field, all of the flood lights that are installed at the Beausejour Cricket Ground, every yard of public road that is rehabilitated along the Beausejour Bella Rosa road, all of the improvements in our Emergency Medical Services and



our Security Services, every volunteer who is trained, and every one of our communities that is branded, is paid for by the Government of Saint Lucia.

Our guiding principle has been that we want to host the best Cricket World Cup ever and that the event should bring economic benefit for as wide a cross-section of our population as possible. Moreover, while we strive to do so, we must recognize that we are a developing country, and that the hosting of the Cricket World Cup is just one of the many challenges that we must face.

## **THE AFTERMATH OF CRICKET WORLD CUP: A SOFT LANDING?**

But Mr. Speaker, the Cricket World Cup event will come and go and after all the euphoria of hosting the exciting matches and the thousands of visitors, we will all be holding our collective breath and wondering what next. Will we be able to cope with the expansion that was created in our economy? Will there be, as some predict, a hard fall for the economy? Is our economy doomed for a period in the doldrums in the post Cricket World Cup period?

We do not pretend to be clairvoyant Mr. Speaker, but these are questions that we considered very carefully when we made the decision to bid to be a host venue in the 2007 ICC Cricket World Cup.

Our predictions are that our economy will grow by no less than 6.6% and 5.4% in 2006 and 2007 respectively. Our projections show a reduced GDP growth in 2008 and resurgence in 2009. Our analysis shows that the inevitable slowdown in investment associated with the completion of major projects will be offset by an increase in consumption related to the increased employment generated by the new hotels. Of course, Mr. Speaker our predictions need to be tempered with the uncertainties that inevitably arise when one is making economic projections so far down the road. More specifically, I wish to point out that certain events, over which we have no control, like a world recession or an oil price shock, could derail our projections. However, what these predictions assist us in doing is to take a more clinical look at the areas of economic activity to which we should pay attention.

And herein lies our ability to influence whether the aftermath of the 2007 Cricket World Cup will be a hard or soft landing.

Mr. Speaker, there are some things that we do know. We know that there is going to be an increase in hotel rooms, a legacy of the event. So we need to make every effort to keep these rooms filled after the event. Therefore, it will be necessary for us to start working with the property owners to see how we can work collectively to ensure that occupancies remain high. This calls for strategic marketing initiatives, increasing the airlift and ensuring that our service delivery remains at extremely high levels.

We also know Mr. Speaker, that a legacy of the Cricket World Cup will be the enhanced skills of our people in the service, construction and entertainment sectors. These new found skills will be available to enhance our productivity. With productivity gains, this country can move the productivity quotient to higher levels. And I dare say Mr. Speaker, this will serve us well in the CSME environment.

Another legacy that will benefit this country is the improvement in some of our major sporting facilities. This will undoubtedly enhance our ability to become a sports centre in the region, serving as an attraction for regional and international sporting events, especially cricket.

Our national security and health and emergency services systems and infrastructure will also be significantly enhanced as a result of the investments that will be made for Cricket World Cup. The positive impacts of these improvements will be felt and appreciated both within our resident population as well as in the tourism sector.

So are we going to have a hard or soft landing? I suggest Mr. Speaker, that the answer to that question depends on us. If we seize the opportunities, if we are bold and make timely policy interventions, I believe that we will have a soft landing.

### **CONCESSIONS FOR CAR RENTAL SECTOR**

Cricket World Cup, Mr Speaker, will place heavy and extraordinary demands not only on our infrastructure but also on the availability of services. One sector that will come under severe pressure is the Car Rental Sub-Sector.

I am advised by the Association of Independent Automobile Owners that the current combined fleet of the members of the Association is approximately 600 vehicles. They estimate that the existing fleet should be increased to 750 vehicles to meet the expected demand during and after the Cricket World Cup.

The Government is also concerned that there is equity of treatment across the sub-sectors in the Tourism Industry. Concessions have already been extended to hotels, bed and breakfast providers, and of course, taxi-drivers, all in the build up to Cricket World Cup.

Having reviewed the expected demand, Government has agreed to a 100 percent waiver of Import Duty and Excise Tax on the purchase of new vehicles by companies and individuals engaged in the Car-Rental Sector, subject to the following terms and conditions:

- (1) The concessions will apply only to vehicles purchased and landed in Saint Lucia during the period May 15, 2006 to February 28, 2007;
- (2) Purchasers will be required to pay Service Charge and Environmental Levy on the vehicles as required by Law;
- (3) Car Rental Operators must:
  - I. Be declared “approved” operators by the Ministry of Tourism and be in existence as of April 25, 2006;
  - II. Confirm the use of the vehicles purchased, or imported exclusively in the Car Rental Sector; and
  - III. Retain vehicles that are granted the concessions for a minimum period of three (3) years. Thereafter, the vehicles may be sold without the payment of Import Duty and Excise Tax.

Any breach of these conditions will render a defaulting operator liable to the payment of the Import Duty and Excise Tax foregone.

## **PROPERTY TAX ANXIETIES**

Mr. Speaker, I wish to touch on an issue that has attracted considerable concern and anxiety throughout the length and breadth of Saint Lucia. I refer to the ongoing assessments for Property Tax.

I wish to emphasise the following:

1. Property Tax legislation has been in existence since 1950;
2. Up until 2001, homeowners, depending on where they lived, paid one of three rates of Property Tax – 7 percent, 8 percent or 14 percent – on the assessed rental value of their properties;
3. In 2001, Government reduced the rate of Property Tax to a single rate of 5 percent. I repeat, Mr. Speaker, this Government reduced the rate that it inherited;
4. This Government exempted three categories of persons from the payment of Property Tax:
  - a. Persons who qualify as pensioners as defined in the National Insurance Act;
  - b. First time home owners who carry a mortgage. Depending on the value of their mortgage, they will either be totally exempted or receive a rebate;
  - c. Persons whose household income is less than \$6,000 per annum.

How then, Mr. Speaker, does a poor person owning a small house end up paying Property Tax? The simple fact is that if a family owns less than \$6,000 per year then that family does not pay Property Tax.

Further, Mr. Speaker, there is provision in the law to grant the waiver of Property Tax on the basis of poverty.

I repeat for emphasis, Mr. Speaker, the exemptions just outlined were introduced by this Government. All of these provisions are enacted in Section 7 of the Land and House Tax Act, Cap 15:13 of the Revised Laws of Saint Lucia.

There is one other aspect that I wish to address. In the 2003/2004 Budget Address, I announced that Government would further amend the Land and House Tax Ordinance to exempt all pensioners from the payment of Property Tax once their sole source of income is a pension. The amendment has not yet been enacted and I pledge to ensure that it is done in this Parliamentary session.

Mr. Speaker, I do understand the anxieties about the assessments. However, some who complain will in fact be exempted. The current exercise is necessary to determine who qualifies to pay Property Tax and who ought to be exempted. It is only the assessments that will provide accurate information. Every citizen must remember that they have a right to appeal against any assessment conducted by designated officials of the Inland Revenue Department.

I hope, Mr. Speaker, that this information, although already clearly stated in the 2001/2002 Budget Address, will assist Parliamentarians to respond to the misinformation that is circulated by those whose sole objective is mischief.

## **SETTING MINIMUM WAGES**

Mr. Speaker, in recent times there has been considerable debate over the issue of the minimum wage of persons employed in the construction sector. At present there are no legislated minimum wages for construction workers, particularly labourers. The practice has been to pay labourers a wage based on the rates in the Agriculture Sector.

I am informed that the Minister with responsibility for Labour Relations, acting under the Minimum Wage Act, has appointed a Commission to advise and make recommendations on all matters relating to the fixing of a minimum wage and terms and conditions of service. It will take some time before the Commission submits its report to the Minister.

Meanwhile, Government cannot allow inconsistency of rates to prevail, particularly in the construction sector. Indeed, the Government can neither tolerate nor accept a situation where employees who are engaged in public sector contracts are paid rates below the accepted minimum rates.

Pending the report of the Minimum Wage Commission, Government has decided that, in the interim, the issue of the minimum wage for labourers on construction sites should be put beyond doubt. To that end, legislation will be introduced to establish the minimum wage for these workers at EC\$55.00 per day. Legislation is currently before the House and I would like to urge Honourable Members to give it their blessings in this Session.

## **COST OF LIVING CHALLENGES**

Mr. Speaker, a frequent topic on our Talk Shows these past few weeks, has been the issue of rising retail prices. No citizen is immune and all have been affected. All kinds of reasons have been offered for this phenomenon. Some say it is because there is no competition in the supermarket business. Others blame the absence of price controls. Still others say that the increases in prices have to do with “greed”.

Before I indicate what options are available, I want to spend a few minutes to explain the regime of taxes that applies to food items.

Imported food is subject to three taxes, namely Import Duty, Consumption Tax and Service Charge. The Environmental Levy, contrary to what some believe, does not apply to food items. In other words, food items are exempted from the Environmental Levy.

The rates of Duty for all imported goods into Saint Lucia are CARICOM-determined rates. We do not set these rates. They are set by CARICOM because all CARICOM States have a common rate of duty, usually described as the Common External Tariff, on goods originating outside of CARICOM. The objective is to protect goods produced in CARICOM. We cannot change these rates of duty without seeking and obtaining the approval of CARICOM.

Then there is the regime of Consumption Tax. The Consumption Tax, introduced in Saint Lucia in 1968, is a domestic tax, which applies to all goods on a non-discriminatory basis. In recent years it has been adjusted upwards in order to compensate for losses in revenue arising from the changes in duties. Some items like potatoes, garlic, some peas and beans do not attract any Consumption Taxes. Others do, and the rates may vary from 0 – 5 percent, 5-15 percent and exceptionally 0-25 percent.

One commodity group that has attracted considerable interest in recent times is milk and dairy products. Several citizens have approached me to complain about recent increases in the price of milk. However, Honourable Members would be surprised to know that Government charges no duty on milk and milk products. There is, however, a 5 percent Consumption Tax. In effect, Mr. Speaker, contrary to the popular belief, the increases in the price of milk and milk products have little or nothing to do with increases in Duty.

Service Charge, Mr. Speaker, applies to all goods entering Saint Lucia and was introduced in 1989. Currently, it is set at 5 percent.

When determining the respective rates, the challenge for any Minister of Finance is to balance the rates in such a way as to enhance the opportunities available to local producers, while simultaneously safeguarding the interest of the consumer. Take an item like tomato ketchup. The duty imposed on this commodity is 30%. If CARICOM had to reduce the duty on tomato ketchup, then ketchup imported from outside of CARICOM would become cheaper, competing directly not only with Baron's and other locally produced ketchup, but with all other ketchup produced in CARICOM. The same applies to chicken parts. Chicken is a staple in our diet. If Government, decided, for whatever reason, to reduce the CARICOM-imposed rates of duty on whole chicken, then we might as well say goodbye to locally produced whole chicken, because the imported chicken would become considerably cheaper than our locally produced chicken. Interestingly, Mr. Speaker, the Government does not charge or impose any Import Duty on chicken backs, wings or legs; only Consumption Taxes apply.

