



“ADVANCING SUSTAINABLE DEVELOPMENT AND FISCAL STABILITY”

BUDGET STATEMENT 2015

DELIVERED BY

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TO SUPPORT
THE APPROPRIATION BILL
FOR THE FINANCIAL YEAR ENDING MARCH 31, 2016

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1.0 INTRODUCTION

Mr Speaker, I am blessed today to present, as Minister responsible for finance, the fourth Budget Statement of this Government.

My message to Honourable Members, and to all Saint Lucians who are listening this evening, is that we are on the right path, but we must complete the job to secure a brighter future for all Saint Lucians.

After assuming office in 2011, I was confronted by the stark but hidden realities of our state's public finances. I was confronted by exceedingly weak economic prospects, rising unemployment and a debt-to-GDP ratio climbing ever higher by a widening fiscal deficit. Government revenues were insufficient to meet salaries, wages and the cost of services to the public.

Foreign direct investment had abated. Without investment, little opportunity existed for our youth, many of whom had graduated from our schools, to secure jobs. I was confronted by financial difficulties that we never had to face before as a country.

Tonight, I will confess to you that I dreaded the thought that I may well have been the first Prime Minister and Minister for Finance of our country to bring our country to the International Monetary Fund, the IMF. And in truth, I accepted that if this were the direction we had to go to save this country, then I would summon the will and courage to do so.

Thankfully, through the policies of this Government and the sacrifices that we have all had to make, I am proud to say that a possibility of an IMF programme for Saint Lucia has receded. We have made adjustments, which have been trying for all Saint Lucians, young and old, families and businesses.

These adjustments included the introduction of the VAT to our tax mix. We had to cut back on subsidies. We had to reduce expenditure, even dispensing with funding for some cherished programmes.

We attempted to engage social partners and communities to allow for greater dialogue and understanding of the problems at hand. Unfortunately, I did not win the support of the public sector unions to contain public expenditure by reducing salaries and wages by five percent.

But we are, nonetheless, a resilient country, and thankfully due to a better than expected performance in Government revenues, we are stronger and better than we were before.

In this Financial Year, I invite Honourable Members to consider this Government's proposals to place our country on a stronger footing, and to return our country to growth.

And so, this Budget Statement will lay out Government's plans to increase growth and investment, reduce unemployment and social insecurity and provide sustainable public finances. This Budget will build on the adjustments of the past, and while it must introduce some new fiscal measures, these will be manageable for citizens and companies.

2.0 ECONOMIC PERFORMANCE

Mr. Speaker, permit me to highlight the international and regional economic developments which set the backdrop for the performance of our domestic economy.

2.1 INTERNATIONAL ECONOMIC DEVELOPMENT

In 2014, the global economy grew by 3.4 percent, largely reflecting developments in advanced economies. The US, UK, Canada and the Euro zone all reported improved growth performances compared to 2013.

Economic growth in the United States was particularly strong at 2.4 percent, the highest since the 2008 Financial Crisis. This was driven by higher consumption, supported by strong job and income growth, improved consumer confidence and lower oil prices.

The Eurozone recorded growth of 0.9 percent on account of a boost in competitiveness and exports, owing to the depreciation of the Euro against the US dollar. Germany, Spain and Ireland saw appreciable rates of growth; however several Eurozone economies continue to lag behind as a result of large debt overhangs, an unstable financial sector and low levels of competitiveness.

Generally, the positive growth outcomes in advanced economies were not transmitted to emerging markets and developing economies, which slowed on account of financial and fiscal vulnerabilities. Oil and commodity-based economies were also adversely affected by falling prices. Economic activity in China, which is now the world's second largest economy, slowed marginally to 7.4 per cent in 2014 compared to growth of 7.8 per cent in 2013.

2.2 REGIONAL ECONOMIC DEVELOPMENTS

On the regional front, economic performance was subdued. The resource-rich economies of Trinidad and Tobago and Guyana all expanded in 2014, albeit tepidly. In Guyana, increased production of rice, sugar and forest products contributed to growth of 3.8 per cent, Trinidad and Tobago expanded by 1.1 percent in 2014, lower than the 1.7 percent recorded in 2013. Jamaica's economy grew marginally by 0.5 percent.

The slowdown in activity reflects the impact of lower oil and gas prices, which was partly offset by increased activity in the non-energy sectors such as construction, manufacturing and distributive trades.

In contrast, economic activity in Barbados fell by 0.3 per cent. Strong performances in tourism, international business and construction were inadequate to compensate for declines in manufacturing and agriculture. The economic situation in Barbados remains challenging, given the ongoing fiscal adjustment, elevated debt levels, and relatively high levels of unemployment.

The Eastern Caribbean Currency Union (ECCU) as a whole is estimated to have grown by 1.3 per cent in 2014, following growth of 1.1 per cent in 2013. This slight improvement in performance was the result of increased tourist arrivals, coupled with a pickup in foreign direct investment and construction activity, most notably in St Kitts and Nevis.

Notwithstanding this outturn, growth prospects remain weak due to limited fiscal space and high debt burdens. These challenges have necessitated "home grown" reforms supported by the IMF, as seen in Grenada and, in the recent past, Antigua and Barbuda and St Kitts and Nevis.

2.3 DOMESTIC ECONOMIC DEVELOPMENTS

2.3.1 Real Sector Performance

Mr. Speaker, Saint Lucia's economy is showing signs of recovery. GDP contracted by an estimated -0.7 percent in 2014, albeit at a slower rate than 2013 when there was a -1.9 percent contraction. Indications are that the downward trend in output is moderating and the data points to a return to positive growth in 2015. The improved outturn relative to 2014 reflected strong growth in the tourism and transport sector. However, declines were recorded for the construction, manufacturing and agriculture sectors.

2.3.1.1 Tourism

Mr. Speaker, the tourism sector performed remarkably well in 2014. Total visitors to Saint Lucia grew by 7.7 percent to 1.03 million, on account of increases in both stay-over and cruise ship passengers. The continued economic recovery in the main source markets of the US, Canada and Europe provided the main impetus for growth in the sector. This was complimented by the Tourist Board's strategic marketing initiatives, which ensured maximum gains to Saint Lucia.

Stay-over visitors increased by 6.1 percent to a record 338,158. This strong performance stemmed from an 11.1 percent growth in the US market, the largest source market for Saint Lucia. The growth in stay-overs was also supported by increased arrivals from Canada of 15.0 percent and Europe by 5.8 percent. The return of Sun Wing, a privately owned airline, has helped, considerably, to boost arrivals from Canada.

Consequently, total visitor expenditure rose by a robust 14.3 percent to an estimated \$2,015.3 million.

2.3.1.2 Transport

Mr. Speaker, the transport sector is estimated to have expanded by 10.0 percent in 2014. This sector is strongly linked to developments in tourism and benefitted tremendously from the increased buoyancy of the Industry.

2.3.1.3 Agriculture

The performance of the agriculture sector was mixed. While banana exports to the UK declined, improvements were recorded in output of other crops, and in the production of livestock and eggs.

Banana exports to the UK declined by 28.0 percent to 8,896 tonnes, reflecting the impact of the 2013 Christmas Eve Trough and a fall in the number of farmers trading with the National Fair Trade Organisation and Tropical Quality Fruit Company in 2014. It is instructive to note that Saint Lucia is currently the only country in the Windward Islands exporting bananas to the United Kingdom.

In contrast to the performance of the banana export sector, hotel purchases of fruits and vegetable grew by 5.0 percent to 1,229.2 tonnes due to greater buoyancy in the tourism sector.

Improvements were also recorded in the livestock sub sector, evidenced by increases in chicken and pork production by 13.9 percent and 16.6 percent respectively. Saint Lucia continued to be self-sufficient in the production of eggs, with output increasing by 14.6 percent to 1.3 million dozens in 2014.

The fisheries sub sector also improved with the volume of landed fish increasing by 3.4 percent to 1,695 tonnes.

2.3.1.4 Construction Activity

Mr. Speaker, preliminary estimates for 2014 suggest that activity in the construction sector remains below the level required to help propel the economy. Central government construction grew by 12.8 percent to \$130.9 million as a result of increased spending on roads and other infrastructure, housing and settlement, community works and education. However, this was offset by a large decline in construction expenditure by statutory corporations.

Construction activity in the private sector declined as foreign direct investment remained weak. Construction of the impressive, environmentally-certified Dive Centre in Rodney Bay was completed and work is ongoing on the second phase of the project, the Harbour Club. Work also continues at the Tides Sugar Beach Resort in Soufriere. However, the Freedom Bay project and the construction of the I-Hotel in Cas en Bas experienced delays.

The Government is looking forward to a recovery in this sector in the current period.

2.3.1.5 Manufacturing

Mr. Speaker, the subdued economic environment, coupled with competitiveness issues, continued to impact the manufacturing sector in 2014. However, signs started to emerge of a recovery in some key segments of the sector. The value of manufacturing production fell by 4.3 percent to an estimated \$273.5 million, mainly reflecting lower output of alcoholic and non-alcoholic beverages. However, this performance was partially offset by increases in production of toilet paper and processed food items including bakery products.

2.3.1.6 Unemployment

Despite the numerous efforts by this Government to contain unemployment through public financing, sluggish activity in the private sector resulted in a slight increase in unemployment to 24.4 percent in 2014 from 23.3 percent in the previous year.

While all groups were adversely impacted by higher unemployment, the effect on females, youth, and persons living in rural areas, continues to be worrisome. Policy actions will continue to be targeted to this area.

2.3.1.7 Inflation

Mr. Speaker, preliminary indications suggest that the rate of inflation rose to 3.5 percent in 2014, up from the 1.5 percent recorded in 2013. The higher rate in

consumer prices was driven by increases in the prices of food, building materials, rent, water, motor oils, clothing and footwear. However, prices of electricity, motor vehicles and pharmaceutical products declined.

2.4 **CENTRAL GOVERNMENT FISCAL PERFORMANCE**

I will now focus on the efforts of Government to manage public finances during the past year.

Government remains strongly committed to ensuring that Saint Lucia's fiscal position becomes sustainable and views this as a necessary condition for sustainable economic growth.

Mr. Speaker, I am happy to report that we have made further strides towards achieving this objective. There was a marked improvement in the fiscal operations of Central Government in 2014/15, building on the improvement seen in 2013/14.

Here are the facts:

- (a) The overall deficit narrowed to \$138.8 million in 2014/15, compared to \$213.5 million in 2013/14. This is a reduction of 35.0 per cent in nominal terms.
- (b) As a ratio of GDP, this translates to an overall deficit of 3.7 per cent, compared with 5.8 per cent in the previous year. In other words, we have secured a reduction of 2.1 percentage points.
- (c) A current account surplus of \$43.1 million was recorded compared with a current account deficit of \$0.7 million in 2013/14.

This improvement reflects favourable revenue performance that is consistent with efforts by the Government to broaden the tax base, improve administrative efficiency and contain and reduce most categories of non-wage expenditures.

2.4.1 **Revenue & Grants**

Let us look now at revenues and grants.

All revenue sub-components expanded in 2014/15, contributing to total revenue and grants increasing by 5.2 percent to \$970.4 million. The bulk of the growth, Mr. Speaker, was led by higher collections of both VAT and taxes on income and profits. Receipts from VAT rose by 12.4 percent to \$335.9 million and now accounts for more than a third of current revenue. This improvement in VAT collections reflects the change in the rate of VAT on hotels and related services from 8.0 percent to 10.0 percent, effective April 2014 and the narrowing of the VAT exempt list.

Mr. Speaker, improved collections of taxes on income and profits reflect growth in Corporate Tax as signs are emerging of some improvements in that sector.

2.4.2 **Expenditure**

Now, let us turn to expenditures.

Total expenditure of the Central Government fell by 2.4 per cent to \$1,109.2 million in 2014/15 driven by a 12.3 per cent decline in capital expenditures to \$235.4 million. The decline in capital expenditure was not deliberate as this government recognizes the vital importance of increasing capital spending to drive growth prospects. Lower capital expenditure was driven mainly by slower than expected pace of construction work on the St Jude Hospital due to later than anticipated disbursement of funds from a loan granted by the Republic of China (Taiwan).

A key pillar of the strategy to restore fiscal sustainability is the containment of growth in current expenditures. Further strides were made in that regard, with current spending remaining largely contained, and increases driven largely by unavoidable expense related to interest payments on the debt stock and transfers. Consequently, current expenditure rose marginally by 0.7 percent to \$873.8 million in 2014/2015.

2.4.3 **Public Debt**

Mr. Speaker, I am happy to report that along with the improvement of the overall fiscal balance, there was a decline in the rate of increase of the debt stock, which remained relatively contained. At the end of the fiscal year, the stock of official public debt stood at \$2,787.0 million, representing an increase in nominal terms

of 4.9 per cent. The debt-to-GDP ratio now stands at 73.5 per cent, slightly lower than the 73.7 per cent observed in 2013.

3.0 KEY ACHIEVEMENTS DURING 2014/15

Mr. Speaker, like I said before, we have made good progress and we believe that it is important to let the people know where we are. This Government firmly believes in transparency and accountability and like we have done in our previous Budgets, I will report on the progress made towards implementation of key reforms and initiatives outlined in the 2014/2015 Budget Statement.

3.1 INVESTMENT AND BUSINESS CLIMATE REFORMS

We continued on our efforts to improve the investment and business climate by undertaken critical reforms that were seen as game changers.

3.1.1 Commercial Division of the Court

One of these was the establishment and operationalising of a new commercial division of the High Court.

This initiative is geared towards providing a platform to hear and adjudicate on all commercial disputes, resulting in faster judicial outcomes. A project of this magnitude normally takes a few years to be implemented. However, the National Competitiveness and Productivity Council (NCPC), together with Compete Caribbean, the Eastern Caribbean Supreme Court and the Ministry of Legal Affairs are attempting to complete this project over the shortest possible time frame. The design phase was completed in April 2014 and work towards the operationalisation commenced in August 2014.

We are pleased to report that Rules for the Division have been finalised and we are now awaiting the completion of the building to house the court. I am advised that a judge has already been appointed to the Court.

The space identified for the Commercial Division will also be able to house the entire Civil Division of the Court. It is our expectation that the new division of the court will be fully functional in time for the opening of the new judicial year.

3.1.2 Trade Facilitation

Mr. Speaker, critical to doing business is the cost and time involved in moving cargo. Our Government has taken vital steps to improve this process. We are therefore pleased to announce that the import clearance process has been automated. Government has also commenced utilization of a Risk Management Task Force, chaired by the Customs Department, to shorten the importation process.

