STIMULATING AND RE-ORIENTING THE ECONOMY TOWARDS SUSTAINED GROWTH

THE 1998/99

BUDGET STATEMENT

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SAINT LUCIA

INTRODUCTION

Mr Speaker, whatever mysteries that may have been concealed in previous budgets, I aim to make this one different. I will be lengthy; I apologize for this, but I am anxious to encourage our people to understand what this Government is seeking to do. So, I have opted for substance and detail.

There is a level of technical sophistication in this budget that is unprecedented. This is so because we have challenged ourselves to bring to bear the most rigorous analysis and the most modern tools of macro-economic investigation and policy.

We have left few if any stones unturned in the quest to find the most creative ways of balancing long-term necessities with short-term benefits. An excellent indication of this is the new approach that was taken in the preparation of this budgetary statement, and is being taken in the multi-media presentation of this budget.

APPROACH TO BUDGET

Mr Speaker, the presentation of this Budget has benefitted from a programme of financial reform and management, currently underway in the Ministry of Finance.

Sound financial management of the State's resources provides a strong foundation for proper accountability. As far as the citizens of this country are concerned, they pay taxes in the full expectation that resources so raised by Government will be used for the services that are beneficial to this society. They expect that those entrusted with the responsibility for providing these services will at all times be accountable for the proper use of the resources made available to them. Government stewardship of public resources calls for full accountability and transparency on the part of public service managers and all other officials entrusted with public duties and responsibilities. The people in turn, expect that those upon whom such authority is conferred will use it responsibly and that they will at all times, remain fully accountable to the people.

Financial Management Reform

The objective of the Financial Management Reform of the Public Service, commonly known within the Public Service by the acronym FINMAN, is to enhance financial management and planning.

In September, 1997, Government embarked on reforming its budgetary process as a means of enhancing economic management through effective planning, allocation and management of Government's

financial resources. To achieve this objective, Programme Budgeting was introduced in the preparation of the Estimates and a number of mechanisms to strengthen the planning and preparation phases of the Budgetary process have been introduced in Central Government operations.

As you will notice, Government has tabled its Estimates in two Volumes. Volume I presents an overview of the plan for each Agency for the 1998-99 Fiscal year . Volume II shows the resource allocation for each agency and its various programmes and activities.

Traditionally, estimates for each agency were developed using the incremental approach to budgeting. The focus was only on inputs or how much funding was required for the various line items, that is, Salaries, Wages, Supplies, etc. Requests for Departmental Budgets were not based on objectives and outcomes. Few Agencies undertook the preparation of annual plans to direct the needs of their operations. Attempts at formulating the Government's priorities for the Budget Year were made after the Estimates Circular was issued. Budget monitoring, as is common with Line Item Budgeting, centred on financial performance only, that is, staying within expenditure allocations and revenue inflows. Until now, discussions were never focused on programme objectives and outcomes since these were not the focus of estimates requests. Ministries generally did not attach ownership to their budgets since they felt that they had no flexibility and little responsibility for the establishment and management of their budgets.

The Estimates for this year were developed using the Programme Budgeting Process. Programme Budgeting switches the focus from **inputs,** to the process of determining resource allocation on the basis of **objectives and outputs**. In essence, it leads to the allocation of the

Government's budget by programme and activity, not by line items or costs.

As part of the budget preparation phase, an extensive review of Central Government Operations was undertaken to classify each agency's operations into programmes and activities. Agencies were required to develop their missions, priorities, objectives, and results expected for the 1998-99 year at the Ministry level, and for each programme and activity. This information for each Ministry, referred to as "Programme Narratives", comprise Volume I of the Estimates.

To facilitate the determination of resources needed for each programme and its activities, and to ensure that estimate requests maximize opportunities to accommodate Government priorities, Ministries were issued "Preliminary Allocations" or an "Envelope of Resources" to focus their demand for programme resources. This concept of developing estimates within Preliminary Allocations certainly encouraged a shift from the traditional approach of incremental budgeting. The excessive focus on inputs shifted to a focus on linking programme resources to objectives, and the identification of alternatives and priorities in undertaking activities (Services). Volume 2 of the Estimates reflects the resources required to accomplish the Government's Programme this year, as reflected in the Programme Narratives under Volume I of the Estimates.

The shift to Programme Budgeting certainly directed the allocation of scarce resources more effectively. The development of this year's budget has seen the involvement of all levels of management. A process of decentralized decision-making and accountability at all levels of the organization has thus been initiated. Managers are now empowered to decide how best to achieve programme results.

The Programmes and Activities structure will enhance the reporting of programme information and facilitate the review and analysis of Government operations.

After many years to the contrary, the budgetary process has this year, finally resulted in an integrative approach to the budgeting for Capital and Recurrent Expenditure. Therefore, recurrent cost implications of capital expenditure are being identified at the outset of project planning.

For the first time, all agencies were required to develop detailed proposals, including the economic and client benefit, and financial implication of new initiatives both of a recurrent and capital nature, early in the estimates preparation phase of the budget cycle. This cultural shift to have agencies develop extensive policy proposals, facilitates the prioritization of demand for resources within the envelope issued to Ministries.

As part of the Budget Reform, the budget cycle was redefined to have a duration of 24 months instead of 18 months, and to commence April 1, instead of September of the year preceding the budget year. The extension of an additional 6 months in the budget cycle allows for an injection of a Strategic Outlook Phase as the first step in the budget cycle. The Strategic Outlook is the determination of the macro-economic outlook for the upcoming year alongside fiscal targets and Preliminary Allocations for agencies, critical information to structure the call for estimates from line Ministries, and to facilitate fiscal planning.

During Operating Year 1998-99, Ministries will be required to table quarterly performance reports for Cabinet Review. The emphasis of these reviews will be on the achievement of the results as specified in Volume I of the Estimates. Staff of the Budget Division will be working with each Ministry to establish systems to capture and report on programme performance.

In order to support the enhanced preparation and monitoring of a Ministry's budget and strengthen accountability and ownership, Budget Committees were established in each Ministry. These were established as the Ministries developed their Budgets and will function in-year, as the budgets are operationalized.

The introduction of computerization in the Budgetary Process both at central agency and line Ministries resulted in efficiencies in all aspects of the process from Budget Planning to Budget Finalization. Ministries were introduced to a data base concept in the production of their estimates. Ministries' estimates were electronically downloaded into data files at the Budget Division. Significant improvements in the turnaround time for analyzing budgets and producing budget schedules were achieved.

Budget Reform continues in this fiscal year with the objective of achieving sustainability of all aspects of the reform. The Ministry of Finance will continue to facilitate the change process and will work closely with each agency to sustain processes developed, and to develop other aspects of the Reform.

Another very important component of the financial management reform is the implementation of a government-wide computerized financial system designed to re-engineer and improve the financial and business practices of the Treasury and line Ministries. For Government to formulate and manage implementation, it requires accurate, relevant and reliable financial information. Financial reporting is also of interest to several other users including the general public, and serves as a basis upon which legislative accountability could be satisfied. This new system is therefore designed to improve the quality of financial reporting by the Treasury and all Ministries.

The implementation of the new system will result in major improvements to the payment turnaround time by Government. The new financial system will attempt to remove the bottlenecks in the payment system and reduce the frustration experienced by Government creditors and the public in general.

The initial phase of this system has been successfully implemented in the Treasury and the Administration Department of the Ministry of Finance and Planning. The rollout will continue in this financial year to all other Ministries and Departments. Similarly, a new payroll system is expected to come on stream from January 1999. Apart from the numerous benefits to be derived from this new automated payroll, it will also ensure that the Government of St. Lucia is not exposed to the threat known in Information Technology circles as the "Millennium Bug" or "the Year 2000 problem."

The Government-wide financial system requires an investment in computers and an elaborate network infrastructure that is going to transform the communications for the entire public service. This network reflects Government’s growing communication/information needs and is designed with the future in mind. The system infrastructure will provide a starting point from which departments can evolve strong communication networks, the likes of which have never before been experienced in Government. To this end, Government has allocated $2.6 m in the Capital Estimates. Of this sum, $600,000 will be provided by UNDP and $2 m from local revenue.

The benefits of this investment can be summarized as follows:

a. There will be an E-mail network connecting all Departments.
b. There will be capacity for all Departments to connect their networks on to the infrastructure in order to build a Government INTRANET and Video Conferencing. This will result in significant financial savings to Government.
c. There will be the facility to communicate via the Internet through the Government Network and Internet Service Provider/Web Server without making outside calls.
d. Finally, there will be a basis on which to build a modernized sophisticated and reliable voice network for linking government departments in Castries in a cost-effective manner.

The training component of the Financial Management Reform will provide public officers with the specialized training needed to effectively discharge their responsibilities, and also to ensure sustainability well after the life of the project. A number of short-term courses will be conducted in this financial year, including computer audit courses, specifically for the staff of the Audit Department and the Field Auditors of the Treasury. With a sophisticated computerized system within Government, it is essential that the staff of the Director of Audit be provided with the tools necessary to enable this officer to effectively discharge her responsibilities as provided under the Constitution.

With all those developments taking place, including the advent of the new Finance (Administration) Act and the anticipated improvement in

the accountability of public officials, St. Lucia is well poised to have the most advanced public sector financial system in the Eastern Caribbean.

Proposals from Social Partners

Mr Speaker, in keeping with Government's pledge to encourage broad consultation with its social partners, the public sector, the trade unions, private sector organizations and private individuals, were invited to submit proposals for consideration and for possible inclusion in the budget. One hundred and sixty-seven suggestions were made. Some focussed on broad policy issues while others recommended specific measures.

In general, the response was overwhelmingly positive, with some very useful recommendations, ranging from proposals for duty concessions to help revitalize domestic industry, to suggestions for re-engineering of the economy. The recommendations also contained a number of public policy proposals aimed at addressing various issues relating to public utility companies, and the restructuring of the Banana Industry. Many of these recommendations were consistent with Government's plans and are already being pursued. Others were given due consideration and are reflected in this budget. Mr Speaker, this interaction between the public and private sectors must be sustained as this can only augur well for the future development of our country. Allow me, Mr Speaker to express my gratitude to those persons and organizations that enriched the pool of ideas from which this budget emerged.

Mr Speaker, permit me at this juncture, to commend the invaluable contributions of those public officers who have participated in this budget process.

Among them I include all officers of the various Ministries and Departments who contributed to the extensive consultations leading up to the budget presentation, as well as the staff of the Government Printery, whose expertise ensured that the budget documents were prepared on time and in a professional manner. We are also indebted to the technical and support staff of the Ministry of Finance and Planning and the Prime Minister's Office, who have laboured long and toiled tirelessly into the night to finalize this presentation, and the presentation to this Honourable House of the Estimates and the Economic Review.

PERFORMANCE OF ECONOMY, 1997/98

Mr Speaker, St Lucia is in transition from an agro-based to a service-based economy. Agriculture, including the banana industry will still be important, but tourism and other services will play an increasingly critical role in economic growth and development.

That transition must be well managed. We must maintain our competitiveness in international markets, even as we aim for brisk but sustainable growth and a fair distribution of income at home. We must not be afraid to embrace new strategies in the pursuit of our goals and in our quest for development. We must be strong and bold.

Last November, I outlined the elements of the new strategic direction designed to enable us to re-orient and re-focus our energies and re-define our approach for the next few years. I described the new initiatives on institutional strengthening, the shift in economic focus and public sector reform. However, it is in the spirit of our promise to be accountable, to let you know how the economy is faring, and not to keep our social partners in the dark, that I now wish to report on the performance of the economy for 1997.

The economy in 1997, grew slightly faster in real terms, at 0.92 per cent, than in 1996 when growth had declined to 0.82 per cent. Real growth of less than 1 per cent is insufficient to meet our requirements for jobs, social and economic services, imports of goods and services and a better quality of life on a sustained basis.

However, it should be noted that the growth rate declined significantly from 2.6 per cent in 1994, to 1.0 per cent in 1995, and then to 0.82 per cent in 1996. The policies enunciated in last year's supplementary budget in November, but which were in some cases implemented before November, were designed to arrest the decline and stabilize the economy. Although it is too early to evaluate the medium term impact of the announced measures, the economy has stabilized in the short term. We can look forward to stronger growth performance this year. I will share our 1998 targets for growth and other economic targets with you presently.

Economic management issues apart, the problems confronting the banana industry last year and the slow growth of construction and manufacturing are associated with the low growth rate. Banana production fell by 32.6 per cent to 71,395 tonnes, while export revenue from bananas declined by 41 per cent to just $74.6 million compared to $125.8 million in 1996. In other words, income to St Lucia from the exportation of bananas fell by over $50 million.

Given the nature of bananas as a cash crop, and its direct effect on the incomes of rural families, it is little wonder that employment, savings and growth have been adversely affected. Even the amount of liquidity – that is, the excess of deposits in the banking system available for lending, continues to be tight.

Nevertheless, there were signs, towards the end of last year, and during the first three months of 1998, that the banana industry is on the way to recovery. No fruit was left back last year, so that exports and production were virtually identical. In August last year, production fell to an all-time low of 823 tons in week 33. By January of 1998, production increased to a high of 2,004 tons in week 2. Since then, the drought has taken its toll and production at week 16 stood at 1,378 tons. In addition, fruit quality is estimated to have improved by 9 per cent, with producers achieving the highest quality rating of recent years. Even greater improvements in quality and productivity should be made this year, given the substantial price differences now being applied to high, medium and low-grade fruit.

The steep decline of 5.8 per cent in manufacturing in 1996, was stemmed in 1997 when the sector experienced a slight fall in output of 0.4 per cent. Significantly, the apparel sector grew by 9 per cent. It will be a challenge to compete effectively with US and Latin American producers, given low US inflation and the economies of scale that can be realized in those markets. The manufacturing sector must redouble its efforts to forge appropriate links with the growing tourism sector if manufacturing is to survive. Government will do what it can to assist by ensuring that an appropriate macro-economic climate exists. However, the onus of marketing and modernization must be on our manufacturers.

I am convinced that our manufacturing industries can be competitive. A case in point is the apparel sub-sector, which has proven to be resilient over the years, and which, as I mentioned earlier, registered impressive growth of 9 per cent last year. The private sector needs to provide strong management and take advantage of niche markets. The Government will continue to provide the enabling environment.

The substantial contraction of 6 per cent in construction in 1996 was reversed in 1997, despite the overall slow down in economic activity. While not buoyant, construction activity grew by 1.2 per cent, mainly on account of growth in residential construction and the expansion of electricity and telecommunications infrastructure.

On average, inflation hovered around zero during 1997, primarily because of low inflationary pressures in our main trading partners and because of the economic slow-down of recent years. This is the lowest rate of inflation achieved since 1979. In addition to benefitting from low inflation, a buoyant tourism sector helped to cushion the adverse effects of the decline in agriculture.

The major success story was tourism. This sector grew by 5 per cent in 1997 and accounted for around 72 per cent of exports of goods and services. The contribution of tourism to national output has exceeded that of agriculture since 1994, and at 12.9 per cent is now the third largest contributor on a sector basis, after distributive trades (13.7 per cent) and government services (13.2 per cent). However, the distributive trades and government sectors are to a large extent dependent on other productive sectors (mainly tourism and agriculture) for generating economic activity and earning foreign exchange. It is probably only a matter of time before tourism becomes the largest single contributor to GDP.

The number of stay-over visitors grew by 5.4 per cent in 1997 compared to 1.4 per cent in 1996, while the number of cruise ship visitors grew by 59 per cent compared to 13 per cent in 1996. St Lucia's tourism sector is set to grow substantially over the next 2 to 3 years, with additional bed capacity and the number of cruise ship visits increasing. Hotel occupancy was the highest since 1992, indicating that better use was made of existing capacity during 1997.

Approximately 98 per cent of all stay-over visitors to our shores come from North America, Europe and the Caribbean. Our approach to marketing must take into account the uniqueness of our people, our country and our way of life, as well as differences in the requirements and desires of potential visitors. In other words, our marketing efforts must be well researched and well targeted, taking into account both the demand and supply side peculiarities that face us. Special events tourism, carnival, sports, cultural activities, conference markets, are all activities which need to be explored further.

The Government's fiscal policy stance is one of financial prudence designed to generate healthy current account surpluses for capital investment. Fiscal policy during 1997/98 was used to stabilize the economy and generate growth via the public sector investment programme.

The general economic slow-down led to the slow growth of current revenue of just 2.2 per cent during the fiscal year 1997/98. On the other hand, current expenditure grew by 3.5 per cent (compared to 3.7 per cent in 1996/97). The current account surplus was lower at $51.7 million or 3.4 per cent of GDP compared to $54.7 million or 3.6 per cent of GDP the year before. In addition, the overall deficit after taking capital expenditure into account was lower at $12.4 million (or 0.8 per cent of GDP) in 1997/98, compared to $25 million (or 1.6 per cent of GDP) in 1996/97. The lower overall deficit was due mainly to the late receipt of loans for capital projects that were not completed as planned.

Despite the need to obtain loans for the purpose of stabilizing the economy, the debt ratios fall within acceptable norms. The ratio of external debt service to exports of goods and non-factor payments rose from 3.4 per cent to 3.5 per cent, while the stock of external debt to GDP grew from 24.9 per cent to 26.9 per cent. These ratios are expected to remain within manageable and internationally acceptable limits for the foreseeable future. However, because of loans contracted in the past, there will be a bunching of debt payments within the next four years. We will be monitoring these developments very closely, as well as the servicing of loans obtained since last November to stimulate economic activity and to deal with the security problems that have plagued the country for so long.

Mr Speaker, it would be remiss of me not to mention one or two developments in the monetary sector. I have already indicated the extent of the tight liquidity situation experienced by the banking system. This was accompanied by generally higher interest rates on fixed deposits, aimed at attracting additional savings.

Exchange controls were further liberalized by raising the threshold for purchasing foreign currency without prior permission from the Ministry of Finance, from the equivalent of EC$100,000 to $250,000. This was part of a wider initiative among all the member states of the Eastern Caribbean Central Bank, and should be beneficial to commerce and external trade. Earlier this year, the Government also abolished the requirement for nationals who are resident overseas to secure the approval of the Ministry of Finance to obtain loans in the domestic market to finance activities in St. Lucia.

THE REGIONAL AND INTERNATIONAL CONTEXT

Mr Speaker, we survive in an increasingly interdependent world. We have committed ourselves to a regional economy. The performance of the regional economy provides important benchmarks against which to assess our own performance. Needless to say, our very survival depends on the fortunes of the international economy.

Regional

Mr Speaker, Honourable Members, the CARICOM region as a whole experienced positive economic growth in 1997, despite a slower rate of growth in some countries, notably Jamaica. One favourable aspect of the global economy facing our region at this time, is low inflation. Vigorous low-inflationary growth is a key objective of economic policy. The low inflation expected to prevail in the international economy in the medium term, provides us with a special opportunity to fashion our own unique growth path over the next few years.

It is instructive that Tourism and International Financial Services played major roles in generating economic growth in many CARICOM countries over the last 15 months or so. This is true of Barbados which grew at 4.3 per cent in 1997, the British dependent territories (The British Virgin Islands, Cayman Islands and the Turks and Caicos), and the Bahamas.

Manufacturing and agriculture were major contributors to growth of 3.2 per cent in Trinidad and Tobago, and 3 per cent in Belize, while construction activity helped stimulate growth in many regional economies.

In light of the key role of tourism and international financial services in the economic growth of the CARICOM countries to which I just referred, the performance of the OECS economy last year is interesting. The Leeward Islands sub-grouping, which depends more heavily on tourism and services than the Windwards, experienced higher growth than the latter. Real growth was 4.8 per cent in Antigua and Barbuda, 3 per cent in St Kitts and Nevis, and 6.5 per cent in Anguilla.

In contrast, growth was 2.3 per cent in Dominica, 1.5 per cent in St. Vincent and 0.92 per cent in St Lucia. Grenada, which was buoyed by a vibrant construction sector, and which has become less dependent on agriculture and more dependent on tourism, experienced growth of 4.3 per cent, the highest of the Windwards grouping.

The southern OECS countries are in transition from agro-industrial to service (particularly tourism) based economies. St Lucia is ideally suited to being a mixed economy with tourism being the leading sector. We are nowhere near our true tourism potential, and the emphasis this year and in the medium term will be on developing that potential rapidly, but in a sustainable way.

During the course of the year, the OECS countries look set to intensify their association by further developing their capital markets and harmonizing relevant legislation. I would like to urge members of the regional financial sector, particularly the banks and the private sector, to make greater use of the Eastern Caribbean Home Mortgage Bank and to embrace the expansion of the capital markets with enthusiasm and creativity.

On the CARICOM front also, there are signs of renewed vigor in an integration movement that had become stale and uncreative over the years. The Government supports the deepening of the regional integration movement and will do all it can to encourage it.

International

The international economy continues to be characterized by low inflation and moderate real growth. World output grew by around 4 per cent in 1997 compared to 3.8 per cent in 1996, with the industrial countries as a whole growing by about 3 per cent. Japan led the way with growth of 3.7 per cent, followed by the United States economy with 3.5 per cent, the United Kingdom with 3.3 per cent, Germany 2.3 per cent and France 2.2 per cent.

The countries that I have just mentioned are important sources of demand for our output, particularly the tourism product. Positive forecasts of growth in those countries are welcome, as are forecasts of continuing low inflation. Even growth in the developing countries as a whole seems to have been robust at 6 per cent, with low or declining inflation and sustainable fiscal positions. In a few cases the banking systems remained fragile and the balance of payments continues to be weak.

The forecast for continuing moderate growth in the world economy remains valid despite the financial crisis in East Asia. The crisis was associated with fundamental weaknesses in the financial systems (including exchange rate regimes) of several countries in East Asia, and with irresponsible behaviour on the part of governments and the private corporate sector.

The World Bank suggests that the crisis has indeed had a significant effect on the world economy, to the extent that growth expectations in the medium term must be revised downwards. Nevertheless, growth for the world as a whole for the next three years will still be around 3 per cent, which is higher than the average for 1991 to 1997. Developing countries are still expected to grow by about 5 to 6 per cent over the next three years, which is similar to their average growth since 1991. It is estimated that if the crisis had not occurred, growth in developing countries would have been one percentage point higher in 1998, half of one percentage point higher in 1999, and one third of a point higher in 2000.

The Asian crisis has affected or will affect developing countries by: exacerbating capital flight and making capital loans less available and more expensive, as a "flight to quality jurisdictions" takes place; reducing the prices of primary commodities in general; reducing the demand for the exports of developing countries with strong ties to East Asia (i.e. not St Lucia) and causing their imports and exchange rates to deteriorate, with adverse implications for growth. In general, adverse effects for developing countries could come directly through trade flows and indirectly through changes in international commodity and financial markets.

For St Lucia and the Caribbean, the likely effects if any, may be through changes in the prices of, and demand for, primary commodities. On the other hand, there are likely to be favourable effects such as lower oil prices and lower inflation. In general though, moderate growth for St Lucia is achievable based on growth in western countries, the strengthening of demand for our outputs, improvements in efficiency and productivity in the banana sector, sound fiscal and economic policies, and a substantial and appropriate public sector investment programme.

One other potential source of adversity for the world economy needs to be carefully watched. It is the deepening of the recession in the Japanese economy which is linked to many of the large industrial economies in Europe and North America and other economies throughout Asia. Steps have been taken by the Japanese authorities to avert impending disaster linked to financial and economic weaknesses, but only time will tell whether measures taken are adequate or have come too late.

BUILDING ON STABILIZATION AND ESTABLISHING MACRO ECONOMIC PERFORMANCE

CRITERIA

Mr Speaker, I had the privilege of addressing this Honourable House in November last year, when I presented the Supplementary Budget for 1997/98. At that time, I outlined the three economic objectives which the policies enunciated in that budget sought to address. They were stabilizing, stimulating and strategically re-orienting the economy towards the path of sustained growth.