There is, Mr. Speaker, one other myth that I wish to expose. Contrary to the popular view, price controls do not prevent increases in the retail prices of commodities. Price Controls normally limit the profit mark-ups that a retailer is allowed to enjoy. Thus, if the importer is compelled to pay more for the items from abroad, for example, because the cost of fuel has increased, then the price of the items will still show increases on the shelves, even though the profit margin is controlled.

Mr. Speaker, I do not wish to down play the challenges that face us. Everywhere in the region, Governments are contending with increases in the cost of living. Earlier in my presentation, I pointed out that every Government has had to contend with rising inflation. There is no doubt that the increases in the price of fuel are primarily responsible for this inflationary spiral. The price of fuel has led to higher costs of production and expectedly, higher shipping costs. As long as the price of fuel continues to increase, so too, will the price of imported goods.

How then do we deal with this situation? Our Government, Mr. Speaker, will reduce the rate of Consumption Tax on a list of items.

I propose as follows:

<b>Food Item</b>	<b>Import Duty</b>	<b>Current Consumption Tax</b>	<b>Proposed Consumption Tax</b>
<b>Chicken Backs &amp; Necks</b>	0%	5%	0%
<b>Chicken Wings</b>	0%	5%	0%
<b>Chicken Thighs, Breast, Leg Quarters, Legs</b>	0%	5%	0%
<b>Chicken Drumsticks</b>	0%	5%	0%
<b>Turkey Backs, Necks &amp; Wings</b>	0%	5%	0%
<b>Turkey Drumsticks</b>	0%	5%	0%
<b>Evaporated Milk</b>	0%	10%	5%
<b>Powdered Milk</b>	0%	10%	0%
<b>Red Kidney Beans</b>	40%	5%	0%
<b>Disposable Baby Diapers</b>	0%	30%	5%
<b>Canned Tuna Fish</b>	5%	10%	5%
<b>Canned Mackerel</b>	5%	15%	10%
<b>Canned Sausages</b>	30%	20%	10%

### **UHC PILOT PROJECT: FREE TREATMENT FOR DIABETES**

Mr. Speaker, I will now turn from food to health, two related subjects.

Mr. Speaker, you have been hearing about Universal Health Care (UHC) for some time now. The UHC is truly a complementary programme designed to operate in synergy within the existing health service. UHC will cover pharmaceuticals, hospital services, substance abuse rehabilitation services, mental health services and overseas care. Consistent with this Government's philosophy, the UHC is predicated on the principles of social justice, where no resident is left out. The UHC will dramatically improve the way that all health services are delivered.

In order to learn some critical lessons, and in the interest of prudence, we have decided to approach the implementation of UHC in a phased manner. We are phasing it in through the launch of some critical pilot programmes, which shall permit us to learn some early lessons and take corrective action where necessary.

Our test case is a pilot programme of free treatment for persons suffering with diabetes, and persons with diabetes accompanied by hypertension. This pilot is designed to deliver comprehensive outpatient care to diabetics including access, at no charge, to anti-diabetes and anti-hypertension medications. We chose this disease to pilot our pharmaceutical package for a number of reasons, but primarily because of the burden of this disease.

Diabetes (Pissa Doux) is a major disease, causing death and disability in Saint Lucia. Our health statistics show that 124 persons are dying every year, with diabetes identified as the principle cause of death, making it the number one leading cause of death. The damage that diabetes causes cannot be quantified only in terms of death because diabetes is also a major

contributor to persons losing their legs, becoming blind and developing kidney disease. Our health officials estimate that 20 percent of Saint Lucians over the age of 40 years suffer with diabetes. This translates into 8,000 people with diabetes and in need of care. Most alarming is that an estimated 50 percent of persons who are diabetic do not know they are diabetic. The true cost of diabetes is indeed staggering. Therefore, we are going to ensure that there is widespread screening for diabetes as part of the pilot.

We also know that many among us have to struggle to get their medications to manage this illness. Indeed, we know that many often diabetics have to go without vital medication because they cannot afford it. This pilot will eliminate that problem for diabetics.

As part of this pilot we are going to aggressively promote healthy diets and regular exercise, which is a strategy that will assist us in reducing the impacts of many other diseases and illnesses. These lifestyle practices should be implemented by all of us. The diet which we shall promote is one where we consume more vegetables and fruits, more ground provisions, more peas and beans, less saturated fats, oils and less animal products. This creates a synergy between agriculture and health. Mr. Speaker, I am saying we need to produce and consume more of our own local produce, not only because it is good for our local economy but because it is healthy.

After this particular pilot, which will end in nine months, we will continue the medications for diabetics and will introduce other elements of the UHC pharmaceutical package which will include medications for all persons with asthma, for cancer patients, for patients with various infections, pain medication and many others.

Our overall goal is to have a health system that plays its part in ensuring that people are productive and contributors to national wealth and development, because they are mentally, socially and physically well. We intend to forge ahead with the implementation of Universal Health Care and the other proposed health reforms because this is a Government that is focussed on people; a Government that cares about its people; and a Government that understands what its people need.

## **URBAN RENEWAL IN CASTRIES**

Mr. Speaker, for many of our citizens, certain parts of the city of Castries have become unattractive, unappealing and unsafe. The areas to the east of Peynier Street and to the south of Brazil Street spring to mind, because the signs of decay are very visible. This is reflected in an increase in dilapidated buildings, crumbling street infrastructure, especially sidewalks and drains, and unplanned and unsightly developments.

The city too is becoming dysfunctional. The flow of pedestrian and vehicular traffic is stymied by sidewalk vendors on the one hand and haphazard street parking on the other.

Urgent and concerted action is required to present a more appealing and functional city to the thousands of residents who use it on a daily basis and the tens of thousand of visitors who grace our shores every year.

The challenge is both short term and long term. One of the long term solutions has to do with the rejuvenation of certain communities within the Castries Basin. Let us start with this.

## ACQUISITION OF LANDS FOR URBAN RENEWAL

Mr. Speaker, in the 2005 Throne Speech, Her Excellency Dame Pearlette Louisy, our Governor General, addressed the overcrowding and indiscriminate squatting in the Castries Basin and its satellite communities. Her Excellency addressed the issue this way:

“Mr. President, Mr. Speaker it is well known that there is tremendous overcrowding in the Castries basin and surrounding urban areas. This is the unfortunate result of years of spontaneous and unplanned expansion of residential communities. It is also the result of urban drift and indiscriminate squatting. In many cases, this has led to intolerable social conditions and dangerous physical conditions: unauthorised construction, poor drainage, land slippage and worse.

It is now vital that there be a systematic rationalisation of such settlements to bring relief to residents and improve prospects for poverty reduction and wealth creation through the acquisition of land ownership and title.

Accordingly, my Government will, during this year, commence a resettlement program in Conway. Thereafter, similar processes will be undertaken in other communities based on economic and social analysis of existing conditions and determination of resident profiles. These tasks will be undertaken by the Ministry of Physical Development, Environment and Housing. Given the extent of the problems to be tackled, these processes are likely to be complex and lengthy and will require patience on all sides.”

Plans are well underway to commence the resettlement of Conway residents and this financial year should see the commencement of construction of infrastructure on the selected site of relocation.

The problems in the wider Castries Basin are, however, more complex. Many of the residents live on properties rented from landlords, spanning in many cases, several generations. Citizens turn to Central Government for help but sometimes the Government is unable to respond because the land is in private ownership. In some areas, it is impossible to improve access because of the location of homes. Overcrowding has led to unacceptable and intolerable social conditions.

The first step in tackling these issues is for the Government to gain unimpeded access and ownership of the properties in question. Government, therefore, proposes to acquire these properties from their owners. Once this is done, the process of rationalisation can commence. This will entail the improvement and extension of existing infrastructure, the grant of title and ownership of the land occupied by existing families on terms and conditions to be offered by the Government, and the relocation of some residents to approved areas.



Given the sheer scale and cost of this initiative, implementation will take time, and necessarily, must be phased. The Government will approach this challenge as follows:

1. First, the lands to be acquired will be identified and acquired in phases, commencing this financial year;
2. Prior to acquisition, the Government will hold discussion with the owners or the representatives of the owners;
3. This initiative will be managed by the Programme for the Regularization of Unplanned Developments (PROUD), a unit already established in the Ministry of Physical Development Environment and Housing. PROUD will be expanded and strengthened to cope with this new responsibility. Initially, PROUD will have to capture information and data about the residents. PROUD will be multidisciplinary in composition, outlook, and skills.
4. Where relocation is necessary to facilitate the construction of infrastructure, Government will identify sites for relocation of the persons likely to be affected.

Mr. Speaker, the Government has already identified the following communities for attention:

- Faux a Chaux
- Bananes
- Bagatelle
- Cedars
- Morne Du Don
- Marchand
- George Ville

Other communities will be added once the preliminary studies are completed. Acquisition of the areas in question will be phased over a cycle of three years.

Mr. Speaker, I wish to make it abundantly clear that until such time that the Government acquires these properties, the owners are entitled to rental payment from the persons to whom they are leasing.

## **REPAIR AND REHABILITATION OF CASTRIES SIDEWALKS**

Over the years, Mr Speaker, there has been a noticeable and steady deterioration of the sidewalks in Castries, much to the distress of citizens. Some effort has been made to effect repairs to sections of the City, but at best, these efforts have been sporadic and piecemeal.

Our Government now proposes to undertake a comprehensive programme of reconstruction and rehabilitation of the City's sidewalks during this financial year. I propose to allocate \$2.3 million to this programme. I have no doubt that this programme will enhance the general appearance of the city and restore some of its legendary charm and appearance, particularly in those areas where no rehabilitation has taken place.

The implementation of this programme will be the shared responsibility of the Ministry of Communications, Works, Transport and Public Utilities and the Castries City Council.

## **CASTRIES WATERFRONT DEVELOPMENT**

Mr. Speaker, we recognize that the first image that our visitors get when approaching our City whether by boat, plane or car is the Waterfront. The Castries Waterfront has a long history of welcoming visitors and in times past was admired as one of the most beautiful ports in the Region. But alas, we can no longer boast that the Waterfront is as welcoming to the eyes as before.

The only recent development to the Waterfront has been the construction of the two phases of La Place Carenage by SLASPA. This Duty Free Shopping Mall, along with the recently completed Desmond Skeete Animation Centre, represent only the beginning of the realization of the potential for the development of the entire Waterfront. So, in order to continue this Development, SLASPA, along with its subsidiary Anchorage Investments Limited, the National Insurance Corporation and its subsidiary National Insurance Property Development and Management Company, and the Bank of Saint Lucia have come together to formulate a strategy for the redevelopment of the Castries Waterfront. Interestingly Mr. Speaker, two non-national entities have also expressed an interest in participating in the redevelopment of the Castries Waterfront. One of these entities is in the Cruise Industry.

The prospects for this Development are interesting and exciting. Permit me to share with this Honourable House some of the ideas that have been discussed so far. The area under consideration encompasses the entire Waterfront area, from the former Castries Yacht Centre to Sheds 4 and 5 along lower Jeremie Street.