3.2 PUBLIC SERVICE MODERNISATION

Mr. Speaker, we previously announced a number of initiatives geared at improving the quality of the Public Service, by enhancing the efficiency of Government operations. We are pleased to report that a number of those initiatives have been substantially completed and are bearing fruit.

3.2.1 Integrated Citizen Contact Centre

In order to provide simpler, swifter and more reliable access to information on government services and operations, the Integrated Citizen Contact Centre was launched in September 2014. The implementation of Phase I is completed and the Contact Centre is now fully operational. As part of Phase I, four (4) Ministries and three (3) Departments are currently being supported.

During this financial year, Phase II will be rolled out to provide support to the following Ministries:

1. Ministry of Education, Human Resource Development and Labour;
2. Ministry of Sustainable Development, Energy, Science and Technology;
3. Ministry of Infrastructure, Port Services and Transport;
4. Ministry of Legal Affairs; and
5. Ministry of Home Affairs and National Security.

It is anticipated that these Ministries will be on stream by May 2015.

Mr. Speaker, Phase II will also include the facilitation of a customer survey to assess the quality of service offered by this Centre. This provides an opportunity for the public to provide feedback on the quality of service provided with regard to the Contact Centre Services and Counter Services in select Ministries.

3.2.2 Fleet Monitoring & Tracking

Mr. Speaker, as has been noted, our Government has taken action to address ongoing concerns regarding the high operating and maintenance costs of the fleet of Government vehicles.

In 2014, a contract was awarded for the provision of GPS tracking capabilities for 300 vehicles. To date, well over 80 percent of the GPS devices have been installed. The remaining 20 percent will be completed during this financial year.

With this device, the managers of ministries are now able to identify the precise location of Government vehicles, how long they are spending at various places, whether the vehicle is moving or stationary, and any sudden or harsh driving events, including accident monitoring. In time, this will help put an end to the practice of some Government vehicles being seen in unusual places at unusual hours.

Additionally, a Vehicle Management Policy is being finalised and will be operational during this financial year. This policy will allow for improved management and coordination of the vehicles and provide improved levels of service delivery, particularly with respect to law enforcement and emergency response operations.

3.2.3 Computer-Aided Birth Certificates

Mr. Speaker, the modernisation of the Civil Status Registry has been a long standing concern and I pleased to say substantial progress was met in the year gone. The long wait for birth certificates to be rectified and issued has been a grave source of frustration for the people of Saint Lucia. Problems still exist but by and large are now pleased to report significant improvements in the efficiency of this department.

All marriage and birth records are now digitised up to December 2014.

The wait period for a birth certificate is now significantly shorter and for more challenging requests, those needing rectification, it is now seven (7) days. The change in legislation that was made last year granted greater discretion to the adjudicators to resolve difficult issues. For example, an individual with a surname different to the family name is no longer obligated to change his/her surname. Furthermore, bedside registration has been fully implemented in Castries and will be implemented in Vieux Fort in this financial year.

3.3 PRODUCTIVITY AND COMPETITIVENESS

Mr. Speaker, as a means to encourage and stimulate innovation, our Government has agreed to support the recommendation of the NCPC in setting up a Productivity and Competitiveness Fund. The design of the Fund has been finalized with funding support from Compete Caribbean. The Government will allocate EC\$500,000 towards this initiative.

3.4 INVESTMENT IN INFRASTRUCTURE

In 2014, Government's infrastructural investment continued apace.

3.4.1 Road Infrastructure

During the past year, several projects were undertaken to rehabilitate roads, bridges and culverts and repair damage sustained following Hurricane Tomas and the 2013 Christmas Eve Trough. I am pleased to report on the impressive list of projects completed during the past year.

3.4.1.1 Bridges and Culverts Programme

A major project completed and opened in 2014/15 was the Bois D'Orange Bridge, costing \$9.25 million. This represents the most significant investment in upgrading the bridge infrastructure undertaken by this Ministry thus far. We

also completed the implementation of its ALBA-funded Bridges Construction Project. Two major bridges were constructed, The De Maily Bridge in Vieux Fort North and the ALBA Bridge along the Castries-Vieux Fort Highway at Grande Riviere, Dennery. Two other bridges extensively rehabilitated were the Rouane Bridge in Vieux Fort South and the Sans Souci Bridge in Castries. A new bridge at Derriere Morne was also completed as the previous structure was severely damaged by the Christmas Eve Trough of 2013.

3.4.1.2 Disaster Recovery Programme

Following the ravages of Hurricane Tomas, the Government of St Lucia received a loan from the Caribbean Development Bank (CDB) to assist in restoring the major areas along the primary road network which were compromised. In 2014/2015, slope stabilisation and road reinstatement works on Slides 6, 7, 9 and 10 were completed. The Castries-Vieux Fort Highway along the Barre de L' Isle has now been fully restored and can be traversed safely once again.

3.4.1.3 East Castries Road Rehabilitation

Works are nearing completion on the Bocage-Chabot-Sunbilt & Entrepot Hill-Independence City Road Rehabilitation Project and should be completed this month.

3.4.1.4 Southwestern Roads Rehabilitation

During the last fiscal year, the Ministry of Infrastructure proceeded with the rehabilitation of critical roads in the south of the island using a Design-Finance-Construct Model.

Projects included the complete reconstruction of the Darban, Balca, Fiette, Morne Jacques Roads and roadside drainage works at Parke Estate. The rehabilitation of the Southwest Coast Rd from its junction with the St Jude Highway to Clarke Street, Vieux Fort was completed.

These projects are being undertaken at a cumulative cost of \$22.6 million. The future financial commitments of these projects were tied to the conclusion of

existing DFC projects, ultimately ensuring that existing repayment obligations remained constant.

3.4.2 Education Infrastructure

During the last financial year, the Government replaced school plant that required replacing for one reason or another. The Micoud Primary School Extension was completed, replacing the old infant school building. A total of 250 students can now be accommodated through ten new classrooms and at a cost of \$2.6 million.

The Canaries Infant School, which was damaged by the Christmas Eve Trough was rehabilitated through the construction of a new concrete block.

3.5 AGRICULTURE

Mr. Speaker, Agriculture remains a critical sector within our Saint Lucian economy.

3.5.1 Youth Agricultural Entrepreneurial Programme

The Ministry of Agriculture began implementation of the Youth Agri-Entrepreneurial Programme (YAEP) in 2013 with funding from the CARICOM Development Fund (CDF) in the amount of approximately \$3.7 million. The second phase of the programme will be funded under the European Union-funded Banana Accompanying Measures. Under the Agricultural Transformation Programme, Euro €1.8 million or \$6.24 million has been allocated towards this activity.

Approximately 124 acres have been made available for the programme and contracts have been awarded for land preparation activities at sites in Roseau, Mabouya Valley, River Dorée and Beauséjour. In addition, 5 greenhouses are currently being installed at River Dorée and a site is being prepared at Beauséjour for the installation of six greenhouses.

Under the training activities, a greenhouse seminar was held at the NSDC building in Vieux Fort in October 2014. A total of 24 individuals were trained in greenhouse operations and open field production of vegetables.

In addition, during the fiscal year 2014/15, the youth agricultural entrepreneurship incubator programme was established. This entailed training of about 150 young entrepreneurs' island wide in learning to use agriculture ventures as a business. The programme provided technical support and promoted agricultural production and agri-business among young entrepreneurs.

Government-owned lands in River Dorée, Anse Ger, Beauséjour, Roseau, Balembouche and Mabouya Valley were utilised. An additional 164 young persons have registered and are waiting to be shortlisted for this project. In this year's Budget, an allocation of \$458,000 has been made for the continuation of the programme activities.

3.5.2 Fisheries Development Programme

A Fisheries Development Programme commenced during the last Financial Year with the aim, in part, of providing formal training for young fishers and to develop a five-year operational and business plan for the management and sustainable financing of fisheries complexes. The training targeted 10 Districts around Saint Lucia, focusing on the fishing communities. The programme was funded by the Republic of China-Taiwan at a cost of \$ 2.8 million.

This programme was particularly successful in offering training in several fisher courses. Over 70 person received training and certification. Training Programme were offered in courses such boat operating & safety, improved fish handling practices, first aid, business management and product development.

3.5.3 Meat Processing Facility

Mr. Speaker, I am relieved to report that the Meat Processing Facility at Beauséjour, Vieux Fort has been completed. The facility is expected to operate as a central marketing and processing facility, which will create the marketing network to supply hotels, supermarkets and community based distribution outlets.

Those who conceptualised this facility believed that this initiative would enhance value added, while strengthening linkages between the livestock sector and other sub sectors of the economy. We should note, however, that for the Meat Processing Facility to be a success, we will need a resurgence in livestock rearing in the country. We will have to ensure the necessary throughput volumes to make this venture viable and profitable. I shall speak to this later in my presentation.

3.6 ICT BUSINESS DEVELOPMENT

Mr. Speaker, in keeping with Government Policy to create and strengthen the information and communications technology sector (ICT) in Saint Lucia, an ICT Business Incubation and Training Grants project was launched in 2014. Under this initiative approximately \$1.6 million dollars was made available for ICT business start-ups. Activities in 2014/15 included launch and call for proposals for Business Incubator Grants, screening and evaluation of applications and award of grants. Of the total amount available, approximately \$1 million has already been committed and the grantees will receive their disbursements shortly.

4.0 2015/16 STRATEGIC FOCUS

Mr. Speaker, I must reiterate, that building a sustainable and resilient economy is a long term process. Many expect the economy to turn around overnight and produce instant results. However, it must be emphasized that to be sustainable, growth must be anchored on a solid foundation. If we do not take the time now, make the hard decisions and build this foundation, then growth prospects will remain volatile and uncertain, subject to the winds of external shocks and natural disasters.

This is why upon resuming office in 2011 we conducted a diagnostic economic assessment to identify the structural impediments to growth and development in Saint Lucia. The results revealed an erosion of the investment and business climate, declining productivity and competitiveness and infrastructural, human resource and social gaps.

In order to deal with these challenges, we identified the following five pillars as the core of our strategic focus:

- 1) Strategic investment in infrastructure to support future development and investment;
- 2) Structural reforms to strengthen public and private sector productivity and competitiveness;
- 3) Expanding exports and investment flows through the productive sectors to expand employment opportunities;
- 4) Strengthening fiscal stability for economic resilience and growth; and
- 5) Maintaining social stability and peace.

We believe these areas are crucial to rebuilding a strong and vibrant economy.

Mr. Speaker, we have made much progress and we are starting to see the results of these policies. But we cannot stop here. To sustain our achievements, we must continue to build on the gains we have made. The job is unfinished! Much remains to be done.

Mr. Speaker, I am happy to report that this Government's efforts at containing the deficit have gained traction.

As noted previously, there was a significant reduction in the overall budget deficit during the previous year. These developments imply that the goal of reducing the overall deficit to below 3 percent is now well within reach, provided that we complete our adjustment process. The strategy for reducing the deficit was based on reducing current expenditure, minimising implementation of new tax measures beyond VAT and streamlining capital expenditures.

In the two previous Budget Statements, I explained in great detail the adjustments being made in all categories of non-wage expenditures. I provided evidence of the significant adjustments made in spending on goods and services and transfers. I attempted to demonstrate that for any further gains to be made we had to seriously revisit our wage expenditures. This was seen as necessary because, Mr. Speaker, the Government considered further tax measures as an inappropriate instrument at that particular stage, given the sluggishness of the economy.

Mr. Speaker, whilst I had proposed looking at a wage-based reduction in expenditure, many stakeholders disagreed and the unions in particular proposed revenue based solutions to address the fiscal problem.

Mr. Speaker, while no new tax measures were introduced in the last fiscal year, amendments made to the VAT regime – specifically increasing the rate on the tourism sector and broadening the range of products which fetched VAT – led to significant gains in tax receipts.

This, along with continued efforts at non-wage cost reduction and containment, helped to generate a favourable outcome. The lower overall deficit, was, in part, also explained by the delayed work on the St. Jude Hospital, due to later than expected disbursement of the acquired financing.

Mr. Speaker, while the Government is pleased with the return to a current account surplus, lower recurrent deficit and much improved overall deficit position, there is much left to be done. We have to remain guarded as a number of factors continue to weigh heavily on the fiscal position. First and foremost, the overall deficit remains above our targeted level. Secondly, the recurrent account is still in deficit, which implies that we have to continue to borrow to repay our debt obligations, albeit at much lower levels than the past two years. It should be noted that spending on interest payments is at about \$145 million. The only way to reduce this bill is by borrowing less and finding alternative ways to finance our development.

Despite the improvement in the fiscal position, as will be articulated more precisely later, the borrowing requirement of the Government remains very high, above prudent and sustainable levels. The quantum of market debt which we have to accumulate to finance the budget remains elevated. We have to reduce this pace of borrowing and for this reason we have to continue to manage our finances carefully and prudently.

The period of fiscal consolidation is not over. There is still need for stringent expenditure restraint and reduction and for increased domestic resource mobilization through enhanced revenue collection. Any increase in expenditure will remain heavily focused on investment and preferably through funds acquired at lower than market rate, as is the case with St Jude Hospital and Phase II of the Castries-Gros Islet Highway Upgrade.

We continue to depend on borrowing from the market to finance current spending such as road maintenance, tourism marketing and a number of vital social programs. This cannot continue indefinitely. Mr. Speaker, we need to create the space to fund many of these activities from domestic resources.

However, an even more pressing reason to further reduce the overall deficit or increase the current account surplus is the need to make space for investment. Saint Lucia continues to face huge infrastructure gaps.

We must, therefore, seek to generate domestic resources to complement available sources of external finance to meet these needs.

Reducing existing infrastructure gaps is one of the pillars for sustained growth and development.

The agenda outlined in this Budget seeks to tackle both the physical and institutional gaps that currently exist.

Creating space by containing current expenditure or raising additional revenue is the only way to ensure that sufficient resources are available for this purpose.

5.0 INVESTMENT PROSPECTS

Mr. Speaker, with our fiscal deficit nearing more reasonable and prudent limits, the Government is now better positioned to engage in policies to expand economic activity. In this cycle, the Government will seek to stimulate growth in our economy, attract new investment and ultimately reduce unemployment. The Government plans to do so by:

1. Encouraging new investments by the Private Sector;
2. Introducing new investment options; and
3. Increasing spending in public infrastructure.