It is less than six months since I presented the Supplementary Budget, and its full effects have not yet been felt. Nevertheless, the policies which I brought to your attention and which to some extent had been implemented from the start of my Administration's term of office have already had some measure of success. It is evident that the deterioration in economic performance, the integrity of our social and economic structures, and in institutional capacity, have been arrested, and the economy stabilized.

Real economic growth, which had been on the decline since 1994, was stabilized in 1997, virtually without incurring inflationary cost. The fall in construction activity, manufacturing, the wholesale and retail trades, and the Government sector were either stabilized or reversed. The tight liquidity situation worsened, but is expected to improve significantly during the course of this year, as economic growth improves and the disbursement of external finance for projects picks up speed.

Stabilization of the economy was only the first objective and the first stage of modernizing the economy and preparing it for the 21st Century.

In the Supplementary Budget, I described the underlying economic and social philosophy of the Government, as well as our strategy for achieving medium term growth and sustained development.

The budget is, in effect, a detailed one-year plan that forms part of a longer medium-term plan. In order to measure our performance in an objective way, it is necessary to set specific targets for the achievement of economic goals. We have identified a few macroeconomic criteria for judging economic performance during the fiscal year.

While the Government has, internally, identified the targets we have set, they have also been accepted by foreign donors. In particular, some of our fiscal and macroeconomic targets have been adopted in the STABEX agreement for financial and economic assistance to St Lucia, which I signed recently with the European Commission. Under that Agreement, we will receive over a three-year period, EC$53.1 million for a variety of purposes, including Agricultural Diversification, Poverty Reduction, Economic Diversification and Training. Approximately 79 per cent of the STABEX grant will be disbursed under a new "Budgetary Support" arrangement that is intended to be more flexible than the traditional approach. However, in order to qualify for the disbursements, we will have to satisfy certain macroeconomic criteria that by and large, we had already set for ourselves.

Our fiscal and economic targets for this year are as follows:

1. **To achieve Central Government saving of 2.5 per cent of GDP for the fiscal year 1998/99.**

   We consider this to be a minimum and in practice we are aiming for a surplus in excess of 5 per cent of GDP in order to allocate more resources to the Capital Investment Programme. We expect Government savings this fiscal year to be about $84.5 million.

2. **To achieve total public sector savings of 7 per cent of GDP.**

   The restructuring of WASA and other public sector utilities will strengthen the public sector as a whole, and enable this target to be achieved.

3. **To increase the liquidity of the banking system from a loan/deposit ratio of 100.7 per cent to 95 per cent by the end of fiscal year 1998/99**.
4. **To achieve real economic growth in the range of 2 to 2.5 per cent for 1998.**

   This is based on the continued strong performance of tourism, the recovery of the banana sector, the coming on stream of major construction projects in both the public and private sectors, low inflation and the inflow of substantial external finance into St Lucia on a grant basis or on concessional terms. I must point out that the Eastern Caribbean Central Bank has forecast a growth rate of 4 per cent for 1998, and that its forecast is based on the Central Bank's evaluation of the effectiveness of the expenditure programme and policies of Government, the projected level of exports, the extent of external funding to be made available to the economy, and the projected liquidity of the financial system. We prefer to be a bit more conservative in forecasting growth of 2 per cent to 2.5 per cent.

5. **To attain a Current Revenue/GDP ratio of 29 per cent**.

   Given the anticipated growth in real GDP with a fairly stable inflation rate, and given that the Revenue/GDP ratio has not exceeded 28.9 per cent in the last three fiscal years, achieving 29 per cent will not be easy. Nevertheless, I am confident that our revenue collection efforts will bear fruit.

6. **To keep the Current Expenditure/GDP ratio below 26 per cent, in keeping with the usual prudential ratios**.

This index has been creeping up in recent years, rising from 24.2 per cent in 1995/96, to 24.7 per cent in 1996/97 and 24.9 per cent in 1997/98. We expect that the ratio will level off somewhere below the maximum target of 26 per cent this year and in the medium term.

(7) **In pursuit of our stated policy of generating growth, we have set as a minimum target to be sustained in the medium term, a "capital investment/government expenditure" ratio of at least 30 per cent.**

There is a great deal of international empirical evidence linking the real growth rate of output, income and employment on the one hand, and investment on the other. We believe that this applies to the St Lucia economy. This year, we are devoting 37.6 per cent of expenditure to the capital programme in order to put the economy back on the fast track to growth. However, growth is the concern of all of us and the Government will spare no effort in improving the structures and systems in the Planning Department to ensure that private sector development applications are dealt with swiftly and effectively.

RE-ESTABLISHING CONFIDENCE AND COOPERATION WITH THE PRIVATE SECTOR

Mr Speaker, in recent years, it has become fashionable for governments to argue that the responsibility for generating investment, employment and growth in the economy must be shared with the private sector. Indeed, previous administrations have adopted the policy position that theirs was the responsibility for setting the enabling economic environment, while the private sector should be the primary engine of growth and development.

In practice, however, this has not been observed. Until May 1997, what passed for government in this country, operated in exactly the opposite manner. The former government monopolized the investment agenda, undertaking ill-conceived and ill-advised projects in the private domain. Many of these projects were undertaken without appropriate dialogue or discussion, drawing down indiscriminately on financial resources which should have been available to other sectors in the economy. Such action has the effect of crowding out private initiative, and setting up all sorts of nefarious bodies in areas where government has little commercial advantage, and even less chance of financial viability.

In such an environment, it is not surprising that our private sector has often withdrawn in fatigue and frustration, and has not made a meaningful impact on policy formulation, decision making and implementation. The Government is determined that a new cooperative relationship, based on systematic dialogue and communication ought to exist among the major social partners. The chronic lack of information regarding Government policy and priorities must be reversed. The lack of confidence, which inevitably follows highly autocratic decision-making, must be redressed. This Government will not frustrate the private sector into retreating into safe, secure, traditional activity, while a yawning gap exists in critical leading-edge investment. It is precisely such leading-edge investment that St Lucia required to take it into the future, and Government will do all in its power to facilitate the private sector in this direction.

We are therefore actively pursuing new channels of dialogue, a new framework for cooperation, and renewed relationships based on confidence and trust. We are determined to do whatever is necessary and within our power to rebuild confidence in the process of good government and in the future of this country. We are determined to encourage the private sector to venture out into higher risk/higher return projects, particularly those that are consistent with economic diversification and employment generation. Therefore, where new or pioneering projects are concerned, Government will consider its role to be that of a joint-venture partner, bringing to the investment table, concessions and considerations within its purview, which can enhance the financial, economic and social returns to the economy.

To demonstrate this determination, Government has devoted resources to several on going and planned initiatives. Please allow me to explain.

Office of Privatization and Private Sector Relations

In order to strengthen our relationship with the private sector, an office of Privatization and Private Sector Relations has been created within the Office of the Prime Minister. The work of this office is two-fold:

a. **To reconstruct a bridge of communication and co-operation between Government and the private sector.**

   This entails frequent and systematic dialogue on various policy instruments, including this Budget. In this regard, and as promised in the Supplementary Budget, it is our intention to establish a formal assembly of social partners as a further logical step, to embrace the labour unions and other representative organizations in the process of governance. The assembly will be a permanent decision-making body with significant influence on public sector policy.

b. **To pursue Government's privatization agenda**.

The office will seek to create, out of the economic chaos we have inherited, new investment opportunities for businesses large and small, domestic and foreign. It is pointless for Government to retain control of strategic functions in the economy and manage these functions in an inefficient or monopolistic manner. By removing government domination of what ought to be private activity, opportunities for a whole generation of smaller efficient companies will emerge.

The Privatization Agenda

In respect of privatization, Government's policy is guided by three major priorities.

The first priority is for Government to withdraw from areas of commercial activity in which its presence is no longer needed, and which are better managed by private sector interests. The long-term objective here is to create space for new dynamic businesses to emerge and flourish. Where this proves feasible, Government may divest altogether to retain a minimum equity position, while passing management, operational control and majority ownership into more efficient private hands.

The second priority is to minimize the drain on the public purse created by inefficient state-owned enterprises. We realize that the economic circumstances which prompted the creation of many state-owned enterprises, have long since changed. It is therefore necessary to review, revise and restructure these entities for greater efficiency, productivity and profitability. This may also allow for privatizing the management of an entity while retaining total or partial ownership.

The third priority is to allow for broad-based private investment and ownership in the financially viable assets of the state. Where Government investment has created a profitable, viable entity, there is every reason for that profitability to be shared with the public whose tax dollars or NIS contributions have financed the venture in the first place. Government will therefore, make every effort to create opportunities for every St Lucia to be able to invest and profit from such enterprises through the sale of shares to the general public. This approach is also compatible with Government's vision for the development of a domestic capital market in which investment instruments such as shares can be actively traded.

Private Sector Development Strategy

Mr Speaker, consistent with our commitment in the Agreement recently signed with the European Commission, the Government of St Lucia will join hands with the private sector and develop a Private Sector Development Strategy. An amount of EC$1 m has been made available in the Capital Estimates for this exercise.

The process has already begun in conjunction with major players and representative organizations. From the public sector side, these include: the Ministry of Commerce, Industry and Consumer Affairs, the Ministry of International Trade, the Ministry of Finance & Planning, the Small Enterprise Development Unit, and the National Development Corporation. From the private sector side, we are targeting the Chamber of Commerce, St Lucia Industrial and Small Business Association, National Research and Development Foundation, the Employers Federation and the St Lucia Hotel and Tourism Association.

The primary objective of this Private Sector Development Strategy is to accelerate growth, development and employment in the economy. The essential focus of the strategy will be:

(a) Enhancement of St Lucia's international competitiveness; and

(b) Acceleration of economic diversification within the economy.

It is anticipated that the Private Sector Development Strategy will facilitate:

a. a more co-ordinated agenda of policy initiatives, programmes and projects which reflect the needs of the private sector;
b. enhanced capacity for efficient service delivery and improved functional cooperation among participating agencies;
c. systemic and institutional strengthening to develop specialized competencies; and
d. co-ordinated resource mobilization, programme implementation and market interventions.

Establishment of Development Agencies

Mr Speaker, Honourable Members, there is another major initiative. In this financial year, Government also proposes to confer upon selected private sector agencies, the special status of "Development Agency" which will afford them certain duty free and tax free concessions required for the efficient continuation of their development programmes and projects. This is being done in recognition of:

a. The broad scope of their development activities.
b. The benefits which accrue to the economy as a result of their activities and undertakings.
c. Their substantial contributions to the wider community over the considerable duration of their existence.

Initially, it is proposed to confer the status of "Development Agency" upon the following organizations:

The St Lucia Chamber of Commerce, Industry & Agriculture
The St Lucia Hotel & Tourism Association [SLHTA]
The National Research & Development Foundation [NRDF]
The St Lucia Industrial and Small Business Association [SLISBA]

The rationale for this action is relatively simple: These Private Sector Representative Organizations currently undertake significant development activity, largely in support of public policy, programmes and projects, which are outside the immediate sectoral interests of their members, and which benefit the entire economy. These activities include generally:

Resource mobilization and sourcing of external funding for projects.
Representation and promotion of St Lucia abroad.
Community development and public service.
Educational and training activities.
Information management.
Sectoral development activity at local, regional and international levels.

These activities have, for many years, been underwritten substantially by members' contributions, corporate donations, financial covenants and subscriptions. It is fitting, therefore, that Government should remove disincentives to their further institutional development by enhancing their ability to compete for, acquire and retain real, human and financial resources.

The various initiatives and policy thrusts, which I have just described, will be the responsibility of the Office of Privatization and Private Sector Relations.

POLICIES AND BUDGETARY PROPOSALS

Mr Speaker, it is now time to introduce and explain the 1998/99 Budgetary Policies and Proposals. I can understand the impatience of Honourable Members

The 1998/99 Appropriation

Mr Speaker, I would now like to present to this Honourable House, the estimates of Revenue and Expenditure for 1998/99. I will give you a broad overview before delving into the detailed analysis of the amounts to be collected and expended for the new fiscal year. After painting the broad picture, I will focus mainly on the new revenue measures in support of this budget and on the capital investment programme. I leave it to you to decide whether or not this budget contains any **surprises** and whether or not they are pleasant, unpleasant or simply an anticipated or unanticipated delivery of the right stuff at the right time.

Let me state from the outset, that the Budget for 1998/99 is balanced. In other words, total expenditure, both current and capital, taken together, is fully financed. Balancing the budget has, in truth, been a difficult task, given all the programmes we would like to undertake for the people of this country. Nevertheless, we have done so without resorting to the old trick used by former administrations, of padding the budget with unrealistic estimates of revenue which in many instances, have not been anywhere near actual collections. For example, capital revenue earmarked for vital projects was woefully short of expectations, thereby putting undue pressure on the public purse. The Budget Estimates of this Government are fully available for your scrutiny.

Overall expenditure in this Budget comes to a grand total of $633,973,413. This is divided into Recurrent Expenditure of $395,491,082 and Capital Expenditure of $238,482,331. Capital Expenditure accounts for approximately 37.6 per cent of total expenditure.

Recurrent Expenditure, with principal payments on debt and sinking fund payments counted in, is more than fully financed by recurrent revenue of $439,386,860. After allowing for Recurrent Expenditure, the amount available from Recurrent Revenue for the Capital Investment Programme is $43,895,778. When local Capital Revenue from sale of assets and other public sector institutions is added, the total amount of local revenue available to finance Capital Expenditure is $53,595,778.

ESTIMATES 1998/1999

FINANCIAL SUMMARY

RECURRENT REVENUE 439,386,860

RECURRENT EXPENDITURE 395,491,082

Less Debt Principal and Sinking Fund

Payments 40,629,722 354,861,360

CURRENT SURPLUS 84,525,500

Less Debt Principal and Sinking Fund

Payments 40,629,722

Recurrent Surplus Available for Capital

Investment 43,895,778

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CAPITAL ESTIMATES:

Capital Receipts

Recurrent Revenue Contribution to Capital 43,895,778

Sale of Assets 5,700,000

Capital Transfer from SLASPA 3,000,000

Capital Transfer from National Lottery 1,000,000 53,595,778

Capital Financing:

Grants 77,285,407

Loans 107,601,146 184,886,553

Total Capital Financing 238,482,331

Capital Expenditure

Revenue 53,595,778

Grants 77,285,407

Loans 107,601,146 238,482,331

TOTAL SURPLUS (DEFICIT) 0

=========

In addition, Mr Speaker, when external grants of $77,285,407 and loans of $107,601,146 are added, the total Capital Budget of $238.5 million is fully financed. The grants are mainly, though not exclusively, from STABEX sources, while the loans are largely on concessional terms. I will go into those details in greater depth presently.

As I explained earlier, the Government's actual current account surplus (which is exclusive of repayments of principal on Government debt), or alternatively central Government saving, is seen as an important measure of effective fiscal management. The minimum target recommended by our economists and agreed under the STABEX arrangement for 1998/99 is 2.5 per cent of GDP. We believe it is necessary to squeeze even more resources out of the current budget to finance the Capital Investment Programme. Consequently, this year, we plan to realize a higher surplus/GDP ratio than the suggested prudential minimum. Central Government saving is estimated at $84,525,500 or in excess of 5 per cent of Gross Domestic Product. A current surplus of $84.5 million represents the highest absolute current surplus since 1993/94 and will reverse the downward trend experienced ever since.

Before I present the detailed Revenue Measures and Capital Investment Programme for 1998/99, I would like to mention some of the main components of Recurrent Revenue and Recurrent Expenditure embodied in the estimates.

Tax revenue accounts for around 88.6 per cent of total revenue, with the balance coming from licenses, fees, user charges and other miscellaneous items. This is similar to the distribution between tax and non-tax revenue in recent years: 88.7 per cent in 1997/98 and 87.9 per cent in 1996/97.

However, there will be a moderate shift in the sources of tax revenue this year, compared to the last two years. Direct taxes on income and profits accounted for 26.2 per cent of total revenue in 1996/97 and 26.9 per cent last year. For the fiscal year 1998/99, they will make up 24.8 per cent, reflecting a slight shift towards indirect taxes in the composition of revenue. Taxes on international trade (e.g. customs duties) will comprise 50 per cent of total revenue compared to 49.1 per cent in 1997/98 and 50.6 per cent in 1996/97. The other broad grouping of indirect taxation, namely taxes on domestic sales and services, will be 13.3 per cent of total revenue (compared to 12.2 per cent in 1997/98 and 10.9 per cent in 1996/97). The Government is still in the process of evaluating the tax system to ensure that it is efficient and that the burden of taxation is evenly spread.

On the expenditure side, 37.6 per cent of total expenditure will be for the capital programme, compared to an estimated 20.7 per cent in 1997/98 and 22.8 per cent in 1996/97. Actual current expenditure (i.e. excluding principal repayments on debt) will account for 56 per cent of total expenditure compared to some 74 per cent in 1997/98 and 73 per cent in 1996/97. All the figures for 1997/98 are preliminary, as the fiscal year has only just ended. Every effort is being made to generate resources for capital investment, without compromising the viability of the recurrent budget.

We need to keep a close watch on a few areas of expenditure this year and over the next few years. The first area is that of Government debt

which bunches around the year 2000, because of the scheduling of loan repayments in accordance with signed agreements. In addition, the stock of outstanding debt grew from $362.4 million at the end of calendar year 1996, to $429.6 million at the end of calendar year 1997.

You will recall that the Government had to take certain strategic decisions to stabilize and stimulate a sluggish economy in 1997. Those decisions involved curtailing expenditure, improving expenditure control, tightening up on revenue collections, financing new and existing capital projects by generating a current surplus, and by borrowing. Our strategy has already begun to bear fruit: the decline in the real growth rate has been arrested – indeed, it is slightly higher than the previous year, while there have been improvements in revenue collections in some areas (notably the Inland Revenue Department).

Although the amount of debt actually outstanding has grown and will increase this year as loans already contracted are drawn down, the debt ratios are still within internationally recognized prudential limits. As I pointed out, it was necessary last year to borrow on favourable terms, in order to help stabilize and stimulate the economy, and to ensure that a high level of national security was restored after years of neglect. The provision for total debt service this year is 66.5 million, compared to actual provisional expenditure in 1997/98 of $40.2 million. However, the usual debt ratios used for measuring performance are still favourable: external debt service to GDP has increased from 3.37 per cent in 1996 to 3.54 per cent at the end of 1997, while external debt outstanding to GDP has grown from 24.9 per cent to 26.9 per cent. The international community considers a ratio of 15 per cent of external debt service to GDP and 25 per cent to 30 per cent for external debt outstanding to GDP to be sustainable. We are well within the first ratio, but with regard to the second, we must closely monitor the magnitude of future external debt. It is expected that the projected increase in economic growth next year, will strengthen the capacity of the public sector to carry the somewhat higher, though not unsustainable level of debt.

In addition to public debt, salaries and wages account for around 52.4 per cent of current expenditure, compared to 53.5 per cent last year and 52.6 per cent the year before. The lower figure this year can be partly explained by the growth in current debt service payments which contributed more to the increase in total current expenditure than did the growth in expenditure on salaries and wages. Although the share of salaries and wages in the total has fallen slightly, we still consider it to be too high, and our objective in the medium term is to reduce it below 50 per cent of current expenditure, by containing the growth in the overall staff complement.

In keeping with the necessity to restructure certain ministries, it has been necessary to strengthen the Public Service in a number of areas by bringing in a few top and middle-level managers. The process is almost complete and the emphasis for the medium term will be on improving productivity and efficiency.

Transfers and subsidies to the public and private sectors and contributions to regional and international organizations taken together will be reduced from 13 per cent to 11 per cent of current expenditure. In particular, statutory and other public sector bodies will increasingly be expected to be self-financing. Expenditure on goods and services will be slightly higher this year at 20.7 per cent of current expenditure compared to 19.5 per cent last year, to allow for the increasing computerization and automation of Government processes, particularly expenditure control systems.

Mr Speaker, you will note that I have not made any provision for increases in wage and salary rates for the three-year period 1995/96 to 1997/98, or for the next triennium 1998/99 to 2000/1001. This is not an accidental omission. It is not my wish to pre-empt or compromise the negotiations between Government and the public sector workers. Any wage agreement during the financial year can, if necessary, be addressed in a supplementary budget.

However, it would be remiss of me not to emphasize the critical nature of these negotiations. Wages and salaries together make up around 52 per cent of the current budget, the single largest component of current expenditure. The nature, direction and magnitude of fiscal policy are inevitably connected to wage-related decisions.

This round of negotiations is critical because of the delicate state of the economy. We are optimistic about future prospects this year and beyond, but the fact is that the economy has been in recession for several years and this Government has only recently arrested the decline. Whatever we do, development on a sustained basis must not be jeopardized. Some breathing space is still required for the fledgling green shoots of growth to take firmer root and to mature.

FISCAL MEASURES

Mr Speaker, I propose now to introduce the fiscal measures that would allow us to earn the revenue to finance this modest budgetary outlay.

Increase in Airport Service Charge

Mr Speaker, as part of the marketing effort in tourism, Government agreed to make a one-time contribution to American Airlines of US$1.5 million. Already, the tourism industry has begun to benefit by this measure. Airline seats to St Lucia from Miami are solidly booked. To finance this expenditure, the Airport Service charge will be restructured and increased. Effective 1st May 1998, nationals will be required to pay EC$35 while non-nationals will pay EC$40. While this increase affects nationals who travel overseas, albeit by an increase of EC$8, the bulk of the revenue which is derived will come from our visitors. This measure is expected to allow us to increase expenditure on the marketing of tourism.

On 1st May 1998, and consistent with an earlier announcement, the cruise passenger head tax will also be increased by US$1.50 to US$6.50 in keeping with an obligation under St Lucia's agreement with the World Bank in respect of the Solid Waste Management Project, being financed by that institution. Incidentally, the increase is intended to apply to all visitors, not just cruise ship passengers. The air-arrivals component of this tax will be absorbed in the increase in the Airport Service Charge.

Travel Tax

Mr Speaker, we have reviewed the current charges paid on travel tax. When compared to similar charges imposed by other countries in the OECS, St Lucia's rates are the lowest. The rates were last adjusted some fourteen years ago, in 1984. Given the present demands for adequate air services to St Lucia, there is consequently the need to review the current rates. The present system whereby two different rates apply, one for regional travel and the other for international travel, will be abolished and replaced by a single tax. As a result, the travel tax rates will be increased to 7.5 percent of the ticket cost.

Changes In Structure of Consumption Tax on Petroleum

Mr Speaker, Government has attempted to maintain petroleum prices at the same level over the years. In fact, since 1994, the price of gasoline has remained the same at $6.10 (in the case of leaded gasoline) and $6.50 (in the case of unleaded gasoline). This has been achieved through a price structure that allows **ONLY** the Government to bear losses or to enjoy any benefits when the imported price of petroleum changes.

Since 1993, prices have fluctuated widely with pronounced increases since 1995. Petroleum prices, on average, increased by 20.1 per cent between 1993 and the first half of 1997. Honourable members will note that between this period, Financial Year 1993/94 and Financial Year 1996/97, consumption taxes from gasoline and other petroleum imports declined by more than $6 Million. This situation was compounded in early 1997 when the former administration allowed retailers an increase of 10 per cent on their margin/gallon, but did not approve any change to prices at the pump. Approaching elections make governments do strange things.