The proposed development will be modular in nature and it is proposed that the following modules will be pursued:

1. Castries Yacht Centre, Ganter's Bay up to the tenders jetty adjacent to the restaurant "Froggy Jacks": most of the land in that area is owned by SLASPA and the Crown and it is proposed that the area be developed into an up-scale condominium complex, and a yacht facility with restaurants.
2. Pointe Seraphine, the reef and the access road to the Pointe Seraphine Shopping Complex: some portions of the land in this area are also owned by the Crown and NDC. It is proposed that this area is to be developed to cater to a mix of tourism, commercial and entertainment related activities.
3. The final module would involve the stretch of property along Jeremie Street, including the Vendors Arcade, the Port Police and Fire Stations, La Place Carenage, the Customs and Excise building and Sheds Four and Five. It is proposed that this area be developed to enhance the shopping experience for citizens and visitors.

Already, a committee, comprising board and council members of the NIC and SLASPA and other interests, has been established to pursue the most appropriate corporate development model.

Mr. Speaker, given the excitement that has been generated by the relevant parties, I am of the firm view that this venture merits the support of the Government of Saint Lucia and we will certainly want to offer any assistance to bring this idea to fruition.

## **WATERFRONT PROMENADE**

Meanwhile, Mr. Speaker, Government will proceed with one aspect of upgrading the waterfront.

Our Government recently commissioned a Castries Urban Transportation Study, and the consultants who prepared the report have suggested that,

“A waterfront promenade can provide an opportunity to link Pointe Seraphine with the City centre, making it an integral experience for locals and visitors alike. The promenade should provide an arena-like experience to users with ample vistas of the harbour and special pavilions along its way to enhance the experience”.

In the view of the consultants, “the promenade can and should be the signature structure of the downtown waterfront and part of an attractive, welcoming “approach” to the city of Castries. The Promenade would express the unique character and beauty of Port Castries.”

Construction of a promenade along the Castries waterfront can give citizens the opportunity to realize both old and new dreams for the water sporting events, which took place in the harbour long ago.

Government has accepted this recommendation and decided to construct a tree-lined, shaded promenade/boardwalk extending northward from within the existing craft market along the waterfront to the small vehicular bridge adjacent to the St. Lucia Electricity Services building at Sans Souci.

This proposal will be the first step in a dramatic waterfront improvement. It will stand as a symbol of revitalization and triumph for an entire section of the city. I expect this will be done in time for Cricket World Cup in 2007.

Honourable Members may wish to note that a sum of \$6.25 million has been allocated in the Estimates to finance the construction of the promenade.

## **SUPPORT TO VENDORS**

Mr. Speaker, it is vital that Castries reflects the image of a rapidly developing city. While we witness the refurbishment of buildings within the commercial section, we also observe a proliferation of tray-vending along our sidewalks that stands in stark contrast to the profile that needs to be created of the City. This is aesthetically incompatible. But our vendors must be provided an opportunity to earn a living; they must feed and educate their children. So Mr. Speaker, Government must intervene and assist them in plying their trade in an organised and orderly manner. Consequently, this year, I have instructed the National Development Corporation to work with the Castries City Council to conduct an assessment of the vendor situation in Castries. Upon completion, the National Development Corporation will make

available a sum of EC\$300,000 to construct quality vending carts or stalls that can maintain the aesthetic beauty of the City.

## **REPAIRS TO CENTRAL MARKET AND ARCADE**

The Castries Market, Mr. Speaker, is unquestionably one of the oldest and most noticeable features of the landscape of the City of Castries. For decades it has assumed prominence, not only as an environment that facilitated income generating opportunities for vendors and the farming community alike, but just as critically, as a major tourism asset. It is also a political asset, for it is the undisputed home of the Saint Lucia Labour Party – Saint Lucia's first university so to speak.

The Market Complex, which comprises the Vendors Arcade, the Provisions Market and the Arts and Craft (Old) Market, accommodates 388 vendors in total. Over the years, it has been patronized by hundreds of thousands of tourists and locals. Its value to our people, and our economy, indeed, its overall intrinsic value, cannot be underestimated.

Despite on-going maintenance by the Castries City Council, this facility has deteriorated to the point where it now adversely affects the integrity of the products offered by the vendors, thereby compromising their overall ability to sustain their economic activity. The intrusion of the elements (both sun and rain) has exposed the fragility of the current drainage and roofing systems in particular. Moreover, the prevailing on-site conditions are significantly diminishing the historical and aesthetic value of the Market Complex, as they act as deterrents to those seeking to patronize the facility.

Our city, with all its architecture, must exude confidence, vibrancy, freshness and aesthetic appeal and the Market Complex can play a lead role in catalyzing this transformation.

An allocation of \$300,000 has therefore been made available to enable the Castries City Council to undertake urgent upgrading works to the Complex. The major works to be implemented will include:

- (1) The installation of extractor fans and drainage works in the Arts and Craft Market;
- (2) The upgrading of the guttering system in the Provisions Market; and
- (3) The installation of down pipes, as well as drainage and roofing works in the Vendors Arcade.

I am particularly pleased for those vendors who occupy the Arcade because they have had to endure from the inception, a facility with inherent design deficiencies. They have, in the past, complained loudly and deserve some relief.

## **INVESTMENTS IN SOCIAL SECTOR**

I shall now, Mr. Speaker, address the Government's investment programme in the Social Sector.

## **NEW SENIOR CITIZENS' HOME**

This Fiscal Year the Government will bring to fruition a long standing promise to construct a new Senior Citizens' Home in Vieux Fort. The existing Senior Citizens' Home in Malgretoute is an old, dilapidated structure. It has been in poor condition for some time. Government officials have long advised that given the condition of the facility, it would be more cost effective to construct a brand new facility than to attempt to renovate the present structure.

The Government has accepted this advice and will build a modern home for the elderly from the proceeds of the sale of the existing site.

For many years, different prospective investors have advanced plans for a hotel development at Malgretoute, the site where the existing Senior Citizens' Home is located, but nothing, absolutely nothing materialised. But it was not until last year that serious negotiations were entered into for the sale of the lands. The hotel developers who had already acquired some of the adjoining private lands approached the Government to purchase the Malgretoute site for construction of a five star Hotel and Residential Resort. The proposed development includes a marina charter facility, a marina quay and a condominium.

In order to satisfy itself that it obtained the best possible price for the land, the Government commissioned five valuations of the property, four of which came from the private sector. In the end, the Government agreed to sell eight acres of land on the basis of the highest valuation, that is \$8,655,046.

Government will utilize the proceeds of the sale towards the construction of a new modern facility in Eau Piquant, Vieux Fort, on lands already ear-marked for that purpose. The new facility will have the capacity to accommodate two and a half times the population of the existing Home. The Malgretoute Home presently accommodates 60 persons, while the new Senior Citizens' Home will house 150 people. The stated intention of Government in undertaking this project is to design and build a modern facility through which the standard and quality of care provided to our senior citizens can be improved now and in the future. Consequently, the new Senior Citizens' Home will be outfitted with modern amenities for the assurance of the comfort and wellbeing of our senior citizens. We cannot allow our senior citizens to live in the dehumanising conditions that currently obtain at Malgretoute. It is time for us to right yet another wrong.

The cost of the new Senior Citizens' Home is estimated at approximately EC\$ 13.5 million. In this financial year, a sum of \$8.6 million is allocated for the commencement of construction. The project is expected to be completed within two years.

## **HOME REPAIR PROGRAMME FOR THE ELDERLY**

Since 2000, Mr Speaker, the Government has repaired or rebuilt approximately 171 homes of elderly persons, some of whom have been abandoned by their families, at a cost of \$1 million.

The total number of houses repaired or rebuilt from the inception of the programme is as follows:

(1)	2000/2001	-	73
(2)	2001/2002	-	20
(3)	2002/2003	-	49
(4)	2003/2004	-	<u>29</u>
	<b>TOTAL</b>	-	<b>171</b>

In this financial year, I propose to allocate \$500,000 to this programme so as to allow for a continuation of this much needed support for our senior citizens, many of whom are no longer able to fend for themselves.

### **INCREASED ALLOCATION TO C.A.R.E.**

Mr. Speaker, as we move to Universal Secondary Education, we will still have disadvantaged and marginalised youth in our midst. Many of these young persons were not able to secure places in secondary schools. These young persons are extremely vulnerable and at risk. It is important, therefore, that special programmes are provided to these individuals so that they can be equipped with the necessary skills to find employment.

In this regard, I wish to commend the excellent work being undertaken by the Centre for Adolescent Renewal & Education or CARE as it is known. Mr. Speaker, on behalf of the Government of Saint Lucia, I wish to express my appreciation to the founders of that institution.

CARE offers a two-year programme to students at five centres in Castries, Vigie, Anse-La-Raye, Gros Islet and Soufriere. The training culminates with a six-week job-training experience. A large percentage of the students are immediately employed after job training and 85% of the trainees find gainful employment. There are currently 300 trainees, of whom 60% are boys and 40% are girls, with ages ranging from 15-19 years. The majority of the students who enrol at CARE have parents with limited financial resources.

The finances of CARE come from the students who pay \$200 per term, benevolent benefactors and Government. Mr Speaker, in recognition of the excellent work being undertaken by CARE, I propose to increase their subvention by \$100,000 to \$300,000.

### **REDISTRIBUTION OF EXCESS TARIFF**

Honourable Members will recall that Parliament recently amended the Electricity Supply Act, No. 10 of 1994 to provide that in cases where LUCELEC enjoys a rate of return in any financial year that is higher than their allowable rate of return, then 50 percent of the excess may be applied in proportion to each kilowatt hour consumed by industrial and hotel consumers and at the determination of the Minister, to consumers or groups of consumers in need of special protection. LUCELEC has now advised that the excess available for redistribution in the 2005 financial year is \$4.1 million.

With the recent amendments to the Act, the industrial and hotel consumers will benefit automatically and it now falls to determine the group of consumers in need of special protection. This is a responsibility assigned to the Minister by the Act.

In arriving at a decision, the Minister, who happens to be the Minister for Finance, was mindful of the fact that the current tariff arrangements require the manufacturing and tourism sectors to pay higher tariffs than ordinary consumers. Indeed, it has been argued that the economic sectors are, in effect, subsidising ordinary consumers. The tariff arrangements have also, from time to time, drawn stinging criticism from the Private Sector. According to the Private Sector, the cost of electricity impacts on their competitiveness, a view which routinely earns them the support of the IMF. It is imperative too, that the manufacturing sector is positioned to meet the inevitable challenges that the CSME will bring.

Having considered all factors, the Minister has decided to apply part of the amount available for redistribution to the most vulnerable sections of our population, that is householders using up to 180 units of electricity per month. This means that effective from the month after the Order is published in the Gazette, consumers in this category, who total almost 31,000 in number, should see a reduction in their monthly bills.

The formula for the redistribution contained in the Act is based on units of electricity consumed in the previous year, and the relevant kilowatt hours for 2005 are:-

Hotels and Industrials	69,406,473
Domestic up to 180 units	32,539,480
<b>Total</b>	<b>101,945,953</b>

This equates to 4.02 cents per unit, equivalent to a 5.07% decrease for the hotels and industrials, and a 6.25% decrease for domestic consumers using up to 180 units per month.