The Government plans to engage in these initiatives without seeking to compromise unduly our fiscal stability. This expenditure will nudge our deficit to increase to an estimated 5.8% of GDP but we expect that the deficit will fall to reasonable limits shortly thereafter as the economy stabilises.

Mr. Speaker, we are beginning to see encouraging signs of investment in the Private Sector. I note that Unicomer will commence in July its new \$15 million Courts Megastore. The Chrieki Family has commenced construction of its new Dayana Centre at the corner of Bridge Street and Jeremie Street in Castries; the

CIE Group led by Mr. Rayneau Gadjadhar plans to commence construction of a commercial and industrial park in Cul de Sac.

Work on the Harbour Club, a 100 room companion hotel to Dive Saint Lucia is under construction at the Rodney Bay Marina.

Perhaps the most significant investment coming our way is the decision by the Sunwing Group to demolish and reconstruct a new hotel in the place of the former Smugglers Hotel. I am advised that some 1,200 persons will be employed during the construction of this property. On completion, some 600 persons are expected to be employed full-time.

5.1 CITIZENSHIP BY INVESTMENT PROGRAMME

Mr. Speaker, in respect of new investment possibilities, the Government has already indicated it will proceed with a Citizenship by Investment Programme linked directly to real estate investment. We believe that the programme properly managed could yield significant investment.

The enabling legislation will be presented to the House at its next sitting.

5.2 PUBLIC SECTOR INVESTMENTS

Mr Speaker, for the record I wish to remind Honourable Members that the Government of Saint Lucia is hopeful that the next few weeks will see commencement of two other major public sector projects, both under BOLT Agreements, the construction of the Administrative Complex in Vieux Fort and the conversion of the former Golden Hope Hospital to the Office of the Prime Minister. Together, these projects will inject nearly \$100 million into the economy.

Details of the investments in the Public Sector will be shared with Honourable Members later in this presentation, when I shall provide details of investments in Public Infrastructure.

6.0 PILLARS FOR ECONOMIC RESILIENCE AND SUSTAINABLE DEVELOPMENT

6.1 EFFECTIVE POLICIES AND INSTITUTIONS

Mr. Speaker, I have made the point that effective policies and institutions are critical for driving economic growth by creating an enabling environment to attract investment and improve competitiveness, through a reduction in the cost of doing business.

6.1.1 Making Travel Less Stressful

Mr. Speaker, in the course of preparing this Budget Statement, I invited our Social Partners and members of the public to identify some of the administrative procedures and processes in the Public Service that cause irritation. Our Government believes that we constantly need to reform our approaches to improve the quality of service to the public and of course, to leave customers who are satisfied and pleased with the services provided by the state and financed by them through taxes.

Two of the issues raised had to do with immigration procedures. Many saw no reason why citizens should be required to fill in and submit immigration forms on arrival into Saint Lucia. It was accepted that there was need to have knowledge of all arrivals into the island but, in the case of nationals, this could be accomplished by simply taking a computer record of the details of the passport.

Our Government agrees. Effective September 1, 2015, citizens of Saint Lucia will no longer be required to complete arrival forms. Between now and then, computers manned by immigration officials will be up-dated to allow for this change.

I wish to emphasise, however, that all departing or outbound travellers will still be required to fill the shorter departure or exit forms.

The second issue has to do with visitors who own properties in Saint Lucia and wish to spend an extended period of time on island to enjoy their properties. On arrival, these individuals are given a period of stay, usually seventeen days, and then are required to go to the Immigration Department for renewals of stay at a prescribed fee. Many of these individuals have no objection to paying a fee for an extended stay.

The problem seems to be the repeated visits to the Immigration Department for extensions of stay. In some cases, applicants are required to leave their passports with the Immigration Department.

The Government proposes to:

1. Introduce a scale of fees depending on the length of stay that is requested;
2. Allow the fees to be paid on arrival to minimise repeated visits to the Immigration Department.

These new arrangements will come into effect on September 1 2015, after discussions with officials of the Immigration Department.

6.1.2 Investment and Business Environment

Mr Speaker, following the financial crisis, foreign direct investment inflows declined significantly, adversely impacting economic activity and job creation. Moreover, Saint Lucia lost ground in the World Bank's 2015 Ease of Doing Business Report, suggesting some slippage in the business climate.

While we have made considerable strides in our reform agenda, the pace of reforms remain slow due to:

- (a) Lack of financial resources dedicated to the reform process;
- (b) Limited institutional capacity;
- (c) Conflicting priorities within agencies;
- (d) Paucity of technical skills; and an
- (e) Absence of a comprehensive and integrated approach.

To confront this issue, the Government will embark on a new approach, which will focus on ensuring a more effective, holistic and synergistic approach to the

business reform process. This will also provide a framework for monitoring to facilitate prompt action towards addressing constraints.

6.1.3 **Ease of Doing Business Strategy**

Mr. Speaker, the Ministry of Commerce, in consultation with the Ease of Doing Business Task Force, which is chaired by the Minister of Commerce, has developed an *Ease of Doing Business Strategy*. This strategy has been endorsed by Cabinet and is aimed at improving Saint Lucia's ranking in the World Bank's *Ease of Doing Business* Report. The strategy highlights the implementation of a series of continuous reforms utilising technology, process re-engineering, legislative and cultural changes to drive the transformation of the business environment in Saint Lucia.

6.1.4 **Ease of Doing Business Reforms**

In this fiscal year, a series of reforms and initiatives will be undertaken through a project geared at improving efficiency and competitiveness, and supporting renewed investment in the local economy. The project will focus on the following reforms:

1. Improved Access to Credit by drafting legislation to deal with insolvency and to facilitate secured transactions.
2. Modernising the process and access to the Register of Companies and Immovable and Movable Property through the development of a system of inter-connected registries, which are searchable by a unique identifier.
3. Creating a single electronic window for construction permits/building approvals to reduce the length of the approval process.

6.1.4.1 **Trade Facilitation: Restructuring of Seaport Operations**

Mr Speaker, the Government's reform programme will also extend to our seaports.

Commercial trade in our globalised environment is evolving. This evolution has transformed the way we do business and by extension, necessitates a paradigm shift in how Government and associated state-owned entities function. The global competitive environment dictates a rethink of the structure and operating hours of our seaports to facilitate trade. No longer should a customs broker, a commercial entity, a consumer or trucker be impeded by restricted operating hours at our seaports. We must embrace the necessity to facilitate the requirements of these stakeholders beyond the typical 8:00 am to 4:30pm work day.

Mr. Speaker, I am pleased to advise that SLASPA has commenced the process of restructuring the Ports operation, which is at an advanced stage at Port Vieux Fort. Further, details will be communicated upon conclusion of the process, which involves the engagement and participation of the stakeholders.

We believe this initiative will allow for greater operational efficiency, thereby enhancing trade facilitation and the ease of doing business.

6.1.5 Public Private Partnership Policy

Mr. Speaker, as promised, we are very pleased to report that the Government, with assistance from the World Bank, has now completed a Public-Private Partnership (PPP) policy framework that will be used to guide the development of PPP projects in Saint Lucia. This policy was developed through a highly consultative process with key stakeholders in the private and public sector.

The policy has been approved by Cabinet and institutional arrangements for its execution will be put in place during this fiscal year. It is anticipated that the use of the PPPs would reduce fiscal pressures and improve efficiency in the implementation of infrastructure projects.

6.1.6 E-Government Agenda

Mr. Speaker, during the 2013/14 to 2014/15, Government completed a wide range of E-Government initiatives outlined in preceding Budget Statements. In this financial year, funding will be provided to complete successive phases of ongoing projects.

6.1.6.1 Government Communications

An allocation of \$5.46 million has been earmarked to continue the World Bank funded Caribbean Regional Communications Infrastructure Project, CARCIP.

Under this project, Government is proceeding to replace the existing, dated, expensive and restrictive PBX system with a unified and more cost effective communication system. This new system will allow for video conferencing and the use of voice-over-IP protocols, which will significantly reduce the \$11.8 million Government currently spends in communication costs.

Installation of the new Unified Communication System (UCS) will start in September 2015, and will be complemented by upgrading the skills of the individuals who will be tasked with operating the new system.

6.1.6.2 Island-Wide Wi-Fi

Another important component of our ICT development programme is the provision of island-wide Wi-Fi to the citizens of Saint Lucia. This was one of the ambitious pronouncements made in our Blueprint for Growth and I am very pleased to announce that we are moving closer to making this a reality. Last year, we initiated the project with the provision of free Wi-Fi in the town of Soufriere and in this financial year we will expand our coverage on different fronts.

The Government, earlier this year, signed an agreement with the Republic of China (Taiwan), through its International Cooperation and Development Fund, for grant support of US\$3.2 million for the creation of 70 new Wi-Fi hotspots in an island-wide Government Integrated Network (GINET). The first of these hot spots are expected to be fully operational before the end of this year. Allied to this initiative is a \$5 million component CARCIP to assist with the build-out of the Government network.

This component is expected to identify and fill gaps in the GINET and complement the activities being undertaken.

6.1.6.3 Community Access Centres

Mr. Speaker, our Government recognises that making free Wi-Fi available is just one part of the equation. We must also provide facilities for those who may not have the means to make use of the service. This is why we embarked on the construction of two new Community Access Centres in the town of Vieux Fort and in Micoud village. A little over \$2.1 million has been allocated this year to complete these projects. Both of these Centres are expected to be completed by the second half of this financial year.

It is our intention, however, to provide Community Access Centres in all the underserved major communities on the island. This is why in the next six months we will be establishing new access centres in Canaries and also in Belmont, Dennery North, by retrofitting existing buildings, providing them with new computers and Wi-Fi access. For the latter two Access Centres the computers have already been purchased and the buildings secured.

In the next six months, we will also create new mini Access Centres at La Feuillet, Gros Islet; Garrand, Babonneau; Mongouge, Choiseul; Grace, Vieux Fort North; and Entrepot, Castries. The next wave of Community Access Centres will see the retrofit of existing buildings to accommodate new computer and ICT equipment and services in Choiseul, Laborie, Anse La Raye, Monchy, Castries and Vieux Fort North.

Additionally, Mr. Speaker, under a Libraries Information Technology Programme, funded by the Universal Service Fund administered by the National Telecommunications Regulatory Commission (NTRC), fourteen of the seventeen national libraries around the island are set to benefit from new computers, Wi-Fi access and hot spots.

6.1.6.4 Automation of Records

Finally under this sector, the Ministry of Legal Affairs continued with the implementation of the Automation of Records Project. This is geared towards providing a more secure and efficient electronic document storage and revenue collection system for Deeds & Mortgages in Saint Lucia.

Phase 1, which included the purchase of equipment for data entry and verification and contracting of Computer Centre Ltd. to develop the requisite software and database, is nearing completion and during this financial year, additional equipment will be sourced for Phase 2, which involves the setting up of the Deeds and Mortgages online registry.

6.2 AGRICULTURE

I now turn to a sector critical to the rural economy and food security, the Agriculture Sector.

6.2.1 Livestock Development Programme

Mr. Speaker, the recent completion of the Meat Processing Facility at Beauséjour, Vieux Fort, has the potential to enhance the capacity of what was is a growing livestock industry. The facility is now ready to receive a continuous supply of livestock to support its operations.

To this end, the Government of Saint Lucia has received grant funding from through South-South Cooperation, in the amount of \$1.26 million for the implementation of the Livestock Development Programme in this fiscal year 2015/16.

The project will establish the Beauséjour Agriculture Station as a national centre of excellence through infrastructure improvements and the breeding and multiplication of quality livestock. The project seeks to create an enabling environment to increase the production of, and access to, safe quality livestock products.

6.2.2 Management of Black Sigatoka

I wish to advise the House that the very successful Black Sigatoka Management Programme will continue for a further year up with a \$1 million allocation from the Government of Saint Lucia and the Republic of China (Taiwan) providing grant funding support of \$2.4 million.

6.2.3 Soil Fertility Map Project

Mr. Speaker, it is crucial that we have reliable technical and scientific information on which to shape policy. In this regard, Government has devised a project to develop a soil fertility map for the total cultivated area of Saint Lucia. This will allow for better management of the country's soils to ensure sustainable land use and a better agricultural output. The project is being partially financed through a grant from the Government of Morocco.

Activities under this project commenced in April 2015 at a total cost of approximately \$1.6 million. The project is expected to compliment other ongoing and new initiatives within the Ministry of Agriculture, including:

1. Land identified by the Land Bank Initiative, which will be sorted to determine areas suited for production of different produce after the mapping is done.
2. Fisheries Development Programme, which is aimed at reducing contaminants in the rivers by using eco-friendly fertilizers.

6.2.4 Coffee Production

Mr. Speaker, last year we announced plans to return Saint Lucia to the cultivation of traditional crops to increase agricultural production and marketing through niche markets.

The tragedy of the agricultural sector is that we destroyed fields of traditional crops to make way for bananas. Now, bananas are no longer green gold and the chickens have come home to roost.

The initiative to return to the cultivation of coffee was recently ridiculed by the suggestion that the money is best spent on roads. Roads may help reduce the cost of transportation but will not put food on the table of our rural folk. However, export income does precisely that! Tourists who visit our country should be given the opportunity to enjoy the unique flavour of coffee grown on the rich volcanic hillsides of our island.

This programme will involve the rehabilitation of the existing coffee acreages (25 acres) island-wide and the establishment of 150 new acres. The Project was set

to begin in January 2015 and terminate in March 2019. It is expected to result in an improvement in coffee farm yield, from less than 1 tonne per acre to over 3 tonnes per acre. The project will also promote the use of small-scale and cost effective modernized technology in coffee bean processing, and provide training and oversee the functioning of two model coffee demonstration plots.

The project is funded by the Government of Saint Lucia at a cost of \$300,000.00 and will commence during this fiscal year.

6.2.5 Land Bank Initiative

Mr. Speaker, we presented the Land Bank initiative in the last budget. It is a long-standing goal of our government. It seeks to identify, map and manage existing Crown lands and abandoned farmlands suitable for agriculture, which the Government may acquire to establish a land bank for agricultural production. These lands will be managed by the Government and made available to persons who are desirous of engaging in agricultural production.

It will be implemented in two (2) components:

1. Identifying and securing appropriate agricultural Crown lands which would initiate the land bank process; and
2. Identifying and securing abandoned and other private land to be vested in the land bank, in accordance with existing law, whether by negotiation or acquisition.

