



GOVERNMENT OF ST. CHRISTOPHER (ST. KITTS) & NEVIS

## 2012 BUDGET ADDRESS

Presented by: The Rt. Hon. Dr. Denzil L. Douglas

Tuesday, December 13<sup>th</sup>, 2011

# ONE Cause Vision

*A People Building with Strategic Focus.*



**ST CHRISTOPHER AND NEVIS**

**2012**

**BUDGET ADDRESS**



1. Mr. Speaker, I beg leave to move the second reading of the Bill shortly entitled the Appropriation (2012) Act, 2011.

## INTRODUCTION

2. As the global recovery continues at the predicted moderate yet uneven pace, the fears of a double dip recession have receded as demand has increased and this appears to be the pillar on which a self-sustaining recovery will anchor. However, even though we are pleased that some progress has been made, we must be cognizant of the fact that the world economy is still not stabilized as unemployment remains high in advanced economies and high youth unemployment remains a major concern in emerging and developing economies. The economies on which we depend for our own growth are experiencing geographically uneven growth. While the United States of America and the Euro zone countries are experiencing weak recovery, many emerging and developing economies are experiencing robust growth. We do not have gold, oil or any of the commodities that have been attracting high prices internationally, so that our economy, like most of the economies of the OECS, continues to feel the effects of the sluggish growth in advanced countries which account for a very substantial portion of our international trade in goods and services.

3. We must remember that even though St. Kitts and Nevis is an island state, we are not immune to global events. We live in a global village and we cannot pretend to be the proverbial ostrich burying our heads in the sand and being unaware of the effects of international and regional events on our own local situation. We are no longer local. We are global. The speed of telecommunications, increased ease of travel and transportation and the impact of technology have robbed us of excuses to remain behind the curve. However, the significant challenges which are being experienced globally are impacting us directly also come with several opportunities for us to gear our economy towards future sources of growth, to improve productivity and increase our ability to ensure that we can take advantage of new markets which may become accessible to us, in particular, through the CARICOM Single Market and Economy (CSME) and the Economic Partnership Agreement (EPA) arrangements.

4. Mr. Speaker, it is because we intend to emerge from this global crisis stronger than before that my Government has been taking the extremely hard but necessary decisions to stabilize our debt situation and to put our fiscal situation on a sustainable path. It is against this background that my Government decided this past June to invite the International Monetary Fund (IMF) to support our own home grown economic recovery programme. This programme came with a Stand-By Arrangement (SBA) that makes available approximately US\$84.1 million to the Government in support of the necessary structural reforms.

5. Mr. Speaker, the structural reforms that are being supported and monitored by the IMF are being pursued vigorously and that the initial indicators following the first review of our performance which was just conducted by the IMF are that we have been largely successful in meeting our targets. These targets can be categorized into four areas. The first are Prior Actions which included the announcement of a debt restructuring and the establishment of a framework to monitor expenditure arrears. The next category of actions called Fiscal and Public Sector Reforms seek to strengthen public financial management through Civil Service and Public Enterprise Reforms and other public financial management activities such as, but not limited to, the drafting of a Procurement Act and the establishment of a medium term expenditure framework. Under Financial Sector Reforms, the third category, the requirement is to ensure financial sector stability and consists mainly of the stress testing of financial institutions. The final category, which concentrates on the establishment of medium term benchmarks, is geared towards the development of a medium term debt management strategy and pension reform.

6. Mr. Speaker, fiscal consolidation and the strengthening of the financial sector to facilitate economic growth sums up our strategic approach at this time. I want all of our citizens to understand our vision for the future, to buy into it and become part of the process. Without a coherent vision and ownership of that vision by all of us, it would be nearly impossible for us to navigate to the future which we want to achieve. The question of how we build a better future begins with us agreeing on that future and then charting a course to reach that goal.