This means that \$2.8 million of the \$4.1 million will go to the Industrial and Hotel consumers and the balance of \$1.3 million will go to that group identified to be in need of special protection.

However, I must emphasize that if the price of oil continues to rise, consumers may not enjoy this relief for very long. We all have to hope that sanity returns to the oil market and the price of oil stabilizes.

## **MINIMISING EFFECTS OF OIL PRICES**

Mr. Speaker, I have spoken at length about the burden of high oil prices. Saint Lucia needs to make adjustments in energy policy to minimise the effects of these high prices. Part of the response has to do with encouraging our citizens to invest in energy-saving devices. We must begin to prepare for the inevitable.

I have had the opportunity to review initiatives elsewhere in the region, and propose to adopt some to our use and circumstances.

## **ENERGY EFFICIENT BUILDING MATERIALS**

Mr. Speaker, there is currently a housing boom in Saint Lucia. I, however, wish to urge Saint Lucians to pay special attention in designing their homes, especially in relation to using materials that keep houses cooler. These materials include window tint, ceramic roof coating, roof insulation and thermal barriers. I propose to reduce the rate of import duty on these items, which generally attract a rate ranging from 15 – 20 percent, to a rate of 5 percent. In so doing, Mr. Speaker, I hope that home owners would choose their building materials wisely.

## **HOME ENERGY AUDITS**

Mr. Speaker, we tend to be very wasteful in the use of energy in our homes, incurring significant and sometimes unnecessary energy costs. I want to encourage Saint Lucians to be more economical in the use of energy by carrying out home audits. Each household will require different advice depending on their respective energy needs.

In order to encourage home energy audits and conservation systems that are recommended as a result of the audit, I wish to propose that up to \$2,500 be allowed as a one-off tax deduction from assessable income to persons who undertake such audits of their properties and implement the recommendations of the audit in the year that the deduction is claimed. The Ministry of Communications, Works, Transport and Public Utilities will develop the criteria for approval and certification of the auditors.

## **ENCOURAGING THE USE OF FLUORESCENT BULBS**

A significant percentage of a household's electricity consumption is from the use of light bulbs. Many households continue to use incandescent bulbs, rather than fluorescent bulbs, despite the fact that the latter is up to five times more energy efficient than the former.

In an effort to encourage households to switch to fluorescent bulbs, I propose to reduce the import duty rate on fluorescent bulbs, which carries the same rate as incandescent bulbs, from 20% to 5%.

## **PURCHASE OF HYBRID VEHICLES**

It is evident Mr. Speaker, that high gas prices are here to stay. As supplies dwindle, gas prices are likely to continue to increase. It is therefore important for us to be futuristic and encourage the use of vehicles that are run on alternative energy sources. In keeping with this vision, Mr. Speaker, I propose that new hybrid vehicles, as well as those powered by solar energy, LPG and Compressed Natural Gas, will attract a flat Excise Tax rate of 15 percent, irrespective of engine size, as compared to the lowest rate of 20.5 percent on regular cars.

I hope, Mr. Speaker that this concession will encourage an enterprising Car Dealer to explore the possibility of importing such vehicles into Saint Lucia. Government is also willing to enter into discussions with the Petroleum Dealers Association to consider options for retrofitting existing fuel stations to cater to these hybrid vehicles.



## SEPARATE TARIFF FOR DIESEL VEHICLES

Mr. Speaker, owners of diesel vehicles tend to spend less money on fuel than owners of equally-sized gasoline vehicles. Owners of diesel vehicles get better value for money because they get more mileage per dollar. At present, diesel and gasoline vehicles are subject to the same levels of Excise Tax. I propose to effect a change to the Excise Tax regime by introducing a separate and new tariff for diesel powered vehicles.

Effective June 01, 2006 the following Excise Tax Regime will apply to diesel powered vehicles:

<b>Category</b>	<b>Import Duty</b>	<b>Current Excise Tax</b>	<b>Proposed Excise Tax</b>
Diesel coaches and buses not exceeding 21 passengers	35%	33.75%	20%
Diesel coaches and buses exceeding 21 but less than 29 passengers	35%	23.75%	15%
Coaches of a capacity exceeding 29 passengers	35%	23.75%	15%
Other diesel motor vehicles with compression	35%	33.75%	20%
Diesel motor cars less than 1500cc	35%	23.75%	15%
Diesel motor cars exceeding 1500cc but less than 2000cc	35%	50.75%	40%
Diesel motor cars exceeding 2000cc but less than 2500cc	35%	65%	50%
Diesel motor cars exceeding 2500cc	35%	65%	50%
Other Diesel Cars designed principally for transportation	35%	65%	50%
Diesel trucks and pick ups not exceeding 5 tonnes	20%	55%	40%

## SUPPORT FOR ARTISTES AND ENTERTAINERS

Mr. Speaker, slowly but surely, steps are being taken to develop an Entertainment Industry in Saint Lucia.

## CONCESSIONS ON RECORDING EQUIPMENT

Mr. Speaker, a strong plea has been made to Government to encourage artists and entertainers to invest in the recording business. The technology for recording is largely digitized and readily accessible. I have decided to respond positively to this request and have agreed to a waiver of Import Duty and Consumption Taxes on a range of equipment required for Recording Studios. The list of equipment is itemised in Appendix I to this Budget.

Applications for these concessions should be channelled to the Minister for Finance through the Ministry of Social Transformation, Culture and Local Government, which will be

required to confirm that the applicant is genuinely involved in the recording business. Should the duty-free equipment be used for a purpose other than recording, then the beneficiary would be required to meet the duty liability on the equipment. Meanwhile, the Cultural Development Foundation should proceed to develop the criteria and procedures to access this concession, so that it could become operational by August 1, 2006.

### **MICRO FINANCING FOR ENTERTAINERS**

Mr. Speaker, the Government is aware that it is not always easy for artistes and entertainers to access finance for projects that are expected to provide them with a stream of income. Artistes and entertainers are in a challenging business in which returns are uncertain. However, we cannot ignore the need to encourage the development of an entertainment industry, not only locally but beyond our borders into the region and elsewhere.

The National Development Corporation has offered to develop jointly with the Cultural Development Foundation, a pilot programme to advance loans up to a limit of \$5,000 to artistes and entertainers to undertake income generating projects.

The terms, conditions, and procedures for accessing these loans will be finalised by the NDC and CDF. I expect the facility to be operational by July 01, 2006.

### **THE YOUTH AGENDA**

Mr. Speaker, unemployment hurts primarily our young people. This continues to be the case, despite the significant reduction in unemployment these past few months. We must continue our efforts to re-educate, re-tool and re-skill. That responsibility is assigned to the National Skills Development Centre. This financial year, NSDC will receive a total allocation of \$3.72 million.

### **MORE INVESTMENT IN SKILLS TRAINING**

Approximately \$2 million of this amount will be made available for NSDC's programme of skills training. This will supplement the amount allocated to the Youth Apprenticeship Programme.

The NSDC has been authorised to target immediately some 700 persons for training in a variety of skills. I have requested NSDC to target communities where unemployment is particularly high.

Training will be provided in the following areas:

- Office Administration
- Cosmetology
- Bar Tending and Waiting
- Housekeeping
- Electrical Installation
- Masonry and Steel Bending
- Plumbing
- Early Childhood Development (preschool)
- Tiling
- Tour Guiding
- Sewing and Drapery Design
- Introduction to Graphic Design
- Electronic Appliance Repair
- Data Entry

Stipends will be provided to trainees to encourage their attendance in all training workshops. These stipends will be paid at a flat rate of \$400 per trainee, per month, inclusive of meal allowances.

As announced in my New Year's Address, the National Skills Development Centre will initiate a programme of training for young persons in the eastern and southern parts of the island for future employment in the Tourism and Hospitality Sectors. The National Skills Development Centre will initially target some 350 persons and will commence training this cohort towards the end of the year.

## **HUMAN RESOURCE DEVELOPMENT PROGRAMME**

An allocation of \$1.2 million has been made for a Human Resource Development Programme. This programme, which is currently being finalised by the NAO's Office, in conjunction with the European Commission Delegation, focuses on formal tertiary level training and informal entry level training and follows the broad strategy developed for human resource development through skills training in rural sectors, as outlined in the Education Strategy for 2005-2010.

The Programme is designed as a long term development approach, combining training with job search assistance and other employment services. This should assist in the creation of a more skilled and marketable labour force, better equipped to embrace the challenges of the Caribbean Single Market and Economy, the effects of globalisation and the contraction of the banana sector.

The programme, which has a three year implementation period, has two main components. The first component offers pre-university certification at the Sir Arthur Lewis Community College. Under this intervention, the Ministry of Education will determine the priority areas which will be supported. It is anticipated that between 150 and 200 young persons will benefit from this programme. Upon completion of the training programme, graduates will be encouraged to participate in the Youth Apprenticeship Programme (YAP) and the micro and

small business start up capital and funding from the BELFUND and the OPSR. This component shall receive an allocation of \$650,000.

### **CONTINUATION OF YAP**

The third component of the programme will support the ongoing Youth Apprenticeship Programme currently being undertaken by the NSDC. This component will seek to provide on-the-job training experience for 150 young persons over a period of one year. An allocation of \$520,000 is earmarked for the YAP.

The age group of 18-25 years is being targeted, as that age group has the highest unemployment rate. The project will be open to unemployed persons who have left the formal education and training system, graduated from training with organisations such as NELP, CARE, NSDC and graduates who have benefited from other HRD training programmes.

### **SPORTS INVESTMENT**

In addition to the above mentioned initiatives for our young people, the Government has allocated \$3.5 million to sports development. Of this amount \$840,000 will be allocated to the construction of new playing fields and the upgrading of existing playing fields. A sum of \$765,000 has been allocated to finance repairs to six multi-purpose courts and the construction of two new courts at the Vieux Fort Senior Secondary School, Campus B, and Pavee. Additionally, \$200,000 will be made available to upgrade national sports facilities at the Mindoo Philip Park and Vigie Sports Complex to provide offices and facilities for national sporting associations.

Of the total allocation, a sum of \$1.45 million is re-budgeted for the construction of the Soufriere Grand Stand. It is regrettable that this project has been delayed, but I want to assure the Honourable Member for Soufriere that the Government is patiently awaiting the completion of the designs for the facility.

### **SUPPORT FOR SMALL BUSINESS AND MICRO BUSINESS PROJECTS**

Small businesses play a critical role in increasing economic activity and reducing unemployment. This Government has therefore established a number of programmes and provided concessions to encourage the growth of small businesses. This year, Mr. Speaker, we have allocated a sum of \$1.5 million to the Rural Small Business Credit Facility. Under this facility, \$25,000 in grant funds will be made available per borrower to pay for services which are part of a business loan from a financial institution.

Additionally, Mr. Speaker, Honourable Members may wish to note that the Government will provide SLISBA with a subvention of \$100,000 this financial year to assist its members in meeting their administrative costs.