Mr. Speaker, this project is funded through grants provided by the Food and Agricultural Organization (FAO), at a value of \$138,500 and is expected to commence this quarter.

Some of the major activities during this fiscal year include:

- (1) Compilation of a detailed report on suitable Crown lands and abandoned private farms lands island wide;
- (2) Recommended changes to policy, legislation and institutional arrangements for the development of the land bank for agriculture;
- (3) Establishment of a land bank database;

- (4) Development of an organisational structure to oversee the smooth implementation of the land bank for agriculture; and
- (5) Public awareness and sensitisation on land bank development.

6.3 TOURISM, HERITAGE & CREATIVE INDUSTRIES

Mr Speaker, I now turn to efforts under the Ministry of Tourism, Heritage & Creative Industries.

6.3.1 Tourism Development Programme

Under the Saint Lucia Tourism Development Programme, Government will promote product development and support activities to create linkages within the tourism value chain.

During the 2014/2015 Financial Year, efforts focused on development of new tours including Maroon Hike and a Waterfall Tour developed in La Sorcière, Dennery.

Consultations are ongoing regarding the development of an agro-tourism tour at Choiseul and Canaries through collaboration with the Ministry of Agriculture and the Inter-American Institute for Cooperation on Agriculture (IICA).

This work is expected to continue during 2015/2016, with an allocation of \$360,000 to facilitate public consultation and the building of tourism awareness.

6.3.2 Tourism Competitiveness: Enhancing Port Castries

Mr. Speaker, the value chain assessment of the tourism industry that was undertaken under the recently concluded Tourism Benchmarking and Competitiveness Strategy project, highlighted the need for Saint Lucia to offer a differentiated product relative to other Caribbean destinations. The report posits that the development of niche products with significant local input in the areas

of adventure tourism, eco-tourism, culinary tourism and agro-tourism can significantly enhance the overall product offering.

To this end, our new World-Bank funded project to enhance the Port Castries aims to broaden the product offering and enhance the value gained, thus creating sustainable livelihoods within communities.

Enhancing logistics, connectivity and aesthetics to improve the competitiveness of Port Castries will include the following:

1. Addressing traffic flow management, signage and pedestrian safety;
2. Rationalisation of Parking;
3. Improvement of pedestrian mobility by decreasing vehicular-pedestrian conflict at critical locations;
4. Improvement of traffic flow along the ring road around the Castries City Centre, namely Brazil St, Chaussée Rd, Jeremie St, Manoel and the Inner Relief Rd; and
5. Technical Assistance to explore water connectivity options.

Direct product development of sites and tours within the city of Castries will be undertaken, including, but not limited to:

1. Improvement of the Derek Walcott Square to link to the development of Walcott Place, the childhood home of Derek and Roddy Walcott as a tourism attraction;
2. Enhancement of the urban quality of the William Peter Boulevard;
3. Restoration of George V Park;
4. Developing the touristic potential Vigie and Morne Historic Areas of Castries;
5. Tourism information within the Castries City Centre; and
6. Policy development to support the renewal of buildings.

Additionally, technical assistance to support the development of a framework for Community Tourism including criteria for site selection, product concept, design and costing will be undertaken.

Development of a web portal to market and sell heritage and community tours online is envisaged. This should be linked to popular internationally recognized tourism search engines as well as the Saint Lucia Tourist Board's website.

Mr. Speaker, while it is anticipated that the total rollout of this programme is in the vicinity of \$30 million, an allocation of \$2 million is budgeted for this Financial Year for this project.

6.3.3 **Visitor Safety Unit**

Mr. Speaker, visitor harassment is a big issue in our country. We are all witnesses to the problem and, as is so typical, we react with a sense of helplessness. There exists report after report from our cruise ship passengers pointing to harassment as a major problem.

We need to remember that tourism is an integral part of our economy. Much of our current revenue derives from expenditure in tourism.

We have a responsibility to create a safe and secure environment for our people as well as our visitors.

The problem of visitor harassment is acute. Frankly, it is out of control particularly in Castries and its environs. It is also a serious problem on our beaches and visitor hotspots.

Some years ago, we attempted to deal with the problem on our beaches by creating a special unit, the Beach Rangers. The unit was unceremoniously disbanded by the former Minister of Tourism.

Some measure of protection is offered by special constables attached to the Royal Saint Lucia Police Force. Helpful as these officers may be, their training may well be inadequate to meet the challenges that they face on a daily basis.

Having examined the problem, and after discussions with the Saint Lucia Hotel and tourism Association, the Government has decided to establish a special Visitor Safety Unit to protect tourists, to prevent crimes being committed against them and to provide them with assistance. The Government will first establish a pilot programme in Castries and thereafter, deploy the units elsewhere.

While the members of the unit will receive regular training as police officers, they will receive, in addition specialised training to prepare them to respond to the usual issues raised by visitors. The training modules will be developed by the police as well as tourism personnel.

While being specialized, the proposed unit is not intended to replace regular police patrols. Rather, the unit will assist the regular police while providing support in fighting crime.

6.3.4 Development of the Creative Industries

Mr. Speaker, Government continues to pursue the development of the Creative Industries sector. As was clearly witnessed the Arts Village and Hot Couture fashion aspects of the Jazz & Arts Festival, our artists, entertainers and designers continue to prove we have great talent that must be nurtured.

A sum of \$1 million dollars is allocated towards the furtherance of this strategic programme in the 2015/16 financial year. Activities to be undertaken include:

1. Public Awareness promoting the Creative Industries as a strategic sector for Saint Lucia;
2. A Small Grants Programme providing access to finance for micro and small size enterprises operating within the cultural/creative industries;
3. Support in developing marquee industry events by designing and establishing creative sub sector specific events locally and abroad so as to promote and develop branding for artists and the St. Lucia brand;
4. An Art in Public Spaces Programme to produce creative works that embellish our urban and built environments;
5. Training and Capacity Building & Organizational Development in all major sub sectors including music, dance poetry, film, photography, visual arts and digital media; and
6. An Export Market Development Programme supporting external opportunities.

6.3.5 Establishment of a Festivals Commission

Mr. Speaker, this is the last time that the Jazz Festival will be organized and managed by the Saint Lucia Tourist Board. Likewise, this will be the last Carnival celebration that will be organized under the auspices of the Cultural Development Foundation.

Consistent with the plans to develop the Creative Industries Sector, the Government will move to establish a Festivals Commission to manage both the

Jazz Festival and Carnival. Obviously, this will mean a reallocation of Resources away from the Tourist Board and the Cultural Development Foundation.

The Government will establish a company, the Festivals Commission Incorporated to plan, organize and manage both events. To facilitate the transition, I have allocated \$200,000.00 to meet the initial costs.

6.4 INVESTING IN INFRASTRUCTURE DEVELOPMENT

Mr. Speaker, in this Government's cycle, infrastructural development is at the centre of the Government's efforts.

Investments in modern infrastructure lay the foundation for economic development and growth. Infrastructure development impacts growth directly through job creation during the construction stage.

Furthermore, good roads networks, bridges, air and seaports, communication and electricity systems improve logistics and connectivity within the economy and enable more efficient and effective business operations and export promotion. This also enhances the investment climate, thus attracting further investment and job opportunities in the domestic economy.

6.4.1 Road Infrastructure

6.4.1.1 Castries Gros Islet Highway (Choc to Gros Islet Upgrade)

Mr. Speaker, the Choc Bay to Gros Islet section of the Castries Gros Islet Highway is a major national initiative being undertaken by this Government.

This second phase is co-financed through loans facilitated by the Kuwait Fund for Arab Economic Development (KFAED) and the OPEC Fund for International Development (OFID) and is expected to commence mid-2015 and conclude by mid-2018. These institutions will provide the resources at interest rates that are far more favourable than what the Government can attract on the market.

The project seeks to upgrade 6.9 kilometres of road from the Choc Roundabout to the Dauphin Street Junction at Gros Islet and improve also approximately 20 kilometres of secondary roads.

The project will include the following main components:

- (1) Widening of the existing two lane road to a four lane dual carriageway from Choc to the Gros Islet Junction;
- (2) Upgrading of seven (7) junctions (Marisule, Glace Motors, Bois d'Orange, Mongiraud, Rodney Bay, Bonne Terre and Gros Islet);
- (3) Construction of pedestrian walkways with safety bars and foot paths;
- (4) Construction of nine (9) pedestrian footbridges at Marisule, Glace Motors, East Winds, Bois D' Orange, Monchy, Rodney Bay, Bonne Terre, Gros Islet and Wyndham for enhanced pedestrian safety and reduction of vehicular-pedestrian conflicts; and
- (5) Upgrading of drainage infrastructure and ancillary structures.

To provide relief to commuters during these major infrastructural activities, a number of secondary roads will be rehabilitated. These include:

- (1) The Old Military Rd from Bonne Terre to La Feuillet;
- (2) The La Retraite Rd from Rodney Bay to La Feuillet;
- (3) The Monchy Rd from Mongiraud to Caye Manger;
- (4) The Vieux Sucreic-Norbert Rd from Careffe to Corinthe;
- (5) The Corinthe Estate Rd from Bois D'Orange to Corinthe.

Under the project, extensive public education will be conducted to ensure that commuters and the general public are made aware of the project activities and the alternate routes that can be accessed to traverse between the city and Gros Islet.

An allocation of \$7.0 million is budgeted for this financial year, with a total project cost estimated at \$150.6 million. Most of this year's expenditure will go towards the rehabilitation of the secondary roads to which I just referred.

6.4.1.2 North-South link Road

Mr. Speaker, STANTEC Consult out of Canada continues on the feasibility study of the proposed new north-south link. This project which is part funded by the CDB is an important and necessary step in our island's future development. So far, the consultant has submitted its first report. The final report on the study is expected by September 2015.

6.4.1.3 Feeder and Agricultural Roads Phase II

On a previous occasion, I announced that the Government plans to commence Phase II of the Feeder and Agricultural Roads Project. This project is geared at improving or strengthening approximately 38 km of primarily rural roads.

Mr. Speaker, during this fiscal year we will be undertaking the necessary technical-economic feasibility study, detailed engineering design and environmental impact assessment for this project. Grant funding was received from the Kuwait Fund for Arab Economic Development (KFAED) in the amount of \$2.4 million to undertake these consultancy services.

The construction phase is expected to commence in 2016. I am now able to give Honourable Members an indication of the roads that are targeted for rehabilitation.

These roads include:

- (1) Cocoa - Savanne - 2.35 km
- (2) Grace Woodlands - Vielle Litre - 0.75 km
- (3) Main Belmont Road - 1.65 km
- (4) Patience-Lombard-Mont Eole - 3.33 km
- (5) Bazille Road - 5.00 km
- (6) Mardi Gras - 1.20 km
- (7) Fond Desir - 1.1 km
- (8) Piat Roads - 1.10 km
- (9) Miné - Pelouze Extension - 1.94 km
- (10) Morne Bois D'Inde - 2.28 km
- (11) Praslin Miné - 2.13 km
- (12) Vigé - Cocoa - 5.73 km (agricultural)
- (13) Viancelle - Mouclay - 0.54 km
- (14) Viancelle - La Source - 1.47 km
- (15) Bois Grand Fond - 0.89 km

6.4.1.4 The Southern Roads Rehabilitation Project

Mr. Speaker, under the South Roads Rehabilitation Project, approximately 11 kilometres within the Secondary Road Network will be rehabilitated.

These initiatives will involve complete rehabilitation of the Laborie Village Main Road and the Banse-La Haut Road.

This project will be financed by a DFC agreement and will cost \$29.0 million.

The scope of the works includes earthworks, location widening, realignment and strengthening of pavement structures, construction of hard shoulders, installation of drainage facilities, construction of and repairs to retaining structures, construction of and repairs to bridges, installation of road furniture and marking, and relocation of utilities where necessary and construction of lay-bys and bus stops.

6.4.1.5 Asou Kannal Bridge

Mr. Speaker, the Asou Kannal-White Rock Bridge has been a long standing issue for residents since the original structure got destroyed during Tomas. I am happy to report that a contractor has been engaged to undertake the Reconstruction of the Asou Kannal Bridge at a cost of nearly \$700,000.

6.4.1.6 New Design-Finance-Construct Roads

Mr. Speaker, at the close of the financial year 2014/15, the Government has paid to contractors engaged in Design Finance Construct (DFC) Projects some \$15.0 million. This means that we have space to utilise this amount without increasing our existing debt stock.

The Government has therefore decided to utilise this fiscal space to finance the construction or rehabilitation of the following roads under its DFC Programme in 2015/2016:

1. Caico Millet, in Anse la Raye/Canaries – 1.3km;
2. Vigé – Cocoa Rd, 4.7km;
3. Ciceron Main Road;

4. Castries-Vieux Fort Highway from the Hewanorra Airport Access Rd to Sandy Beach, 1.2km of roadway;
5. The most critical sections of the Millennium Highway which require rehabilitation;
6. Ti La Ressource Road in Dennery North – 0.7km;
7. Savanne en Haut near La Guerre, Babonneau – 0.7km; and
8. Parke Estate/Saltibus Road.

6.4.2 **Disaster Vulnerability Reduction Project**

Mr. Speaker, the Disaster Vulnerability and Reduction Project, DVRP, is the largest single project that this country has ever undertaken with the World Bank. The DVRP is estimated to cost US\$68 million or about EC\$184 million.

This project is a five-year initiative, which will be implemented by at least seven agencies across the public sector including the Ministry of Infrastructure, Ministry of Education, Ministry of Health, Ministry of Sustainable Development, NEMO and the Saint Lucia Development Bank, among others.

Honourable members will recall that the DVRP is designed to reduce disaster vulnerability and increase our resilience in the long term. The project consists of five main components:

1. Risk Reduction and Adaptation Measure – US\$ 49 million
2. Technical Assistance for Improved Assessment and Application of Disaster and Climate Risk Information in Decision-Making – US\$ 10 million
3. Climate Adaptation Financing Facility (CAFF) – US\$ 5 million
4. Contingent Emergency Response – US\$1 million; and
5. Project Management and Implementation Support – US\$3 million.

Let me now provide details of some of these components.

6.4.2.1 **Climate Adaptation Financing Facility**

The Climate Adaptation Financing Facility (CAFF) is designed to establish a pilot financing mechanism through the Saint Lucia Development Bank (SLDB). Under this programme, loans will be made available to eligible households and the private sector to finance climate adaptation investments to build resilience. This component of the project is expected to result in a reduction of risks associated with catastrophic hydrological and meteorological shocks. Among the areas that

we expect will receive favourable consideration for support under the CAFF are building retrofits for rainwater harvesting and more prudent management of water, and installation of roof-top solar photovoltaic systems on residential and commercial buildings.