Mr Speaker, this decision of the former administration has had a significant impact on Government revenues and has contributed in large measure to the deterioration in the fiscal performance, at a time when additional revenues were most needed. There is however, some hope as world oil prices are now falling, but should stabilize in the coming months. Government, Mr Speaker, is anxious to share some of the resulting benefits (and losses if prices do rise later) with the consuming public. I therefore propose an amendment to the price structure such that effective 15th May 1998, consumption tax on petroleum products will be fixed as follows:

(a) Gasoline: Leaded - 246.85 C/tax per gallon

Unleaded - 285.15 C/tax per gallon

(b) Diesel: - 255.94 C/tax per gallon

(c) Spirit Type Gasoline: - 246.85 C/tax per gallon

These rates will be allowed to fluctuate within a range of plus or minus 10 cents per gallon. If the imported price changes to the extent that the consumption taxes should change beyond the stipulated range, pump prices will change by the equivalent amount outside the range.

Permit me to illustrate Mr Speaker. The consumption tax on unleaded gasoline is set at 317.39 cents per gallon. The proposed rate as indicated earlier has however, been fixed at 285.15 cents per gallon or 32.24 cents per gallon less than the current rate. The idea is for Government to retain 10 cents per gallon and to pass on the remaining 22.24 cents to the consumer, reducing the existing pump price. The advantages of this change Mr Speaker are as follows:

- Government, and the consumer shares in any benefit to be derived; and
- The variability in Government revenues will be minimized;

Abolition of Annual Vehicle Licences

A more fundamental reform concerns the payment of annual licences for vehicles. Mr Speaker, over the years there has been a significant shortfall in revenue because a substantial number of vehicle owners did not pay their annual vehicle licences. Consider the following statistics. In 1995, of the 31,031 vehicles registered, an estimated 13,400 or 43.1 per cent paid licences. In 1996, the number of vehicles on the register fell to 24,857, presumably because of more efficient record keeping. Of that number, licences were paid for 14,452 vehicles or 58.1 per cent. In 1997, the number of registered vehicles increased to 27,697 and licences were paid for only 15,637, that is, 56.4 per cent. What it means is this: Vehicle owners who pay their licenses are subsidizing those who do not. Peter continues to pay for Paul. That cannot be fair.

Honourable members will no doubt agree that this level of delinquency and non-observance of the law is unacceptable and therefore should not be allowed to continue. What is required is a more efficient or if your prefer, more optimal approach that ensures vehicle owners pay their fair share.

There is however, another more compelling obligation. In 1995, the UWP Government borrowed US$9 million from Caisse Francaise to finance the construction of the two tunnels. Under the terms of the Agreement, the Government of St Lucia agreed to introduce a "toll for heavy vehicles on the Castries/Cul-de-Sac Road and "a land tax on sales of land in the Cul-de-Sac area and along the new road". The service obligation of this debt is EC$2.286 million annually over a 10-year period. In accordance with the agreement with Caisse Francaise, the UWP Cabinet, in 1997, approved increases in vehicle licences but lacked the courage to implement them. In other words, because of the obligation incurred by the former UWP administration, it is necessary to increase vehicle licence fees to take care of the debt payment arising out of the construction of the tunnels.

Mr Speaker, it is our view that collecting road and vehicle user fees via petroleum tax is a more efficient and more equitable mechanism. Effective 15th May, 1998, vehicle licences will be abolished and replaced by a consumption tax :

(a) on gasoline, both leaded and unleaded and

(b) on gas oil – more commonly referred to as diesel.

This measure will allow Government to meet the debt service obligation referred to earlier, and to collect the true revenue levels, which the existing licensing regime should have achieved.

Mr Speaker, I am anxious to be understood. Let me repeat the proposal. Effective 15th May 1998, owners of vehicles will no longer have to pay annual licence fees on their vehicles. Instead, all will pay an increase in gas prices in exchange for the money paid annually for licences.

A crude implementation of this fiscal measure would mean that a consumption tax of $0.45 cents per gallon would be necessary. In effect, Mr Speaker, the per-gallon price of gasoline (both leaded and unleaded) and diesel should each increase by $0.45. Happily, this will not be so. As a direct result of **the change in the consumption tax structure announced earlier, the immediate price increase will only be 22.76 cents per gallon.** The point Mr Speaker, is this: The falling world price benefit is being passed on to the consumer.

Mr Speaker, Honourable Members, lest the extent of the increase be exaggerated, let us examine the implication of the proposed changes for individual consumers. The average vehicle owner who consumes approximately 33 gallons of unleaded gas or spends $200 monthly, would now spend an additional $13.85 monthly without having to pay for an annual license. The consumer would have spent $177.05 for the year. In comparison, this vehicle owner would have paid a license fee of $150 under the current rates, or $240 as approved by the previous administration for subsequent application. I submit Mr Speaker that the consumer is far better off than if he was expected to pay the higher license fee.

Category of Consumer	Monthly Expenditure	Monthly Usage	
Minibus Driver	1,085	178	167
Taxi Driver	607	100	93
Average Vehicle Owner	200	33	31
Cost Increase Due to Arrangement			
	Unleaded	Leaded	% Change
Minibus Driver	$75.12	$80.04	7.4
Taxi Driver	$42.02	$44.78	7.4
Average Vehicle Owner	$13.85	$14.75	7.4

Mr Speaker, consequent on the proposed changes, and effective 15th May, 1998, the price of gas at the pump will be $6.33 for leaded gas and $6.73 for unleaded gas. Diesel would now cost $6.23 per gallon. Let us now compare our prices to those of other Caricom states.

CARICOM COUNTRIES	LEADED	UNLEADED	GASOIL (Diesel)
Antigua and Barbuda	Not Sold	EC$6.35	EC$6.05
Barbados	EC$7.34	EC$7.34	EC$6.39
Dominica	EC$6.70	EC$6.90	EC$5.58
Grenada	EC$5.94	EC$6.12	EC$5.26
Guyana	**Not Price Controlled**		
St Kitts and Nevis	EC$5.20	EC$5.70	EC$5.15
St Vincent	EC$6.10	EC$6.60	EC$4.95
St Lucia (Proposed)	EC$6.33	EC$6.73	EC$6.23

It must be emphasized, Mr Speaker, Honourable Members, that save for Trinidad and Tobago, all other Caricom countries pay vehicle licences. In the case of St Lucia, we join Trinidad and Tobago in abolishing this regime.

Mr Speaker, I know that our mini-bus drivers will be concerned about these measures. I therefore propose to meet the Minibus Association to share with them, our assessment of the impact of these measures.

The abolition of annual vehicle licences will compel amendments to the Motor Vehicle and Road Traffic Act, particularly those sections dealing with the licensing of vehicles. The requirements for inspection of vehicles will be strengthened for purposes of enforcing insurance requirements. All vehicles will be required to carry stickers prominently displaying their insured status. Insurance companies will be required by law to submit on a weekly basis to the Transport Division, the list of vehicles insured by them. In addition to the registration of new vehicles, all transfers of ownership must be registered with the Transport Board.

In addition to the above, Government proposes further changes to the miscellaneous tariffs in Part II of the First Schedule to the Motor Vehicles and Road Traffic Act:

1. To increase:

(a) Learners Permits from $50 to $75

b. (b)Registration of new Motor Vehicles or Trailers from
c. $30 to $100

a. Visitors Driving Permit from $30 to $54 (US$20)

1. And to introduce:

A special licence of $300 for Tandem Axle vehicles exceeding three tons.

(b) A new charge of $100 will be introduced for the transfer of ownership of vehicles. A Transfer of Ownership Certificate would be issued to facilitate the issuance of an Insurance Certificate. Notwithstanding the abolition of annual vehicle licences, it will be necessary for the Traffic Department to have updated records of vehicle ownership. The initial registration fees for new vehicles will be maintained and enforced at existing rates to facilitate record keeping and transport and road planning activities.

Hotel Accommodation Tax – New Arrangements for All Inclusive Hotels

The recent developments in the hotel sector, particularly with respect to investments in new hotel plant, indicate that there has been a shift in the types of accommodation offered. There are now ten hotel properties in St Lucia providing an all-inclusive form of accommodation. These properties represent 65 per cent of the total available beds.

A significant portion of hotel operations in St Lucia enjoys some form of fiscal incentive. The principle source of government revenue from the operations of hotels in St Lucia is the Hotel Accommodation Tax which is levied on the hotel guest. The legislation enacted to control the collection of this tax was formulated on the assumption that the method of accounting for revenue by the hotels would be based on the European Plan. That is, the hotel would, through its accounting system, identify separately, room and food and beverage charges paid by the guest, as well as other incidentals. Since then, Mr Speaker, with the introduction of all-inclusives, the method of accounting has changed, and is based on the principle that one charge covers all services enjoyed by the guest during his or her stay in St Lucia. In a sense, the Government is at the mercy of all-inclusives because the charge for the room component can be readily manipulated. This makes the current Hotel Accommodation Act difficult to manage, as there is uncertainty as to whether the correct amount of revenue is being collected

I therefore, propose, Mr Speaker, to invite this House to change the current legislation to introduce a head tax on guests who stay at all-inclusives. The amount of the charge will be calculated on the number of nights an individual stays on the property. The amount to be remitted to Government will be the greater of the proposed Head Tax or 8 per cent of the charges as presently calculated. The Head Tax will be charged at the rate of US$10 per overseas guest per night of stay. It is expected that this measure will yield an extra $8m in Hotel Accommodation Tax. In order for the hotels to amend their current advertised rates, I propose that this measure be implemented effective 1st June 1998.

Additionally, we recognize the efforts that the hotels make to advertise their product and the country. A successful hotel marketing campaign is also a plus for St. Lucia. Most of the marketing campaigns involve inviting tour operators and travel agents to sample the product. The accommodation for these persons is usually provided on a complimentary basis. I therefore propose to amend the Hotel

Accommodation Tax Act to exempt the imposition of the tax on complimentary rooms that are used exclusively for promotional campaigns.

Policy on Medical Equipment

Mr Speaker, the Government welcomes the investment by the private sector in medical care and modern equipment, particularly those that reflect advances in technology. From time to time, applications are made to Government for removal of duty and consumption tax. Given the state of our health care facilities, Government is anxious to help. However, Government cannot continue to suffer losses of revenue. To mitigate against future loss, I wish to advise that Government is willing to allow the private sector to import medical equipment without liability for duty and consumption tax.

An amount equivalent to the revenue forgone by Government as a result of such waivers, will be credited to Government in the accounts of the beneficiary institution. That credit will then be drawn down to meet the cost of health services provided by the institution to indigent patients who are referred to the private institution by the Ministry of Health.

Removal of Duty and Consumption Tax on Security Equipment

Mr Speaker, the Government has heard the pleas of the private sector for support in combating theft in business places. As part of our campaign to eradicate crime in this country, I propose to this House, the removal of duties and consumption tax on surveillance and security equipment imported by companies over a period of one year for use in their businesses. This concession is to encourage the business community to install security equipment at their premises. It is time that our business community understands that they must invest in their own security. They cannot rely exclusively on the police force.

Amendment to Liquor Legislation

Mr Speaker, another area that has been targeted for reform is the collection of Liquor Licence fees. Presently, the Customs and Excise Department is responsible for the collection of Liquor Licence fees under the provisions of the Liquor Licence Act, No. 18 of 1969.

For the fiscal year 1997/98, it was estimated that $950,000.00 would be derived from Liquor Licence fees. However, a major shortfall was experienced. Only $536,000.00 or 56 per cent of the estimated amount was collected.

The Customs Department does not have the resources to visit all the liquor premises or establishments that are scattered island-wide. These establishments continue to grow year after year. Many operate without the prescribed licences.

Except for hotels which pay half-yearly fees ranging from $375 to $6,000, depending on the number of rooms, Liquor Licence fees are relatively low and one would have expected a greater level of compliance. This is not the case. While Government has no intention to increase the fees at this time, it is proposed, for the efficient collection of the fees, to amend the existing legislation to allow Village Councils to assume responsibility for collecting Liquor Licence fees. As an incentive, serious consideration will be given to permitting councils to utilize a percentage of the fees collected for the improvement of the communities they govern.

Telephone Levy

Mr Speaker, in the Contract of Faith, the St Lucia Labour Party promised the electorate that it would "Abolish Tax on local telephone calls." It did not specify the date on which it would do so. The Government is satisfied that the economy will be in better shape by the end of this fiscal year. Consequently, I am pleased to advise that the 5 per cent levy on local telephone calls will be abolished on 31st March 1999, that is, in the next eleven months.

TRADE MEASURES

Mr Speaker, Honourable Members, I turn to measures which impact on the Ministry of Commerce, Industry and Consumer Affairs.

Removal of Price Controls on Vehicles

The first measure concerns motor vehicles. Price controls are needed in markets where there is a danger of excess demand or limited supply. In the case of the vehicle market many years ago, it was the view that the limited number of vehicle dealers needed to be regulated in order to protect the consumer from collusion and excessive pricing. Today, that situation clearly no longer exists.

Quite the contrary, we have seen a rapid increase in the number of vehicle dealers, and the price effects of healthy competition. There are virtually no barriers to entering or exiting the sector. This, and the relative ease of individual importation of new and used vehicles from a variety of sources, has completely liberalized the vehicle market. More so, these conditions are not expected to change in the medium term. The existence of price controls is therefore largely ineffective and represents an unnecessary layer of bureaucracy that we can ill afford.

Consistent therefore, with Government's policy of withdrawing from sectors where intervention is no longer necessary, it has been decided to remove indefinitely, all price controls on imported vehicles, whether new or used. However, the Government will strengthen the regime governing used car dealers to ensure protection of consumers.

Increase In Duties For Rum From Extra-Regional Sources

Mr Speaker, for some time now, St Lucia's local rum producers have complained about the disadvantageous position in which they have been placed. Their situation requires redress. A new classification of rum in bottles of a strength of 46 per cent by volume but not exceeding 65 per cent by volume will be introduced. This category of rum will attract a consumption tax of $3.50 per litre.

Likewise, it is proposed to increase the consumption tax of $5 per liquid gallon of bottled brandy of a strength not exceeding 46 per cent by volume. However, if the CIF value of this brandy exceeds $75 per liquid gallon, the existing rate of $25 per liquid gallon will apply.

Increase in Consumption Tax on Cigarettes

Mr Speaker, Honourable Members, it has been established that smoking is dangerous to our health. Cigarette smoking is harmful, not only to those who smoke but also those who are compelled to inhale the smoke from those who engage in the habit. Whether passively or otherwise, I want to discourage the habit, even among my parliamentary colleagues. Therefore, I propose an increase in consumption tax of 10 per cent for cigarettes containing tobacco and 5 per cent increase in the consumption tax on cigars, cheroots and cigarillos.

TAXATION MEASURES

Mr Speaker, Honourable Members, I am about to approach the delicate issue of direct taxation. One way to do so is to ask a relative simple question: What kind of taxation system should St Lucia adopt in order to guarantee its people a better life?

St Lucia should have a tax system that encourages economic growth and prosperity; one that is equitable in the burdens it places upon taxpayers who have different abilities to pay; and one that is simple and transparent to taxpayers. Our present tax system in St Lucia falls short in all these respects. It dates from a time when our economy was based on export agriculture, and the easiest way to collect revenue was to levy duties on imported goods. The tax system therefore needs to be modernized to meet St Lucia's needs, in a world where our economic growth will be increasingly generated from within our own economy; where tourism and other service industries have grown beyond expectations; where sustained investment in better infrastructure and public services is needed; and where we are committed to reduce taxes on internationally traded goods in accordance with CARICOM and WTO trends.

Comprehensive Tax Reform In the Next Financial Year

In the course of this financial year, Government will present new legislation to redesign the system of direct and indirect taxation. It is proposed that the new measures will take effect in the 1999/2000 fiscal year. My objective is to alert the country to the likelihood of these changes before new legislation is presented to this Honourable House.

The proposals for reform of our tax system in the financial year 1999/2000 will have four main themes:

First, I shall propose to the Honourable Members, that St Lucia's major taxes should capture – as they do not now capture – income being earned in growing areas of the economy, but at the same time they should be well-structured, so that they do not (as they sometimes do) discourage economic development.

Second, under the current law, some taxpayers bear a disproportionate share of the tax burden, while others pay virtually nothing: to put this right, I propose to broaden our tax base and rationalize many of our tax incentives.

Third, many parts of our tax code are unnecessarily complex. I propose to simplify the system and remove anomalies, so that it is easier for taxpayers to comply with the law.

Fourth, I shall also propose progressive improvements in the tax administration, so that St Lucians have the quality of public services they deserve.

The Government intends to accomplish these goals, by redesigning Import Tariffs, Domestic Taxes on Goods and Services, Excise Taxes and Income Tax. Mr Speaker, let me take each in turn.

Import Tariffs

In the near future St Lucia must implement the third and fourth phases of the Common External Tariff as agreed with our Caricom neighbours. International experience has shown that developing countries have accelerated economic growth by adopting outward-oriented trade policies, including the removal of trade barriers and excessive tariffs. I would not propose that we reduce this protection so fast that our producers do not have the opportunity to adapt to a more competitive environment. However, postponing this adjustment delays the benefit we will gain from greater competition. Consumers will benefit by receiving higher quality goods and services at lower prices, and as a consequence, domestic industries will grow, creating jobs and employment for St Lucians. Just the same, these tariff reductions have already exposed the budget to strains because of St. Lucia's high dependence on revenues from international trade taxes.

Domestic Taxes On Goods and Services

To offset the loss in revenues from reducing import tariffs, we must at the same time improve the domestic taxation of goods and services. A consumption tax should be viewed as a tax on final domestic consumption (even though a significant fraction of it is collected as customs duties when goods enter the economy). In order to raise large amounts of revenues in the least distortionary manner, the tax should cover expenditures as comprehensively and uniformly as possible. Our current consumption tax regime does not meet these criteria. It applies mainly to imports and only to the manufacturing stage on domestic goods. It therefore burdens some parts of the economy unfairly, encouraging tax evasion and pressures for special treatment. I am proposing that we adopt over time, a comprehensive and broad-based tax on goods and services, which uses only a few standard tax rates rather than the highly dispersed scale we now apply under the consumption tax. To prevent an increase in the burden of the tax on lower income households, I intend to ensure that education, medical care, food and housing receive special treatment under the tax. I will also ensure that the burden of taxation on the productive sectors is not so high as to discourage continuing growth.

Excises

Excises supplement a broad-based consumption tax in a system of taxation, and should be confined to a narrow range of products that can yield substantial revenues. With a broader-based consumption tax, I intend to ensure that alcohol, tobacco, and petroleum products continue to face relatively higher taxes, but these taxes would be levied in the form of excises rather than consumption taxes.

Income Tax

Unquestionably, St Lucia's income tax regime needs to be rebalanced in some important respects. Present arrangements exempt from tax too wide a swathe of current profits for too little benefit to St Lucia's economy.

- In this area, I shall propose measures to reduce the possibilities for abuse of the tax system by sophisticated taxpayers. The tax treatment of interest on public sector debt issues and dividends earned from companies not resident in St Lucia will also be reviewed.
- With respect to personal income tax, the present provisions also need to be rebalanced. On the one hand, while most other countries have regularly updated their personal income tax thresholds to reflect changes in the value of money and increase in personal incomes, St Lucia has held its tax threshold unchanged at $10,000 since 1990. As a result, many more St Lucians, and in particular people with small incomes have been dragged into tax liability, or into higher tax brackets. On the other hand, the tax law has accumulated many tax shelters, under which individuals can claim relief for various items

of personal expenditure. These fall unfairly on different taxpayers: that is, they reflect not the differences in incomes that different taxpayers enjoy, but how different taxpayers choose to spend what they have- and in the nature of things they tend to give disproportionate benefit to those with the greatest spending power. They are also responsible for making our present tax returns so formidably and unnecessarily complex – to the point where, I am advised, only a minority of taxpayers complete their tax returns correctly. In brief, our present tax system catches far too many small incomes in its net, makes it far too difficult for ordinary taxpayers to comply, and distributes the personal tax burden unfairly.

- I shall also propose changes to the tax treatment of pensions. Present arrangements in St Lucia, as in many other countries, allow tax relief for contributions to employees' pension schemes and for income and gains of employees' pension funds to accrue free of tax. I propose, subject to similar safeguards, to introduce similar relief for pensions for the self-employed. The effect of these arrangements will be to allow both employees and the self-employed to save for retirement, on a tax-free basis.

These are some of the changes St Lucians can expect in the next financial year. I repeat, the legislative measures to give legal effect to these changes will be presented to this Honourable House in the course of this parliamentary session, in time for the <u>next</u> fiscal year. The presentation of the proposed measures will be preceded by dialogue with our social partners.

TAX MEASURES FOR 1998/1999 FISCAL YEAR

For this fiscal year, this administration proposes five policy measures:

(1) The establishment of a Property Tax Unit.

1. **(2)Extension of granting of Capital Allowances.**
2. **A Student Loan Interest Allowance.**
3. **Tax Deductions for Premiums paid to Individual Retirement Plans.**
4. **The Abolition of the Tax Exit Certificate.**

Permit me, Mr Speaker, with your usual kindness and generosity, to explain these measures, *seriatim*.

Establishment of Property Tax Unit

The first policy measure for this fiscal year concerns land and property taxation. In the Contract of Faith, the party that now forms this Government indicated that it would "Increase recoveries from property taxes and from property enhancements brought about by public sector investments."

Land and real property taxation has the potential to be a more significant source of revenue in St Lucia. Most property owners have benefited from increases in property value that have taken place in St Lucia in recent decades. As a means to fund public services,

property taxation is a useful addition to the array of other taxes because public services are capitalized into the value of the property and the tax is a way to capture back some of those benefits to help pay for public services. The active property market in St Lucia should make it possible to value property in an objective and professional way with the help of trained assessors. I intend, however, to ensure that any increase in tax does not excessively burden home owners and will build safeguards into the tax for older homeowners who might have difficulty paying higher property taxes out of current income.

Mr Speaker, the rationalization of the management of Property Tax is of critical importance to this. Presently, the assessment and collection of property taxes is managed by 11 agencies, i.e. the village, town and city councils, and the Inland Revenue Department. With the growth in construction activity and the lack of emphasis on adequate training, the collection and assessment of property taxes have become very inefficient. In some cases collection has become virtually non-existent.

We, therefore, propose to establish a central agency to manage the islandwide collection of Property Tax. This proposed agency will be established as a separate section of the Inland Revenue Department from 1st January 1999. In addition to managing the collection of Property Tax, the section will manage the valuation needs of the Government of St Lucia. This latter function is now being undertaken by the valuation arm of the Survey Section of the Ministry of Finance and Planning.

Mr Speaker, serious consideration is also being given to the introduction of a new basis of valuation with a view to determining an appropriate system. In this regard we intend to have discussions with valuation experts to assist us in formulating a sound basis of valuation. Honourable Members, therefore, will be invited to consent to new legislation to give effect to these proposals in the course of this financial year.

Extension of Granting of Capital Allowances

As part of a coherent programme of reform, I am proposing a new depreciation provision for new investment in hotel and other commercial buildings, similar to the provisions for industrial buildings. I am proposing to replace the present detailed provisions for asset by asset depreciation by a much simpler "pooling scheme" for depreciation. And I am proposing to respond to representations that I have received, for allowing relief for losses within a group of companies resident in St Lucia.

Mr Speaker, this approach is consistent with our commitment to develop a tax regime that is as broad as possible, and simple to administer.

To keep administration simple, and to avoid large numbers of "borderline" difficulties, there will, under the proposed new "pooling approach" be a small number of rates of capital allowance applied on the reducing balance basis, to three very broad categories of capital assets namely:

Class I: A special allowance of 40 per cent for a minority of short-life assets, such as computers.

Class II: A reasonably generous annual allowance of 20 per cent for other plant and machinery.

Class III: A lower rate of 5 per cent for buildings used for the purposes of a qualifying business as defined in the Income Tax Act.

The existing provision in the Income Tax Act with respect to the 20 per cent initial allowance will be retained.