## **MICRO BUSINESS PROJECTS**

Mr. Speaker, I am also pleased to advise that during this fiscal year, the National Development Corporation will make \$250,000 available to persons who wish to engage in micro business ventures with a capital cost of no more than five thousand dollars (\$5,000) per person per project. This amount of \$250,000 will be available to persons who wish to undertake viable micro businesses, especially in preparation for Cricket World Cup. These funds will be jointly managed by the NDC and the James Belgrave Fund.

## **VIEUX FORT VENDORS ARCADE**

Mr. Speaker, the people of Vieux Fort continue to search for ways and means to benefit from the Tourism Industry. The transformation of the former Club Med to Coconut Bay Hotel has enhanced the tourism potential of the community.

Over the years, several persons have obtained a livelihood by vending their craft to tourists. The numbers have grown and it is now necessary to provide them with a home. During the second quarter of this year, the National Development Corporation will undertake the construction of a modern Vendors Arcade, in close proximity to Hewanorra Airport and Coconut Bay Resort and Spa. The cost of this arcade is estimated at approximately \$1.5 million.

## **MANAGING ADJUSTMENTS IN AGRICULTURE**

Mr. Speaker, seldom has a Budget Statement been presented in the last nine (9) years when there has not been some mention of support for the banana industry. Indeed, I have stated on many occasions that this administration has extended greater assistance to banana farmers than any other Government in history.

## **REVIEW OF GOVERNMENT SUPPORT TO THE BANANA INDUSTRY**

Perhaps this is as good a time as any to review the level of support that we have provided to the banana industry since coming into office in 1997:

- (1) This Government wrote off \$44 million of debt owed by the former St. Lucia Banana Growers Association (SLBGA), followed by the forgiveness of \$700,000 of outstanding trade payables owed by the SLBGA;
- (2) To facilitate the emergence of an unencumbered private banana company, fully owned by the farmers of this country, we secured \$3.65 million from the European Commission for the retrenchment of SLBGA staff;
- (3) \$16.3 million of European Commission grant funds were used to fund the banana production recovery plan (PRP), which was aimed at arresting the decline in banana production and farmer

migration that had occurred prior to this Government's assumption of office in 1997;

- (4) In order to stimulate improvements in the post-harvest handling of bananas and improve the overall quality of the fruit reaching the United Kingdom, Government constructed three modern Inland Reception and Distribution Centres (IRDC) at a cost of \$12.5 million;
- (5) Between October 2000 and March 2001, \$2.5 million was provided to fund Leaf Spot control;
- (6) At the end of 2000, \$1.4 million was provided to the banana industry to facilitate a reduction in the price of banana cartons by \$1.00;
- (7) In April 2001, \$3.5 million was made available by the Government to the Banana Industry Trust for the establishment of a Revolving Input Credit Scheme; This was supplemented by a further amount of \$3 million in 2005;
- (8) Government sought and obtained special leave from the European Commission to utilize funds under the 1995 STABEX Transfer, totalling approximately \$2.5 million, to finance Leaf Spot control activities between April 2001 and December 2001;
- (9) Over \$20 million was mobilized under the European Union's Special Framework of Assistance 1999 and 2000 programmes for the banana industry, primarily to allow for the installation of off-farm drainage and irrigation infrastructure in Roseau, Cul-de-Sac, Mabouya Valley, Canelles and Marquis; and
- (10) This Government has foregone significant revenue from import duties and taxes by providing 100 percent exemption of Import Duty and Consumption Tax to banana farmers on production inputs.

Despite all of this assistance, there are still some who, for selfish and short-sighted political gain, would have us believe that this Government has "killed" the banana industry in Saint Lucia. I am sure that there are many other industries that would beg a Government to 'kill' them with over \$107 million in direct assistance and millions more in indirect support over a nine-year period. But some persons have old habits of riding the backs of our farmers for personal gain and for them these old habits die hard.

The fact remains, Mr. Speaker, that the banana industry throughout the English-speaking Caribbean has taken a beating, and one only has to look at what has happened to production in Jamaica, Grenada, Dominica, and St. Vincent to understand that declining production is a fact of life. Grenada has abandoned the banana industry. Production has declined in every single island. In fact, declines have been sharper and more severe in neighbouring countries.

So, if this Government has killed the banana industry in Saint Lucia, then it has also killed the industry in Dominica, St. Vincent, Grenada and even as far as Jamaica.

Sometimes, Mr. Speaker, to hide our own shortcomings, we try to point out the deficiencies, real or imagined, in others and this appears to be the strategy being applied by our 'old friends with no ideas'. We all know the Kweyol saying: "Pwan douvan avan douvan pwan-ou".

Mr. Speaker, true to form and consistent with our philosophy of doing all within our power to protect our banana farmers and give our industry every chance to survive in an increasingly harsh and competitive global marketplace, this year we will extend further support to the banana industry.

### **MORE SUPPORT FOR FARM IRRIGATION**

Those of us familiar with the banana industry will know that one of the serious constraints to profitability is the cyclical pattern of rain-fed production. Simply put, when it rains we get more production than we can market profitably, and during the dry season we do not get the volumes that the market is demanding. We have high volumes when market prices are depressed and insufficient production when market prices are favourable. This has been a feature of the banana industry for decades, yet nothing was done about it until this Government took office in 1997.

So far, using the provisions of the 1999 and 2000 SFA allocations, off-farm irrigation and drainage infrastructure has been installed in Roseau and Cul-de-Sac. However, we have found that although farmers are interested in the possibilities and opportunities that on-farm irrigation provides, they are slow to make the investment due to diminished cash flows and heavy debt obligations. Therefore, Mr. Speaker, I propose to make available \$1.4 million to fund the installation of on-farm irrigation equipment in the areas where the off-farm infrastructure has been established. The Banana Emergency Recovery Unit (BERU), which will work in tandem with the Banana Industry Trust (BIT) in executing this programme, has estimated that there will be a 30 percent increase in production in the areas that will benefit from this infrastructure.

In order to provide this project with the breathing space that it will require to succeed in the long term, and more importantly, allow the beneficiary farmers some level of initial relief, the Ministry of Agriculture, BERU and the BIT will collaborate with WIBDECO, through a Memorandum of Understanding, to provide support to these farmers for the costs of diesel, oil, and equipment maintenance. In keeping with the dictates of the European Union market and the supermarkets to which we supply our bananas, the assistance provided under this project will be targeted at those farmers who are certified as EUREPGAP/Fairtrade compliant, have a farm size of a minimum of 4 acres, and have maintained a minimum historical production over the past two years of 10 Large Carton Equivalents (LCE) per week per acre.

We are confident that with this initiative, together with the recently announced support from WIBDECO for Leaf Spot Control and fertilizer subsidy, Saint Lucia's banana industry will receive the assistance that it requires to maintain market share in the United Kingdom. Never

before, Mr. Speaker, has so much been done for the banana industry. These are the indisputable facts.

## **LINE OF CREDIT TO FACILITATE AGRICULTURAL DEVELOPMENT**

In 2005, Mr. Speaker, Cabinet approved a generous package of incentives to the agriculture sector in an effort to spur further activity in non-traditional agriculture. It is important to note that the new agriculture incentive regime encourages the formation of farmers associations and provides 100 percent waiver of import duties on a broad range of farming equipment and inputs to those associations. Farmers who do not belong to such cooperatives or associations are entitled to a 60 percent waiver of duties associated with the importation of farming equipment and inputs.

Mr. Speaker, while these programs have had some impact, the decline in the agriculture sector and in particular, the volume of bananas exported have continued. The performance of banana agriculture is largely related to the harsh and uncompromising nature of the external trading environment. The non-traditional agriculture sector has been affected by weak marketing and institutional arrangements and limited access to capital.

Developments on the international banana market signal the need to strengthen domestic linkages between tourism and agriculture. As the preferential trading framework that we operate within is phased out, we must become creative and explore all avenues to improve value added within the agriculture sector. The growing tourism industry presents an opportunity for participation of the local farming community in that sector through significant absorption of domestically produced crops and other agricultural products.

Mr. Speaker, while the supermarkets and hotels in Saint Lucia have been purchasing from our local farmers, several factors have militated against further expansion of that trade. Access to finance continues to be one of the main factors impacting on the development of the sector. Commercial banks and other financial institutions assign very high risk to agricultural activities and are very reluctant to lend to farmers. For instance, in 2005 commercial bank credit to the agriculture sector declined by 7.0 percent and represented a mere 1.2 percent of total credit to the economy. Similarly, Mr. Speaker, commercial bank credit to agriculture declined by 3.2 percent in 2004, representing 2.0 percent of total credit.

As a result of rising oil prices, the cost of inputs has increased, thus impacting on the competitiveness of the domestic agriculture sector. The absence of formal marketing arrangements and weak farmers' associations have also had a dilatory effect on output of the agriculture sector.

Mr. Speaker, farmers have been complaining about a very strange practice by hotels in Saint Lucia. The complaints suggest that some hotels have been utilizing a 90-day payment cycle rather than a 30-day cycle to pay farmers for their produce. This practice places further strain on the financial affairs of farmers. Our Government feels that it is grossly unfair that the hotels, which in many cases have been granted generous incentive packages, should withhold payments to farmers with minimal sources of income for a full 90 days. To the credit of the St. Lucia Hotel and Tourism Association, an effort has been made in recent times to engage the farmers in discussion to arrive at a mutually satisfactory solution.



Our Government recognizes that it cannot intervene directly to ameliorate all of these problems. However, we are of the view that the provision of appropriate incentives to relevant institutions can ensure that private sector institutions and the market produce outcomes that will support greater integration between the tourism and agriculture sectors. Mr. Speaker, in the light of this, Government proposes to implement the following initiatives during financial year 2006/07:

1. A tax credit system to commercial banks that will encourage growth in credit to the agriculture sector. This credit system will be implemented over a three-year period. The Government will exempt 75 percent of interest income earned on agricultural loans from payment of Corporation Taxes. This will be phased down to 50 percent in 2007 and 33 percent in 2008.
2. A line of credit of EC\$2 million to the newly established Chamber of Agriculture to facilitate development of the industry. The line of credit will be utilized for the following purposes:
  - (1) To establish a warehousing, sorting, packaging and storage facility; and
  - (2) To establish a financing mechanism that will allow the entity to operate as an intermediary between farmers/farmers associations and the hotel sector.

Mr. Speaker, I expect that these new initiatives, coupled with the existing Agriculture Incentive Regime, will assist in strengthening inter-sector linkages, thereby spreading the benefits of the tourism industry to farmers and rural communities.

#### **STATUS OF ANSE LA RAYE JETTY**

Mr. Speaker, there is one project whose status must be clarified. This is the proposed fish landing facility and jetty for Anse La Raye. I know that the Parliamentary Representative as well as the citizens of Anse La Raye are exceedingly anxious to have their jetty.