7. Mr. Speaker, we are building a society where we care for each other; where family is the cornerstone and family values are acclaimed; where our children, the elderly and those who are most vulnerable are protected and supported and no artificial barriers stand in the way of our working together to build our families, communities and country. We must come to understand that whether we rise or fall we do so together, then we would not tear down but rather build up. As a unified force, there is nothing that can impede our progress as a Nation. However, if we fight and devour each other, we all lose.

8. We want to build a Nation where opportunities abound and people are empowered to pursue their dreams and aspirations for their personal benefit and to strengthen our Nation's economic situation. We want businesses to thrive and grow so that they take advantage of niche markets which are opening up to us. We want to build Government Ministries and Entities that subscribe to excellence in service and where productivity is high and employees are satisfied and motivated.

9. Mr. Speaker, in the society which we are building our young people must have good role models to look up to in their communities so that they can believe that they can succeed as others who have done it before. Our youths must be creative and strategic about their choices of vocation and must push beyond what is the norm in order to advance into the highly technological world in which we live. In this society that we are building, the architecture requires that all of our social and economic partners including the church, non-profit organizations and businesses become youth focused recognizing that they are indeed our future and that they must be nurtured, protected and molded to carry on our rich legacy.

10. We must build a Nation where every man, every woman and every young person can find their place and live a fruitful, fulfilled life and be able to attain their full potential. We want to have a Nation where people do not feel excluded and therefore turn to deviant behavior. We want each person's contribution to be valued so that together all of our ideas can collectively become the basis for solving our problems and for creating new strategies for the future growth and development of our Nation.

11. All of these factors are critical to our Nation being able to build strategically the human resource capacity and systems that can serve us well into the future. We are looking forward with great hope and anticipation to a bright future as we persevere in overcoming the challenges which we currently face. We have come to the understanding that the ability of our Federation to grow and prosper in the years to come is closely aligned to our capacity to compete in international and regional markets by offering high quality goods and services at competitive prices. This relies heavily on the productivity of the work force, the employment of appropriate technologies by large, medium and small businesses and the effectiveness of Government services that provide the enabling environment for private enterprise to grow. Once we understand the vision and we buy into it and we determine the pathway which we must take to get there then we must derive a strategy to get there.

12. Mr. Speaker, part of our strategy must include technology. Our people must become technologically savvy hence we continue to emphasize the need for training and exposure to new technology. Technology must be part of the strategic pathway to our new future. We must use the tools which are available to us like the computer, the internet and the cellular phone not just for entertainment but also for constructive pursuits. We must use the social media to take the message to our young people as communication is extremely essential at this time. These tools must be used to train our young people and to mobilize them as a force for good and not for evil. My Government's programme to provide laptop computers to secondary school children is critical in preparing our high school graduates adequately for the new workplace that they will enter in the future.

13. The protection and preservation of the environment must also be an underlying concern for all of us. Therefore, even as we make economic and social strides, we should always remember to cherish our God-given resources so that generations to come can continue to benefit from them.

14. We must therefore come together as a Nation to fight against those elements which would seek to prevent us from achieving this vision. Crime is one of those elements that we must fight even more vigorously with a view to protecting our people and visitors alike. We must not only

fight crime but we must also seek to prevent crime by ensuring that all of our people, especially our youths, understand the vision that we have for our Nation, by ensuring that this vision becomes a shared vision and that we all work towards achieving it. When our youths perceive a bright future and they understand that there is purpose for living and that their dreams are attainable they will become immersed in making this dream a reality.

15. We must also resist apathy, division and strife and discard those negative elements which seek to divert our attention from the challenging task of Nation building. We must be aware of those who propagate these negative ideas and attitudes and try to engage them in constructive dialogue and interaction with a view to bringing them into the mainstream of development, if we can. We must ensure that there is no subtle contamination of our own values which would reverse our laudable efforts at Nation building. We must protect what we are building by anticipating challenges and problems and adopting a resolute and determined stance in moving our country forward.