The structure of reducing balance depreciation within the pool will work as follows. In Year 1:

a. **All expenditure on a given category of assets in a given year (for example plant and machinery) is added together to form a "pool";**
b. **The proceeds of any sales of assets in that category are added together, and deducted from that pool;**
c. **The annual capital allowance is calculated as a percentage of the net additions to the pool;**
d. **The initial allowance is calculated as 20 per cent of the gross capital expenditure on assets in that category;**
e. **The written-down value will therefore be calculated by deducting the sum of the annual allowance and the initial allowance from the net additions to the pool.**

In Year 2 and subsequent years, capital expenditure incurred in Year 2, is added to the written-down value inherited from the pool at the end of Year 1. The process then continues in the manner described earlier regarding proceeds of sales and so on.

To ensure a smooth transition to the new "pooling" arrangement, all existing assets will be brought into the pool at their written-down values from the start of the new system. The main attraction of the "pooling" approach is that the taxpayer no longer needs to keep, and the Inland Revenue Department no longer needs to monitor separate records for tax purposes for each individual asset, and calculate the annual depreciation on each asset individually.

In addition, Mr Speaker, Capital Cost Allowances will now be granted on new investments in commercial buildings. The commercial buildings for which this concession will be granted are buildings that are purchased, constructed, reconstructed, altered or adapted for commercial purposes, including use as offices or warehouses or for any trade, but not including a building let out as a dwelling house, or buildings approved as tourism projects under the Tourism Incentives Act.

Individual Retirement Plans

Mr Speaker, we recognize that the developing St Lucia economy has resulted in a number of persons who have ventured into their own businesses. As a result, there is a growing group of self-employed persons. These individuals, along with a growing group of young professionals, do not often make contingency plans for their later years.

We are concerned Mr Speaker, that if no incentives are given for those persons to save now, in their later years there will be significant pressure placed on the public purse, by way of the provision of social services. While we think that Government must give some level of support, we feel that the extent of the support can be mitigated by the build up of savings specifically geared to providing a nest egg for the future.

As a result, we have decided to allow a tax deduction up to a specified level for premiums paid to approved individual retirement plans sold by the insurance industry. The amount of the premium deducted will be based on the level of reported earnings of the individual. These plans will provide for monthly pension payments on attaining a specified retirement age. There will be stringent penalties applied for early withdrawal. The plans will also provide for lump sum investments and will offer packages for defined categories of beneficiaries.

Student Loan Interest Allowance

Mr Speaker, please forgive me for another reference to the Contract of Faith. I am sure, Mr Speaker, that you will want to applaud a Minister of Finance who seeks to implement a programme approved by the electorate.

It was stated in the Contract of Faith that a Labour Government would "Introduce a tax allowance for interest payments under the Student Loan Scheme, and interest rebate for those providing their services to St Lucia."

This Government is determined to assist those persons who help themselves by meeting the cost of higher studies overseas.

A critical factor determining investment in human resources is the cost of access to institutions of higher learning abroad.

The cost implications for persons opting to study locally at institutions such as the Sir Arthur Lewis Community College, cannot be ignored, as some of those persons are expected to fund their own tuition through student loans. On completion of the first two years, students are later expected to pursue studies abroad in an effort to complete their programmes. They too must endure on their return, the financial burden associated with prior study.

In light of changing economic circumstances, these limitations are further highlighted by the increasing unavailability of assistance from the traditional funding institutions. Fewer scholarships are available. Moreover, Government does not have the capacity to offer

loans. Consequently, more students must resort to loans through the St Lucia Development Bank and Commercial Banks. The Government wishes to help.

In light of our goal to support tertiary education, we propose to allow an annual deduction of $3,000 for interest paid on loans taken to finance tertiary education, provided that the taxpayer's service is available to St Lucia.

Abolition of Exit Certificate

Mr Speaker, one of the irritations that we face from time to time is the requirement to obtain an Exit Certificate from the Inland Revenue Department before travelling overseas. This certificate is not a true revenue measure. It is a control measure. It exists to identify those who do not meet their tax obligations, particularly those who do not submit their annual returns. It is also a reminder to those with tax liabilities to settle with the Comptroller of Inland Revenue. But, Mr Speaker, this cannot be fair to the grandmother in Montete, the unemployed youth in Micoud, the fisherman in Canaries, the unemployed mother in Castries. In any event, they are not effectively in the tax net.

Effective 1st May 1998, St Lucians and permanent residents will not be required to obtain Exit Certificates. However, those persons who are employed by virtue of a work permit will be required to obtain the Exit Certificate before travel overseas. The new tax legislation proposed for the 1999/2000 fiscal year will contain sufficient inducement to guide those who do not wish to render onto Caesar those things that belong to Caesar, to do so!

Tax Administration

As part of our efforts to improve the quality of public management, we also intend to improve the functioning of the Inland Revenue and Customs and Excise Departments. I am proposing to consolidate enforcement powers for the various taxes into a single code to enhance transparency for taxpayers. I also want to increase cooperation between the Inland Revenue and Customs Departments, through joint audit and other enforcement activities, which will ensure that all taxpayers pay what is due. My Government also intends to tackle the persistent problem of tax arrears by strengthening interest and penalty provisions. We will focus our efforts on our largest taxpayers; and by making full use of sanctions under the law, including the ultimate sanction of bankruptcy or liquidation, if necessary, to establish that no one, even the powerful, is above the law.

INSTITUTIONAL REFORMS

Mr Speaker, a budget is not just about figures. It is also about the institutional structures that impact on revenue generating measures. I propose, in this section of the presentation, to focus on certain institutional reforms.

Incentive to Civil Servants based on Achievement of Revenue Targets and Expenditure Limits

Mr Speaker, we have decided to introduce an incentive scheme for specified public officers. All public officers, that is, those who fall within the traditional category defined as the civil service, will in principle, be eligible for a monetary bonus in December and July of each year, starting in December, 1998.

The incentive scheme will be based on three criteria:

a. **the achievement of revenue collection targets set by the Minister of Finance after discussion with the relevant heads of departments;**
b. **achievement of expenditure control limits; and**
c. **satisfactory performance appraisals of the members of staff falling within the respective departments.**

This is how the scheme will work:

Ministries with revenue generating capacities will be set revenue targets for the financial year. Once the Ministries satisfy their targets, a percentage of the excess revenue would be available to the employees of that ministry and the wider public service. Secondly, all Ministries must remain within the expenditure sums approved by Parliament. These are <u>maximum</u> amounts and must not be exceeded. Once those targets have been satisfied at the Departmental level, the bonus would be paid to all the public officers of that department, provided that they have scored an average of 141 or more points (out of a possible total of 161) in their performance appraisals over the two quarters covered by the incentive, i.e., each half year. This threshold is the same used for assessing persons for promotion and the granting of increments. I believe it would be useful, Mr Speaker, if I explain the emphasis on expenditure controls.

In the new budget format, expenditure is broken down by Ministry, Programme and Activity. It is at the Activity Level that expenditure must be controlled. Likewise, accountability must be given practical effect. All officers work within the ambit of some particular activity and are both <u>individually</u> and <u>collectively</u> responsible for ensuring that their Activity Budgets are not exceeded. I repeat, ALL the officers within a particular Activity must share the collective responsibility for the efficient delivery of the output of that activity, including expenditure discipline. Therefore, no one within an Activity that has exceeded its budget will qualify for the incentive, even though that person might have a score higher than 141. Both conditions of high individual productivity and collective discipline must be satisfied.

Consistent with the financial rules and fiscal practice, over-expenditure on an Activity will be measured by the extent of <u>commitments</u> against expenditure items, not actual money spent. A basic assumption is that the expenditure sums under the various Activities are <u>maximum</u> amounts and expenditure commitments, and <u>will not</u> exceed budgeted amounts.

Activity expenditure will only be allowed to exceed budgeted amounts if approved by the Minister of Finance, Cabinet or this Honourable House, or if it is the subject of virements, re-allocations or other transfers of funds approved by the appropriate senior officer within

the financial rules. In such cases, exceeding budgeted amounts for specific activities will not disqualify public officers from being eligible for incentives.

Excess revenue from revenue collecting Departments that exceed their targets will be divided as follows:

i. **30 per cent of the excess revenue will be distributed equally**

   among the qualifying staff of the relevant department.

j. **40 per cent will be placed in an incentive pool for distribution to the rest of the civil service who qualify for the incentive.**
k. **The balance will remain in the Consolidated Fund.**

Incentives will be paid in December for the period of the same fiscal year, April to September, and in respect of the period October to March of the same fiscal year, the payment will be made in July of the following fiscal year.

The amounts to be paid will be determined by the Ministry of Finance and Planning in time for payment in December and July of each year. All ministries and departments will be required to submit the relevant information on qualifying persons by 31st October and 31st May of each year.

A special committee comprising senior representatives of the Ministries of the Public Service and Finance and Planning, and of the appropriate Public Sector Unions, will be set up to oversee the smooth running of this initiative and to make recommendations to the Minister of Finance, who will in turn approve the payments to successful officers.

The incentive scheme will be implemented on an experimental basis for one year in the first instance. During that time, we will probably have to fine-tune it to ensure that equity and fairness prevail, and that the objectives of greater efficiency and productivity are achieved.

Management of Government Vehicles

Mr Speaker, over the past few years, budget statements have alluded to the wastage in the public service with particular reference to the abuse of Government vehicles. An attempt was made to stem the abuses through the affixation of the prefix SLG on the number plates of vehicles owned by Government. Nonetheless, the abuse continued unabated and Government is still left to deal with the problem.

The Administration, in pursuit of efficiency, effectiveness and economy, will once and for all, deal with the problem of vehicle abuse decisively.

In the first half of the fiscal year 1998/99, a private company, solely owned by the Government initially, would be incorporated to own, manage and rent the majority of vehicles now owned by the Government. All Government vehicles would be vested in this

company, except for those engaged in emergency services and others designated for specific use.

The company would then provide vehicle rental services to the public sector. Government Ministries and Departments would be required to meet transportation requirements by renting from the company, and will account for expenditure on rental expenses under the reformed programme budgeting.

In addition to the potential reduction in the abuse of Government vehicles and the resultant decrease in operating costs, much economy can be realized with the ownership and management of the majority of Government vehicles as a single pool. Further, the replacement of vehicles would no longer be a capital cost of the Government, but an expense of the company.

The establishment of a rental company serving the transportation needs of Government presents the opportunity for the reduction in the aggregate number of vehicles currently owned, while at the same time, improving on service delivered.

Mr Speaker, let me by way of illustration provide you with a picture of what currently obtains. In one Government Ministry, there exists a fleet of 56 vehicles, together with 139 officers who are in receipt of travelling allowances paid to them for the maintenance of a personal vehicle to perform their duties. It therefore means that a total of 195 public officers have daily access to a vehicle for the performance of their duties for the entire duration of the workday. The technical officers in this Ministry do not exceed 200, so almost each technical officer can be twinned to a vehicle, paid for by the Government, one way or another.

The new approach to the management of Government vehicles has the potential of saving Government $3 m per annum, through reduction of waste and abuse, reduction in the duplication of services now provided, reduction in maintenance costs, and lower contribution in the rental value for vehicle replacement.

Mr Speaker, the public officers would be challenged to improve their skills at scheduling their transportation needs in fulfillment of their work programmes as the status quo of one officer assigned to a particular vehicle would no longer be the case.

I have no doubt they will rise to the challenge of the changing market place.

Strengthening of the Accountant General's Department

There is need in the Public Service for deliberate policy and action to alter organizational structure, processes and behaviour in order to improve administrative capacity for efficient and effective performance. The Accountant General's Department which falls within the heart of the government financial system is not exempt from those fundamental changes that are required. In fact, the need for change within this department, as with other

government departments, is amplified by clarion calls by the public for greater efficiency and effectiveness as well as improved quality of service.

Under the Finance (Administration) Act, the Accountant General, as the Government's Chief Accounting Officer, is required to perform a supervisory function with respect to the collection, expenditure and accounting for public funds. However, the Accountant General's ability to effectively discharge this vital responsibility has been constrained by an inappropriate and inadequate organizational structure within the Treasury. In the meantime, several Ministries and Departments continue to ignore the Financial Regulations even after they have been modernized and the appropriate training provided. The reports of the Director of Audit make repeated reference to lapses in basic control procedures that are not effectively tackled from one year to the next.

Accordingly, this budget makes provision for a new initiative to facilitate the restructuring of the Accountant General's Department. The most significant element of this restructuring exercise is the inclusion of a number of posts of auditors to strengthen the field audit capabilities of the Treasury. These auditors would be concerned with every aspect of financial administration, and would assist line Ministries to establish appropriate accounting systems, ensure those systems are properly maintained and carry out both routine and surprise audits and investigations.

The restructuring of the Treasury also provides for the implementation of a customer service programme to enhance the quality of service to the general public. Customer Service Personnel will be responsible for co-ordinating all customer service activities, including developing and maintaining proper systems to handle all enquiries, complaints and suggestions from the public and other Government Departments.

Establishment of Registry of Companies and Intellectual Property

One of the many challenges confronting governments at this juncture is the need to constantly modernize governmental institutions and procedures. This is necessary to ensure that public administration becomes responsive to change, is flexible and remains capable of efficiently delivering its various services to the public. In response to this challenge, my Government has identified two areas of activity for modernization in this financial year. These are the regimes for the registration of companies and of intellectual property.

On 1st January 1997 a new Companies Act came into force replacing the companies provisions which formed part of the old Commercial Code. This Honourable House should note that the Commercial Code predated 1957, and save for periodic amendments designed to deal with specific matters, it retained its original thrust and structure.

However, throughout the years since the enactment of the Code, business organizations have undergone tremendous transformation. The days of the small shop, owned and operated by a family, have largely been superceded by much larger business enterprises built upon complex shareholding, financial and management structures.

The new Act is meant to facilitate the development of the modern business enterprise in an efficient and flexible manner. Important new provisions are included regarding *inter alia,* the management of companies, financial disclosure, and the protection of creditors and investors. Additionally, the Act imposes new and more expansive duties on the Registrar of Companies and the registry staff, including broader powers to investigate companies.

In the area of intellectual property, St Lucia began the process of modernizing its regime in 1995 with the passage of the Copyright Act 1995. The Act came into effect in October 1996. This measure provided St Lucia with one of the most modern legislative instruments in the region for the protection of the rights of musicians, writers, performers, painters, architects, photographers and other owners of intellectual property. Notwithstanding its modernity, the Attorney General has quite recently solicited the support of the World Intellectual Property Organization (WIPO) to review the Act and to recommend any amendments necessary to ensure its compatibility with our relevant international obligations.

In the field of industrial property, our regime is still based on Title X of the Commercial Code, entitled Patents, Designs and TradeMarks. Unlike the case of the Companies Law, no new legislative measures have been implemented to bring our law in this regard up to date. In the meantime, St Lucia has become party to the Paris Convention for the Protection of Industrial Property, and is also bound by the TRIPS provisions under the GATT/WTO Agreement.

In order to satisfy our obligations under these two agreements, far reaching amendments must be made to the existing legislation on industrial property as well as to the administrative procedures within our trademarks and patents office. Furthermore, as a member of the WTO, St Lucia is bound to satisfy, by the year 2000, the minimum standards stipulated under TRIPS. We are also obligated to have enacted, domestic legislation relating to the protection of Layout Designs of Integrated Circuits, Geographical Indications and Plant Varieties.

In order to satisfy its obligations under the Agreements of which I have spoken and, as well, to ensure that the modernization of the law is not frustrated by archaic and unresponsive administrative arrangements, the Government intends to establish a separate Registry of Companies and Intellectual Property. A sum of EC$350,000 has been allocated in the Capital Estimates for this activity. This new registry will be provided with adequate support staff and modern office equipment to permit the speedy processing of applications, oppositions, and other requests by the public. The old Ministry of Education building on Laborie Street will be renovated to house the new registry. The floor plan for the organization of the office space has been completed and the costing of that plan has been determined. The Government expects that the notices inviting tenders for the construction of the work will go out shortly and work will commence as soon as possible thereafter. It is the Government's firm intention that the physical accommodation and office facilities for this Registry should be in place by October of this year.

But meaningful administrative change is not achieved simply by creating new offices. Central to the Government's plans for the reconfiguration of the companies and intellectual property landscape is the creation of a cadre of highly trained professionals who will be responsible for managing the system. To this end, the Attorney General has held discussions with senior officials of the World Intellectual Property Organization on a package of training for the new Registrar and her staff.

Already agreement has been reached on two training activities to be held at WIPO headquarters in Geneva and one further activity to be held in the region. Additionally, discussions are proceeding on the possibility of the new Registrar and relevant staff of the Registry doing short attachments at some of the more developed company and intellectual property registries in the region.

Government is convinced that the measures I have just proposed will contribute immensely to the process of improving government services to the public and facilitate a more dynamic development in these two areas.

Expansion Of Duty Free Regime

Mr Speaker, as we face the future, we must maximize the returns on investment, particularly in the tourism sector. This Government is convinced that we can increase income derived from a carefully managed expansion in the duty free regime currently in place.

Already, this island enjoys one of the lowest rates of inflation in the Eastern Caribbean. If we can expand, diversify and transform our duty free facilities to become fiercely competitive, there is no reason why St Lucia cannot become the leading shopping destination in the Eastern Caribbean, not only for our visitors but also for our neighbours.

Our small hotel sector may be persuaded or induced to market in other islands "weekend packages" purely for the purposes of shopping. After visiting several duty free shopping facilities in other islands, I am convinced that we can compete not only with them, but also with the cruise ships that visit us.

Pursuant to the Tourist (Duty Free Shopping System) Act, No 23 of 1986, Government will liberalize the duty free shopping regime. This policy shift also means that it will allow approved duty free shopping facilities to be established in the city centre and other developing tourism ports.

Insurance Of Government Property

During the discussions with officials of the Ministry of Finance and Planning in preparation for the 1998/99 Budget, I learned to my horror only two of the many government owned buildings were insured. Indeed, a great deal of government property in general was not insured.

This is a matter of grave concern, given the natural disasters to which this region is prone. The unfortunate situation of Montserrrat is a case in point. For many years, past administrations have simply ignored the obvious need to insure government property.

I have instructed the Ministry of Finance to begin the necessary groundwork for the insurance of government buildings in the first instance starting with the physical identification of the buildings, their location, size and estimated value. Some work in that regard seems to have been done in recent years, but there was no follow-up. It is yet another example of malignant neglect by the UWP administration.

In addition, this initiative will be completed by discussions with our OECS and Caricom partners to further explore the possibility to collaborating on a joint Disaster Mitigation and Reinsurance Programme. Discussions are ongoing and we are presently examining the possibility of having one or more multi-lateral funding agencies involved.

Rationalization of Government Rentals

During a review of the accommodation requirements of Government, it was brought to our attention that Government spends approximately $6.5 million per year on rental of buildings and other property. Notwithstanding the provision of additional physical infrastructure over the past decade, some ministries remain crowded and overwhelmed. If Government is spending $6.5 million annually, then surely, the basis exists for Government to finance the construction of a complex to service its needs. Therefore, Mr Speaker, in the course of this financial year, Government will be organizing a Design Competition among local architects to design a new Administrative Complex for the Government of St Lucia. This time we must make sure that the design captures the soul, the being and the aspirations of our people.

CAPITAL EXPENDITURE

Mr Speaker, Honourable Members, I will now introduce the projects which have been approved for Capital Expenditure. I propose to approach Capital Expenditure by reviewing the projects under the individual ministries.

Development of Heritage Potential of Government House

Mr Speaker, earlier I made the point that we must maximize the potential of our country in every sphere. In that connection, I am particularly pleased by a proposal which I received from Her Excellency, the Governor General, to develop the heritage potential of Government House, at a cost of EC$80,000. This is a fine example. I propose to allocate some $20,000 from local revenue to encourage this initiative. The balance of $60,000 will subsequently be funded by a grant.

Ministry of Legal Affairs, Home Affairs and Labour

Mr Speaker, in the Supplementary Budget Proposals presented to parliament, I indicated to Honourable Members, that I would present "a comprehensive refurbishment and construction programme in April, 1998" in respect of our police stations. I am now in a position to do so.

Police Force

In July 1997, the Government of St Lucia requested the National Insurance Property Development Company (NIPDEC), to undertake, together with representatives of the Police Force and the Ministry of Planning, a comprehensive examination of the police stations in the island. As expected, the team reported that some police stations were unfit for habitation. Others needed urgent upgrading and enhancement.

The Report recommended that:

Five new police stations be designed and constructed at Marchand, Vieux Fort, Dennery, Micoud and La Caye. In the case of La Caye, it has been agreed that the new station should be relocated. In order to protect the honour and dignity of this presentation, I shall ignore the historical significance of that recommendation.

The report further recommended that:

A refurbishment programme be implemented in respect of the police stations at Anse-la-Raye, Canaries, Laborie, Choiseul, Marigot and La Clery. Refurbishment works are already underway in Gros Islet and Soufriere.

It was estimated that the construction of the new police stations would cost EC$12,642,140 broken down as follows:

<u>Police Stations</u> <u>Cost (EC$)</u>

(a) Marchand 1,628,615.00

(b) Vieux Fort 6,106,450.00

(c) Dennery 1,690,025.00

(d) Micoud 1,717,050.00

(e) La Caye 1,500,000.00

TOTAL $12,642,140.00

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The refurbishment programme was estimated as follows:

<u>Police Stations</u> <u>Cost of Refurbishment</u>

(a) Anse-la-Raye $500,282.00

(b) Canaries $363,903.00

(c) Laborie $437,360.00

(d) Choiseul $414,148.00

(e) Marigot $173,600.00

(f) La Clery $150,000.00

TOTAL $2,039,293.00

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By all accounts, the above programme would call for a formidable outlay of capital expenditure that the Government cannot bear at this time. Given that factor, it was decided to proceed as follows:

a. **Government would accept a proposal from NIPDEC to construct the five new police stations under a Build-Own-Lease-Transfer (BOLT) mechanism.**
b. **Government would bear the cost of refurbishing the other police stations. This programme has already commenced with the refurbishment of the Gros Islet and Soufriere Police Stations.**

The Financing Arrangement

The BOLT mechanism will operate in this fashion:

NIPDEC will finance 100 per cent of the construction cost of the police stations that are to be leased to the Government of St Lucia. It is envisaged that NIPDEC would form a Special Purpose Vehicle to act as lessor of the properties.

NIPDEC/Special Purpose Vehicle would lease the parcels of land on which the buildings would be sited for a specified percentage of the term of the loan and would also enter into a Development Agreement that would grant authorization to build and operate the Properties on terms and conditions to be agreed. Upon completion, NIPDEC would lease the Facilities to the Government of St Lucia on agreed terms and conditions.

The construction of the Facilities would be funded by loans made to NIPDEC/Special Purpose Vehicle and interest would apply on the financed amount on a Floating Rate basis.

It is proposed that the loan term will consist of (i) an initial term (construction term) and (ii) lease payment term (at least quarterly). At the end of the Lease term, the Government of St Lucia would have the option to purchase each of the properties at a price to be agreed by all stakeholders. The price will include the lease payments made over time.

In order to meet some of the costs involved, Government will, on completion of the new police stations, offer for sale the properties presently occupied.

Mr Speaker, discerning members would note that these items of capital expenditure are not included in the Capital Estimates. The explanation is simple. The expenditure will be incurred by a private entity and as such, does not fall within the public sector.

For all practical purposes, one is tempted to describe this financial year as the "Year of the Disciplined Services". In the course of this year, Government will meet the recurrent expenditure of some 150 newly trained police officers. In addition to this, $791,600.00 has been budgeted in the Capital Estimates for the purchase of 24 motor cycles. A further sum of EC$1.3 million has been budgeted for the purchase of 21 motor vehicles. This is in addition to two new vehicles made available in the past two months.