Mr. Speaker, in the 2003/04 Budget Address, I had announced that the Government of Saint Lucia would finance the construction of the jetty. However, the Government was advised that the Government of Japan was willing to construct a fish landing facility in Anse La Raye and would incorporate a jetty in the design. After considerable delay, a Technical Mission from Japan arrived in Saint Lucia to assess the viability of the project and to undertake the necessary studies. A Memorandum of Understanding has now been agreed on the follow-up activities. The Government of Saint Lucia will be required to demolish the existing jetty in the course of the year. Hopefully, construction of the new facility will commence early next year. So, after what has been a long wait, I am optimistic that the people of Anse La Raye will have their jetty.

## **INVESTMENTS IN SECURITY**

Mr. Speaker, investments in the security of Saint Lucia have been substantial over the past nine years. Some may think that the country is yet to reap the benefits of this investment. But we must continue to persevere in our relentless fight against crime.

## **ESTABLISHMENT OF FORENSIC LABORATORY**

Mr. Speaker, I am pleased to confirm that construction of the **Forensic Science Laboratory** announced last year, has commenced on the site which previously housed the old Female Prison. The facility will be constructed at a cost of \$3,831, 801, of which \$2,735,424.00 is allocated this year. An amount of \$688,174.00 has been allocated for the purchase of specialized furniture and equipment for the facility.

Construction work on the facility is expected to last approximately seven (7) months. The commissioning of the facility is projected for December 2006.

Mr. Speaker, this Government has always given its commitment to do all within its powers to address the level of crime in Saint Lucia, and this facility represents a critical component in moving that process forward. It is an expensive but significant step in the fight against crime.

## **AUTOMATED FINGER PRINTING SYSTEM**

Mr. Speaker, over the past few years there has been a phenomenal increase in robberies and burglaries in private homes, commercial houses and tourism establishments. The residents in the north of the island unfortunately are regular targets. Many of the victims have simply given up in frustration. Yet, the problem has to be addressed because there is no greater invasion of one's privacy and security, than burglary.

The loss of confidence is palpable and understandable. The fact is the detection rate for robberies and burglaries is less than 10 percent. All kinds of explanations have been offered for this ridiculously low detection rate. The police argue that the manual system of fingerprint identification is inefficient and ineffective. In response, Government has decided to purchase an automated state-of-the-art fingerprinting system at a cost of EC\$750,000.

## **INCREASE IN POLICE PERSONNEL**

Mr. Speaker, Government will continue its programme to increase the number of police officers in the Royal Saint Lucia Police Force. Currently, 65 recruits are undergoing training and are expected to graduate in July, 2006. On completion of this training cycle, a further 60 recruits will enter the Police Training Academy. These officers will be assigned to the Special Services Unit, to bring the overall strength of this unit to 100 officers.

Mr. Speaker, these interventions, coupled with the acquisition of more police vehicles, operational and communications equipment, and the technical assistance from the seven

former British Police Officers of which Her Excellency spoke this morning, should indicate the seriousness with which our Government views the fight against crime.

## **WATER SECTOR REFORM**

Mr. Speaker, you recall that in the Budget Presentation last year, I announced that the Government of Saint Lucia would pursue a three pronged approach to reforms in the Water Sector. The three issues that we indicated that we would pursue are as follows:

1. Launch an urgent investment program, financed with US\$7.7 million from the World Bank, to relieve the water shortage problems in the north;
2. Operationalise the newly established legal framework that establishes efficiency, incentives and economic rewards for higher levels of service and performance in the water sector; and
3. Create a public-private sector partnership for the water utility that opens up Board and Management control of WASCO to the private sector, thus facilitating the transition of WASCO into an efficiently managed and operated, financially self-sustainable, customer-oriented company.

I am pleased to announce Mr. Speaker, that we are well on the way to meeting these objectives. In respect of addressing the water shortage problems in the north, a contract was signed between the Government of Saint Lucia and a construction consortium called General Earthmovers-UEM Incorporated Ltd earlier this year. The contract is a turnkey contract, meaning that the contractor is expected to undertake both the design and construction of the works. Design is well on the way and construction is expected to commence shortly. It is anticipated that this project will be completed in time for the 2007 Cricket World Cup.

The legislative framework has been completed with the passage of the new Water and Sewerage Act, and the establishment of the Commission. The Water Resource Management Unit will be established at the Ministry of Agriculture, subsequent to the passage of the Estimates of Expenditure in this Honourable House. The only action left on the legislative agenda is the coming into force of the Act, which will be undertaken by the Honourable Minister responsible for Public Utilities, following the regularisation of some administrative matters.

But Mr. Speaker, the most important aspect of this transformation is about to unfold. The Cabinet of Ministers has agreed to the process by which there will be a public-private sector partnership in the management and operations of the Water Utility. This public-private sector partnership will be very similar to what obtains in LUCELEC, and will build on what has been a very successful experience.

Mr. Speaker, we cannot allow WASCO to lurch from crisis to crisis. Government cannot continue to borrow and borrow for WASCO. It is simply unsustainable. Presently, WASCO's total debt liability stands at \$112.3 million. The Government bears responsibility for this debt and meets all payments on behalf of WASCO.

Cabinet has endorsed the following:

1. The establishment of the Public-Private Partnership Company to manage the affairs of the water sector;
2. Twenty percent of the ownership of the Public-Private Partnership Company will be held by the Government of Saint Lucia;
3. WASCO will remain as the vehicle through which the Government of Saint Lucia will own equity in the Public-Private Partnership. The Partnership Company will also be entitled to the right of use of the Roseau Dam through an evergreen service agreement. In other words, the ownership of the Roseau Dam will remain with the Government of Saint Lucia. So too will all catchment areas and other natural assets be owned by the Government of Saint Lucia.
4. The Ministers responsible for Public Utilities and Agriculture will, under the provisions of the Water & Sewerage Act, issue licences to the Partnership Company for providing the Water Service, as well as an abstraction licence;
5. The operator will be a member of the investment consortium, which in turn will provide solid performance guarantees that are either directly or indirectly provided by the operator; and
6. The Board of the Partnership Company will comprise five executive members. The Company will also be expected to manage procurement in the most open and transparent manner.

Cabinet has agreed to the engagement of a specialized public relations firm to carry out a public sensitization programme to explain the proposed changes to consumers. Importantly also, the Government wants to ensure that the employees of WASCO are engaged in dialogue so that their concerns are fully addressed.

Mr. Speaker, I know that some members of the public may be sceptical about this Public-Private Sector relationship and in particular, there will be some concerns regarding its impact on poor and marginalised groups. It is the intention of Government to ensure that a mechanism is put in place to provide for persons who are in need of special assistance. To meet this objective, Government has already commenced discussions with the World Bank Group for the provision of a facility that would allow for the provision of grants to the poor and marginalized groups to access connections to the water supply.

I know too that there are fears that the new entity will increase water rates. Two points must be made. Firstly, Government has made it absolutely clear that there can be no increases in tariffs until and unless there is significant improvement in the delivery of water. Indeed, it is specifically agreed that there will be no increases for the next three (3) years. Secondly, tariffs will be set by a regulatory authority. The new company will not be allowed to increase its tariffs at its own choosing.

Mr. Speaker, it is the Government's view that the process on which we are embarking will bring some stability to the supply and provision of safe and wholesome water to the majority of our citizens in the entire country. As we continue on this road to the completion of this

process, we must implore our citizens to be patient and work along with the Government and other private and public sector partners to ensure the attainment of the goal of water for all.

## **PART 4**

### **CHANGING TAX POLICY ENVIRONMENT**

Mr. Speaker, I now turn to a matter that always seems to provoke strong, impassioned and sometimes, uninformed debate, and that is our tax system. It is time that we seriously begin to examine our tax regime.

Mr. Speaker, since coming into office, this Government has made adjustments to the tax system that have creatively spread the tax burden. Persons at the lower end of the earnings bracket have been relieved of the burden of paying Income Tax. Some pensioners now enjoy the benefit of not paying Property taxes, and workers in the hospitality industry also enjoy, in addition to lower Income Tax, tax-free earnings on their tips and gratuities.

Mr. Speaker, owners of ground transportation in the tourism sector also benefit from waivers of import duties and consumption taxes on vehicles imported for use in the sector.

But while we have been making all of these adjustments, it is becoming increasingly clear that there is a growing need for us to re-examine the tax regime. Mr. Speaker, I want to make it clear that a re-examination does not necessarily translate into an increase in the tax burden. As a matter of fact, this re-examination may in fact reveal ways of further spreading the tax burden so as to make the regime more equitable.

It is important to note that the current tax regime is not unique to Saint Lucia, but was in fact developed internationally and through a process of adaptation implemented in Saint Lucia. If one examines the history of taxation in the English-speaking Caribbean, there are common threads that can be observed in the evolution of taxation systems. So Mr. Speaker, a re-assessment of our taxation system in these changing times ought not to set the alarm bells ringing. Instead, it should be a natural expectation.

Permit me to highlight some of the changes, especially in the context of an erosion of tax revenues due to trade liberalization, which have occurred in recent times in the Caribbean region:

- (1) Trinidad & Tobago, Jamaica and Barbados have all remodelled their Consumption Tax regime and introduced a Value Added Tax (VAT) based system. In fact, as recently as this year, Trinidad & Tobago revamped its Income Tax regime by increasing personal allowances from TT\$25,000 to TT\$60,000, and removing some individual allowances like the home mortgage interest deduction, child allowance, and the allowance for shares purchased in a registered credit union. If this inspires a feeling of *déjà vu*, it is because these are similar to the recommendations proposed a few years ago by the IMF for Saint Lucia. Trinidad and Tobago also replaced the tiered system of tax rates with a flat rate of 25 percent;

- (2) The Commonwealth of Dominica introduced VAT on March 1, 2006, with minimal reported disruptions in business activity;
- (3) The Governments of Antigua & Barbuda, Grenada, Saint Vincent and the Grenadines have announced their intention to introduce a VAT based system.

Mr. Speaker, you may recall that we commissioned a group of citizens to review the report produced by the Tax Commission established by the Monetary Council of the ECCB. I am pleased to announce that the review has been completed and that the Government will soon be in a position to release the report for public scrutiny.

In addition Mr. Speaker, the various trade negotiating arenas in which we now participate will force us to re-assess our tax regimes, particularly those that relate to our border taxes, such as Import Duty and Excise and Consumption taxes. Once we have reviewed these regimes, we will be compelled to re-evaluate our internal taxes so as to make any necessary adjustments. Mr. Speaker, I wish to reiterate that any changes must be built on the philosophy of fairness and equity.

I have catalogued these recent events to demonstrate there is going to be a need for Saint Lucia to undertake its own review of the tax regime currently in force in the country. It is an inescapable fact that whichever party forms the Government after the next General Elections will have to face the issue of Tax Reform squarely.

## **PART 5**

### **FINANCING THE 2006-2007 BUDGET**

Now that the principal budgetary policies have been outlined, I will proceed to explain how the budget will be financed.

In formulating a budget, Mr Speaker, we have the difficult task of striking the correct balance between taxes, expenditures and debt. Our task is to ensure that current and future generations are treated fairly. At a minimum, current generations should be required to pay, via taxes, for the goods and services that they consume. We also believe that the current generation should contribute to investment as they are also beneficiaries of the future growth that is generated by that investment. We must also ensure that we do not unduly burden the future generation by increasing debt to unsustainable levels.