6.4.2.2 Risk Reduction & Adaptation

Mr. Speaker under the first component, Risk Reduction and Adaptation Measure, a number of sub projects are ongoing.

These activities are being executed through the Ministry of Infrastructure, Port Services and Transport in collaboration and consultation with the beneficiary agencies, which include the Ministry of Health, Ministry of Education and Ministry of Social Transformation.

A number of schools and community facilities will be rehabilitated, including the Choiseul Secondary School, Dennery Infant School, the Victor Archer Building at the Sir Arthur Lewis Community College, the Marcus Garvey Hall, Choiseul Community Centre, Dennery Polyclinic and Soufriere Hospital.

Ongoing works on the Cannelles and Volet crossings will continue into this fiscal year.

In the coming months, work will commence on a number of slope stabilisation initiatives, including works associated with Marchand River Bank stabilisation and other drainage works in flood prone areas. The design review of the Choc Bridge will be conducted during this fiscal year.

The Government also hopes to initiate the design of the Piaye Bridge and the Anse La Raye/Venus crossing within the next 10 months.

6.4.3 Hurricane Tomas Rehabilitation and Reconstruction Project

Mr. Speaker, the Hurricane Tomas Rehabilitation and Reconstruction Project was started following Hurricane Tomas to facilitate the rehabilitation of major roads damaged by the Hurricane. Financed by the Caribbean Development Bank

and the Government of Saint Lucia, activity under the project will continue during this financial year and will include:

1. Sulphur Springs Road Rehabilitation Project – Slope stabilisation and road rehabilitation works are expected to be substantially complete by end of this month;
2. Marc-Bexon River Bank Stabilisation – works are expected to begin during the second quarter and conclude by December 2016;
3. Guesneau Road – works are expected to start by July 2015;
4. Entrepot River & Mountain Springs Ravine – work is expected to commence June 2015 and conclude by January 2016;
5. East Castries Drainage Management Study – The study is expected to commence June 2015 and end by January 2016;
6. Thomazo & Canaries Bridge reconstruction - these are scheduled to commence during the course of the financial year;

To facilitate execution of the project, an allocation of \$12.7 million is budgeted for this Financial Year.

6.4.4 Ports Development

Mr. Speaker, I wish to focus my attention to a key state entity which is poised to play a critical role in underpinning this Government's vision for Saint Lucia. The Saint Lucia Air and Seaport Authority (SLASPA) has commenced a transformation that seeks to establish the way forward for the redevelopment of the Hewanorra International Airport (HIA). In addition, SLASPA is examining initiatives geared at facilitating the forecasted long-term growth in Tourism (Stay-Over and Cruise) as well as enhancing the ease of doing business in Saint Lucia.

6.4.4.1 Hewanorra International Airport Redevelopment

Mr. Speaker, as articulated in the past, this Government has opted to pursue the redevelopment of the island's international airport through a Public Private Partnership (PPP). The redevelopment is aimed at positioning the airport to meet future passenger and aircraft landings growth. In addition, this framework will

allow for automatic improvements in service quality standards, operational efficiencies and ensure adherence to international best practices.

Mr. Speaker through a PPP, SLASPA and the Government of Saint Lucia will seek to leverage private sector investment and expertise. This will be achieved within the framework of a concession agreement, which legally binds the private concessionaire to financing, constructing, operating and maintaining the airport for a specified period.

As with any concession agreement, SLASPA will be remunerated through a revenue sharing arrangement realizing a percentage of the gross revenue, and the Government with Corporate Taxes over the life of the concession.

Mr. Speaker, the aforementioned arrangement ensures that the total financing requirement of this project does not equate to a contingent liability to the State. In addition, this mechanism transfers the financing, construction and maintenance risks to the private partner rather than the State or SLASPA.

With the assistance of the International Financial Corporation (IFC) tremendous progress has being made in finalising this transaction.

A thirty (30) year airport master plan was developed, along with a detailed due diligence report and transaction report, which formed the basis of the decision on the way ahead.

The IFC has advised that the bidding process will commence this month and should conclude with the award of a contract by October 2015. In line with the master plan, SLASPA will commence, as early as June 2015, a programme of initiatives that would signal the start of the redevelopment of the airport, but equally seeks to address capacity concerns and safety considerations.

This includes the realignment and extension of the runway turning bay, which is estimated at EC\$10 million, the construction of a new technical tower at an estimated cost of EC\$9 million, along with the development of an additional parking apron, which is estimated to cost EC\$9.5 million.

6.4.5 Health Infrastructure

Mr Speaker, I now move to Health Infrastructure.

6.4.5.1 Improvements to Health Infrastructure

Mr. Speaker, to provide a safe working environment for clients and staff in the delivery of primary health care services, the Ministry of Health undertook the rehabilitation of several health facilities. These consisted of minor repairs, major repairs or construction of new facilities, rehabilitation works to the Accident and Emergency Department of Victoria Hospital, Administration and Medical area of Soufriere Hospital, completion and re-opening of the Dennery Hospital, and construction of the La Guerre Health Centre.

In this new budget cycle, provisions have been made to refurbish the Soufriere Hospital, undertake remedial works at select Health Centres and the installation of generators at health centres. Commencement of works at the Soufriere Hospital will be subject to the findings of the World Bank's Vulnerability and Structural Assessment study.

6.4.5.2 New National Hospital Commissioning

Mr. Speaker, allow me to give Honourable members an update on the status of the commissioning of the Owen King-EU National Hospital.

The Ministry of Health and Victoria Hospital are now in earnest preparation to transition to a modern, unified and efficient health facility. The commissioning exercise involves the preparation of plans and activities to:

- (1) merge the administration of Victoria Hospital, Turning Point Rehabilitation Centre and National Mental Wellness Centre;
- (2) transfer staff and services to the New National Hospital;
- (3) decommission the Victoria Hospital plant and transform it into a new Castries Polyclinic;
- (4) devise and implement a communication plan; and
- (5) introduce administrative changes and adjustments in accordance with an agreed Change Management Plan.

6.4.5.3 St. Jude Hospital Reconstruction

Mr. Speaker, a tremendous amount of work has been undertaken at the St Jude Hospital. Last year, approximately \$13.18 million was spent on infrastructural works and this year a further \$49.13 million will be expended. It is anticipated that the new hospital will be commissioned this financial year. However, other works will continue on the morgue and other ancillary buildings and will be completed in the following financial year.

Once the hospital is commissioned, rehabilitation work will commence at the George Odlum Stadium.

6.4.6 Water Infrastructure

6.4.6.1 Sustainable Access to Safe Drinking Water

Mr. Speaker, under the Sustainable Access to Safe Drinking Water Project, a new water intake system and raw water treatment plant will be constructed in Desruisseaux. In Micoud, efforts to improve the capacity for water storage and the distribution infrastructure continue.

Construction activity in Desruisseaux and Micoud should commence by June.

The Vieux Fort and Dennery Water Supply Redevelopment Projects are well on their way to successful execution with loan financing from the Caribbean Development Bank and grant financing from the Mexican Government.

The expected outcome of these projects is the provision of efficient, safe, and sustainable supply of potable water to the residents and businesses in the communities of Vieux Fort and Dennery North.

6.4.6.2 Vieux Fort Water Sector Redevelopment Project

Mr. Speaker the water supply system which serves Vieux Fort, Laborie and environs comprises water abstracted from the Grace and Beauséjour intakes on the Grande Rivière de Vieux Fort River. The communities served consist of approximately 4,300 households. The water supply has been unreliable in both

the dry and rainy season due to the vulnerability of the systems to rainfall variability. Moreover, during periods of intense rainfall the turbidity level of the raw water rises significantly above acceptable levels.

The Vieux Fort Project will comprise the installation of new water production, transmission, and storage facilities, as well as non-revenue water reduction measures for the Vieux Fort Water Supply System.

Other project components include technical assistance to enhance the operational efficiency of WASCO through the preparation of an energy efficiency improvement plan; preparation of a Watershed Management Plan and assistance to improve the capacity of the Water Resource Management Agency to monitor the Vieux Fort River watershed. The total allocation for this financial year is \$6.37 million.

6.4.6.3 Dennery Water Sector Redevelopment Project

Mr. Speaker, the Dennery Project is also expected to alleviate the longstanding woes of the residents of Dennery North. No longer will residents have to fetch water in buckets from water trucks.

The project will be undertaken over a period of 18 to 24 months. The main infrastructure components include:

- (1) Water intake construction and raw water transmission;
- (2) Water treatment plant construction and start up;
- (3) Installation of pumping facilities; and
- (4) Network distribution upgrades.

The total allocation for this financial year is \$7 million.

6.4.7 Renewable Energy

6.4.7.1 A Quiet but Dramatic Energy Revolution

Mr. Speaker there is a quiet but profound change taking place in the energy sector in our country. When our Government assumed office in 2011 we made a

promise to diversify the electricity sector to the point where we would move the contribution of renewable energy to this sector from zero percent to twenty percent in 2020.

Our actions in this sector over the past three years have been deliberate, strategic and focused. We have made changes at the institutional level, at the legislative and regulatory level, and now we are poised to make even more impressive gains at the infrastructure level. However, please allow me to put our energy programme in perspective.

6.4.7.2 Legislative and Regulatory Reform

The Electricity Supply Act, which governs the electricity sector in our country, gives LUCELEC an 80-year monopoly on the generation, transmission, distribution and sale of electricity. This monopoly is set to end in June 2045. So, to introduce renewable energy into our electricity matrix we have to amend this Act. This is currently being done, via a consultancy that is being financed under the World Bank-funded ECERA project. When this work is completed by September of this year, we will have a new draft Electricity Supply Services Bill that will replace the Electricity Supply Act, and a suite of draft regulations that will govern everything from licenses to wiring to tariffs to interconnection to customer service standards.

We are also changing the regulatory regime for the electricity sector. We believe it is not fair for LUCELEC to determine not only the price it charges for electricity but also the price at which it will purchase electricity from independent producers, both at the household and utility levels. Therefore, we have developed a new bill to create a National Utilities Regulatory Commission (NURC), which will regulate both the water and electricity sectors and be responsible for ensuring the smooth, transparent and fair operation of the various operators in these sectors.

6.4.7.3 New Renewable Generation

At the infrastructure level, we have been working diligently to attract quality independent power producers to generate electricity from renewable sources. I am pleased to announce that we are starting to see the fruits of that labour. Last month, we welcomed the commissioning of a test tower in the Dennery area to

collect wind data that will inform the establishment of a 12 MW wind farm. When this wind farm is commissioned, it will immediately fulfil our Government's promise to increase the generation of renewable energy to 20%, except in this case we will be achieving that goal over three years early.

With the generous support of the World Bank, the Global Environment Facility, SIDS DOCK and the Government of New Zealand, we have commenced technical studies and community consultations that are a precursor to the development of our geothermal potential in Soufriere. The Clinton Climate Initiative has provided invaluable transactional support to our government in advancing negotiations with the preferred geothermal developer and between the developer and LUCELEC to finalise a geothermal development agreement and a power purchase agreement. Over the next twelve months we will see an intensification of the geotechnical explorations and the community meetings and hopefully, a transitioning to the next phase, which will be the actual drilling of new exploratory wells.

We are aware of the sensitivity of this activity. The Soufriere area is very important for our tourism product and we will not allow any activity to take place there that will compromise our tourism product. We are also cognizant of the environmental sensitivity of the area and specifically, its unique nature as a UNESCO World Heritage Site.

We also know that some have fears, largely unfounded, of a link between geothermal exploration and earthquakes. For these reasons we are moving carefully, undertaking all of the necessary tests, collecting all of the required environmental data and doing everything within our power to ensure that this facility, when it is built, will be constructed to the highest standards and will safeguard human lives, property and our World Heritage Status, while at the same time giving us as much as 30 MW of cheaper, cleaner, reliable energy.

6.4.7.4 Reduction in Public Expenditure on Electricity

Finally, we are working to fulfil another manifesto promise, which is the reduction of public expenditure on electricity by 20 percent by the year 2020. To do this we are moving aggressively to retrofit government buildings with more

energy-efficient lights and air condition units, and in some instances, install grid-tied rooftop solar photovoltaic panels so that they may generate their own electricity from the sun.

In a few months, we will install solar-PV panels on the roofs of the Wellness Centre and NEMO's Headquarters. Our Government will also be installing solar-PV panels on the roof of Government House to make the official home of our Head of State a shining example of our green energy programme.

Four buildings have been targeted for lighting retrofits this year under a project funded by the Taiwanese Government. We will be replacing all of the lights in the Ministry of Infrastructure at Union, the High Court building, the Parliament Building and the General Post Office with more efficient and longer lasting LED lights. On an even bigger scale, we also expect to install LED lights and replace the inefficient air condition units in the Greaham Louisy Administrative Building, after we have upgraded the electrical system in the building. The tenders for this significant retrofit are expected by the end of this month, May.

7.0 INVESTING IN OUR HUMAN CAPITAL

Mr Speaker, I now turn to development of our human capital through our Education Sector.

7.1 FREE VISION AND HEARING TESTS

One of the promises we made on assuming office was to provide free testing for children in Primary School to allow us to determine whether there are any physical impediments that may be affecting their ability to perform.

I am pleased to be able to announce that from January 2016 we will introduce free vision and hearing tests for all children in Grade 2 in our primary schools, prior to the Minimum Standards Test, so that we can catch any problems early and ensure the necessary corrective actions are taken. Approximately three thousand students will benefit from this initiative.

7.2 BASIC EDUCATION ENHANCEMENT PROJECT

Mr. Speaker, during this Financial Year, we will continue works on a number of ongoing projects in the education sector.

Under the Basic Education Enhancement Project, \$14.1 million will be spent on completing works that commenced in the past financial year. These include the following initiatives:

(1)At the Corinth Secondary School in Gros Islet, a major rehabilitation of the plant is underway at a cost of \$6.0 million. This involves the replacing of old timber wings with two new concrete wings incorporating 9 classrooms, art & music rooms, a Physics laboratory, office space, modern toilets, a covered assembly area, rehabilitated sewage system and parking improvements;

(2)The Clendon Mason Secondary at Dennery will also be upgraded at a cost of \$6.9 million. Eight new classrooms, four science labs, a covered assembly area, staff common area and offices will be provided; and

(3)Another \$4.9 million will be spent upgrading the Vieux Fort Infant and Fond Assau Combined Schools.