We note that for the first time in seven years the Police Service has been able to observe its traditional Police Week. We see this as a sign of an improving institutional climate within the Force which augers well for its relationship with the wider community. Government has further noted recent improvements in the functioning and public image of the police and is proud to continue its unstinting support of our security forces in the service of our country.

Fire Service

What of the Fire Services? Unquestionably, our fire services require an increase in personnel and new fire fighting equipment. However, Government cannot do everything in one year. The priorities are truly competitive. Notwithstanding, we must make choices after careful evaluation of our priorities. All will agree that strengthening our security is the most pressing need at this time. I hope I can comfort our Fire Service, by announcing that:

- **a. Government proposes to construct two new fire stations this financial year, one in Gros Islet and the other in Vieux Fort.**
- **b. Government will respond to the need to recruit additional fire service officers in the next financial year.**

The two new fire stations will cost approximately $3 million. The projected duration for the construction of these facilities is 14 months. They would be constructed by NIPDEC under the Build-Own-Lease-Transfer (BOLT) mechanism described earlier. It should be noted

that it is proposed to resite the fire station presently located at Hewanorra International Airport.

Office of the Prime Minister

Land Acquisition

As a result of the fairly extensive capital programme undertaken by the former Government over the last eight years, a substantial amount of property was acquired from private landowners. Unfortunately, the budgetary provisions made over that period have been wholly inadequate in comparison to the need for compensation to these landowners. Existing records disclose that there is a backlog of unsettled land payment claims, which are estimated to cost, at a minimum, EC $ 15.5 million.

The inheritance of this liability by the present Government is severely constraining its ability to pursue the economic and social investment programme that is central to the fulfilment of its policy agenda. So as not to unduly stifle some of the new, exciting and vital initiatives of this Government over the medium term (in the areas of the environment, housing, roads and school construction in particular) Government proposes to institute a land exchange policy targeted, as a priority, towards new areas of land to be acquired.

However, wherever feasible, land exchange offers will also be made to property owners whose lands have already been acquired for public purposes. It will be ensured that these exchanges do not place affected persons at any financial disadvantage in respect of the market value of their acquired properties. In instances where lands of at least equivalent value cannot be identified in acceptable locations, a combination of land exchange and part cash payments will be applied.

It is expected that with the introduction of this policy, Government will be able to become current in its land acquisition payments within the next four years. In assessing the likely impact of the immediate introduction of this measure, Government has determined that an allocation of EC$5 million is adequate to cover critical land acquisition commitments in this financial year, as well as make part payments towards the arrears.

Housing

This Budget, Mr Speaker, will not be complete without a statement on housing. In the Supplementary Estimates, I indicated that the trajectory of Government policy will be two-fold:

a. **Government will seek to provide incentives to the private sector to invest in housing for middle income households.**
b. **Meanwhile, Government will deploy its available resources to provide housing to low and lower-middle income earners.**

The Housing and Urban Development Corporation has begun to put this policy into effect. For 1998, the Housing and Urban Development Corporation intends to provide 224 serviced lots and 140 houses to low and lower-middle income earners. The development will be concentrated in the north and south of the island, respectively. Seventy-two lots and houses will be available at the Derriere Morne Development, Vieux Fort. Subject to resolving issues of ownership, 152 serviced lots will be made available in the Beausejour Development, Gros Islet. Of that number, 68 lots will be sold as land/house packages.

Mr Speaker, this Government recognizes that St Lucians must be given access to land. In particular, where land is developed in specific areas, residents of communities must be given an opportunity to own a lot of land in their own communities. In the course of this parliamentary year, Government will be publishing policy proposals to resolve the problem of spontaneous settlements throughout the island, particularly in Vieux Fort. Our people must be given an opportunity to own land in their own country.

Ministry of Planning

Relocation of Mangue Residents

Mr Speaker, year after year, budget after budget, some residents of the Mangue Community in Vieux Fort have been told that they would be relocated to facilitate the construction of a link road between New Dock Road and Clarke Street. During the election campaign, some plywood houses were hastily constructed, ostensibly to accommodate those persons whose houses would have to be removed to allow for the construction of the road. Few houses were removed; persons other than those targeted for relocation were placed in the plywood homes. The folly that men do in the name of elections.

The Government has decided to translate expectation into reality, restore hope where despair is rooted. Under the programme of Capital Expenditure, a sum of $500,000 has been allocated from local revenue to meet the cost of relocating those persons who would be affected by the construction of the new road. The proposals for relocation to the Southern Cantonement Area will be discussed with the residents in the next few weeks. Suffice it to say that the National Development Corporation has made land available for the relocation exercise.

Cul-de-Sac Development

Mr Speaker, from time to time I am counseled to ignore the past and concentrate on the future. Stop blaming actions of the former regime, I am told. How can one do this, Mr Speaker, when the financial past always haunts the future viability of investment. Consider for a moment, Honourable Members, the much advertised development in the Cul-de-Sac Valley.

In 1991, the then Minister for Finance, Planning and Development, declared in his Budget Address as follows:

"Mr Speaker, from the congestion in the city of Castries particularly at weekends, it is obvious that the city will become dysfunctional within a few years. It was therefore decided to relieve the pressure on the commercial area by developing a new commercial area at Cul-de-Sac, and for this purpose a Cul-de-Sac development company – a joint venture between Government and Geest Industries (Government 60%, Geest 40%) has been formed and a $10 million contract for land preparation has been awarded to a Saint Lucian Company. Work on this project has already commenced.

In this area a shopping mall will be constructed, and no new warehouses will be permitted within the city limits. A new and exciting proposal to connect this area with the city is now being examined, that is by the construction of a tunnel from Castries near Bananes Bay and exiting at Cul-de-Sac, avoiding the tortuous journey over the Morne and opening the whole of the western area from Cul-de-Sac through to Anse-la-Raye for the expansion of greater Castries. When this project is completed, Anse-la-Raye will be about the same distance from Castries as is Gros Islet and the isolation of the southwest will be no more. This project will do for the southwest what Rodney Bay Development did for the Gros Islet area – a complete commercial revolution."

The Honourable Minister did not disclose the source of the $10 million for this investment. Mr Speaker, it turns out that the $10 Million was borrowed from the National Insurance Scheme at 10 per cent per annum. No repayment date was specified. The other shareholder, Geest Plc, agreed "to make payment to NIS of the liabilities of the Borrower to NIS of an amount no greater than 20 per cent of the balance outstanding and due to NIS at the time of demand (on the Borrower." Mr Speaker, since 1991, not one cent has been paid back to NIS. As at 31st March, 1998, the status of the loan is as follows:

PRINCIPAL $9,100,000.00

INTEREST 4,722,143.00

TOTAL 13,822,143.00

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Mr Speaker, how should we describe this – financial negligence, financial mis-management, or financial adventurism? Which is it, Mr Speaker?

It is now for this Government to find ways to resolve the outstanding liability to NIS. Forget the past indeed!

Mr Speaker, in August 1997, the Accounting firm, Price Waterhouse submitted a business plan for the area. Two options were offered:

"The first option assumes full development of the entire site within a period of three years, with an anchor tenant taking 25% of the available space. It is projected that sales will be completed within seven years. The second option assumes a more gradual development over a period of fifteen years.

The advanced development option will cost EC$87 million and will be financed through a combination of equity EC$10 million, long-term loans of EC$20 million and internally generated funds.

The gradual development option will cost a total of EC$101 million and will be financed through short-term financing for each stage totaling EC$8.5 million."

Before any of these options could be seriously pursued, it would be necessary to restructure the company's equity to take account of the continuing liability to NIS and the shareholding held by Geest Plc.

Ministry of Foreign Affairs and International Trade

Mr Speaker, this new Labour Party Government has chartered a fresh course in the direction of our foreign policy. We have embarked on a very proactive foreign policy – a foreign policy not content with reacting to events, but one seized of the need to energetically pursue issues vital to St Lucia's economic and social interests. The Ministry of Foreign Affairs and International Trade has been consequently involved in a programme of forging new relationships, of accessing non-traditional areas of economic and technical assistance for the country, and of tapping new sources of foreign investment. In order to fulfill these objectives, St Lucia needs not only to re-energize and restructure its existing overseas missions, but also to open new ones in areas where St Lucia had not hitherto ventured

It is for this reason that provision is made under the Capital Estimates for the establishment of a consulate in Miami. Mr Speaker, Miami has in recent times almost become the capital of the US for those interested in doing business in Central and South America, and the Caribbean, and as well as for persons from those areas who wish to attract US investment.

The Miami Conference on the Caribbean, which heads of Government of Caribbean countries annually attend, symbolizes the role which this city plays for Caribbean countries interested in forging relationships with American enterprises. For the Caribbean, it is the gateway to major cities in the southern United States. A St Lucian Consulate in Miami is necessary as part of our new foreign policy thrust, and so the Estimates provide for a modest office, but one of sufficient capacity to be able to function effectively.

Mr Speaker, in the Labour Party Manifesto for the last general election, the Party promised a policy that would be more sensitive to the needs of our nationals living in other countries. We promised special attention to the needs of returning nationals, and have adopted a returning nationals policy, administered by the Ministry of Foreign Affairs and International Trade. But those of our nationals, who perforce have to continue to try to

earn a living in lands far and near, also need our protection and our support. It is sad Mr Speaker that nowhere is this more apparent than in our neighbouring sister isle – the French department of Martinique. Mr Speaker, the ties between our neighbors in Martinique and ourselves go back for centuries. The peoples of the two islands have, over all those years, virtually ignored the fact that history and politics have made us two separate countries – two separate nations and many of them consider themselves one people; so for decades and decades. Martiniquans have made homes in St Lucia, and St Lucians, homes in Martinique.

In recent times however, economic considerations have forced many more St Lucians to seek their fortunes in Martinique than vice versa. However, extremely rigid visa requirements and restrictions by the French authorities have led many more St Lucians to enter Martinique illegally than previously, resulting in a harsh attitude towards St Lucians by French authorities, an attitude which is inconsistent with our historical ties and with good neighbourliness. The scourge of the drug trade with its unsavoury connections between the two islands, and the traffic in stolen goods between the two countries, have not made the lot of St Lucians any easier with the French authorities. At the same time, illegal fishing by Martiniquan fishermen in St Lucia's territorial sea has muddied the waters even more, as St Lucia has had to punish those caught, and French fishermen have reacted without reason to St Lucia's legitimate stance. For example, a year and a half ago, Martiniquans attacked and severely damaged two St Lucian boats which were on peaceful legitimate business in Martiniquan ports and the owners are yet to receive adequate compensation despite continuous representation by the St Lucian Foreign Ministry.

The treatment being meted out to St Lucian nationals in Martinique therefore compels the Government of St Lucia to maintain a presence in that country so that St Lucians who are faced with difficulties can have recourse to the assistance of St Lucian Government authorities. In addition, Mr Speaker, and despite the hostility to which I have just referred, many St Lucians with the cooperation of the French authorities, are increasingly utilizing Martiniquan hospitals for medical care unobtainable in St Lucia. A St Lucia Government presence in Martinique would facilitate the setting up of the kind of arrangements essential for the proper care of persons arriving for medical treatment.

For these reasons, Mr Speaker, provision is made in the Capital Estimates for the establishment of a Consulate in the French Department of Martinique. It is our hope that this office – small though it may be – will provide comfort to our nationals, and demonstrate the seriousness and respect with which St Lucia wishes its nationals to be treated. While we are on the subject of the protection of nationals overseas, let me add Mr Speaker; this is also a consideration for the Consulate in Miami. There are many St Lucians in Florida and many transit Miami almost on a daily basis; a St Lucia Consulate there will be able to respond to the needs of these nationals.

Ministry of Commerce, Industry and Consumer Affairs

Mr Speaker, the total Capital expenditure allocated to the Ministry of Commerce, Industry and Consumer Affairs is $4,410,604. The Ministry will focus on three major projects this financial year:

i. **Small Enterprise Development**
ii. **Institutional strengthening of SEDU and NRDF**
iii. **The establishment of the Goods Distribution Free Zone**

Small Enterprise Development Project

Unsung and unheralded, small business activities have for many years catered to essential community service needs. Such needs were usually neglected by larger operations as not being worth the effort.

In that regard, it has been left to the small and micro business sector to cater to critical and basic community needs. This it has had to do in an environment in which its contribution has previously failed to attract other than lip service recognition, through sheer ingenuity and the exercise of an innate resourcefulness. To date, there has been a virtual absence of developmental resources upon which the sector could draw. For example, there was:

1. **no policy or co-ordinated programme for the development of the sector;**
2. **no legal instruments and institutional mechanisms through which the activities of the sector could be guided and its interests promoted;**
3. **no special financial instruments and loan arrangements on concessional interest and collateral requirement terms, addressed to the specific needs of the sector;**
4. **inadequate availability of information for guiding small sector investment into avenues related to an overall national development thrust;**
5. **little technical and managerial assistance directed towards the development of the sector.**

While addressing the obstacles which have hitherto inhibited realization of the sector's considerable potential as an important contributor to the economy, Government proposes to make the most of the vitality and inventiveness which already exists within the sector to promote its development.

Government views the imperative of structural change and economic diversification as opportunity to promote the development of small businesses and the expansion of their range of activities. It is also an opportunity to enable the sector to fulfill its expectations within the diversification process, become a generator and distributor of income, and a critical generator of employment.

Government, in consultation with small business operators, proposes to develop a fully integrated approach to the development of the small business sector. It aims to do this through appropriate legal instruments, institutional arrangements, incentives, training opportunities, technical assistance, and guidance in accessing affordable finance.

Government wishes to see an expansion of the sector, and an improvement in its efficiency, as well as the quality of its output. Government is also hoping for the development of greater linkages between the small business sector and other economic sectors, and expects small business operations to pursue opportunities which are available beyond the limitations of the domestic market.

The Government of St Lucia, through the Ministry of Commerce, Industry and Consumer Affairs, is developing a policy framework that will set the parameters within which the development of the sector will be approached.

To facilitate the thrust in this sector, a Micro and Small Scale Business Enterprise Act will be presented to this Honourable House for its deliberation and enactment. The legislation, will perforce, define small and micro businesses and make provision for developmental support and financial relief in respect of enterprises eligible for such assistance.

Amendments to the Income Tax Ordinance which were recently passed, provide (in addition to the allowable deductions on capital expenditure), for a further investment allowance of 10 per cent on capital expenditure incurred in the provision of plant and machinery in the initial year of income and funded from the non local sources. The arrangement is particularly aimed at encouraging St Lucians living abroad to invest finance and expertise accumulated abroad in the development of the small business sector.

In terms of institutional support, the Small Enterprise Development Unit (SEDU) within the Ministry of commerce, Industry and Consumer Affairs, is being strengthened to enable it to better perform its core functions of co-ordinating the development of the sector, providing technical support and training opportunities for small business operators, undertaking feasibility assessments, providing consultancy and extension services, and facilitating access to project funding.

An amount of $255,000 has been allocated within the Budget to assist in meeting SEDU's recurrent costs. In addition, under the Capital Expenditure Head of the Budget, an amount of $4,830,000 has been allocated for a Small Enterprise Development project funded through EU funds available to St Lucia through its STABEX allocation. Of this amount, $1.6 million will be expended during the current fiscal year. The components of the project include:

1. **Entrepreneurial loan funds.**
2. **Employable skills training.**
3. **Entrepreneur and business development.**
4. **Establishment of an Accounting Center.**

Institutional Strengthening of SEDU, And the National Research and Development Foundation (NRDF)

It is to be noted that Government provided an annual subvention of $100,000 to the NRDF to help finance its activities. Further, a substantial allocation from the Small Enterprise

Development project is also earmarked for strengthening this institution and for providing it with loan funds for disbursement to target beneficiaries.

These project activities housed within SEDU and other agencies involved in small business development, are together intended to provide the impetus required for urging the sector on towards the realization of its potential.

In addition, SEDU, as a body charged with the co-ordination of the sector's activities, will be required to lend support to other projects with built-in small enterprise objectives. This applies to the Rural Economic Diversification Incentives Project funded by STABEX, and the St Lucia Rural Enterprise Project, an IFAD/CDB funded project.

This package of initiatives reflects Government's determination to spare no effort to deploy the resources necessary for ensuring the development of the micro and small business sector. In so doing, Government expects to create opportunities for St Lucians, and in particular, assist young St Lucians joining the job market, to find productive and rewarding outlets for their talents and capabilities.

Goods Distribution Free Zone

Mr Speaker, earlier in this presentation, I drew to the attention of this Honourable House, two capital projects, which are a direct result of our new foreign policy thrust. One of these projects is the Free Trade Zone to be constructed in Vieux Fort.

Mr Speaker, there has been considerable speculation about my failure to mention the so-called Chinese projects in the Supplementary Budget. This Minister of Finance does not believe in decorating the Capital estimates with projects that are not the subject of formal agreement. Moreover, why include an item of capital expenditure when it is known that no expenditure would be incurred in the financial year in question. I thought that such an approach made eminent sense. But other persons thought otherwise.

Last December, the Government of St Lucia, through the National Development Corporation, and the Government of China through the Jianjin Architects and Consulting Engineers, signed an agreement for the design of the office building and warehouses that will be in the Free Trade Zone. The Free Trade Zone will comprise an Administrative Building of 1,000 square meters and 11 warehouses with integrated office facilities. Construction of the Free Trade Zone will begin later this year, and will not involve the St Lucia Government in any major capital expenditure. This project holds exciting possibilities for St Lucia and for the south of the island in particular.

The Free Zone concept was given legal authority through the enactment of the Customs Free Zone Act of 1983. In part, the Act was intended to facilitate the establishment of enclave industries.

The marketing strategy involved the presentation of St Lucia as a low wage destination, advantageous for the location of assembly operations earmarked for the export of products to the Unites States markets under the provisions of the Caribbean Basin Initiative.

This initiative failed to live up to expectations and proved that the low wage premise of the project did not hold against the challenge of competition from sweat shop operations elsewhere. The erosion of advantages enjoyed by Caribbean Basin Initiative beneficiaries as a result of NAFTA, has served to compound the problem.

Developments in transport technology, present new opportunities for the significant investment in infrastructure at Port Vieux Fort to be made to deliver benefits which relate more closely to its cost, and which, if thoughtfully pursued, provide a better chance for sustainability than the previous approach.

The new approach involves the creation of a Goods Distribution Free Zone area which would function as a trans-shipment hub, facilitating the entry, free of inhibiting customs procedures, of containerized goods to be broken down and transshipped.

St Lucia's geographical location is considered to be ideal for providing such a service targeted at neighboring states. Infrastructural development at Vieux Fort lends itself to this purpose.

It is intended that this development will:

1. **Improve the containerized traffic throughput of the Vieux Fort Port, thereby contributing to the sustainability of its operations.**
2. **Create job opportunities within the south and in doing so; diffuse the concentration of job seekers in the north.**
3. **Generate business activities directly and ancillary to the operations of the Free Zone Area, such as banking services, freight forwarding services, etc.**
4. **Increase the passenger and freight throughput of the Hewanorra International Airport, improving the viability of its operations.**

A new legislative framework more appropriate to the requirements of such a project is now in the process of being drafted, and will be placed before this House for consideration during this current session.

Ministry of Education, Human Resource Development, Youth and Sports

Mr. Speaker, I wish to turn now to an area of government responsibility that probably affects the largest constituency of citizens in this country and which is fundamental to our capacity to shape our future. In our reconfiguration of Ministries, my government brought together the portfolios of education, human resource development, youth & sports for a specific reason. In our vision, the matter of education in the 21st Century is inseparable from the broader concern of human resource development, and the imperatives of youth development cannot be divorced from education and training.

Strategic Directions

The strategic priorities of my government in the sphere of education are to make the school the center of focus of the education system and to transform the Ministry from a command centre to a service centre. In so doing, Mr. Speaker we ensure that all of the education reform initiatives are rooted at the level at which they matter most and that any changes that are implemented impact most significantly at the level of the classroom. This is the only road to a learning society; it is the only way forward for education. Until and unless the education reform process begins to yield improvements in the teaching and learning outcomes, such changes are wasteful and misdirected. That is why Mr. Speaker, the new vision for education and human resource development that this administration has brought is a sharp differentiation from what occurred in the past. We have had educational development before; we have had significant expenditure on education by previous administrations before. But what we have never had before is the clarity of vision, the open and transparent approaches to policy definition and implementation that consistently involves major stakeholders (parents, Teachers Union, National Principals Association, denominational authorities) and an approach to management that is energetic and democratic. We have brought a quality of vision, leadership and direction that is participatory, inclusive and which is quality and performance-oriented.

Capital Initiatives in Education

Mr. Speaker, the capital initiatives of this government in the areas of education, human resource development, youth and sports total EC$30,845,687. Of that amount, $6,233,435 will come from local revenue, $9,325,630 will come from grant sources and $15,286,622 from loans (principally the World Bank-Caribbean Development Bank Basic Education Reform Project).

The provisions of this budget in the sphere of education allow for the speeding up of the Basic Education Reform Project – an initiative started under the previous regime but which got mired in political indecision and interference. This financial year will see the completion of work on the new Soufriere Comprehensive Secondary School (costing $8,100,473) and the new Piaye Secondary School (costing $5,060,661). The Government of St. Lucia contribution to this undertaking stands at EC$1,124,330 and $681,300 respectively. Commencement of work on the Anse Ger Secondary School – the subject of political maneuvering by the last administration – and on the Babonneau Secondary is expected in the financial year. The total estimated cost of the Anse Ger Secondary stands at $6,215,772 and for the Babonneau Secondary at $5,988,872.

Consistent with my Government's pledge in our Contract of Faith to move expeditiously to universal secondary education, and in utilizing public funds in a manner that brings the greatest benefit, we starting to make provision for the expansion of some of our leading secondary schools. Commencing with St. Mary's College, a provision of $500,000 has been made for this financial year towards the construction of a needed extension. Of course, certain conditionalities will be attached to the disbursement of this sum.

Existing bottlenecks in primary education provision will be incrementally addressed. For the past 15 years, parents of children attending schools in the Castries basin have suffered the inconvenience of the shift system in the Ave Maria and RC Boys Schools. We have proposed to the Caribbean Development Bank the construction of a new Primary School in the Castries basin to, once and for all, end this injustice to the children. A CDB Appraisal Mission has already visited and the indications are positive that funding will be received for this as well as for the expansion of the major Senior Primary Schools, to facilitate the introduction of technology education in their curricula.

Mr. Speaker the communities of the constituency of Vieux Fort North have been consistently neglected by previous administrations inspite of the dedicated representation made on their behalf by their long serving and humble servant, the Honourable member for Vieux Fort North. Today, one of the persistent requests of the Honourable gentleman will be granted – the construction of an Infant school in the community of Vigier to serve the cluster of communities in that area and to avert the disaster that he has so often feared of infants being swept away in the intersecting Vigier-Canelles river in their three to four mile trek to the

Desruisseaux school. A provision of $250,000 in the estimates will enable the people of the community to realize their dream through self-help.

Mr. Speaker, notwithstanding the need for austerity in this period, my government is committed to giving education and the condition of youth, pride of place in our national priorities. In testament of this we have allocated a substantial portion of the resources to be received from Stabex 95 to education. A total of $4,605,630 has been provided from this source for school repair and rehabilitation, furniture and fittings, and external works to schools. The School Feeding Programme, which was formerly funded by the World Food Programme (WFP), has now become the responsibility of the Government to maintain – WFP funding having ceased in December 1997. An allocation of $980,000 has been made from Stabex 95 to ensure continuity.