We have, Mr. Speaker, carefully evaluated the policy options and the policy trade-offs and believe that we have come up with the optimal balance between policies that will contribute to sustaining growth while at the same time ensuring that our debt remains sustainable.

I shall now present the Budget Estimates for the 2006-2007 fiscal year.

The total planned level of expenditure amounts to \$1,121.5 million, representing an increase of 17.3 percent over the planned budgetary outlay in the 2005-2006 fiscal year. In effect, this is a 1.1 billion dollar budget.

The details are as follows:

1. The planned level of recurrent expenditure, exclusive of amortisation, is \$611.6 million, representing 54.5 percent of total planned expenditure, and is 9.8 percent higher than the previous year.
2. Debt amortisation is forecast at \$88.5 million and accounts for 7.9 percent of total planned expenditure.
3. The planned level of capital expenditure is forecast to increase by 25.5 percent to \$421.4 million and accounts for 37.6 percent of the total budget. This increase largely reflects the continuation of ongoing capital projects and the re-budgeting of EU-grant financed projects, as funding was not received in the last fiscal year.

The sources of financing for the 2006-2007 Budget are as follows:

1. Recurrent Revenue of \$621.6 million
2. Capital Revenue of \$9.2 million
3. Excess Revenue and the re-budgeting of bonds from fiscal year 2005-2006 of \$16.0 million
4. Grant Funding of \$76.5 million, of which \$61.4 million is from the European Union
5. Previously approved Loan Funding of \$153.8 Million.
6. Previously approved bond funding of \$88.4 million. Members are asked to note that Parliament approved by Resolution dated 12th September, 2005, an amount of \$188.4 million, to be raised by the issue of Savings Bonds to assist in the financing of capital and other expenditure and debt refinancing. However, we decided to raise only \$100 million. The unutilised approved bond funding of \$88.4 million is to be applied to refinance existing debt and therefore will not add to our debt stock.
7. New loan funding of \$32.4 million in substitution for previous bond financing, for which I shall seek the approval of this Honourable House later.
8. New bond funding of \$123.6 million.

In effect, Mr Speaker, I shall be seeking the approval of this Honourable House for \$156.0 million for new funding. This amount, Honourable Members will be pleased to know, is \$32.4 million lower than the amount that I sought approval for last year, which was \$188.4 million. This confirms the downward trend of borrowing.

## **APPROACH TO FORECASTING**

Allow me, Mr. Speaker, to comment on our forecasts for the 2006-2007 fiscal year.

This Government, Mr. Speaker, has always erred on the side of caution in making projections of revenue and expenditure. We tend to be highly conservative in our revenue estimates and as a result tend to under-estimate. Conversely, our precautionary approach leads us to over-estimate recurrent expenditures. In many other countries the practice is the reverse and as a result those countries experience fiscal problems. Given that Saint Lucia is a highly vulnerable economy susceptible to shocks, our approach to forecasting is conservative and

judicious. In order to see the benefits of that practice, I shall review last year's fiscal performance against the planned budget.

Mr. Speaker, last year I projected recurrent revenue at \$546.2 million. I indicated that we had to be cautious because of the worrying trend of increasing oil prices. While oil prices did increase, Mr. Speaker, and we had to make some adjustments, I am now pleased to report that revenue intake was \$73 million or 13.4 percent higher than the actual forecast. This additional revenue has enabled us to meet our commitments to public servants in respect of new salaries and back-pay. More crucially, we have been able to reduce our borrowing requirements.

Mr. Speaker, I wish to emphasize that our sound fiscal management enabled us to pay the back-pay to public servants without having to resort to borrowing from the banks or for that matter the Central Bank.

In addition, Mr. Speaker, we had planned to raise bonds of \$189.6 million to finance the capital programme last year, of which \$56 million was earmarked for the Cricket World Cup project. Given that we received more favourable rates from a bank than what we would have obtained from the Regional Government Securities Market (RGSM), we decided to take a loan for Cricket World Cup. This reduced our bond requirement to \$133.6 million. However, given our excellent revenue performance Mr. Speaker, we only had to raise bonds of \$100 million. Mr. Speaker, this is proof that the financial stewardship of this country is in safe hands.

This year, Mr. Speaker, while we are projecting real GDP growth of 6.6 percent, we are again going to err on the side of caution and project revenue collections at only \$621.6 million, a mere \$2.4 million above last year's actual collections. If our real GDP growth materialises, as we have every reason to believe it will, revenue collections may well climb to \$680 million. But, Mr. Speaker, we are cautious. We are again haunted by the spectre of rising oil prices, which hit a peak of US \$75 per barrel only last week. We have also been told to expect another active hurricane season.

## **ALLOCATION OF EXPENDITURE**

This budget is framed to enhance our social infrastructure, and to strengthen programmes in health, education, social protection, security and justice. These are programmes that are ultimately important for improving the welfare of our society and particularly, of the more vulnerable groups.

This budget is, therefore, a budget with the future in mind. It provides for the future opportunities of the youth, the future care of the elderly, the provision of health services that our citizens will require for the foreseeable future, and for the long term growth and development of Saint Lucia's economy.

I now turn to the distribution of the budget among agencies. Comprehensive details of expenditure by agencies, programmes and activities are contained in the draft 2006-2007 Estimates, copies of which have been circulated to Honourable Members.



## **ECONOMIC SERVICE AGENCIES**

The proposed allocation to the Economic Service Agencies is \$682.1 million; 24.7 percent higher than the amount allocated last year and 60.8 percent of the total budget. The amount allocated to recurrent expenditure is \$387.7 million, of which \$180.5 million is for debt servicing and \$40.9 million is for the payment of pensions to retired public servants.

I have also increased the capital allocation to these agencies significantly by 36.2% to \$294.4 million. This increase reflects, largely, the amounts required to complete ongoing projects.

## **CRICKET WORLD CUP**

Mr. Speaker, you would recall that it was our intention to raise all the funds for the Cricket World Cup Project in the last fiscal year, given that I predicted that interest rates were likely to increase. I am pleased to say that this was the right decision as interest rates have increased and are expected to continue to increase. The funding for this project has been raised and we are in effect re-budgeting the balance of the loan funds, which amount to \$42.8 million, to complete the upgrading of the Beausejour Cricket Ground and provide for the operating expenditures for the hosting of the matches.

## **WATER SUPPLY INFRASTRUCTURE**

As indicated in my last budget presentation, Government has launched a major Water Infrastructure Improvement Programme, which is aimed at alleviating the water shortage problem in the north of the island. Honourable Members, I am sure, would agree that this improvement programme is critically needed as the development in the north continues apace. I would like, for the benefit of Honourable Members, to restate the components of this programme:

1. Upgrading the Roseau Dam Pumping Station;
2. Improving the raw water transmission between Vanard and Sarot;
3. Upgrading the Theobalds Water Treatment Plant; and
4. Upgrading the Morne-Bocage Distribution Pipeline.

The contractor for the project is in the process of mobilising for commencement. This project, which is financed by the World Bank, is expected to be completed in one year and will bring great relief to residents living in the north of the Island. An allocation of \$26.4 million has been made for this project.

## **ROAD INFRASTRUCTURE**

Mr. Speaker, this Government has made record levels of investment in road infrastructure over the past five years. This has been necessary because of the aging road infrastructure and the rapid deterioration in the road network. This year we will continue with our investment programme. The Ministry of Communications, Works, Transport and Public Utilities is the recipient of \$106.9 million; \$46.1 million or 75.8 percent higher than the allocation received last year.

An allocation of \$28 million is made to the East Coast Road Project. It is expected that Phase 2 of the project, which covers Castries to Praslin, will be completed. Rehabilitation will also commence on some of the critical sections of the road between Praslin and Vieux Fort.

Honourable Members would also note that work has commenced on Phase 1 of the Castries to Gros Islet Highway. This project, which covers the section of the highway between Castries and Choc, will cause some discomfort to motorists. Once again, I plead for your patience and understanding as we seek to improve and widen this road network. On completion, traffic congestion is expected to be relieved significantly. An allocation of \$28.1 million has been earmarked for this project.

The Urban Renewal Programme, which was explained earlier in my presentation, will receive an allocation of \$9.6 million.

It is expected that the Tertiary Roads Programme, which entailed the rehabilitation of 108 kilometres of road, will be completed this year and a provision of just under \$23.0 million is made for this project.

Additionally, Mr. Speaker, I have allocated \$5.3 million towards community infrastructure.

After spending significant sums of money to rehabilitate our roads, it is absolutely important that we develop a maintenance plan to prevent a recurrence of this situation in the near future. In addition, Mr Speaker, it is important that we reduce the damage caused by heavy goods vehicles. As a result, we have agreed to implement a motor vehicle weight control system. An allocation of \$1.5 million is earmarked for this initiative.

## **INCREASED ALLOCATION TO THE TOURISM SECTOR**

The expansion of the Saint Lucia economy has been driven, in large part, by the tourism sector. This sector is now the engine of growth of the economy and it is crucial that Government provides the requisite support. I propose therefore to increase the overall allocation to this sector to \$29.6 million. Of this amount, \$25.8 million will be allocated to tourism marketing.

## **AGRICULTURE DIVERSIFICATION PROGRAMME**

Sadly, Mr. Speaker, last year we could not implement the agriculture diversification programme because the anticipated receipt of Special Framework of Assistance (SFA) funds from the EU did not materialise. We are assured that most of the bureaucratic hurdles have been resolved and are hopeful that funding will become available early in the fiscal year.

Reflecting the importance that our Government has attached to agricultural diversification, we have programmed \$9.2 million for this programme.

Last year, I announced a comprehensive package of incentives for the agriculture sector. I wish to complement our incentives programme with a capacity building programme, for which a sum of \$2 million is allocated.

## **SUPPORT TO RESTRUCTURE BANANA INDUSTRY**

Notwithstanding the low level of production, for reasons outlined earlier Government remains committed to supporting the restructuring of the banana industry to enhance productivity and thereby enable it to survive post-2006 and in a tariff-only regime. This year, I have allocated \$4.7 million to this sector, of which \$1.4 million is to continue the ongoing irrigation and drainage projects implemented by the BIT and \$3.3 million is for the Banana Emergency Recovery Unit (BERU).

## **PROVIDING LOW INCOME HOUSING**

With the rising price of construction material, it is important for the Government to continue to provide some measure of support to low income households. The Low Income Housing Grant Facility had to be suspended last year because of the non-availability of EU resources. However, as I indicated earlier, we are now advised that the funding will be available this year and we have accordingly allocated a sum of \$2.0 million for this facility.

Honourable Members will recall that this facility has two components:

- (1) For low-income persons who own their lots, the Government will provide a Grant support of 10 percent of a loan to construct a home, up to a maximum of \$10,000;
- (2) For those persons who do not own land, the Government will provide Grant Support of 20 percent of the loan, to a maximum of \$20,000.

Amounts of \$5.7 million and \$2.1 million are allocated to the ongoing programmes of Shelter Development and PROUD respectively.