16. Mr. Speaker, my Government has always been forward-looking and decisive in the midst of difficulties. When in 2005 it became apparent that the slide in the fortunes of sugar could destroy our entire economy, we acted decisively and preemptively to transition out of sugar and save our economy. We are now faced with even more difficult challenges. The world economy is in shambles; a global financial crisis threatens many longstanding financial markets and institutions across the globe; and even more critically, the industries on which we depend to earn foreign exchange and create economic activity have been severely affected by mayhem in the global economy. My Government understood that with our high debt to GDP ratio, the risk of a disorderly collapse of our economy in the face of these adverse global developments was very high. Hence, we acted promptly and preemptively to develop a programme, including fiscal adjustment and debt restructuring, to save our economy. Moreover, like many advanced countries in Europe and elsewhere, we solicited the financial and technical support of the IMF for implementing our programme.

17. We know that things are hard right now for people all over the globe, and for many of our own people here in St. Kitts and Nevis. We know that the programme would entail significant



sacrifices for our people. I personally interact with people from all walks of life in our community and I feel their pain and suffering. But we are convinced that a disorderly collapse of our economy would have been even more painful and utterly devastating to the entire Nation. We are convinced therefore that the programme that we are implementing has already helped to stave off economic collapse and will bring even more rewards to our people by laying the foundation for enhanced growth and development in the future.

18. Mr. Speaker, in order to effectively cope with the challenging global environment that we face, and chart a course for future growth and development, we must have a clear understanding of the international and regional economy. I will therefore highlight some of the recent developments in the international and regional economy.

## THE EXTERNAL ENVIRONMENT

### International Economic Developments

19. Mr. Speaker, over the last year, the recovery of the global economy from the 2009 recession has been interrupted by a combination of events, including: supply disruptions caused by the Japanese earthquake and tsunami; protracted political unrest in oil producing countries; a deepening financial crisis in Europe and unresolved fiscal and debt crisis in the United States of America. Alongside these developments, the realignment of global economic power has continued.

20. The full depth of the financial crisis in the Euro zone is still not yet clear. However, the following implications are already evident:

- The mounting sovereign debt problems in the peripheral countries are exposing the fragility of the Eurodollar system which is still very much in recovery mode from the effects of the 2009 global crisis.
- These challenges are already threatening to undermine the coherence of the European Currency Union which itself has hitherto been a model of international cooperation in trade and economic development.
- The European Currency Union is the world's largest single trading bloc and the effect of continuing instability in that area has the potential to undermine the global recovery effort.

21. For St. Kitts and Nevis and the other OECS countries, failure to satisfactorily resolve this crisis carries the risk of negatively impacting the level of donor support available for development, as the European Union (EU) is one of the most important traditional sources of such aid. There is also a distinct likelihood of aid cutbacks resulting from the failure of the US authorities to reach a consensus on resolving their debt problem. All of this is within the context

of official projections by the Organization for Economic Co-operation and Development (OECD) that official development assistance flows are likely to level off over the next five years.

22. Household incomes are under pressure in the US, the key source market for our tourism product, where unemployment has reached a record 9% and an estimated 20% of disposable income has been eroded as a result of the ongoing market turmoil. The US Government federal debt is estimated at just above 100% of GDP while the deficit for the 2011 fiscal year is estimated at 8.7% of GDP – the highest levels of debt and deficit recorded since World War II. Prospects for resolving the US debt crisis are complicated by the presidential elections which are due in 2012. On both sides of the Atlantic, therefore, political uncertainties abound.

23. In this increasingly complex global environment, the IMF has described the outlook for the advanced economies as one characterized by “continuing, but weak and bumpy, expansion”. Against this background, the IMF projects that real GDP in the advanced economies will expand at “an anemic pace” of about 1.5% in 2011 and 2% in 2012. This is a best case scenario which assumes a timely resolution of the policy challenges in both the Euro zone and the US.

24. Wider afield, the emerging market economies have not been impervious to the effects of the problems facing the advanced economies. The main transmission mechanisms have been weaker trade flows and international financial market instability. Declining demand levels in the US and Europe have resulted in cutbacks in Chinese exports while the Japanese economy has not yet fully recovered from the effects of the earthquakes and tsunami. The emerging economies are projected to register a growth rate of about 4.7% in 2011 – down from 8.4% in 2010.