Youth

One of the fundamental objectives in the field of education is to impact on the general youth sector as a whole. We are seeking Mr. Speaker, as part of the general process of education reform to incorporate enrichment activities for youth in general so that that segment of our youth who are still in school will obtain – within the formative and learning environment of the school – the exposure to character building activities, to sports, to cultural activity that will ensure their emergence into the world of work as men and women of sound mind, body and character. The provision in this budget caters for continuing support to youth and sporting organizations ($252,000 and $245,000 respectively), and allocations of $123,000 for policy formulation in both areas. The Commonwealth Youth Programme has pledged to provide additional support to this policy formulation process and we expect that, given the participatory process that we have planned and the strong political will that underpins it, St. Lucia will be a model for the Commonwealth in that regard.

National Stadium

Mr Speaker, Honourable Members, for years, the sporting public of our country were promised a national stadium. Promises, promises, promises. Nothing materialized. This is about to change.

In February of this year, the Government of St Lucia through its Foreign Minister, and the Government of the People's Republic of China through its resident Ambassador in St Lucia, signed an agreement for the construction of a national stadium in Vieux Fort. The Chinese Government will design the national stadium, for a seating capacity of 15,000 persons, comprising a standard football field and a 400-meter standard running track. The estimated total building area of the stadium is 8,000 square metres or 86,080 square feet. The Government of China will build 7,000 seats while the St Lucia Government will, in time, be responsible for the other 8,000 seats. The design phase of the national stadium will commence later this year.

National Cricket Ground

In the course of this year we passed on the opportunity to host a one-day cricket international. We took this decision because of the costs involved and our assessment that this level of expenditure would best be invested in a more permanent facility that could serve as a home for local talent and a magnet for future regional and international events. It is with great pride that we announce the provision of an initial sum of $1 Million towards the commencement of construction of a National Cricket Ground. Work has already commenced on preliminary concept drawings and identification of a suitable low rainfall site. What is particularly significant about this capital initiative is that its financing is going to be provided by the National Lottery in keeping with the policy that the proceeds of the National Lottery should be reserved for the exclusive support of sports.

Pavilion – Vieux Fort

The town of Vieux Fort although named as the second capital of St. Lucia has up till now very little by way of economic or social infrastructure to justify that title. Today, it is incumbent on us to redress the long agony of neglect that the people of this population center have patiently endured. Consistent with our concern for the salvation of our youth, we have made an initial provision in this budget of $150,000 for the construction of a Pavilion for the Vieux Fort Playing Field. Sensitive to the limitations of this budget, I have undertaken as District Representative to challenge the business sector – who stand to benefit considerably from the unprecedented economic growth opportunities emerging in the South – to assist in providing this facility whose estimated total cost is $1.5 Million. As Honourable Kenneth John, the Parliamentary Secretary in the Ministry of Education, Human Resource Development, Youth & Sports once asserted to the private sector, "*every dollar spent on sports is dollar invested in the prevention of crime; every dollar spent on the development of youth talent is a dollar invested in a better future and a more prosperous economy and society*".

Ministry of Health, Human Services, Family Affairs and Women

Victoria Hospital Rehabilitation

Mr Speaker, Victoria Hospital, by virtue of its larger number of in-patient and out-patient admissions, is the main health care institution on the island, providing a range of secondary referral services including Accident and Emergency Services, to the northern two-thirds of the country. This Government understands that St Lucians are dissatisfied with the quality of service provided by this hospital.

Mr Speaker, hospitals today are turning to guest-room type programmes to train and motivate physicians, nurses and other health care employees in hospitality services. Such programmes can only be successful when the facilities are conducive to both the providers and users of health services. With the exception of the new Obstetric and Gynaecology Block, this Government inherited a hospital in which the majority of the buildings are in a deplorable condition. Mr Speaker, this Government is committed to the total rehabilitation of this institution that has had such a significant impact on the lives of the majority of St Lucians.

Although the role of the hospital will be clarified in a forthcoming Health Sector Study, this Government recognizes the need to maintain and upgrade the hospital services by allocating the funds necessary to completely renovate that section of the Hospital, traditionally referred to as the "L" Block. Mr Speaker, $1.1 million has been allocated under local revenue for this purpose. The facility is being renovated to provide new wards and new operating theatres in the short term.

In the medium term however, it is the completion of Phase III of the Victoria Hospital rehabilitation works that will provide proper facilities for both the providers and users of health services. Government awaits the final report of the "fast track" feasibility study for this Phase, which is being funded by the EDF.

Mr Speaker, previous development proposals for Victoria Hospital were based on a demographic study which assumed that the two general hospitals, Victoria Hospital and St Jude, provide a pattern of service in the ratio of 3:1 respectively. That is to say that Victoria Hospital serves 75 per cent and St Jude, 25 per cent of the island's population. However, the current pattern of admissions at the two general hospitals and the advent of the Tapion Hospital suggest that Victoria Hospital's catchment population amounts to no more than 65 per cent of the total population in most of the medical specialties.

In the rehabilitation of the hospital, the strategy then is to plan for a 65 per cent level of service utilization. Another important strategy is to strengthen the hospital's role in the provision of outpatient services to its own catchment population.

Based on services requirements and an appraisal of the site on which Victoria Hospital is located, the rehabilitation of the hospital has to meet the following objectives:

1. It has to provide facilities of a range and scale that will allow the hospital to provide modern, cost effective, health services both in the medium and long term.
2. It has to provide a spatial configuration that allows for efficient movement of patients, staff and supplies both within and between departments.
3. It should allow for a phased implementation of the programme of works if necessary, while the hospital continues its current services and operations.

The construction cost of Phase 3 of the Victoria Hospital rehabilitation is estimated at EC$31.2 million. This figure is exclusive of equipment and recurrent costs as well as fees for consultancy services.

Mr Speaker, this Government is cognizant of the need to provide new additional facilities at Victoria Hospital. We are equally concerned that in the intervening period while this phase of the project is being developed, appropriate improvements to the existing facilities are continued and that the public is afforded an uninterrupted high quality service.

Accident and Emergency Services

Mr Speaker, few patients who receive treatment at the Casualty Department compliment Victoria Hospital for the quality and efficiency of the service. The Ministry of Health estimates that the Casualty Department accounts for at least 50 percent of the complaints against Victoria Hospital.

The present Casualty Department of Victoria Hospital suffers from several problems including:

a. Lack of Proper Management

There is the absence of suitably qualified and experienced medical and nursing personnel to supervise the Department. This coupled with the absence of precise policies and procedures to guide the operations of the Department make management difficult.

(b) Lack of the Facilities, Equipment and Maintenance

Programmes

This is exemplified by the absence of a portable x-ray machine in the Department which results in the "blind" management of some cases while some patients have to be transported for some distance in the open to access x-ray facilities.

(c) Insufficiency of Staff and Expertise

The medical staff of six doctors of the Casualty Department sees on average, during a 24-hour period, some 200 patients, 70 per cent of whom are non-emergencies. There are three

shifts during this period, with one doctor on each shift. Every patient is seen by a Casualty doctor.

In addition to the heavy workload it is important to note that the numbers and the severity of the emergency cases are increasing, and there is very minimal revenue generation in the Casualty Department (in comparison to its expenditure).

In an attempt to allay the frustrations of the public as well as the personnel in the Accident and Emergency Department, the Ministry of Health will, this financial year, focus on the development of emergency services. To this end, provision has been made for a sum of $1,075,000 in the Capital Estimates, funded, in entirety, from local revenue. This initiative will be enhanced by a Technical Cooperation Agreement with the respected and well-known Howard University Hospital of the USA. The Agreement will involve:

a. **The establishment of the presence of Emergency Medicine Doctors and Nurses from Howard University Hospital at Victoria Hospital.**
b. **The organization of a programme for the training in the management of emergency patients for hospital staff and**

   ambulance personnel.

c. **The preparation of protocols, procedures and standards to guide the Accident and Emergency Services.**

Attempts will also be made to improve the image and the level of public satisfaction with the Department. In this regard, the Ministry of health will encourage the Hospital to:

a. **Establish a social desk within the Casualty Department to provide guidance and information to users in order to facilitate the proper utilization of the services.**
b. **Conduct a publicity campaign/programme for improving the Department's image.**

Ultimately, however, Government must establish a new Accident and Emergency Unit.

Care For Senior Citizens

Mr Speaker, 8,972 persons or 6 per cent of our population are above 64 years of age and 6,454 or 4 per cent are in the 55-64 age group. This implies that the number of senior citizens in our population will increase by 42 per cent within the next ten years. The aging of the population is an important issue and our statistics indicate that we must start planning for it, in earnest. The aging of the population spans many dimensions and as such, a multidimensional approach involving the health, finance, social sectors and partners, must be adopted.

During this fiscal year, Government will undertake a comprehensive review and assessment of issues relating to aging of the population, in order to develop adequate policy and programmes for our senior citizens. Particular attention will be given to the provision

of residential care for senior citizens and other community based programmes including for example, community support services for senior citizens living at home, in the form of meals, home helps and ancillary health care.

Additionally, public awareness on "healthy aging" and preparation for pre-retirement will be heightened. It must be recognized that our lifestyles may also play an important role in modifying the process of aging and in determining the quality of life and well being in old age. Whereas Government recognizes its responsibilities with respect to the care of its senior citizens, I wish to encourage you, the citizens of this country, to view preparation for the later years as an individual responsibility.

Government wishes to state its intention to intimately involve the private sector, voluntary associations, social clubs, religious and community groups, youth groups and other social partners, in this undertaking. The care of senior citizens provides an excellent opportunity for Government, the private sector and other social partners to work together to meet social and economic development goals. This is an area that provides viable investment opportunities from both a service and infrastructure perspective.

Mr Speaker, you will agree that our senior citizens have laid the foundation for the future development of our country. Their contribution to society is manifested in the prosperity and well being of a significant proportion of the population. Yet, in the twilight of their days, they have been marginalized and cast aside as if they are a source of embarrassment. All of use will reach there, some sooner than others. We have to care for those who are responsible for us. There is no better way to say that we are a caring people, a caring society, than to take care of our elderly.

Mr Speaker, I wish to make specific mention of the Senior Citizens Home at Malgretoute. This institution bears testimony to the plight of the elderly in this country. Located in the general proximity of the Pitons, the physical conditions cannot be described as anything short of being distressing and deplorable. This situation did not develop over night, but is clearly the product of abject neglect over the past decades. To alleviate this situation Mr Speaker, as a short to medium term measure, Government recently approved $120,000 for priority works and major repairs this financial year. Under the guidance of a new Management Committee, it is envisaged that consideration will be given to the strengthening of the management of the Institution, to ensure adequate health and personal care of the elderly. Notwithstanding these efforts to improve conditions at the present facility, it is the intention of this Government to carefully explore the possibilities in the medium to long term, of establishing a new facility in a suitable and more accessible location, that affords greater community support and more family visits.

Mr Speaker, it is incumbent on all of us to support efforts geared towards the re-integration of the elderly into society. However, it is clear that Government neither has the capacity nor the resources to establish homes for our elderly. Government wishes to encourage private sector investment in this sector. Government, therefore, welcomes the establishment of joint ventures with the private sector for the care of the elderly. Under such an arrangement, Government will provide a subvention, donate land and duty free

concessions as part of a programme of assistance. In return, the private sector entity will provide home care for the elderly. Government will also be responsible for formulating policy and establishing standards for their care.

Cornerstone House

Mr Speaker, the concerns of this Government also extend to those who are unable to find a pillow to rest their weary heads at night. In my Christmas message, I announced that Government had donated one of its unoccupied buildings to the charity group, Cornerstone House, for the use of those persons who spend the night under buildings in the city centre. Cornerstone Night Shelter is in the process of being renovated. The Government of the People's Republic of China has donated $20,000 to purchase a vehicle to collect our "wanderers" at night. Government has decided to allocate a further $50,000 to meet the cost of establishing this night shelter.

Integrated Child Protection and Development Programme

In pursuit of national development, a significant number of our children are at social risk. We need to protect those children from abuse, neglect and abandonment as part of our social obligation. To this end, an integrated child protection and development programme will be initiated at a budgeted cost of $1.2 million. The project is to be funded by the Caribbean Development Bank. Pending the finalization of the Agreement with CDB, I have allocated a sum of $250,000 from STABEX resources to commence the project.

The programme encompasses an approach to development that combines prevention and intervention strategies as a means of addressing the plight of some of these children. The programme is part of a long-term strategic plan in human resource development as it provides an avenue where the specific needs of socially disadvantaged children will be addressed.

Child abuse, abandonment and neglect will be treated and managed at two levels. One level of management deals with institutional care and the other level deals with family or home based care.

Mr Speaker, to address the problem of child abuse, requires an integrated approach that combines prevention and intervention strategies. A preventative strategy will emphasize community outreach and public education. An intervention strategy will emphasize a combination of treatment of known cases of child abuse and the provision of temporary shelter, care and protection of children. The provision of temporary care and protection necessitates the establishment of a centre that would facilitate the strategy. Mr Speaker, this Government has approved an annual subvention of $50,000 to the Children's home located at Ciceron.

Ministry of Community Development, Culture, Cooperatives and Local Government

Mr Speaker, let me focus on the Ministry of Community Development, Culture, Cooperatives and Local Government,

Community Empowerment for National Development

Mr Speaker, the most important birthday in our island, is the anniversary birthday of our nation. On 22nd February, all of us ought to pale into insignificance, as we embrace our island.

I am deeply troubled about our approach to the celebration of our nation's birthday. For one thing, our independence observance is virtually confined to our school children. Our communities are detached, uninvolved. Our observance cannot qualify as national in character. We must change this.

Just as we have a National Carnival Development Committee, so too we must have a permanent National Independence Anniversary Committee (NIAC) to plan the observance of our nation's birthday.

In order to build community consciousness and to foster community involvement in the observance of our independence anniversary, Government proposes to allocate a sum of $340,000 for the development of projects in celebration of our anniversary of independence. To ensure equitable distribution, each constituency will be allocated a sum of $20,000. This is a modest but important start. Of the several conditions, two may be mentioned today:

1. **The project must be completed on or before 15th February.**
2. **The project must impact on the quality of life of the community.**

The projects will be judged during the period 15th February to 22nd February, and the winner of the "Best Independence Anniversary Project" will be announced on Independence Day. The winner will be entitled to a Cup donated by the Prime Minister and a grant to the amount made available under the scheme.

Mr Speaker, a new initiative appears in the Capital estimates under this Ministry. It is the establishment of Human Resource Development Centres.

Human Resource Development Centres

The concept of the provision of Human Resource Development Centres arises out of the need to address the issue of poverty, which manifests itself through high levels of social depravation and social despondency in the various communities identified. The concept is an extension to the programmes of the Ministry of Community Development, which involved the provision of community centres usually constructed with support from community groups.

Traditionally, community centres were established to address the dire need for space to house various community activities. They served as meeting places for various clubs and community organizations. The scope of services to be offered in Human Resource Development Centres extends beyond this myopic perspective, to embrace a variety of activities geared towards developing the overall human resource in the identified communities. This objective is met by accommodating a wide range of adult and youth skill training programmes, together with community health care and cultural programmes, which are in keeping with a more holistic thrust towards human resource development.

The following facilities will be provided in the centres:

- a. **Community Libraries**
- b. **Auditoriums/Theatres**
- c. **Administrative Offices**
- d. **Pre-School Facilities**

Human Resource Development Centres will be constructed in the following areas:

- i. **Entrepot**
- ii. **Belair**
- iii. **Vieux Fort**

A combined population of approximately 25,737 persons will utilize these centres. The centres will be managed by leaders in the community and will be self-sustaining. In this regard, the managerial and entrepreneurial skill development of community members will be enhanced, and community ownership ensured.

At this juncture Mr Speaker, I must pay homage to one of our local construction companies, B & D. This company had its roots in Vieux Fort. It has offered to fund from its resources, the Human Resource Development Centre for Vieux fort in the amount of $700,000. This is a magnificent gesture, a fine example of philantrophy in the corporate world.

It is envisaged that with these centres, which are multi-purpose in both design and function, that a comprehensive approach will be undertaken to address the societal problems encountered in the target communities.

Day Care Centres

Mr Speaker, Honourable Members will note that an allocation of EC$868,500 has been made for the construction of new day care centres.

The objective of providing day care facilities is consistent with the thrust towards poverty reduction. Poverty in St Lucia has been characterized as being gender biased, weighing heavily against female-headed households. These females are capable of seeking economically viable employment opportunities, which would significantly add to the

capability of the household to financially support itself. However, they are constrained by the lack of facilities to care for their young children and therefore are unable to seek gainful employment.

The provision of day care centres seeks to address this problem. These centres will therefore assist the cause of poverty reduction, as they would enable young mothers to enter the job market or to explore avenues for personal advancement through skills training which would enhance prospects for self-employment. In addition, they facilitate the overall development of young children by equipping them with the basic educational foundation for future academic achievement and social mobility.

In this financial year, centres will be constructed at:

- **i. Cul-de-Sac**
- **ii. Fond Assau**
- **iii. La Caye**

These are areas that have been identified as being socially depressed with high levels of unemployment. These areas are also characterized as having a predominance of female-headed households. In addition, EC$50,000 is allocated to the repair and rehabilitation of the Day Care Facility in Fond St Jacques.

The provision of the facilities is envisaged to provide 12 jobs directly. Indirectly, single parents will be able to become active members in the labour force. Approximately 180 children will directly benefit from the provision of these centres.

Vendors Stalls In Thomazo

Mr Speaker, under the estimates of Capital Expenditure for the Ministry of Community Development, Culture, Local Government and Co-operatives, Honourable Members will note an allocation of $150,000 for vendor's stalls in Thomazo. This item merits explanation.

Those of us, who travel the Castries to Vieux Fort route on a regular basis, will observe that there are growing lines of persons selling agricultural produce to eke out an existence. These individuals provide vegetables and fruit to many of us. They are attempting to develop self-sustaining livelihoods. The Government has decided to extend a helping hand by constructing vendors stalls to enable them to market their produce in a decent but safe environment.

Ministry of Communications, Works, Transport And

Public Utilities

Mr Speaker, it is well known that the Ministry of Communications, Works, Transport and Public Utilities is normally allocated the highest amount in the Capital Budget that is available. This financial year, the Ministry was allocated a total expenditure of $88,280,439.

Of that amount, $63,190,759 is allocated to Capital Expenditure, while $25,089,680 is allocated for Recurrent Expenditure.

Farm Access Roads

One of the most important projects to be financed is the construction of feeder roads to strengthen agricultural output.

This project is being implemented through the collaborative efforts of the Ministries of Agriculture and Communications and Works. Its aim is to upgrade the feeder and farm road infrastructure servicing core areas of agricultural production, inclusive of the main centres of banana production.

In the case of bananas, it has been estimated that bruising and other forms of mechanical damage to the green fruit during transportation, can contribute to as much as 15% of the deterioration in fruit quality between the farm and the marketplace. The improvement of farm access roads is likely to result, on average, in a reduction in this deterioration factor to about 5%. In the case of non-traditional export crops such as breadfruit and other tree crops, poor road access to holdings has also had an adverse impact on quality, marketing capability and earnings potential, thereby limiting the scope and effectiveness of the diversification effort.

The existing farm access road network includes farm and feeder roads, which have in many instances been cut by farmers themselves. Some of these roads require re-cutting, redesign and reconstruction in some instances. Access is often only possible with four-wheel drive vehicles. These adversities result in the under-utilisation of otherwise suitable agricultural lands, which are either in use or have the potential to be brought into production. The eventual opportunity cost for the economy as a whole is an increasing food import bill, coupled with stagnation in agricultural export earnings. The farming community is therefore caught in a vicious circle, since it cannot generate the level of surpluses required for reinvestment in the production infrastructure, which is so vital to its sustainability.

The feeder roads component of this project is being financed by the European Community under the STABEX 1994 programme at an estimated cost of EC$ 4.4 million. Actual construction of the approximately 14 miles of select feeder roads commenced in January, 1998 under Phase 1 of the project, in the following areas:

<u>ROADS</u> <u>COST NO. OF MILES</u>

Theobald Estate Road 333,000 0.6

Aux Leon/Louvette 78,000 0.7

Chassin Cannelles 547,000 0.8

Chassin Toussaint 621,000 0.8

Roseau Basin 931,000 3.0

Grand Deglos 518,000 1.0

Va-Vot 107,000 1.5

Cacolie/Des Barras 541,000 1.0

Tet Chemin/Cai Park 173,000 0.8

Balembouche Road 532,000 3.5

Total 4,381,000 13.7

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In addition, under a farmer assistance scheme, farmers are provided with materials valued at over EC$ 1 million in total, to upgrade their farm roads, using direct labour. An estimated 35 miles of farm roads are expected to be upgraded using this method. To complement this effort, a community-based programme of ongoing road maintenance is being developed, with the guidance and support of the Ministry of Communications and Works. This element of community involvement during and after implementation is essential to the sustainability of the project.

The process of selection of roads for Phase 2 of this project is currently ongoing. An additional EC$3 million to EC$5 million is earmarked out of the STABEX 1994 transfer to finance that phase of the project.

Reconstruction and Rehabilitation of Secondary Roads

Mr Speaker, let me assure Honourable Members, that work will continue on the reconstruction and rehabilitation of secondary roads.

The roads below have been identified from a list of 20 roads targeted for rehabilitation and maintenance, based on their current state of disrepair. Prompt attention is required to prevent the total failure of these roads.

<u>Secondary Roads</u> <u>Amount Allocated</u>

(a) Hill 20 – Fond Assau $200,000

(b) Anse Ger/Desruisseaux $200,000

(c) Beausejour – Grace $250,000

(d) Sarrot/Vanard $300,000

(e) Marc $300,000

(f) Bocage/Ti Morne/Cacoa $250,000

TOTAL $1,500,000 ========

The rehabilitation of these roads will take the form of construction and improvement of drainage infrastructure, road widening and strengthening and asphalt pavement surfacing.

It is expected that these upgrading works will extend the useful life of these roads by a further five years. Benefits to be derived from rehabilitation of these secondary roads include reduced running cost of vehicles, which would in turn decrease the cost of agricultural and commercial services.

Suburban Roads and Drains

Mr Speaker, there is a critical need to arrest the loss of road infrastructure in the suburban areas of the city of Castries through improved control and disposal of waste and storm waters. The areas selected are part of an on-going programme designed primarily to improve and maintain all roads in the wider Castries basin. In this financial year, I propose to allocate $1 million to rehabilitate suburban roads and drains. The allocation will be distributed as follows:

Suburban Roads Amount Allocated

(a) Bois Cachet $190,000

(b) Yorke Hill – Castries $200,000

(c) Bishop's Gap Loop $210,000

(d) Pavee Road $100,000

(e) Hospital Road $300,000

TOTAL $1,000,000

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The programme of rehabilitation commenced in January 1997 and entails periodic maintenance of the scheduled roads, so as to increase their economic life.

Inner Relief Road

Mr Speaker, this financial year, the Government will also focus on the much-discussed Inner Relief Road.

This road is intended to direct and assist traffic through the city of Castries, facilitating easier and improved access between the northern and southern communities of the island. Implementation of the project is a condition of the loan agreement between the Government of St Lucia and Caisse Francaise de Developpement (CFD) and is linked with the construction of the Castries Cul-de-Sac Highway. The project involves:

a. **the construction of a new Castries River Bridge, spanning 20 m;**
b. **the construction of a 3-lane carriageway road network from the Castries River Bridge to Jeremie Street, and from Jeremie Street to L'Anse Road; and**
c. **the upgrading of the Vigie Junction and relocation of services.**

Benefits to be derived from the project include:

a. **reduced travel times through the city of Castries;**
b. **improved parking and traffic management in the city centre;**
c. **reduction of traffic congestion and vehicle operating costs;**
d. **junction improvements at all major junctions and improved pedestrian safety.**

The estimated cost of this project is $6.1 million. Of that sum, $1.05 million will be financed from a loan from Caisse Francaise De Development. The balance of $5.05 million will be sourced from the Consortium Loan. However, only $3 million will be required in this financial year.