## **DISASTER MITIGATION**

With the Castries and Anse-La-Raye Flood Mitigation Project coming to an end, the major ongoing disaster mitigation project that will continue this year is Phase 2 of the World Bank-funded Saint Lucia Emergency Recovery and Disaster Management Project. A sum of \$10.3 million is allocated to complete the coastal protection works for the Dennery Village, to rehabilitate bridges and implement mitigation works.

## **SOCIAL SERVICE AGENCIES**

Mr. Speaker, it is no secret that this Government places strong emphasis on the social services, because improving the welfare of our people is on the top of our agenda. This year, I have increased the overall allocation to the Social Service Agencies by almost \$30 million or 10.8 percent, to \$306.3 million. Of this amount, \$204.7 million is for recurrent expenditure and \$101.6 million for capital expenditure.

## **DEVELOPING HUMAN CAPITAL: INVESTING IN THE NEXT GENERATION**

The world economy is increasingly being driven by knowledge-based industries. A skilled workforce is a key requirement for making the successful transition from a low wage economy to a high wage economy. According to the World Bank Report “A Time to Choose - Caribbean Development in the Twentieth Century”, the private returns to education for Saint Lucia are as follows: 6 percent for Secondary Education, 34 percent for Post Secondary Education and 22 percent for Tertiary Education. This study, Mr Speaker gives real meaning to the statement that our Nobel laureate, Sir Arthur Lewis made so long ago; “the cure for poverty is not money, but education.” This is why, Mr. Speaker, this Government has placed increasing emphasis on the establishment of a sound education and training system. I have allocated a sum of \$168.2 million to the Ministry of Education. As a percentage of GDP, this represents almost 7 percent. Mr. Speaker, it is instructive to note that in the same World Bank study to which I referred earlier, only Barbados in the Caribbean spends more on education as a percentage of GDP than Saint Lucia.

I am proud - as I am sure are all Honourable Members and indeed all Saint Lucians – of achieving a major milestone in our national development with the implementation of universal secondary education. A capital allocation of \$26.8 million or 63.3 percent of the Ministry’s budget is made to the project, namely the Education Development Project, which supports the implementation of Universal Secondary Education.

Mr Speaker, I have allocated \$6.2 million for the rehabilitation of schools, of which \$5.1 million is earmarked for the refurbishment of schools falling within the Economic Reconstruction Programme financed by CDB. Additionally, \$1.1 million has been allocated for major repairs to the school plant.

Our capital programme for human resource development was unfortunately also affected by the non-receipt of EU funds. I have allocated a sum of \$3.2 million this year, of which \$2 million is allocated directly to the NSDC and \$1.2 million is for a Human Resources Programme that is EU-funded. These programmes were explained earlier, so there is no need for further elaboration.

Mr. Speaker, I have already highlighted major interventions in the area of sports development. Suffice it to note here that the overall Capital allocation increases by \$1.4 million over last year’s allocation.

## **INVESTING IN THE HEALTH AND WELL-BEING OF OUR PEOPLE**

Mr. Speaker, this Government is undertaking the most radical transformation in our health sector. This transformation is based on the philosophy that health care should be available to all, irrespective of income level. In keeping with our commitment to transform the health sector I have made available an allocation of \$110.5 million, of which \$64.3 million is for recurrent expenditure and \$46.2 million is for capital expenditure. As Honourable Members heard earlier, provisions have been made in the recurrent budget for the free medical drugs programme for persons who suffer from diabetes and diabetes with hypertension.

The capital budget of the Ministry of Health is primarily for providing the new infrastructure required to improve the delivery of our health and welfare services. I wish to highlight the following allocations for the benefit of Honourable Members.

1. \$17.3 million for the New National Hospital;
2. \$2.8 million for the preliminary works for the New Mental Health Facility;
3. \$716,779 for the completion of refurbishment works at the Soufriere Hospital;
4. \$5.9 million for repairs to health centres;
5. \$8.8 million for HIV/AIDS prevention and control; and
6. \$500,000 for a home repair programme for the elderly.

The Emergency Medical Services and Port Health Services will both be upgraded for the 2007 Cricket World Cup, and this enhancement will provide yet another legacy from the hosting of this event. In addition to comprehensive training of emergency medical personnel, and a marked upscale of the vector control programme, new ambulances will be procured. Funding for these improvements totalling \$3.1 million will be derived from the budget for Cricket World Cup and from the Capital Reserve.

The last project which I wish to highlight, Mr. Speaker, is the new Home for the Elderly, which is estimated to cost \$13.1 million. An allocation of \$8.6 million is made in this year's Estimates for commencement of construction. This was outlined earlier in my presentation.

## **SOCIAL TRANSFORMATION PROGRAMMES**

Mr. Speaker, our social programme would be incomplete if we did not mention the range of poverty alleviation programmes that this Government has implemented and continues to implement. In this regard, Mr. Speaker, the allocation given to the Ministry of Social Transformation, Culture and Local Government is \$27.6 million, of which \$14.6 million is for recurrent expenditure and \$13.0 million is for Capital Expenditure. I wish to highlight the following projects for the benefit of Honourable Members:

1. An allocation of \$7.2 million is made for the 5<sup>th</sup> Programme of the Basic Needs Trust Fund. I understand this programme has been affected by slow disbursements and I wish to implore the Ministry to do all in its power to speed up the implementation rate;
2. An allocation of \$1.8 million for the Poverty Reduction Fund; and
3. An allocation of \$2.0 million for an Integrated Social Recovery Programme to be funded by the EU.

## **CULTURAL DEVELOPMENT**

An allocation of \$462,155 is given to cultural development, of which \$200,000 is provided for upgrading performing venues, \$100,000 for the National Arts Festival and \$162,155 is for the Training of Artistes and Technicians. These amounts are in addition to the traditional allocations for Carnival, Assou Square, and Emancipation Day Observance.

## **CRIME REDUCTION**

Earlier in my presentation, I announced a series of initiatives that the Government will be undertaking this year to improve security. I will, therefore, focus on other areas of the Justice and Security Agencies budget. Overall, the Justice and Security Agencies will receive an increase of 14.3 percent in allocation this year. The total allocation to these agencies is \$84.5 million.

The major focus this year for the Ministry of Justice is to complete ongoing projects. These include:

1. Constructing the building to house the Forensic Unit, which is estimated to cost \$3.8 million and for which an allocation of \$2.7 million is made. A budgetary provision of \$688,174 is made for the procurement of Forensic Equipment.
2. Rehabilitating the High Court building, for which an allocation of \$340,155 is made.
3. Establishment of the Night Court, staffed by two additional magistrates, to determine traffic cases.

I also wish to announce that the Government will invest significantly in security for Cricket World Cup. As I indicated in my presentation last year, we cannot afford to compromise on security for the biggest international event that Saint Lucia would have ever hosted. An amount of \$5 million is to be funded from the Capital Reserve to meet the security needs for Cricket World Cup, much of which will carry over as a legacy impact of the event.

## **ALLOCATION TO GENERAL SERVICE AGENCIES**

The allocation to the General Service agencies, which include the Office of the Prime Minister and the Ministry of Labour Relations, Public Service and Co-operatives, is \$42.4 million.

The key highlights are:

1. A sum of \$12.0 million is provided to the Office of Private Sector Relations to support the private sector. This is from different EU sources;
2. A sum of \$1.0 million is for the establishment of e-Government;
3. A sum of \$1.4 million for the Constitutional Reform Commission; and
4. \$955,000 for the Renovation of the Greaham Louisy Administrative Building.

The Office of the Governor General and the agencies of Parliament, namely the Legislature, Service Commissions and the Electoral and Audit Departments, shall receive a total allocation of \$6.2 million. In keeping with this Government's efforts at strengthening democracy, this year we will begin decentralising registration services.

## **PART 6**

### **REVENUE ADJUSTMENTS**

Mr. Speaker, the only revenue adjustment that I wish to propose this fiscal year is an increase in Departure Taxes for visitors. Effective July 1, 2006, Departure Taxes for non-nationals will increase from US\$20.00 to US\$25.00.

We need, Mr. Speaker, to recover the amounts that we are investing for the Cricket World Cup, and this adjustment allows us to augment the revenues that we expect to earn from other Cricket World Cup-related activities.

Mr. Speaker, the increase in Departure Taxes does not affect our nationals. So, for Saint Lucians, this remains a tax-free Budget.

### **CONCLUSION**

Mr. Speaker, as I conclude, I am reminded of the former Indian Prime Minister, Nehru, who on the verge of India's Independence asked his nation whether it was "brave enough and wise enough to grasp the opportunities and accept the challenges of the future?" India accepted that challenge, and we all know how well it is performing today.

This Budget issues a similar challenge to this nation. It is a budget that funds important priorities, without imposing new taxes. Like last year, the reports of our performance demonstrate the increased efficiency of our revenue agencies and highlight the results of our prudent economic decisions. This Budget presents expanded opportunities for the greater triumphs and achievements that await us.

Mr. Speaker, any country is only as good as its citizens. Their work ethic and their values will be reflected in the country's character. These are the crucial factors that will determine whether this country moves forward on a progressive path or regresses. We will, therefore, need disciplined action by all citizens.

We are not a poor nation as is sometimes perceived. In fact, we have many riches endowed in the enterprise of our people, the creative energies of our youth and in the continuing success of our many national and community endeavours.

It is often said that the greatest asset of any nation is the spirit of its people. It is also true that the greatest threat to the security of any nation is the demolition of its spirit. We must never permit our caring spirit to die. Yes, there will be pulls on the seams in our social fabric — but we must never allow that fabric to be ripped apart. There will be threats to the health of our economy — but we must continue to nurture it and help build its immunity and its resilience.

Mr. Speaker, we have the opportunity today to do more than ever before in our history to make life better in Saint Lucia. We can ensure that there is universal secondary education for all of our young people; we can provide access to universal health care for all our citizens; we can create the mechanism and infrastructure to facilitate the provision of a better supply of quality water for every resident; we can seek to maintain a more sensitive and symbiotic

relationship with our natural and cultural environments; we can restore our respect for law and order and for each other; we can make our communities more liveable and more caring; and we can ensure the right of every Saint Lucian to full and equal economic and social opportunity.

Let us therefore resolve to perform our duties diligently, resolutely and patriotically so that future generations will proclaim “this was Saint Lucia’s finest hour”.

I am honoured, Mr. Speaker, to move the Second Reading of the Appropriation Bill 2006/2007.

## **APPENDIX 1**

### **RECORDING STUDIO EQUIPMENT THAT WILL BE SUBJECT TO A WAIVER OF IMPORT DUTY AND CONSUMPTION TAX**

Sound Modules  
Headphones  
Microphones  
Software  
Power Amplifiers  
Studio Monitor Speakers  
Preamplifiers  
Amplifiers  
Sound Processors  
Sound Cards  
De-Esser, etc.  
Mixers  
Patch Bays  
Compressors  
Effect Modules  
DI Boxes  
Equalizers  
Racks  
Sound Proofing Material  
Midi Controller  
Musical Instruments  
Digital Audio Workstation