25. Taken together, these factors will further restrain the recovery in developing economies like St. Kitts and Nevis as development prospects remain subdued. For purposes of planning the 2012 fiscal strategy, the global economic outlook presents the following risks:

- The risk that the domestic recovery effort will be restrained by declines in remittances, tourism receipts and foreign direct investment flows.

- The likelihood of a slowdown in flows of official development assistance from traditional donors; and
- Prospects that further instability in the oil producing economies could result in supply constraints and volatile prices which could undermine the competitiveness of the economy.

## Regional Economic Developments

26. The current uncertainty in the advanced economies has slowed the pace of the CARICOM region's recovery from the impact of the global recession. The impact has been mixed with the tourism dependent economies being the most exposed on account of:

- The dependence of the region's Tourism Sector on the US and European markets which jointly account for an estimated 75% of stayover visitors in the OECS countries.
- The slowdown and, in some cases, the disruption of tourism related construction activity that is associated with the uncertainty in the international credit market; and
- The role of the EU as a traditional provider of donor support for the implementation of public sector investment.

27. As a group, the economies of the OECS countries contracted by approximately 2.2% in 2010 as compared to the decline of 5.7% recorded in 2009. This improved performance was partly due to a turnaround of the Tourism and Real Estate Sectors and a slower rate of decline in the Distribution, Construction, Transport, Storage and Communications Sectors. Preliminary data for the period January to June 2011 points to further improvements in the economic output within the sub-region with the rate of decline projected to slow further to 0.6% due to expansions in the Tourism, Education, Real Estate and Public Administration Sectors.

28. Mr. Speaker, the OECS Economic Union reached another milestone on August 1, 2011 with the commencement of full free movement of OECS citizens among the six independent countries of the Organization. This achievement comes with inherent opportunities for both individuals and enterprises within St. Kitts and Nevis but will require us all to think and act strategically, acquire the requisite training and skills, and most importantly adopt a positive disposition to enhance marketability and productivity. My Government, recognizing the need to

ensure that our people are ready to take advantage of the favorable conditions when presented, has created the Regional Integration and Diaspora Affairs Unit within the Office of the Prime Minister in order to provide focus from the highest level to the concerns and issues affecting citizens and residents within the Federation, as well as our nationals in the diaspora. These developments further emphasize the need for increased innovation and a proactive approach among our people to capitalize on opportunities whenever and wherever they arise.

29. Mr. Speaker, progress out of the recession in the larger Caribbean Community member states in 2010 has been slow following the negative growth recorded in 2009. In Barbados, the rate of growth contracted by 0.4% - an improvement when compared to a decline of 4.7% in 2009. This rebound was due to a 3.0% increase in value added by the Tourism Sector. However, the performance of the economy continued to be impacted by downturns in agriculture, construction and manufacturing. Following a contraction of 3.5% in 2009, economic output in Trinidad and Tobago increased by a mere 0.1% in 2010. Although the Energy Sector experienced moderate growth, the Non-Energy Sector continued to decline, albeit at a slower rate than the previous year, as the construction and distribution sub-sectors remained weak. The Jamaican economy contracted by 1.2% - an improvement over the contraction of 3.0% in 2009. This improved performance was influenced by a rebound in the Tourism and Agriculture Sectors. However, weak domestic and external demand continued to have a negative impact upon the Mining and Quarrying, Manufacturing, Construction, Transport, Storage and Communication Sectors.

30. Overall, the rate of recovery in the CARICOM region has been lagging behind that of the wider Latin American region and the outlook is for this trend to continue into 2012.