East Coast Road Rehabilitation

Pending the design and construction of the proposed four-lane highway, the Government of St Lucia has approached CDB for a loan to strengthen and rehabilitate certain sections of the East Coast Road. These sections are as follows:

1. **Cul-de-Sac to Ravine Poisson – 8.05 km**

2. Ravine Poisson/Barre D'Lisle/La Ressource Bridge

9.60 km

3 La Ressource Bridge to Dennery Bridge

a. **4. Dennery Bridge to Vieux Fort**

I am advised that the technical assessments are being completed and the application will be placed before the Board sometime in October. Detailed design and implementation will commence in the final quarter.

Towns and Villages Rehabilitation

Mr Speaker, this Government is anxious to improve the quality of life of our people, particularly where they live and congregate.

The rehabilitation of town and village roads is critical to the provision of access to basic services within and outside the communities, and to enhancement of the quality of life of citizens islandwide. Provision has been made in the Capital Estimates for the expenditure of $3 million on the rehabilitation of those roads. The areas identified for rehabilitation are as follows:

Towns And Villages Amount Allocated

1. Gros Islet Town and Environs $350,000

2. Vieux Fort Town and Environs $560,000

3. Desrameaux-Plateau $200,000

4. Banse La Grace $250,000

5. Anse La Raye $ 62,000

6. Canaries $ 34,000

7. Soufriere $200,000

8. Castries City Roads $400,000

9. Sarrot/Vanard $400,000

10. Dennery and Environs $326,000

11. Babonneau and Environs $218,000

TOTAL $3,000,000

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De-silting of Rivers

Mr Speaker, in a bid to drastically reduce the incidence of flooding during the rainy season, the Government plans to desilt and retrain a number of rivers. The works to be implemented would ensure:

a. **a reduction in river erosion;**
b. **minimized interruption to traffic flows during heavy rains;**
c. **reduced damage to infrastructure during the rainy season;**
d. **continued easy access to various communities where rivers must be crossed;**
e. **maintenance of cleaner water courses.**

While the entire cost of this project has been estimated at $1 million, Government intends to spend $350,000 in this financial year.

The Ministry of Communications, Works, Transport and Public Utilities will implement the above programme on a phased basis.

Flood Control in Castries, Vieux Fort, Anse-la-Raye

In September and October 1994, significant damage was caused by storm floodwaters resulting from heavy rains. Rivers overflowed their banks, flooding adjacent agricultural lands and urban settlements. Bridges and culverts were washed away. Numerous landslides resulted in heavy sediment flows, reducing the carrying capacity of rivers.

As a result of the damage in 1994, the former Government embarked on a Watershed and Environmental Management Project, in two phases:

1. **Emergency restoration work; and**
2. **Development of an Integrated Watershed Management Plan.**

However, the sheer frequency of flooding has necessitated the re-design of this project, to alleviate the critical flooding problems being encountered annually, by persons living in major flood prone areas. To this end, I propose to allocate $7.787 million in the Capital Estimates. Of that amount, $6.487 will be loaned from the Caribbean Development Bank. The balance of $1.3 million will be sourced from local revenue and grant funds.

On completion, this project will improve the drainage system in and around the city of Castries, the drainage system in the town of Vieux Fort and will finance the construction of a functioning drainage system for the village of Anse-La-Raye.

The priority elements of the project for this financial year are the reconstruction of the Castries River wall and the implementation of a new drainage network for the Vieux Fort East area. The project will

also alleviate the periodic flooding problem experienced at the

Hewanorra Airport. Work is expected to commence on these two

project components by May of this year.

Expansion of Berthing Facilities

Mr Speaker, with the new thrust on diversification, tourism is rapidly growing in its importance to the St Lucia economy. During 1997, we welcomed at Port Castries, the `Inspiration' and the `Dawn Princess' for their inaugural and regular scheduled visits. These vessels are 855 ft long and 856 ft long respectively. The demand for mega ships to visit our shores is on the increase. However, Mr Speaker, as more and more mega ships show interest in our shores, if we are to remain competitive, we must provide berthing and other services of a sufficiently high standard, which should match as far as possible, the standards of services being sold by the promoters of these mega ships.

At present, two cruise ship berths exist at Pointe Seraphine. These berths were each built to accommodate vessels of 500 ft. The current demand is for berthing facilities to accommodate cruise vessels of length 850 ft or more.

Cognizant of the limited capacity of the Pointe Seraphine berths and the importance of Tourism to our economy, the St Lucia Air and Sea Ports Authority has embarked on a Berth Improvement Project. Work is soon to commence on the construction of two new solid berths at Pointe Seraphine at a cost of EC$27 m. Berth No. 1 is designed for vessels up to 900 ft in length, and gross tonnage of up to 80, 000 tons but with the flexibility to accommodate ships of 1,000 ft in length. Berth No. 2 is designed to accommodate slightly smaller vessels of 850 ft in length and gross tonnage of 60,000.

Mr Speaker, of the Project cost of EC$27 m, it is expected that approximately $12 m would be spent on labour and equipment. The contract is expected to generate approximately 700 man months of direct local construction, thus creating support jobs during the construction period. The use of local contractors as part of the project would also ensure that funds remain and are spent in St Lucia.

Once completed, the upgraded Pointe Seraphine facility will allow the latest generation of cruise vessels to call at our ports, thus making St Lucia a more marketable tourist destination.

PUBLIC UTILITIES

Mr Speaker, there are some items of capital expenditure which Honourable Members, instinctively target. One of these items is the capital estimate for electrification. For the 1998/99 financial year, an allocation of $500,000 has been provided.

St Lucia Electricity Services Limited (LUCELEC)

This amount will be supplemented by LUCELEC. In recognition of Government's subsidy to LUCELEC by way of duty free concessions, LUCELEC has agreed, in principle, to provide EC$2 million annually in its operating budget for the complete programme of works until all currently unserved communities are provided with an electricity supply by the year 2000. This expenditure will cover the cost of erecting poles and lines to serve any customer, not just those in rural areas in St Lucia. This expenditure would commence with LUCELEC' budget year, January 1999. Of course, LUCELEC will continue to charge developers the cost of providing a supply to their properties.

In this financial year, the electrification programme will be implemented in fifteen constituencies, including Micoud North. Forgive me, Mr Speaker, if I single out the community of Bouton. I wish to comfort them by indicating that they will, at long last, receive electricity.

Reforms To the St Lucia Water and Sewerage Authority (WASA)

During the Supplementary Budget presentation, I paid specific attention to the St Lucia Water and Sewerage Authority (WASA). I indicated, Mr Speaker, that the tax payers of this country could not afford to sustain or support the continued existence of WASA. WASA has been a burden to the state through the continuous seepage of the resources of this country. It is an organization that, in its present form, has outlived its usefulness.

I made specific reference to the financial chaos at WASA and the need for Government to settle the company's outstanding debts and to meet current bills owned to LUCELEC. This is in addition to loan repayments to the Caribbean Development Bank. At present, the total outstanding liability of WASA is $110 million.

I indicated at that time that the Caribbean Development Bank was willing to undertake certain key capital improvements to assist WASA in attaining acceptable levels of efficiency, and as a result, viability.

The three capital projects identified are:

a. **The replacement of WASA's 800,000 gallons steal reservoir at Ciceron with a 1.5 million reinforced concrete tank, estimated at EC$3 million.**
b. **A transmission pipeline between Ciceron and Hill 20, to supply households located at high elevations on the outskirts of Castries. This has been estimated to cost EC$4.6 million.**
c. **A submersible pump and backup generating system to replace the 8 year old pump currently in operation inside the trunk main which supplies water to the areas in the northwest of St Lucia. The estimated cost is EC$500,000.**

In addition to the Caribbean Development Bank, there are other funding agencies willing to support Government's efforts in the areas of waste water management, providing the viability of WASA is guaranteed.

As a result of the existing insolvency of WASA and the burden on the resources of the state, the Government has decided to pursue the following:

1. **Establish a new Corporate Entity initially owned by Government, operating along <u>best business practices</u> and providing quality services to the consuming public.**
2. **Create by Statute, an independent Regulatory Agency to guarantee the safety and integrity of our water resources and supply, and to ensure standards are maintained in the water sector.**
3. **Ensure that the new corporate entity has a <u>stronger engineering</u> capability to include better capital works planning, asset management, water harnessing, and water treatment and quality control.**
4. **Emphasize <u>consumer satisfaction</u> with concerted attention paid to a consistent water supply, correction of faults and complaints and to shorten the lead time on new connections.**
5. **Improved <u>financial management</u> to take into account the resourcing of the company, the reduction in wastage, review of manpower levels and the effective maintenance of assets.**
6. **Enhancement of <u>revenue base</u> to ensure viability, capital works improvement and quality service delivering.**
7. **Motivated workforce capable of delivering quality service and safeguarding the assets of the new company.**

Mr Speaker, the situation at WASA in one simple word is "bleak". This Government cannot allow the situation to persist since our water resources are the centre of our existence. Without a consistent water supply, our health and our economy will be in jeopardy.

In establishing the new corporate entity, Government will allow the company to operate along private sector lines with a Board made up of successful entrepreneurs and a minority of Government officials. The new company will have as its main objective, the satisfaction of the consuming public. It will be mandated to ensure efficient and courteous service, backed by a consistent water supply.

The need to provide and ensure that the engineering capacity is available to the new company is central to the production of our water supply and the protection of our water resources. The new company must be allowed to recruit the best human resources available in the engineering field.

The financial resources of the new company will be managed along strict commercial lines, which will be reflected in an improved service delivery.

The revenue base of the new company will be enhanced through the introduction of adequate tariff for the services provided. Our records reveal that water rates have not been increased for the past 10 years and that WASA has been subsidizing water to the consuming public. Once the institutional arrangements are in place, we can expect water

rates to be increased. However, I want to ensure fellow St Lucians that these increases will result in a consistent supply of water to your homes and business places.

Further pronouncements will be made on these matters as the process crystallizes and discussions are finalized with the unions.

The issue of employment and re-employment has been foremost on the minds of the present WASA employees. WASA has to make a fresh start. In order to do so, we must eliminate some of the financial liabilities. I wish to allay the fears of the workers and to indicate to them what I stated to the Union leadership when I first met with them at the Official Residence of the Prime Minister, some time in September last year, which were:

1. **WASA employees will be paid all of their terminal benefits.**
2. **These workers will be given first priority in the recruitment process for the new company.**

Others who are not directly re-employed will be given the opportunity to be engaged as independent contractors to undertake infrastructural work for the new company.

Mr Speaker, this Government does not wish to be callous. It is prepared to assist those who will be severed. In this regard, I would like to encourage employees to set up small business enterprises to work for WASA and to undertake other jobs in the private sector. A special Advisory Unit will be established to give advice to workers who wish support and guidance.

I wish, Mr Speaker, having outlined the process of change within the public utility, to call on all St Lucians and workers at WASA, to remove the burden of operating WASA off the shoulders of the tax payers of St Lucia once and for all.

Ministry of Agriculture, Fisheries, Forestry and The Environment

Mr Speaker, Honourable Members, I turn to the Ministry of Agriculture, Fisheries, Forestry and the Environment. This Ministry has undoubtedly been a major beneficiary of this Budget, particularly out of the STABEX resources available to the Government. It has been allocated $12,204,929 for recurrent expenditure.

Multi-Purpose Agricultural Development Centres

Under the Capital Head, $8 million has been allocated to the establishment of Multi-Purpose Agricultural Development Centres.

The long-term goal of this project is to ensure the sustainability of the banana industry, at the same time promoting diversification of the agricultural sector. Its main objectives are to improve the quality scores of exported bananas by a further 3 per cent and to reduce industry operating costs by an estimated EC$3.7 million. To achieve this, three modern and efficient Multi-Purpose Agricultural Development Centres will be established at strategic locations. Two of these centres will be newly constructed, one in Dennery and the other in

Cul-de-Sac. Existing facilities in Vieux Fort will be upgraded to accommodate carton assembly/storage and an increased throughput of fruit. These locations were selected as approximately 80 per cent of bananas originate from the catchments that they serve.

At the wider agricultural/rural sector level, the project will strengthen agricultural diversification efforts, as the centres will be available for receiving and loading of all agricultural produce. Indeed, this multi-purpose feature will allow banana farmers who are searching for opportunities to broaden their income base, to diversify into the cultivation of non-banana crops, for which reception and packaging facilities are currently unavailable or inadequate. This signals a concrete opportunity for diversification around bananas.

All fruit received at the centres will be inspected, placed on pallets, which are then stabilized, loaded onto trailer trucks then transported to the port of loading and transferred directly on to the ship. The distribution service is also offered on the input side. Each of the centres will contain modern (glued) carton assembly facilities and input warehousing and supply facilities. After fruit is deposited and loaded at the centres, farmers (both banana and non-banana) will benefit by utilizing their return trip to transport cartons and/or other inputs back to their farms.

The strategic location of these centres will significantly reduce average fruit transportation time. The use by the proposed Banana Corporation, of larger trucks for delivery of fruit to the wharf, will lead to reduced queuing time and reduced transportation costs. The vehicle congestion in the Bananes area in Castries on banana loading days will be virtually eliminated. The resulting economic benefits in terms of reduced vehicle operating costs, freer flow of commercial traffic, and the alternative use of productive man hours hitherto lost to road congestion delays, would be phenomenal.

As a direct consequence of the project, it will be possible to close all the remaining Inland Buying Depots, which are inherently inefficient because of the extent of fruit handling involved in their operation. As a further efficiency measure, all stapling centres will also be closed. In concert with these actions, input supply as well as carton assembly operations will be fully commercialized.

The possibility will also be created to phase out fruit reception in Castries. This is a prospect which warrants very close (but careful) consideration as the expansion of cruise tourism is causing the Castries Port to become increasingly congested, while the capacity exists at the Vieux Fort Port to expedite the loading of containerized bananas using Gantry crane facilities. Containerized loading is a viable medium term alternative to transportation by truck, given the expansion capacity of the Vieux Fort Port.

This project is a key component of a priority programme of investment in production infrastructure geared towards enhancing market returns to banana farmers over the short to medium term. Other components of that programme are the on-going Mini Wet Pack Sheds Project, the proposed Water Management Programme and the Farm Access Improvement Project. As an integrated investment package, these projects seek to establish

and improve production and distribution infrastructure in strategic geographic locations in close proximity to the main centres of banana production. This concentration of infrastructural support to the banana industry allows the most productive and potentially productive banana farmers (certified and certifiable) easy access to support services and facilities. It would also allow the privatized Banana Corporation to significantly reduce its operating costs, through reduction in the dispersion of its support services to its shareholder producers. Let me now focus on the individual complementary initiatives.

Water Management Project

Mr Speaker, I am pleased to advise that a study is soon to be launched by the Government of St Lucia, in collaboration with the St Lucia Banana Growers Association, into the feasibility and design of drainage and irrigation facilities for the main banana producing valleys. This will be undertaken with financing from the European Community out of the balance of St Lucia's STABEX 1993 transfer. The results of that study are expected to be available by September this year. Based on technical data on river base flows and water storage capacity requirements, a programme of irrigation works will be designed for implementation on a phased basis. The Roseau and Dennery valleys will be targeted in the first phase of this programme.

While the precise scope of works to be undertaken will be subject to the findings of the feasibility and design study, a provisional allocation of funding from STABEX 1995 resources, in the amount of EC$4 million, has been earmarked for Phase 1 works. Of that amount EC$3 million is to be delivered under a recently negotiated fast track procedure. This will allow for irrigation infrastructure to be installed on site before the 1999 dry season. The timing of this investment is also strategic from the standpoint of enhancing banana yields, and therefore maximizing returns to farmers during the early months of the year when the market price of bananas is traditionally relatively high.

This project will be complemented by the availability of concessional financing to banana farmers for irrigation and other on-farm infrastructure, under the on-going Rural Economic Diversification Incentives Project (REDIP) 1) managed by the Ministry of Agriculture and financed from the STABEX 1994 transfer. The direct availability of this credit to small banana farmers will reduce the direct investment cost to the Water Management Project. This will allow the readily available EC$4 million under STABEX 1995 to be utilized to finance drainage works and the installation of trunk irrigation lines to service the two target valleys. Some critical complementary drainage works are to be undertaken by the Ministry of Works in the main agricultural valleys out of local resources. However, should there be a need for additional resources, the flexibility exists to increase the level of financing available for this programme under STABEX 1995.

Allied to the Water Management Project is the Small Farmer Irrigation Scheme being financed by the United Nations Food and Agriculture Organization. This project will focus on the irrigation needs of small-scale producers located outside of the main agricultural valleys, and is therefore expected to be more immediately supportive of the main

agricultural diversification thrust. This project will be financed by a grant of $904,500 from the Food and Agriculture Organization.

The benefits of drainage and irrigation to agricultural production are well known and have long been recognized. These twin interventions are predicted to increase crop yields from the existing average of 7 to 10 tons per acre to an average of 20 to 25 tons per acre. The Water Management Programme is therefore critical to the on-going efforts at consolidation and streamlining of the banana industry at both the field and institutional levels. The Small Farmer Irrigation scheme will on the other hand, be central to the expansion of production volumes from small non-banana farmers, which is an essential prerequisite to small producer viability and export competitiveness.

Mini Wet Pack Sheds

One of the first tangible steps in the implementation of the Certified Growers Programme in the banana industry was the mini wet pack sheds construction programme, which commenced in October 1997. This programme was initiated using part of the balance of funds available under St. Lucia's STABEX 1993 transfer, after a decision was taken to close the much criticized Banana Restoration of Viability Project towards the end of the last financial year. Since the closure of that ill-fated project, under which supposedly beneficiary farmers complained bitterly about administrative deficiencies and delays in the availability of promised inputs, every initiative and every project which has been conceived in support of the banana industry, has been underpinned by the Certified Growers Programme.

Under the ongoing first phase of the Mini Wet Pack Sheds Project, a total of 230 sheds have been completed to date. A further allocation of funds has been made to fifteen small contractors to build an additional 142 sheds, which will bring the total number of sheds constructed to 372 (out of a planned figure of 500) by the end of May. By that time, construction of the remaining 128 sheds would have commenced.

Given the resounding success of this project, a decision has been taken to propose a second phase of shed construction for the funding consideration of the European Union. Once approved, this second phase is expected to commence by the middle of this year. A new batch of 500 sheds will be scheduled for construction at an approximate cost of EC $ 3 million, of which EC$ 2 million will be a grant contribution from STABEX 1993, and the other EC$ 1 million will come from the SLBGA's own resources. The significance of this counterpart contribution from the SLBGA must be fully recognised, since it is possible partly as a result of the successful introduction of a cess deduction scheme linked to the first phase of the project. Unlike the case of cess deduction systems under previous banana industry projects, certified farmers have demonstrated a willingness to meet their share of the cost of the investment in mini wet pack sheds. They have taken this position because they are convinced of the benefits of the investment to the overall quality of their exported bananas.

On completion of both phases of the project, the sheds will be equitably distributed among the population of certified farmers in the main banana producing regions of the island.

The employment impact of this project is worthy of note. To date, the project has created business opportunities for material suppliers, for over 20 small civil works contractors, and for 3 furniture manufacturers. Subject to the satisfaction of quality standards, these employment opportunities have been distributed throughout the various regions in which the project is being implemented.

It is because of the need to adhere to strict standards of quality of finished sheds that the project's management has been a bit cautious in giving farmers contracts to build their own sheds. However, appropriate arrangements are now being made to allow individual farmers that opportunity, where there is sufficient evidence of their ability to meet the required specifications. These opportunities will be more readily available to capable farmers under the second phase of the project, drawing on the experience gained in the first phase.

This project is a critical response to UK markets signals which indicate a growing demand for additional supermarket packs. Supermarkets are further insisting that their fruit must come from certified growers equipped with adequate sheds and processing equipment. This dictates the need to accelerate the full implementation of the Certified Grower Programme. Hence the launching of the project's second phase.

Livestock Sub-sector Development

Livestock production has been identified as one agricultural activity with proven economic viability, particularly for small-scale producers. However, this sub-sector requires a rational framework and sector to achieve its full potential. Public sector investment in infrastructure and services to support livestock farmers has been sporadic and without a strategic focus. On the other hand, private sector initiatives have proven to be unsustainable, largely due to deficient management of co-operative production and marketing ventures. The net result of these largely uncoordinated and unplanned developments is a livestock sector that is essentially informal, underdeveloped and bereft of health and quality standards. In the face of a limited number of ready options for agricultural diversification, this is a wholly unacceptable situation.

In order to address this untenable state of affairs, the Cabinet of Ministers recently approved a Livestock Development Plan, embracing all areas of livestock production. Implementation is stated for June this year, beginning with a diagnostic study of the poultry sector, funded by the European Union under the STABEX 1994 programme.

It is not difficult to justify the priority which is being placed on this sub-sector when one considers that St. Lucia has one of the highest levels of consumption of chicken per capita in the region. The potential for import substitution is clear. What is not known with any degree of certainty, is the precise manner in which private and public sector stakeholders in the poultry industry should engage each other, to ensure that adequate volumes of

chicken and chicken products are produced at competitive levels of quality and price. This is the central question that the diagnostic study will answer.

With completion of the study by September this year, the foundation will exist for the implementation of a comprehensive programme for investment in the poultry sector. Already, Government is addressing the demand for credit to establish poultry production and processing plants, via the credit facility available to small farmers under the ongoing Rural Economic Diversification Incentives Project managed by the Ministry of Agriculture.

Similar diagnostic analyses will be carried out for the other sub-sectors of the livestock industry, using the poultry sector study as a model. The focus will be on pigs, cattle and small ruminants, particularly goats, sheep and rabbits. These analyses are critical to the design of proposed abattoir facilities, which are essential for quality improvement and standardisation of product. For programming purposes, a provisional allocation is earmarked from STABEX 1995 funds for construction of modern abattoir facilities, designed to generate target outputs averaging 1000 tons of dressed meat per year.

It must be made very clear at the outset that this initiative can only be successful if it is undertaken jointly by the private and public sectors. In fact, the provisional allocation of STABEX resources can only be mobilised if the private sector takes the initiative to raise the additional financing required to construct a facility to required standards. Private sector involvement must logically extend to management of the facility. One possibility is that a consortium of interest groups might be formed, drawing representation from meat processors, retailers and wholesalers, feed distributors, pig producers' and other co-operatives, as well as large purchasers. That grouping could comprise a pool from which a management team could be constituted to operate the abattoir on a long-term lease basis. Government looks forward in due course to engaging the private sector in a dialogue on these and related matters.

Rural Economic Diversification Incentives Project

The agricultural sector has undergone a phase of severe decline and neglect over the last five years, largely as a result of the ailing fortunes of the banana industry, compounded by chronic mismanagement and political interference. In the wake of this decline, is a disenfranchised rural and farming community, which has been left virtually defenceless to face the hostilities of a liberalised marketplace. Government's investment programme for agriculture and rural development is designed to radically turn this situation around, and to put farmers and rural entrepreneurs back into production and gainful employment.

The task of restructuring and revitalising the rural and agricultural sector at the national level requires concerted action on many fronts. This is why the investment programme is so extensive and broad based. It covers organisational review and restructuring in both the public and private sectors, improvements in marketing and technical services, and a multi-faceted programme to activate new and existing infrastructure. These include feeder and

access roads, on-farm packing sheds, field reception and distribution centres, drainage and irrigation.

In order to ensure that farmers and other rural business people can derive maximum benefit from these investments, Government is providing a comprehensive system of incentives, embodied in the Rural Economic Diversification Incentives Project (REDIP). This project is an integrated set of support interventions designed to actively encourage and assist farmers to diversify their income and production base. This is to facilitate their transition to a more vibrant agricultural sector, and a more secure rural environment.