7.3 OTHER INITIATIVES IN EDUCATION

Mr. Speaker, thanks to the Venezuelan Government, our Government provided laptops to every secondary school teacher and student in Forms 3 and 4. The programme will continue in the next academic year when laptops will be made available to the incoming batch of Students of Form 3 in all secondary schools.

To assist teachers with maximising these resources for teaching and instruction, ICT training will be provided by that ministry's IT Unit in collaboration with other agencies.

Government will also continue its support of the successful SMILES Programme that is targeted at single mothers. Mr. Speaker this programme is run through the National Skills Development Centre (NSDC) and \$500,000 has been provided for its continuation.

Another \$500,000 has been provided for the Caribbean Youth Empowerment Programme, another initiative implemented by the NSDC. This will assist with training approximately 90 at-risk youth.

7.4 **SPORTS**

While health and sport go hand-in-hand, sport has had to suffer over the past years due to the housing of the St Jude Hospital at the George Odum Stadium. Once St Jude Hospital has been re-commissioned at Cantonment, we shall commence actions aimed at rehabilitation of the George Odum Stadium.

However, we managed to complete rehabilitation works at two major community grounds: the Marchand Grounds and the Phillip Marcellin Grounds. These grounds were energised by the commissioning of sports lighting on both, allowing a rejuvenation of sport, especially football.

7.4.1 **Lighting of Recreational Facilities**

Mr. Speaker a total of four grounds saw the introduction of sports lighting last year, and this year, an additional four will be lit for night-time use.

The following communities will benefit from a \$2.6 million grant from the Republic of China (Taiwan):

- (1)The La Fargue Playing Field in Choiseul;
- (2)The Canaries Playing Field, I must ensure that the people of Canaries feel no jealousy towards the new lights in Anse la Raye;
- (3)The Fond Assau Playing Field in Babonneau; and
- (4)The football field of the newly renamed Remy Lesmond Sports Complex in the village of Dennery.

I should add, Mr Speaker, that these investments do not only extend the hours of play for sport, but they also enlighten new possibilities for venue hosting, as has been witnessed with the Phillip Marcellin Grounds and *Independence 36*, and the recently concluded Anse la Raye Jazz on the playing field there.

7.4.2 **National Aquatic Centre**

The major sports infrastructure investment to be undertaken this financial year is the new National Aquatic Centre to be constructed at Beauséjour, Gros Islet, at a cost of \$12 million. This facility will provide an Olympic-standard swimming pool with warm-up and training pool space, a 500-seat pavilion and a building with players' changing rooms, gym, coach and officials offices.

7.4.3 **Commonwealth Youth Games**

Mr. Speaker, it is well known that the Government of Saint Lucia has offered to host the Commonwealth Youth Games in 2017. The former Government under Prime Minister Stephenson King, supported by the then Leader of the Opposition, your humble servant, committed Saint Lucia to hosting the event. Undoubtedly, the hosting of these games would bring great honour and prestige to our island. The fundamental question that faces us now, is whether we can finance the hosting of the event at this time given our fiscal challenges?

The Ministry of Finance, after reviewing the 2015/2016 Budget Submission from the Ministry of Youth Development and Sports, has estimated the cost of hosting the games at \$34.0 million. Since the funding for the National Aquatic Centre has been secured from the Republic of China (Taiwan) in the amount of \$12.0 million, there is an unfunded balance of \$22.0 million. The Ministry of Youth and Sports indicates that a possible \$11.6 million is available from external sources, though to date only \$600,000.00 has been confirmed.

I note that rehabilitation of the George Odlum Stadium is estimated by the Ministry of Youth Development and Sports at \$4.95 million. In my view, this is a rather conservative estimate. I am advised that real cost is more likely to be in the amount of \$8.5 million.

Given our experience with Cricket World Cup in 2007, it is not unreasonable to believe that the real cost of hosting these games may well be much higher.

The real question is whether Saint Lucia should utilise the scare resources at its disposal to invest in domestic infrastructure and youth development as against hosting the event for honour, prestige and exposure of our athletes.

Honourable Members and indeed our sporting public, may wish to share their views on this matter, prior to the Government making a final decision.

7.4.4 Insurance Coverage for our National Athletes

One final matter under Sport. As you would recall Mr Speaker, in this year's Throne Speech, Her Excellency the Governor General spoke eloquently of the pride that we all share in the performances of our athletes during the past year. In all areas of sporting activity, our national athletes continue to excel. They are doing this not only on the national stage, but now also in regional and international arenas.

One of the primary concerns for any athlete is their physical wellbeing. They train hard and they pay meticulous attention to their bodies and their level of fitness. However, when you push your body to the extremes needed for sporting excellence and success, injuries will sometimes occur. This is one of the unfortunate by-products of sporting endeavour.

Mr. Speaker, I am certain our national athletes and our sporting associations will be pleased to know that effective September of this year we will provide insurance coverage for national athletes who have been selected to represent our country for the duration of the sporting event.

We will provide coverage for Accidental Death and Dismemberment of up to EC\$50,000 per athlete and Accidental Medical Expense Reimbursement of up to \$40,000 per athlete. A maximum of 100 athletes will be covered at any one time. In other words, for the duration of time that our national netballers are representing Saint Lucia in competition, either at home or overseas, they will have insurance coverage, and this will be replicated across all the recognized sporting disciplines.

8.0 STRENGTHENING SOCIAL PROTECTION

Mr. Speaker, this Labour Government will continue to be one that demonstrates genuine compassion and care for those who are the most vulnerable in society. We are a Government committed to our roots in the protection of those who have the least.

8.1 ACTIVE LABOUR MARKET PROGRAMMES

One of the strategies that has been employed by the Government has been the National Initiative for the Creation of Employment, NICE. NICE is an active labour market programme that has brought relief to thousands of our youth and our females since June 2012.

8.1.1 Grant Funding for NICE

Mr. Speaker, during the Financial Year, through the help of the Bolivarian Republic of Venezuela and ALBA, we will continue our support for the NICE.

A \$20 million grant will be used to sustain this Active Labour Market Programme. NICE continues to serve as a cushion to the many who would have otherwise been unemployed, resulting in even higher unemployment numbers.

Mr. Speaker, at the end of Financial Year 2015/16, Government would have spent close to \$80 million providing support at stabilising the labour market and providing a major lifeline for thousands of Saint Lucian families in every community. This has created over 5,400 employment opportunities. It now remains to secure a further \$20.0 million in the financial year 2016/2017 to complete the commitment of this Government to spend \$100.0 million to create jobs in our country.

Simply put, thousands of households have kept an income, thousands of women and single mothers kept their dignity, hundreds of children were kept nourished and nurtured thanks to NICE.

8.1.2 Support to Farmers

Mr. Speaker, during this financial year, NICE will continue with its Farm Labour Support Programme, which has assisted over 100 farmers in returning to production by subsidizing their labour cost. This Farm Labour Support Programme has tackled what has been a major impediment to farmers for quite some time: the cost of Labour. NICE will continue its collaboration with IICA in this regard so as to support the training of young agricultural workers.

8.1.3 Support to Private Employers

NICE will also provide opportunities to businesses through its Private Sector Partnership Arrangement. This initiative will deliver support over a six-month period to employers in the productive sector who employ new job seekers between the ages 16 and 45 years. The support will cover up to 60 percent of the individual's salary to a maximum of \$1,500.00.

8.2 STEP-UP

Additionally, through the Saint Lucia Social Development Fund, I have committed \$3.5 million for the continuation of the Short Term Employment Programme, which gives a boost to the seasonally employed.

Such a programme is important at bringing in much needed income, particularly in our rural communities.

With an improved fiscal situation, the Government is now able to re-introduce a year-round step programme targeted at Anse la Raye/Canaries, given the high poverty levels in that district.

8.3 POVERTY ALLEVIATION

Mr. Speaker, I have also committed another \$3.5 million to support two other SSDF-managed support programmes: HOPE and Koudmen Sent Lisi. Both programmes will target households and communities that are confronted with the multi-dimensional nature of poverty.

HOPE will receive \$2 million aimed at community-based projects that can make a difference in raising the quality of life in communities while creating employment.

Koudmen Sent Lisi's \$1.5 million vote will this year target new beneficiary households using a new filtering tool. This programme will provide a wide range of support, including education bursaries, health assistance and physical improvements to homes.

8.4 SOCIAL PROTECTION REFORMS

Mr. Speaker, we will continue with our efforts to improve the efficiency and effectiveness of delivering targeted social services to those who are most in need. Consistent with the newly approved Social Protection Policy, the Government will continue with its roll-out of social safety net reforms.

A new instrument for determining eligibility for assistance is being fine-tuned and will soon be in use across numerous agencies.

Additionally, the Ministry of Social Transformation will continue its shift towards electronic transfer of public assistance. In instances where beneficiaries are incapacitated or unable to transact their own affairs, provision is being made to ensure that the next of kin can substitute on their behalf. Additionally, electronic cards will be issued to beneficiaries, providing even greater empowerment.

8.5 CONSTITUENCY DEVELOPMENT PROGRAMME

Mr. Speaker, we will continue with the Constituency Development Programme, an initiative which sees major impacts in every constituency around the island. Last year, we spent over \$18.7 million, issued 552 contracts, created over 3,000 construction jobs and realized outputs such as community roads, drains, river walls, sidewalks and footpaths.

This year, thanks to a grant from the Republic of China (Taiwan), the programme will be expanded to over \$24 million. We expect to create nearly 3,900 construction jobs across over 100 projects, spanning all 17 constituencies.

To give but a few examples of the impact of this project, allow me to cite a small sample of the larger projects to be delivered:

1. The Fond Cacao road in Babonneau will be completed at a distance of nearly 1,000 metres, benefitting over 70 households and many farms;
2. A number of roads in the Cas en Bas area will receive attention, including the Fostin Development, Hilltop Avenue, and Anse la Voutte;
3. Construction will start on the much promised, much awaited Barre St Joseph Human Resource Development Centre;
4. Canaries Village will see a major injection of support to upgrade roads and drains;

5. The Belle Vue Playing Field in Vieux Fort North will be upgraded, along with the construction of a mini-pavilion, as well as the Cantonment Playing Field in Vieux Fort North;
6. Multipurpose Courts will be completed in Ti Morne at Union, and in Bexon;
7. A new beach facility will be constructed at Choiseul Village;
8. Works at Carellie Park will recommence; and
9. (Concrete roads will be completed at Trou-a-L'Eau in Dennery South, in St Marie/Lombard in Micoud North, at Fond Coolie in Micoud South, Monkeytown in Lower Ciceron, in Belmont & Gadette in Dennery North, and the list goes on.

Mr. Speaker, I am sure each Honourable member would like me to highlight the proposed projects in their respective constituencies. However I highlight these now to give a sense of the breadth of works to be undertaken under the Constituency Development Programme.

8.6 ENHANCING COMMUNITIES

Mr. Speaker, I wish to turn to the matter of enhancing our towns and villages, our urban realm. It is perhaps apt that I start with Soufrière.

8.6.1 Soufriere Urban Enhancement

Mr. Speaker, Soufrière has proudly held the title of Saint Lucia's first town. In many respects, this town is historically, geographically and socially at the heart of Saint Lucia. It was once also economically at the heart of our island, but this has waned over the decades and centuries.

However, Soufrière remains iconic to Saint Lucia. It is the home to our Pitons World Heritage Site, to the Sulphur Springs, to waterfalls, old estates and numerous other treasures that have made our tourism product unique. As such, nearly 60% of all visitors to Saint Lucia visit Soufrière. It also boasts some of our most sought after properties, with nearly 20% of our hotel accommodation plant.

It has long been lamented, however, that the town of Soufrière itself does not do justice as a gateway to Saint Lucia's treasures. And yet, the town itself is filled with history, with opportunities and possibilities for regeneration.

This year, Mr. Speaker, I have decided to devote about \$2.3 million towards the enhancement of the Town Square in Soufrière. This square is a place of great history – it is even recorded that a guillotine lay in its centre during the French Revolution. It holds prime location in the historic core of the town but requires a complete make-over to bring the town to a new level.

The Square will be completely redeveloped and become a place of interest and relaxation for visitors and residents alike. New brick pavements will be incorporated along with enhanced lighting, water and public art features. It will, of course, also be a Wi-Fi hotspot.

8.6.2 Laborie Market

Mr. Speaker, Laborie too is another historic village that is not short on character. The town, through its Development Foundation, has been positioning itself to capture the yachting market for mariners looking for quiet moorings and a peaceful village scene.

Government will support their efforts. In this coming financial year, work will commence on a new market for Laborie. This facility will replace the existing market on site, and will take advantage of its location near the water's edge. The two-level structure will be an iconic structure and provide space not just for vending but also for the hosting of events. It can easily become a focal point for activity on the Laborie waterfront.

This facility is expected to be completed at a cost of \$2.4 million.

8.6.3 Gros Islet Human Resource Centre

Mr. Speaker, I must now turn my attention to a project started on the eve of the last General Election, the Gros Islet Human Resource Centre. This project was started but funding for its completion was never identified. It has thus languished in an incomplete state. I am pleased to announce that \$4 million will be allocated this year for its completion, through grant funding from the

Republic of China (Taiwan). The project was originally designed to provide a 350-seat auditorium, IT Labs, Library, Conference and Training Rooms. The relevant agencies will scope the project with the aim of seeing how best to prioritize works within the available resources.

8.6.4 Castries Urban Renewal

Mr. Speaker, all of us in this House are aware that we face a complexity of problems, sociological and otherwise, in our inner communities, particularly in the Castries Basin. The problems range from poor housing conditions, to lack of ownership, poor community infrastructure, unemployment and crime. Successive administrations have pioneered the relocation of persons from Conway to establish new lives. We have gained invaluable experience in conducting that exercise. The time has come to tackle other communities and provide an improved quality of life to the residents in those communities.

The Government proposes to take the first steps to begin the process of tackling the problems in our inner communities in the Castries Basin. Two communities have been selected, Wilton's Yard and Faux-a-Chaux. In these communities, the Government will undertake an updated social assessment to determine the number of residents, land tenure, and the willingness of residents to be relocated elsewhere to new communities.

This will be a delicate undertaking and so the Government will need the support and understanding of the Parliamentary Representatives for those areas. Mr. Speaker, I accept that this initiative can only succeed if the Government wins the trust of the residents of those communities.