31. Mr. Speaker, I now turn to the Domestic Economy.

## THE DOMESTIC ECONOMY

### Output, Prices and Balance of Payments

32. Mr. Speaker, in 2010 the domestic economy contracted by 2.7% - a 3% improvement over the 5.6% decline recorded in 2009. During this year, steady recovery was experienced by both the Manufacturing and Tourism Sectors which are projected to grow by 6% and 5.9% respectively. However, this will be insufficient to offset the effects of the slow recovery being experienced by the Construction Sector and Distributive Trades. The latest projections by both the Eastern Caribbean Central Bank (ECCB) and the Statistics Department are that growth will be flat for 2011 and that the economy could return to a positive growth path in 2012 when output is projected to expand by 1.5%. This pattern is consistent with the trends observed in the OECS group.

33. As part of the 2010 National Accounts rebasing exercise, the Consumer Price Index was updated to reflect the current household expenditure pattern and ensure greater reliability in the provision of information that impacts public policy. On a period to period basis, the rate of inflation in 2010 was about 1% as compared with the 1.9% recorded in 2009. Principally as a result of the pass-through effect of the rising fuel and corresponding utility prices and the introduction of the Value-Added Tax (VAT) in November 2010, the rate of inflation has increased to 8.2%. After the first full year of the new tax regime, prices are expected to stabilize in 2012 and revert to historical averages of 2.5% over the medium term. However, we are also aware that prices for some items should become much cheaper to import under the VAT system but these savings are not being shared with consumers. I use this opportunity to call upon those businesses that clearly have the capacity to offer goods and services at a much cheaper rate to explore all avenues to adjust prices downwards to the benefit of their customers.

34. Mr. Speaker, the volatility in international energy prices continues to challenge the policy making process, particularly as it relates to the pivotal issue of price stability. I will discuss our planned policy initiatives in this area later in this address.

## **The External Account**

35. Mr. Speaker, I will now summarize the Balance of Payments Account which records all receipts and payments between our Federation and the rest of the world. In 2010, the Current Account deficit increased by 0.6% to \$464.3 million or 25.5% of GDP at market prices. This marginal increase is mainly attributed to an increase in the net importation of goods and services by 9.3% to \$486.9 million or 26.7% of GDP. The rise in net goods and services can be attributed to an increase in outflows for merchandise for the Construction and Manufacturing Sectors and an upturn in activity in tourism. The Services Account surplus decreased by 31.6% to \$59.3 million or 3.3% of GDP as a result of a decline of 4.4% in travel receipts and an expansion of the deficit for transportation of 24.8% due to an increase in global oil prices.

36. The surplus on the Capital and Financial Account declined by 5.6% to \$471.0 million or 25.9% of GDP in 2010. Net Foreign Direct Investment expanded significantly by 35.5% to \$380.8 million or 20.9% of GDP when compared to 2009 which is attributed mainly to a 70.2% increase in land sales. However, this significant increase in direct investment inflows was insufficient to offset the Current Account deficit resulting in an overall deficit of \$2.8 million or 0.2% of GDP.

## **The Tourism Sector**

37. Mr. Speaker, in spite of the slowdown of the economic recovery in major source markets we remain cautiously optimistic about the outlook for our Tourism Industry. In the wake of the 26.8% contraction of the stayover sector experienced in 2009, the sector recorded 3.3% growth in 2010 and is projected to grow by 5.9% this year. This significant turnaround of the country's leading contributor to foreign exchange earnings was supported by increases in arrivals from the main source markets of the United States, United Kingdom and Europe and the re-opening of the Four Seasons Resort. The investments made in support of the marketing strategy and direct airlift capacity continued to play an important role in the recovery of the sector and in laying a sound foundation for consolidating the full revitalization of the sector when external market conditions stabilize. At the same time, intensifying competition in the market place makes it



imperative that we sharpen our focus on consistently offering a safe and secure visitor experience, convenient airlift and a more sophisticated tourism infrastructure. It is therefore imperative that we continue to employ a carefully targeted, cost-effective marketing strategy that is closely aligned to the authentic product offerings of our twin-island Nation.