The main components of this project are as follows:

i. **The establishment of credit lines with the National Research and Development Foundation and with various Credit Unions, through which concessional financing will be made available to small (banana and non-banana) farmers and to rural micro-enterprises;**
ii. **Recruitment of Loan Officers to provide technical assistance and to monitor credit to beneficiaries;**
iii. **Enterprise training by Ministry of Agriculture Extension Staff, for all loan recipients at the farm level, in areas such as Crop and Animal Husbandry, Farm Management, Marketing Activities (pre- and post-harvest), Pest and Disease Management and Appropriate Technology (including irrigation);**
iv. **Expansion of the staffing complement of the Small Enterprise Development Unit (SEDU) to enable the Unit to provide dedicated Business Planning and Support services to project beneficiaries.**

This project is designed to be demand driven, and to be flexible in its response to the agricultural and rural business. Based on preliminary analysis, the following areas will be targeted for support:

a. **Green House Development;**
b. **Aquaculture:**
c. **Acquisition of modern fishing vessels and gear;**
d. **Livestock Pen Construction;**
e. **Purchase of improved animal stock;**
f. **Small-Scale Agro-Processing;**
g. **Honey Production;**
h. **Cut Flower Production; and generally,**
i. **Acquisition of fixed assets and working capital to facilitate agricultural and rural micro-enterprise.**

This project will be an essential complement to the ongoing efforts at rationalisation of the production structure of the banana industry. It will provide capital and technical assistance for banana farmers who are either seeking to improve the viability of their operations through on-farm investments, or wishing to pursue on farm diversification around bananas.

Given the level of anticipated demand from interested small farmers and other aspiring rural micro-entrepreneurs, it is expected that the credit facility of EC$5 million, available under this project, will be almost fully subscribed during this financial year. Moreover, the project resources will be unable to cater to the restructuring and institutional strengthening needs of medium-sized farmers and commodity associations. These larger entities, by virtue of their scale and ability to organise and facilitate bulk purchasing, joint collection, distribution and marketing, will be able to impact significantly on the diversification effort. A proposal to pursue a second phase of this project, targeted mainly at larger agricultural groups and associations, has therefore been put forward to the European Union for consideration under the STABEX 1995 programme.

Phase two of this project is targeted for the latter half of this financial year and is expected to receive favourable funding consideration, provided that the on-going first phase of the programme is implemented smoothly. In total, a provisional STABEX grant allocation of EC$4.5 million has been earmarked towards REDIP - Phase 2.

Restructuring and Privatization Of the St Lucia Marketing Board

Mr Speaker, this Government recognizes that all of its efforts at improving the infrastructural base for agricultural diversification could prove futile if inadequate attention is paid to the organizational arrangements for agricultural marketing. More specifically, if agricultural diversification is to be achieved, it has to be planned. But planned expansions in production can only be meaningful if they are synchronized with marketing efforts. As many farmers have been painfully reminded, coordination between production and marketing is crucial in agriculture, given the inherently perishable nature of agricultural produce. In the pursuit of a market-led approach to agricultural diversification, the Government has identified the St. Lucia Marketing Board as having a pivotal role.

In order for the SLMB to adequately perform this role, it needs to be strengthened, and its relationships with key stakeholders comprehensively revisited and redefined. A policy decision has been taken that the optimal form of reorganization of the SLMB at this juncture is full commercialization, leading ultimately to privatization. The deficiencies facing the SLMB are not unique to organizations of its type within the Caribbean subregion, particularly the OECS. The increased pressure which has recently been brought to bear on these marketing agencies by their primary clientele (farmers and traders) is a signal of growing irrelevance of their adopted wholesale/retail functions. In today's liberal trading environment, Marketing Boards must, of necessity, become more export driven. The restructuring of the SLMB is being guided by this imperative.

The restructuring process, which has been defined through internal review, led by the Management and Board of the SLMB, in collaboration with Government, is guided by the following considerations:

(1) Establishment of a system for collaboration with individual Farmers and Farmer Groups, Exporters, the Ministry of Agriculture, Regional Marketing Organizations and

Buyers (both local and overseas), to enhance effective delivery of services by the SLMB; (for example, production contracting, input supply, farm management and training in post harvest handling);

(2) Establishment of a comprehensive produce marketing network, based on adequate market intelligence, and with the capability to absorb commercial agricultural production, for both local distribution and export;

(3) Expansion of the range and quantity of local output through the promotion of new agricultural commodities for export, while exploring new markets locally and overseas;

(4) Bulk purchasing of planting materials and inputs for sale to farmers at reasonable margins, in collaboration with other regional Marketing Boards;

(5) Facilitating improvement in standards of production and final product, through the use of suitable packaging material, and post harvest facilities, and provision of training for farmers and produce handlers;

(6) Provision of technical and facilitatory services (such as training, research and current, relevant market information) to farmers and other stakeholders to guide production planning, marketing activities and maximization of sector earnings;

(7) Assistance in the marketing of locally produced agro products.

In order to pursue these initiatives, the capacity of the SLMB needs to be substantially enhanced. This project therefore seeks to strengthen the SLMB, while streamlining its operations towards for full commercialization and privatization.

Selected components of the project are as follows:

1. **Technical assistance in the areas of Training Administration, Marketing, Information and Production systems and Post harvest management of produce;**
2. **The recruitment of two Field Agents responsible for market information, farm management advice, production planning and training;**
3. **The provision of field equipment to select farmer groups on a pilot basis;**
4. **The procurement of a refrigerated truck, field trays, scales and associated equipment, to assist small farmers to access Multi-Purpose Agriculture Development Centres to be established by the St. Lucia Banana Corporation;**
5. **Establishment of a computerized national marketing information system manned initially by an Information Systems Specialist recruited under a technical assistance arrangement, to guide production and strengthen linkages with the hospitality sector**

All of the above interventions will be pursued in close collaboration with the Ministry of Agriculture and SLMB counterpart staff to allow for full transfer of skills and technology,

and to ensure complementarity with Government's efforts as a prime facilitator of the agricultural diversification thrust.

The phased but decisive move towards privatization will be built into the project, via the recruitment of a Privatization Specialist, who will provide staggered technical assistance at strategic points during implementation. The Specialist will be responsible for guiding and overseeing the process of privatization of the SLMB. The entire project is to be implemented over a period of two and a half to three years. For this financial year, $1 million has been allocated from STABEX resources, towards this project.

Development of Fisheries Complex, Vieux Fort

Please, Mr Speaker, allow me to turn to a subject dear to the heart of the Minister of Finance.

Several yeas ago, Government facilitated the development of fishermen's cooperatives around the island. This movement brought fishermen together to discuss issues among themselves and with Fisheries and Co-operative Officers.

Nine primary societies were formed in the major fishing communities, associated with a parent organization called NAFCo-op. This parent organization was intended to administer a distress fund for fishermen, import and issue fishing equipment, and facilitate the development of its member co-operatives.

Co-operatives were used to provide duty-free gasoline to fishermen while stimulating community participation and involvement in the development of fisheries. Duty at the rate of 75 cents per gallon of gas is repaid every bona fide boat owner who is a member of a Fishermen's Co-operative Society. This subsidy went further to facilitate the establishment of a distress fund for fishermen, depositing 25 cents on each gallon of fuel consumed by into one Islandwide Consolidated Fund. This fund was supervised and managed by NAFCo-op.

NAFCo-op has since suffered financial ruin and become bankrupt. I propose, therefore, to invite the Minister responsible for Co-operatives to conduct an inquiry into this matter.

Since assumption of office, this Government revisited the issue of fishing vessels provided under the Japanese Government Aid Project. Several fishermen who possess the requisite skills do not have bankable security to obtain loans to purchase better boats and engines. Rather than deny them economic opportunity, Government has decided that the new boat owners should get a relief during the repayment period, relief on the level of interest charged and on the level of security needed to cover loans. At the same time, this Government is encouraging the development of offshore fisheries by facilitating the establishment of deep sea fishing fleet in the South.

The construction of the Vieux Fort Fisheries Complex will constitute the centerpiece of this year's programme. This complex will be constructed and funded by the Government of Japan. It promises to be the most modern in the Eastern Caribbean, and will stimulate a

sector of our economy that has hitherto been under capitalized. The Vieux Fort Fisheries Complex Project seeks to increase fish production by improving the efficiency of fishing. It also seeks to improve storage and marketing systems to reduce the gaps in supply and demand for fish. The complex will not only provide new opportunities, but will also attack the chronic poverty afflicting our fishermen.

The complex will be completed over a two-year period beginning in July this year. The first year will involve reclamation of an area of the Vieux Fort Bay near the existing fish-landing site, the construction of breakwaters, a landing wharf, a slipway and revetments. This phase of the project is estimated to cost EC$24.5 million.

The second year will see the construction of an administration building, 400 tons of cold storage capacity, blast freezing and chill room space, a fish handling shed, an ice making plant, a fuel station, a fish market, locker rooms, workshops, retail shop for Goodwill Fishermen's Cooperative Society, toilet and shower facilities and a canteen. This phase will also involve the provision of boats, fishing gear and an insulated truck. The approximate cost of this phase is in excess of EC$27 million.

Vieux Fort, Honourable Members, is a hub of the domestic fishing industry, embracing Laborie and Choiseul and hopefully this new facility will also cater to fishermen as far north as Dennery.

Evidently, the fishing industry must move to new dimensions. I see fish processing as an option for private sector investment, catering to demand in the hotel and restaurant sectors. I also envisage a movement to larger craft, improved fishing gear and modern methodology. Such technical innovation could conceivably increase fish production by 15 per cent over the next two years. This could represent significant foreign exchange savings by reducing the fish import bill.

It is not easy to develop a sector which suffers from the perceptions that those who work therein are second class citizens. The fisherman is however, increasingly valuable to our society as a provider of needed animal protein, and one who risks his life on a daily basis to provide food for our people. To the fishermen, I say " Thank You".

For this Government, the Fisheries Sector is of special interest. Many of us on the side of the Government came from humble beginnings and have had the opportunity for advancement while the fishermen languished in neglect. This must be changed. From now on, I want St Lucia to pay its respects to the fishermen. Christ was a fisherman and we are a Christian people.

Ministry of Tourism, Civil Aviation and International Financial Services

Mr Speaker, I turn finally and with relief, to the Ministry of Tourism, Civil Aviation and International Financial Services.

Tourism

Government recognizes the role that tourism must play in the new economic order. It also recognizes that the tourism industry must fill the void, create jobs, and earn foreign exchange needed by the economy. It is Government's philosophical position that tourism must benefit as many people as possible so that it may remain relevant, sustainable and profitable for all stakeholders.

Increase in Rooms

Presently, there are about 3,500 to 4,000 rooms available in St. Lucia. Government aims, in the short term, to increase the room stock to 5,000 by the year 2002. This represents an increase of over 1,000 rooms. This sounds like an optimistic goal, but is achievable if we continue to aggressively seek investors with the capability of building high quality hotels.

During 1997, Government successfully completed negotiations with a group of hotel developers and the Hyatt Group, for the construction of a 350-room luxury hotel at the Pigeon Point Causeway. There has been much ill informed comment on the ownership of the land on which the hotel is being built. Let me reiterate that the land was never the property of the Government of St Lucia. However, Government has ensured that there will be a buffer of 4.8 acres reserved for use by the people of St Lucia. The beaches will always remain public and Government, with the developers, is presently working on the sea defenses to stop erosion of the beach.

Work will begin shortly on an additional 20 suites at Sandals La Toc. Club St Lucia is due for a major expansion. Wyndham Morgan Bay Hotel is due for expansion. It is expected that the long awaited 500 room Vieux Fort Hotel project will commence sometime this year. Out of an abundance of caution, Mr Speaker, I will not venture a starting date, as I am anxious to avoid misleading the public of St Lucia. It may be noted however, that the infrastructure for the supply of electricity to the construction site has been completed.

There are also a number of local entrepreneurs seeking to expand their facilities and build new guesthouses. Indeed, Mr Speaker, there is a sense of confidence in the industry. Government's aim is to ensure that applications for investments are processed and approved in as short a time as possible.

These new developments will not only provide more accommodation for visitors, but also, provide employment for our citizens, at both the construction and operational phases.

Marketing

Mr Speaker, in order to emphasize the St Lucia Tourist Board's marketing mandate, I have introduced a separate line item in the Capital Estimates for "Tourism Marketing". This approach also allows us to monitor, over time, the investment in marketing.

Honourable Members will, I am sure, recall that they authorized an increase in the marketing budget of the Tourist Board by $1 million when they approved the

Supplementary Budget. A sum of $13 million has been allocated for direct marketing activities overseas for this financial year.

The full extent of the increase in tourism marketing will become clear if we compare the allocations for the years 1997/98 and 1998/99.

Total Marketing allocation for 1997/98 was as follows:

Direct Overseas Marketing 7,905,795

Capital Transfer to Tourist Board 3,236,518

TOTAL 11,142,313

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Total proposed Marketing allocation for 1998/99 is as follows:

Direct Overseas Marketing 13,000,000

Capital Transfer to Tourist Board 3,080,000

TOTAL 16,083,000

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These figures show an increase of $4,940,687 or 44 per cent in 1998. Again, this increase fulfills a promise in the Contract of Faith to "Increase substantially but over time, the amount allocated to the marketing of Saint Lucia."

As you may recall, the Government took a decision to participate in the marketing of daily direct an American Airlines flight from Miami. This will cost US$1.5 million. I have, on several occasions, outlined the benefits of that decision. I am pleased to report that the flight has begun and load factors are above 60 per cent. Mr Speaker, allow me to place within the Parliamentary record, our Government's profound gratitude to the members of the St Lucia Hotel and Tourism Association for their contribution of EC$600,000 towards that commitment.

Tourism Development

This financial year, Government will continue efforts to strengthen the administrative capacity of the Ministry of Tourism by ensuring that the Ministry is adequately staffed to

enter a new functional relationship with the Tourist Board. This new Ministry will be required to guide, direct and fashion policy for the balanced development of our tourist industry.

In recognition of its renewed emphasis on product design and development, the Ministry of Tourism has also received an increased allocation to assist it to carry out its mandate. In 1997/1998 total Recurrent Expenditure was $776,603. This compares to $1,221,957 in 1998/99, an increase of $445,354.

The industry must be organized in a manner that will ensure all participants feel a sense of belonging and pride. The benefits must be felt by all. In December 1997, we removed the tax on tips and service charge for workers in our hotels. This small step is a demonstration of our appreciation of the vital contribution that workers make to the continued development of the industry.

Small Properties

Mr Speaker, I have spoken on the development and growth of the large hotels. However, if we are to provide an environment for all stakeholders to be beneficially involved, then we must actively encourage the development of the small hotel sector. We have noticed energy and enthusiasm among small hoteliers.

Government will, by training and monitoring, ensure the establishment of minimum acceptable standards for the small hotel sector. We will focus on the profitability of that segment of the industry with a view to increasing present yields. This means that small properties must be encouraged to operate at a level where standards will not be compromised and staff will be trained to provide professional service.

Mr Speaker, the special marketing needs of small hotels will be given new meaning in 1998/1999. The Ministry of Tourism will assist small properties to participate in joint marketing and promotional efforts and the development of innovative marketing tools and enabling technology. Small properties, Mr Speaker, are expected, with the support and backing of the Government, to continue to play an important part in the tourism industry.

International Financial Services

Mr Speaker, this financial year will see the entry of St Lucia into the International Financial Services market. The demand for International Financial Services is driven by several factors, with tax efficiency often cited as the main one. Revenue generation is an indispensable feature as far as the tax centre and country are concerned.

The modern financial service sector facilitates efficient tax planning by foreign investors, innovative financial products, succession vehicles such as trusts, and dynamic banking and investment functions. It is targeted largely at international corporate investment portfolios and wealthy, high net-worth individuals. It takes advantage of what is increasingly

becoming a mainstream financial activity devoid of unsavory images of criminal activity and financial abuse.

The overall demand for International Financial Services Centres continues to increase, and provided that they maintain a fiscal advantage and sound reputation, business will continue to flow into these centres.

In an effort to effectively and efficiently develop the International Financial sector in St Lucia, the Minister of Finance, in August 1997, established a Task Force to examine and make recommendations on the way forward, and to evaluate our strategic options and model approaches to the market. On being assigned responsibility for Financial Services, the Minister was presented with the completed report of the Task Force. I thank the Task Force for their work and the guidance they have offered

Mr Speaker, let me address the potential concerns of the banking community.

The development of St Lucia as an International Financial Services Centre is not meant in any way to compete with, but rather to complement the domestic financial system. It will increase the contribution of the financial sector to Gross Domestic Product.

Cabinet has approved the following model for St Lucia: Central Government, through the establishment of a well-staffed and competent supervisory department will conduct the licensing, supervisory and regulatory functions appropriate for a "Level 4 jurisdiction". The private sector will undertake the marketing, promotion and development activities through a major promoter. Local professionals and firms meeting applicable legal criteria will operate as registered agents and trustees to conduct the business of representation for prospective clients. Operating activities are not expected to be conducted through a closed shop. Suitably qualified professionals and firms will be allowed to operate in the sector, once they meet the required criteria.

The selection of a major private sector developer and promoter is being carefully assessed to ensure that a commendable international image and an unquestioned integrity are achieved. As a jurisdiction offering international financial services, Government's criteria for selecting an appropriate developer/promoter include:

a. **high integrity and credibility;**
b. **premier quality expertise and skill in the marketing and promotion of international financial services;**
c. **market influence and contacts;**
d. **a sound knowledge-base regarding the identification and development of financial products to meet market demands; and**
e. **significant experience in broad-based financial services on an international scale.**

Government is similarly placing tremendous weight on the credibility, integrity and quality of financial service providers who are to be licensed as registered agents and trustees. Government will neither compromise St Lucia's sovereignty nor its integrity.

Government expects that qualified local professionals and firms of high stature, and creditable standing and relevant expertise, will take full advantage of these new opportunities to develop a local pool of expertise in international banking, finance and investment activities.

To make its mark in the competitive world market, St Lucia must establish legislation that will conform to and exceed international standards, while offering the necessary flexibility and accessibility to allow the creation of niche markets. To this end, the appropriate legislation will be introduced in the course of this session of Parliament.

THE STATE OF STATUTORY BOARDS

Mr Speaker, during my presentation of the Supplementary Budget to this Honourable House, I spoke of the serious economic challenges confronting our statutory corporations and the preponderance of archaic management systems in these parastatals. Permit me to take a cross-sectional slice across the anatomy of our parastatals to describe to you the extent to which this disease of financial mismanagement and lack of accountability had spread:

The Water and Sewerage Authority, which is responsible for attending to two of the most basic needs of our people, has outstanding liabilities of over $110 million.

The National Development Corporation, our nation's premiere investment promotion and business facilitation agency, has an annual revenue shortfall of $5 million, and a long-term debt of almost $40 million. Due to the NDC's inability to meet its financial obligations, the Government has, over the past 8 months, paid in excess of $4 million to the Caribbean Development Bank on behalf of the NDC.

The St. Lucia Broadcasting Authority, the victim of much interference by the previous administration, has an outstanding liability of over $1.6 million.

The financial problems of Dennery Farm Co have reached critical, if not fatal, proportions. This statutory body recorded major financial deficits in 15 of its 18 years of operation, yet its problems were never attended to by the previous administration. The current liability of this company is over $5.8 million, and before its operations were shut down a few weeks ago, the monthly operating deficit averaged over $80,000.00.

The St. Lucia Livestock Development Company has a total liability of $4.1 million, and for almost two years has not been able to finance its loan with the Caribbean Food Corporation. The future viability of this company is presently under threat.

The accumulated deficit of the St. Lucia Housing Authority for the year ending 1997 was $7.5 million.

The St. Lucia Banana Growers Association's debt, perhaps the one with which our nation is most familiar, currently stands at over $40 million.

The extent of the financial mismanagement of our statutory corporations is perhaps most clearly seen in the case of the Fish Marketing Corporation. This statutory body, which enjoys an enviable monopoly position in the lucrative business of importing and selling seafood, had an end of year deficit in 1995 in excess of $170,000.00. By the end of 1996, this deficit had grown to $275,134.00. The appointment of a new Board of Directors in June of last year, followed by the imposition of stricter financial management practices, resulted in the Fish Marketing Corporation erasing its deficit and recording an end of year surplus of $187,433.00, a turnaround of over $450,000.00.

Mr. Speaker, my Government is committed to the eradication of the financial mismanagement and political interference that previously characterized the governance of our statutory corporations. It is our goal that all statutory corporations must stand on their own, and that the alarming haemorrhage that was allowed to proceed unchecked for 15 years is stopped. A little under three weeks ago, we convened a one day symposium on the topic Ensuring Self Sustainability and Financial Accountability in Statutory Corporations, and we have stated to our Boards of Directors and Chief Executive Officers in clear and unambiguous terms that efficiency, cost-effectiveness, transparency, fairness and good customer service must be their guiding principles. From this point onwards, the performance of our statutory corporations will be subjected to the strictest scrutiny, and all parastatals must submit annual reports of their performance for review and discussion in this Honourable House.

In order to strengthen the accountability of statutory bodies, Government will establish a Monitoring Unit in the Office of the Prime Minister which will have responsibility to monitor and report on the financial performance situation and prospects for these parastatals, to advise the Government on relevant issues relating to these entities, and to assess and make recommendations on any financial request from these bodies.

In addition, relevant ministries will establish units or designate persons among whose responsibility it would be to monitor and advise the minister on technical matter and operational performance.

CONCLUSION

IMPACT OF BUDGET ON UNEMPLOYMENT

Mr Speaker, Honourable Members, we seek to establish a tradition on this side of the House, where we must face issues squarely. The most important questions facing those who are employed have been answered. For those who are unemployed, what hope this budget, as well as the previous measures implemented by the Government, offer?

Government has already created 1,700 jobs by the STEP Programme. The NIPDEC construction programme is expected to yield at least 1,110 jobs this financial year. A further one hundred persons will be employed as police officers. Twenty persons have been recruited to the Prison Service. To these must be added the hundreds more which will be created by other projects referred to in the programme of Capital Expenditure. In the

private sector, the construction phase of the Hyatt Hotel is expected to employ another four hundred persons. Another four hundred will find employment when the construction of the Super Clubs Hotel commences later this year. The expansion of Sandals La Toc will result in the employment of over one hundred persons. Other private sector investment initiatives, particularly by our nationals, are underway in the south and in the north. A new mall is under construction at Bois 'd Orange. On completion, the facilities will include a bowling alley, a five-unit food court, five cinemas, and several shops including amusement shops for children. Between three hundred to four hundred persons will be employed during the construction phase. Carasco and Sons Ltd have commenced construction of their warehousing complex on the Vide Bouteille Highway. Construction of J.Q's mall is nearing completion. The construction of Gablewoods North is also underway. On completion on or about 15th November, 1998, it will house a supermarket, twelve shops and one cinema. About 70 persons are currently employed.

Many others, including our young persons will become self-employed through financial and managerial support extended by the Small Enterprise Development Unit, and the Rural Enterprise Development Initiative. In the course of the year, the establishment of the Financial Services Sector will bring new prospects. In the manufacturing sector, there are signs of new investment activity. A joint venture soft drinks operation geared largely towards the export market will be established in Vieux Fort. Fifty-two persons will be employed at the factory plant and another twenty in support services. The American electronic firm Fenwall, plans to increase its workforce by another seventy persons by December, 1998. The apparel sector was revived and is expanding. Every single investment is a statement of confidence. We can and we will, rise to the challenge.

Mr Speaker, the marathon is over. I have breasted the tape.

I move, Mr Speaker, the second reading of the Appropriation Bill 1998/99.