Meanwhile, the Government will proceed to identify new sites for relocation and will present to Honourable Members comprehensive proposals in due course.

9.0 STAYING THE COURSE: FISCAL SUSTAINABILITY

Mr Speaker, I now move to the fiscal measures necessary to underpin the 2015/16 Budget.

9.1 NON-REDUCTION IN WAGES AND SALARIES

Mr. Speaker, it is widely known that the Government of Saint Lucia failed in its attempt to secure agreement from our Public Sector Unions to reduce wages and salaries by 5 percent in a bid to contain public expenditure. The Trade Union Federation countered government's proposal with several measures, including the imposition of VAT on electricity to make up the shortfall to help to reduce the fiscal gap.

For reasons which I will explain below, the Government does not believe it is advisable to impose VAT on electricity at this time. Other revenue options will, therefore, have to be explored.

The Government remains deeply grateful to those Unions that accepted a wage freeze for the current triennium. As I have explained, the moratorium on increases in salaries and wages will help to contain expenditure in the future, but it does not immediately resolve our fiscal imbalances.

9.2 SUMMARY OF REFORMS AND ADJUSTMENTS

Mr. Speaker, this year's Budget includes revenue reforms geared towards increasing revenue, further titling the tax system towards indirect taxes, enhancing the operational efficiency of several government departments and engendering a greater degree of fairness in the tax system.

The reforms are as follows:

1. Changes to the VAT regime, including an increase in the VAT threshold to \$400,000;
2. Raising the Customs Service Charge rate on imports from 5 percent to 6 percent;
3. Raising the charge on fuel purchased by LUCELEC by fifty cents;
4. Reform of the annual vehicle license fees regime; and
5. Overhaul of the Personal Income Tax system to increase the progressiveness of the system and reduce the tax burden of low and middle income earners.

Mr. Speaker, these measures were assessed within the context of regional and international best practices. The proposed changes are also designed to allow for

minimal disruptions to the public, while allowing Saint Lucia's tax system to remain competitive and buoyant.

I will now explain each of these proposals.

9.3 PROPOSED AMENDMENTS TO THE VALUE ADDED TAX SYSTEM

Mr. Speaker, as stated in the Budget Address of 2013, the implementation of the Value Added Tax (VAT) in October 2012 was a fundamental change in tax policy and the way we do business. There were significant concerns regarding the refund policy that was established by the Inland Revenue Department. I am happy to report that there is general satisfaction with the current mechanism for refunds. By and large, refunds are handled in a speedy and efficient manner.

The Government continues to review the VAT Act to identify areas where changes would redound to the overall good of the economy. As I have indicated on many occasions, once VAT has stabilised, further legislative adjustments will be made, where needed, to ensure the continued improvements in the Value Added Tax System. Mr. Speaker, the Government proposes to make four adjustments this financial year.

9.3.1 Raising the Threshold to \$400,000

First, the VAT threshold will be raised to \$400,000 from the previous threshold of \$180,000. This would mean that over six hundred (600) VAT registrants will not be required to collect VAT on behalf of the government. We have recognized that these smaller registrants are continuously seeking filing assistance from the Inland Revenue Department and some have even requested de-registration. We have listened to their concerns.

Requests for voluntary registration will continue to receive appropriate consideration. This will ensure that small manufacturers and other sensitive businesses (falling below this threshold) are not disadvantaged. Voluntary registration will, however, be subject to adherence to the provisions of any enactment administered by the Inland Revenue Department.

9.3.2 A Deferred Tax System for the Importation of Capital Goods

Mr. Speaker, the Value Added Tax Act states that the Comptroller may exempt capital goods once the importer has not commenced taxable activity or has a valid license under specific Incentives Acts or other legislation.

Many businesses, however, have requested an exemption of large capital items although they have already commenced taxable activity. In order to ease some of the difficulties that have arisen, the Government plans to introduce what is called a Deferred Tax System for these capital goods.

Under a Deferred Tax Payment System, registered and existing businesses can request a deferred payment to eliminate the possible cash flow problems resulting from investment in large capital goods. Taxpayers who meet the required conditions will be allowed to defer payment of VAT on the importation of selected goods. Accounting for the VAT will be a book entry, and as such no cash payment is required. This new system will give rise to the following benefits:

- (1) Improved cash flow as companies will not be required to pay VAT upfront upon importation of capital goods;
- (2) The required funding and the cost of financing these capital goods will be lower; and
- (3) Better perception of the island as it pertains to the “Ease of Doing Business.”

9.3.3 Exemption of Unconditional Gift of Service and Importation of Replacement Goods

The VAT Act currently makes provision for the exemption of an unconditional gift of a good to the State. Mr. Speaker, I propose that this exemption be extended to an unconditional gift of “service” to the State.

I propose also, to exempt replacement goods which are re-imported to the state.

If someone returns a faulty good to an exporter and the good is replaced with a similar item of the same value, there is no provision to exempt that replacement item from VAT. For example, if someone imported a car part, paid all the necessary taxes and then realized that the part is defective, that person should not be burdened with paying VAT upon re-importation of that replacement part. For this reason, I am proposing an amendment to Schedule Three of the VAT Act to also exempt the importation of replacement goods.

9.3.4 Ease of Refunds to Zero Rated Businesses

The VAT Act currently requires a business dealing in zero rated supplies to apply for a monthly refund on a prescribed application form. We will now ensure that these refunds are paid automatically, provided that all necessary criteria are met. Essentially, zero rated businesses will no longer need to apply for a refund. This will minimize the administrative burden on the Department and the business and further confirms that we have an efficient VAT refund system in Saint Lucia.

9.4 CUSTOMS SERVICE CHARGE

Mr Speaker, one of the big challenges facing the Governments of the OECS is to meet the cost of financing regional organizations. The OECS and its associated institutions have struggled to meet their obligations because regional governments are often very tardy in the provision of their subventions to the institutions in question. Everywhere one turns, there are outstanding liabilities, compromising the existence of the very institutions we created to serve our collective needs. To safeguard the operations of these institutions and to provide a direct mechanism for member countries to finance their regional obligations, the OECS Authority, after years of debate and discussion, finally agreed to introduce a small charge on imports to finance the OECS Secretariat and other regional institutions.

Currently the Government of Saint Lucia requires \$11 million annually to finance its regional obligations.

The current rate of Customs Service Charge is 5 percent. The Government, in line with the agreement with other OECS countries, proposes to increase it by 1

percent to 6 per cent. It is estimated that this measure will yield an additional \$10.2 million and be on par with two OECS peers, namely Grenada and St Kitts and Nevis.

However, at the new rate it will remain below the Antigua and Barbuda's "Revenue Recovery Charge" of 10 per cent.

The Government of Saint Vincent and the Grenadines has already increased its Service Charge to meet this obligation. Other countries are expected to follow shortly, although the time frame will differ from country to country.

9.5 INCREASE IN FUEL SURCHARGE

Mr. Speaker, in last year's Budget, the charge on fuel purchased by LUCELEC for generation of electricity was increased to 50 cents per imperial gallon. In this year's Budget, I propose to increase the fuel charge by a further 50 cents.

I am aware that this comes on the heels of the increase last year, but as I have maintained, this approach is far more palatable than the option of imposing VAT on electricity consumption at 15 percent, as recommended by Public Sector Unions.

Our analysis suggests that raising the surcharge increases revenue by about the same as imposition of VAT at the standard rate (under an assumption of a threshold for domestic consumers), but has a smaller impact on the bills of the final consumer.

Mr. Speaker, allow me to illustrate. Consider the case of a consumer who uses 100 kilowatt hours (kWh) per month. At current rates, this will cost the consumer \$90.30 at current rates. If we were to apply 15% VAT to this bill, there would be an additional charge of \$13.55, taking the bill up to \$103.85. However, our proposal of increasing the fuel surcharge to \$1.00 would lead to an increase of only \$3.0. The same consumer would now pay a total bill of \$93.30. Therefore, increasing the surcharge would mean the consumer would pay \$10.55 less on a monthly basis compared to implementing VAT on electricity.

Electricity	Current	New Bill	Difference

Usage (KHW)	Bill	Option1: 15% VAT	Option 2: Fuel Surcharge (\$1.00)	
100	\$90.30	\$103.80	\$93.30	\$10.55

This revenue measure is expected to yield an additional \$9.5 million.

9.6 VEHICLE LICENSE REFORM

Mr. Speaker, the motor vehicle license fees in Saint Lucia is guided by the Motor Vehicle and Road Traffic Act of 2003. Renewals currently operate under a two-tiered structure, whereby private cars and jeeps pay an annual license fee of \$150, while goods vehicles and earth-moving equipment pay \$300. This fee structure was last revised in 2009, some six years ago.

Mr. Speaker, I believe that all of our road users have a responsibility to help in the maintenance of our roads. These days, a mile of road costs approximately \$1.5 million. I often say to our friends in the Minibus Association that the Government of Saint Lucia collects roughly \$455,000.00 in route band fees, annually. This amount cannot even finance the cost of constructing half a mile of road. Yet, minibuses require decent roads to provide transport to commuters.

Unquestionably, Mr. Speaker, the heavier the vehicle, the greater is the damage to our roads. Likewise, the greater the engine capacity of our vehicles, the greater is the amount of fuel that is consumed and the greater is the damage to our ecology and environment. For those reasons, most countries in the OECS and indeed internationally, have adopted a progressively tiered system with weight, engine capacity, as the key metrics, whether singly or jointly, to determine vehicle licence fees.

In this vein Mr. Speaker, I propose an amendment to the Motor Vehicle and Road Traffic Act of 2003 such that:

1. There will now be ten (10) vehicle licensing classifications. These vehicle licensing classifications will be as follows:

- (a) private vehicles;
- (b) hired vehicles;
- (c) motorcycles;
- (d) passenger and farm vehicles (M and FAR plates);
- (e) goods vehicles;
- (f) trailers;
- (g) earth-moving equipment;
- (h) container trucks; and
- (i) hearses.

(2) Private vehicles, hired vehicles (including “TX” plates) and goods vehicles will have multiple weight classes, each with a progressive fees structure.

(3) The weight class for a vehicle sub-category will be based on the ‘curb weight’ of the vehicle.

Table 1 below shows the new classifications, curbs weights and associated fee structure. I want to emphasise that passenger vans and motorcycles remain unchanged.

Passenger vans are given the respite for three years after which the rates will increase in line with other increases.

The changes are as follows:

1. Private and hired vehicles between 0 and 2500 lbs will increase from \$150 to \$250, an increase of \$100;
2. Between 2500 and 3500 lbs, the license fee will move from \$150 to \$300;
3. Private and hired vehicles with a curb weight of 3500 lbs and greater, the license fee will move from \$150 to \$350;
4. Goods vehicles of less than one tonne will now be charged, \$450, an increase of \$150;
5. Goods vehicles between one and three tones will pay an additional \$250 with a new rate of \$550;

6. Goods vehicles between three and five tonnes in weight will move from \$300 to \$600;
7. And goods vehicles of in excess of five tonnes will now pay a licence of \$700.00, an increase of \$400;
8. Trailers, tractors, earth moving vehicles and container trucks which currently are charged \$300 will now be charged \$750, an increase of \$450;
9. The fee for motorcycles, "M" plate passenger vans and farm vehicles will remain flat at \$150; and
10. Lastly, hearses which currently fetch a license of \$300 will remain flat.

Table 1: Proposed Motor Vehicle License Fee Structure

Proposed Category	Proposed Curb Weight (lbs.)	Previous Fee (\$XCD)	Proposed Fee (\$XCD)	Change in Fee (\$XCD)
Private and Hired Vehicles				
Class A	0-2500	\$ 150.00	\$ 250.00	\$ 100.00
Class B	2501-3500	\$ 150.00	\$ 300.00	\$ 150.00
Class C	3500 and above	\$ 150.00	\$ 350.00	\$ 200.00
Motorcycles	Flat Fee	\$150.00	\$ 150.00	\$ -
Passenger and Farm Vehicles ('M' & 'FAR' Plates)	Flat Fee	\$150.00	\$ 150.00	\$ -
Goods Vehicles				
less than 1 ton	0-2204	\$ 300.00	\$ 450.00	\$ 150.00
1-3 tons	2205-6613	\$ 300.00	\$ 550.00	\$ 250.00
3-5 tons	6614-11023	\$ 300.00	\$ 600.00	\$ 300.00
over 5 tons	11024 and over	\$ 300.00	\$ 700.00	\$ 400.00
Hearse	Flat Fee	\$300.00	\$ 300.00	\$ -
Trailers	Flat Fee	\$300.00	\$ 750.00	\$ 450.00
Earth Moving	Flat Fee	\$300.00	\$ 750.00	\$ 450.00
Tractor	Flat Fee	\$300.00	\$ 750.00	\$ 450.00
Container Trucks	Flat Fee	\$300.00	\$ 750.00	\$ 450.00

Mr. Speaker, this proposal is expected to raise an additional \$3.6 million. The key benefit of such a proposal is the progressivity and objectivity which a weight-based system brings.

9.7 PERSONAL INCOME TAX REFORM

Mr. Speaker, I would like to now address Personal Income Tax.

In the Budget Statement of 2014/2015, I announced several changes to the Income Tax regime. Honourable Members are aware that these changes were not implemented during the last session of Parliament.

Honourable Members will also recall that I proposed, inter alia, a reduction in our tax bands from four to three and an increase in the personal allowance threshold from \$18,000.00 to \$21,000.00. The changes would have allowed roughly 2,100 persons to be removed from the Tax Roll. In retrospect, we did not believe that those changes went far enough to modernise the tax system and to achieve the objective of shifting the tax system more in the direction of greater reliance on Indirect Taxes.

I have had to delay the implementation of the Corporate Tax reforms in this period, but we will pursue changes to the personal income tax regime in this financial year. However, Mr Speaker, this is still on the agenda of the Government and we will explore reforms to the Corporate Tax system in the next fiscal period.