38. Recognizing the volatility in the global market, we have taken a pro-active approach to building and supporting international airlift services to ensure that both visitors and nationals can travel more easily to and from our destination. It is important to note that the Airline Industry has implemented stringent measures to address the escalating cost of fuel and the pressure from shareholders to remain profitable in a time when travel has become a luxury for many households. In some instances, airlines have eliminated routes and flights to small, unprofitable destinations but I am pleased to report that St. Kitts has seen an increase in airlift in support of our target markets. As of April 5, 2011, American Eagle added two (2) new weekend rotations between San Juan and St. Kitts, further facilitating weekend getaways between St. Kitts and Puerto Rico and improving access to the west coast of the United States. Effective December 23, 2011, travel from Canada will be supported by a new service from Air Canada for the peak winter 2011/2012 travel season which ends in April 2012. This weekly flight will operate from Toronto on Fridays making it our only non-stop scheduled commercial flight from Canada. By the inclusion of this new flight, St. Kitts and Nevis has become a more viable winter destination choice for travelers from this key North American market and we are optimistic that this new airlift arrangement could be further developed into a year round service by 2013. Unfortunately, the same cannot be said for intra-regional travel where economic slowdown, high airfares, capacity reduction and other obstacles have continued to cause a serious fall off in Caribbean travel. However, we continue to explore options to strengthen this market and, in this connection, we are currently in discussions with REDjet for the inclusion of services to the Federation in its expanding regional operations.

Mr. Speaker, to further expand arrivals from the higher end of the air passenger market, we will commence the construction of a world class private jet terminal in January 2012 and it is scheduled to be completed by October 2012. This project is synergistic with other premium facilities which are already being developed to serve a more upscale clientele. This facility will

target clients from a number of ongoing developments such as Christophe Harbour which recently opened 'The Pavilion' at Sandy Bank Bay and continues to execute work on a mega yacht marina at the South East Peninsula which is expected to host its first vessels in January 2012. Development is also now progressing at Kittitian Hill, with construction underway on the golf course and thirty-six (36) resort cottages and ten (10) villas. It is anticipated that Phase One which is the opening of a ninety (90) room hotel, spa and golf resort will take place in December 2012. Phase Two of the Silver Reef luxury apartment complex will also be completed by June of that year. Meanwhile, we are seeing the positive impact from the completion of the final twenty-two (22) units of the eighty-eight (88) unit Marriott Vacation Club International (MVCI) which has timeshare owners that visit year-round therefore providing a balance between the seasonal lows and highs of leisure travel.

39. Mr. Speaker, cruise passenger arrivals expanded by 13.7% in 2010 and it is projected that visitor arrivals will expand for the fifth consecutive year during the October 2011 to September 2012 cruise season. Based on berthing bookings, it is projected that approximately 650,000 cruise passengers will arrive in St. Kitts by September 2012. In the 2009-2010 cruise season, the half million passenger arrival mark was surpassed for the first time in the history of the Federation. Our port facilities are currently capable of accommodating any of today's largest ships including the "Oasis" class vessels. In fact, the 'Allure of the Seas' is scheduled to make its inaugural call at Port Zanté cruise ship port on December 30, 2011.

40. I use this opportunity to assure this Honourable House and our citizens that my Government will continue to develop a sustainable tourism product with an emphasis on a quality experience for our visitors, and a commitment to people empowerment.

## **Manufacturing**

41. Indications of resurgence are also evident in the Manufacturing Sector which recorded positive growth of 2.2% in 2010 - a marked improvement over the decline of 19.6% recorded in 2009. This is attributed to an increase in the export of electronic components. This Government considers the creation and maintenance of viable businesses and employment opportunities to be

a vital component in our development agenda, therefore during 2010 a decision was taken to provide tax concessions to a range of businesses inclusive of small manufacturers. I am pleased to report that, based on increases in production and exports during the course of this year, it is projected that the sector will record a 6% increase in economic output.