Mr. Speaker, the current Personal Income Tax regime has a threshold of \$18,000, four tax bands and rates, and twenty eight (28) allowances and deductions. This is by far the highest number of allowances and deductions across the OECS. This gives rise to the following challenges:

1. The sourcing of multiple supporting documents is a nightmare for individual taxpayers who are required to file annual returns. Consequently, the processing of these returns is delayed;
2. The uploading of the required supporting documents acts as a disincentive to taxpayers wishing to utilise the electronic method of filing (e-filing);
3. The number of tax bands and rates complicates the computation of the tax payable for the taxpayer;
4. The volume of deductions and the ensuing paper submissions for verifications consume time and focus of the Inland Revenue Department;
5. The current income tax structure militates against the progressivity of the system. Under the current Personal Income Tax system, it has been noted that the relative tax contribution of the very high income earners is not

comparable to that of the low and medium income earners. The burden of the tax system is really on the backs of middle and low income earners because they cannot always access the range of deductions which higher income earners enjoy.

In this regard, Mr. Speaker, the reform of the Personal Income Tax regime will address these challenges with the following main objectives:

1. Simplification of the system – this will be achieved by streamlining the number of allowances and deductions, as well as decreasing the number of tax bands;
2. Aid electronic transactions - by reducing the number of allowances and deductions, the documentation required is significantly lessened, which will facilitate the electronic filing of returns;
3. Improve ease of doing business – the simplification of the tax system will improve the ease of doing business with the Inland Revenue Department;
4. Minimise the tax payable of the lower income taxpayers – an increase in the personal allowance significantly reduces, if not eliminates, the tax payable for a large number of low income taxpayers; and
5. Improve the progressivity of the tax system – a higher personal allowance, and reduction in the number of allowances and deductions generally imply lower effective tax rates for the lower income earners, thus improving the progressivity of the tax system.

In this regard, Mr. Speaker, reform of the Personal Income Tax system seeks to address this anomaly in the tax system, while providing relief to a wide cross section of taxpayers. Under the proposed system, the monthly tax payments and the number of documents that are to be obtained to support the annual return will be sharply reduced. The deductions, threshold, tax bands and tax rates were all chosen with a view to striking an appropriate balance among revenue implications, fairness in the payment of taxes, and the efficiency of the Saint Lucia tax system.

Mr. Speaker, at this time, I would like to point out that the objective of this reform is not to raise additional revenue. In fact, the proposal that I have before me indicates a reduction in personal income tax revenue somewhere in the region of \$8 million. In effect, this would represent a tax break for a large

number of tax payers. However, we are convinced that the simplification of the Personal Income Tax system will result in greater efficiency gains to taxpayers and the Inland Revenue Department.

This implies that the net negative impact on revenue will be contained, as efficiency gains will allow the Inland Revenue Department to devote more resources towards more rewarding areas, such as Property Tax collections.

Mr. Speaker, some may ask why is the Government raising taxes and at the same time giving a tax break, particularly with the work left to be done in restoring fiscal sustainability? The reason is simple and straight forward. As indicated above, we continue along the path of transforming the tax system away from direct taxes to indirect taxes.

This process was accelerated with the implementation of VAT in 2012. It was always the intention of this Government to provide relief through reduction in direct taxation once VAT was in place and settled.

The proposed reform to the Personal Income Tax Regime is as follows;

1. Increase the personal allowance from \$18,000 to \$25,000. By increasing the personal allowance by \$7,000, some 2,705 taxpayers will no longer be required to file a return and would pay no income tax;
2. Amend the tax bands and establish only two bands with the following rates:
 - a) Chargeable income of up to \$30,000 - 15 percent;
 - b) Chargeable income of \$30,001 and above - 25 percent;
3. Limit the number of existing deductions to four priority areas as follows:
 - a) Medical Deduction, allowed for medical insurance premiums and expenses;
 - b) Future benefits defined as Life Insurance, National Insurance Corporation contributions, Pension Contributions and Registered Retirement Savings;
 - c) Education Benefit, which includes both the Child Allowance and the deduction for student loan interest (for university education and equivalent); and
 - d) Mortgage Interest and Property Tax payments;
- (4). Limit the aggregate of all the deductions that can be claimed to a maximum of \$25,000. Tax payers are free to claim a value of deductions up to the overall cap of \$25,000 in any or all of the four priority areas identified. This flexibility will allow tax payers in any given year to make claims based on their unique circumstances.

Mr. Speaker, let me illustrate how this new Personal Income Tax regime will benefit taxpayers who currently have low and medium deductions:

Occupation	Monthly Income	Current Tax Payable	Proposed Tax Payable	(Reduction)
Security Officer	1,667	10	0	(10)
Driver	1,911	21	0	(21)
Retiree	2,779	73	0	(73)
Tax Inspector	4,290	263	156	(107)
Manager	4,653	434	247	(187)
Doctor	9,828	1,766	1,540	(226)
Retiree	13,568	3,061	2,475	(586)

However, persons with high deductions will be affected slightly differently. It must be noted that the individuals who will be negatively affected are a relatively small minority, as about 92 percent of tax filers would be better off or remain unaffected. Individuals who are likely to be affected are from the very high deductions group, to which the existing system was biased. The proposed changes will remedy this deficiency and consequently a few individuals will see some increase in tax liabilities.

Mr. Speaker, under the current Personal Income Tax system there are instances where an individual earns over \$6,000 and pays no Income Tax. However, another individual earns \$4,653 and pays \$434. The proposed changes in the system will minimise the likelihood of such disparities. I wish to point out that in most instances, persons within the low income bracket will no longer be required to pay taxes, as the majority will now fall below the threshold of \$25,000.

Effectively, an individual must earn in excess of \$2,084 per month (this figure is currently \$1,533) to be subject to PAYE (Pay-As-You-Earn). Approximately 19,425 (or 91.3 percent) registered taxpayers will pay less tax or their tax status will remain unchanged due to the proposed changes.

The proposed changes will go into effect from income year 2016.

9.8 CHANGES TO THE STRUCTURE OF THE INLAND REVENUE DEPARTMENT

Mr. Speaker, the proposed changes to the tax systems will be complemented by the modernization of the Inland Revenue Department (IRD).

Organization structures have become increasingly important in both the private and public sectors, as concerns have been raised related to accountability, responsibility, transparency and efficiency within organisations. Governments are seeking ways to improve operational results, while increasing transparency and accountability within their departments and agencies. The organisation structure of the tax administration is a key component in these efforts.

The Inland Revenue Department (IRD) is currently undertaking a major reform initiative that encompasses a review of the processes and procedures and the operational structure of the Department.

Mr. Speaker the main objectives of this administrative reform programme are to:

1. Enhance taxpayer service and compliance; (2) Re-organize the IRD along functional lines;
2. Strengthen planning, design and monitoring functions;
3. Segment the taxpayer population and establish separate Large, Medium, Small and Micro Taxpayer sections to focus on the peculiar needs of each segment; and
4. Integrate the administration of VAT into the mainstream operations of the Inland Revenue Department.

To facilitate the introduction of VAT, a separate unit was established to administer this new tax, as was the practice in other OECS countries. It was intended that this arrangement would survive for three years and would, thereafter be replaced. Continuing this type of structure beyond the set period reduces the opportunity to improve efficiency in the operation of the Inland Revenue Department. As such, VAT will no longer be administered independently.

Once these objectives are met, the Inland Revenue Department and taxpayers by extension will benefit. This enhanced structure and focus will result in:

1. Improved taxpayer service;
2. Reduced duplication and greater certainty;

3. Simpler processes for the taxpayer and the administration;
4. Centres of excellence, enhanced performance management and data integrity;
5. Increased compliance; and
6. Better resource management.

Overall administration costs will be reduced as duplicated processes are eliminated.

Mr. Speaker, the initial reform and modernisation programme, in its totality, will create the foundation for additional modernisation programme. This will allow the department to create new opportunities as it progresses into the future.

Reforms of this magnitude will take time, patience and foresight, but we are committed and confident that our ultimate goals will be realised.

9.9 INCREASES IN NIC PENSION BENEFITS

Mr. Speaker, Honourable Members would be aware that an actuarial review of the funds held by the National Insurance Corporation is conducted every five years. The objective of the review is to foster the good governance of the National Insurance Corporation by:

1. “Securing the long-term financial sustainability of the NIC;
2. Considering appropriate reform measures based on the findings and recommendations in the actuarial valuation report; and
3. Building proper actuarial and statistical capacity for the staff of the National Insurance Corporation (NIC) to support future actuarial valuations and social security reforms.”

The last actuarial review was conducted by the Social Security Department of the International Labour Organisation (ILO). It reports on the National Insurance Corporation as of June 30, 2010.

I am pleased to advise that approval has been given to the National Insurance Corporation to increase pension payments by 3 percent effective July 1, 2015. Increases in other lump sum benefits will also take effect on July 1, 2015.

Among these would be an increase in the funeral grant from \$1,750.00 to \$2,500.00. The NIC has also accepted a proposal to allow persons to receive a pension on or after the age of 65 years, even if still in employment.

Mr. Speaker, I know that Honourable Members remain concerned about the insurability of farmers and fishers. This matter remains under very active consideration. The National Insurance Corporation is currently in consultation with the ILO for the coverage of the self-employed. This is expected to cover farmers and fishers who qualify.

9.10 **CONCESSIONS TO MINIBUS OPERATORS**

Mr. Speaker, there is one category of entrepreneurs in our midst who deserve our collective thanks. I refer to our minibus operators. When the Government called for sacrifice in the face of the fiscal challenges facing us, minibus operators decided to contribute to the cause. They did so by foregoing increases in bus fares, even though they were entitled to these increases.

It is true that the Association requested a subvention to compensate for the rising cost of fuel. However, the Government did not accede to the request, explaining that it could not continue with a policy of direct subventions to minibus operators as there would be no end in sight for such requests. In any event, the fiscal limitations of the Government did not allow for such direct payments.

As a mark of its appreciation for the sacrifice and understanding of the minibus operators, the Government has decided to waive the payment of Route Bands by minibuses for a period of three years. However, all minibus operators will be required to obtain an "Exemption Certificate" from the Ministry of Transport through the National Council on Public Transportation (NCOPT).

Given the proposed changes to the Income Tax Regime, minibus operators will no longer be eligible for the payment of Income Tax. Mr Speaker, I am pleased to advise that the Government will no longer press for the introduction of a system of presumptive payment of Income Tax for minibus owners.

Minibus operators will also benefit from the decision not to increase license fees for passenger vans.

10.0 FINANCING THE BUDGET

Mr. Speaker, the Estimates of Revenue and Expenditure for financial year 2015/16 is budgeted at \$1.464 billion. This represents a 17 percent increase over the 2014/15 budgeted expenditure and a 23 percent increase over the preliminary outturn.

Of this total budget, \$984.2 million represents Recurrent Expenditure, which accounts for 72% of total expenditure, while Capital Expenditure is at \$414.2 million, representing 28 % of total expenditure.

It must be noted, however, that included in Recurrent Expenditure is Debt Principal Repayment of \$119.6 million

Mr. Speaker the 2015/16 Budget will be financed as follows:

1. **Recurrent Revenue** of \$984.2 million comprising Tax Revenue of \$900.7 million and Non-Tax Revenue of \$83.5 million, representing 92 percent and 8 percent of total projected recurrent revenue respectively.
2. **Capital Revenue** of \$7.6 million comprising proceeds from sale of assets of \$0.5 million and \$7.1 million from two revolving funds established under Shelter Development Programme and PROUD.
3. **Grants** of \$125.99 million, which represents an 89% increase from the last year's out turn. The main donors include:
 - (a) Republic of China (Taiwan) contributing \$56 million;
 - (b) European Union (EU) \$30.9 million;
 - (c) ALBA contributing \$20.0 million; and
 - (d) The Caribbean Development Bank (CDB) contributing \$6.5 million.

I should also mention that while not reflected in the Estimates, the Government of Mexico will be providing in the region of US \$7.5 million towards the Dennery Water Supply Project and St Jude Hospital.

4. Government Instruments consisting of **Bonds** of \$189.2 million and **Treasury Bills** of \$65.9 million, for a total of \$255.1million

5. Other **Loans** of \$ 91.3 million comprising:
 - a. \$31.7 million from the Caribbean Development Bank;
 - b. \$17.9 million from the World Bank;
 - c. \$27 million from the Republic of China (Taiwan);
 - d. \$10.4 million from the National Insurance Corporation (NIC);and
 - e. \$4.4 million from the Kuwait Fund for Arab Economic Development.

Mr. Speaker, based on the above figure, the current account surplus is at \$53.7 million or 1.4 percent of GDP. However, an overall deficit of \$227.2 million or 5.8 percent of GDP is projected.

11.0 **CONCLUSION**

Mr Speaker, I am therefore confident that 2015 will bring increased opportunity and growth for Saint Lucia.

Barring any unforeseen circumstances, we will see positive gains in our economy.

We will maintain a manageable fiscal deficit, far lower than what it was when we took office in 2011. Our public finances will be more secure, and our debt more manageable.

We will witness the commissioning of two state-of-the-art hospitals in the north and the south, an investment of over \$300 million in our health infrastructure.

We will be working for the delivery of clean drinking water to communities in Vieux Fort, Dennery and Desruisseaux.

We will be a country of less bureaucracy and improved public services. The ease of doing business will improve at our ports and in our courts.

We would have commenced work on what is the largest expansion in our highway infrastructure, the creation of a four-lane road link between Castries and Gros Islet.

We would be further along recovering from the destruction of Tomas and the Trough, and our country more resilient than before.

Roads that have been in a deplorable condition for years would be reconstructed: in Ciceron, in Fond Cocoa, in Vigé-Cocoa, in Cas en Bas, in Corinthe, in Choiseul, in Banse and all throughout our beautiful island.

We would have seen an expansion in tourism arrivals and the start of new and exciting investments in hotel plant.

Our Government will progress its agenda to make Saint Lucia more E-ready with a society more open, informed and connected through broadband.

We will set the base for greener growth with an energy sector driven by solar, wind and the heat of our earth.

We will begin renewing our city and making it more safe and attractive to visitors and citizens alike.

We will give light to our athletes, support our youth through programmes in agriculture, the arts and active labour market programmes like NICE.

The majority of our citizens will soon benefit from reductions in income tax.

Our Government will continue to play its role at the regional and international levels leading, where necessary, the fight on behalf of vulnerable, developing, island states.

These are the desires and policies of the Government. Our Government was elected to deliver a better country, and will strive even harder to do just that.

Mr. Speaker, I wish to commend this Budget Statement for 2015-2016 to Honourable Members for the good of all Saint Lucians.

We aim to deliver a country more sustainable, more at peace, more productive. A Saint Lucia that nurtures its young, a Saint Lucia that cares for all its people, a Saint Lucia that aspires for greatness.

And thus, Mr Speaker, I so move the Appropriation Bill 2015/16 for second reading.