## **Construction**

42. Mr. Speaker, continued challenges were experienced by the Construction Sector which has traditionally been one of the major economic drivers. The sector recorded a decline in economic activity of 12.0% during 2010, a slight improvement when compared to the contraction of 15.3% recorded in 2009. The sector continued its recovery in 2011 although the outlook is for another year of negative growth. Up to June this year, the recovery was led by ongoing activities on home construction projects predominantly by private individuals. However, with the resumption of activity at some of the major developments, the stage is set for a stronger contribution by this sector and as such a 3% growth rate is projected for 2012.

43. This Government remains committed to providing affordable homes and access to land to its citizens through the implementation of the Special Land Distribution Initiative Programme and five affordable housing schemes. In 2010, approximately one hundred and forty-nine (149) acres of land were distributed as a means of empowering citizens through land acquisition for residential and commercial purposes. With the assistance of the National Housing Corporation (NHC), one hundred and ninety-eight (198) houses were constructed or renovated to enhance the standard of living among the poor and most vulnerable within our society. Evidence of the success of the housing initiatives can be seen in the data provided in the Eastern Caribbean Central Bank's Commercial Banking Statistics Report which indicates that, as of December 2010, personal credit issued in St. Kitts and Nevis increased by 5.2% to EC\$883.4 million when compared to December 2009. Of this amount, over fifty percent (50%) equivalent to \$462.0 million was attributed to home construction and renovation, and house and land purchases. Acknowledging the importance of construction to further economic and social development, we have taken the decision to provide a stimulus to the sector and relief to prospective low and low-middle income homeowners by significantly reducing taxes applicable to building materials for

home construction projects valued up to \$400,000 through a partial waiver of taxes. This initiative will expire in October 2012 therefore, I encourage our citizens to seize the opportunity.

## **Agriculture**

44. Mr. Speaker, the achievement of food security continues to be an important policy goal of my Government. The importance of achieving this goal is reinforced by the growing uncertainty in the global food market which is characterized by successive episodes of natural disasters in food producing regions of the world, increasing demands from expanding economies, increased use of biofuel technology and the associated upward pressure on prices. Mr. Speaker, as recently as October 2011, a report by the Food and Agriculture Organization (FAO) estimated that thirty-two (32) countries around the world will be in need of assistance as a result of crop failures, natural disasters and high domestic food prices. However, I can confidently say to this Honorable House that we will not be among the countries in need of such assistance.

45. Since the closure of the Sugar Industry in 2005, my Government has made agriculture a priority in the development agenda by identifying the sector as one of the pillars of transformation which would not only ensure food security, but also facilitate employment and revenue generation. Considerable investment has been made to facilitate the expansion of the sector through increased integration of new farming techniques and technologies and the creation of linkages with other sectors in order to reduce cost and maximize benefits. During 2012 we intend to build on these efforts by emphasizing small and commercial scale farming, infrastructure, appropriate technology and training.

46. Small-scale and commercial farming have both been used as a means of expanding the sector as we strive to meet domestic demand and capitalize on export opportunities. During 2010, three (3) farmers were identified for the establishment of commercial farms which involve the cultivation of fifty (50) acres each. We have also encouraged group-farming or the cluster farm model which was initiated under the Agricultural Training Employment Programme. This programme targets former sugar workers who are interested in making a transition from the Sugar Industry to non-sugar agriculture. I am pleased to report that this initiative has been

successful, facilitating the establishment of four group farms in the areas of Sir Gilles, Belmont, West Farm and Mansion. We are also focusing on supporting the development of niche markets in the agro-processing sub-sector as this area provides a unique opportunity to develop an additional form of income generation, particularly for women, a means of reducing wastage and a building block for small business development. The Basic Needs Trust Fund (BNTF) has collaborated with the Department of Cooperatives to provide training, equipment and product development support in this area. Further capacity building will be sought in order to facilitate quality assurance and sustainability.

47. Mr. Speaker, as a means of addressing access to water at higher altitudes, the construction of dams has been included as part of the Agricultural Resource Management Project which has been financed by the Sugar Industry Diversification Foundation (SIDF). Four (4) communities were identified namely, Phillips, Estridge, Mansion and Fahies, for the construction of these water retaining structures. Work is currently ongoing on the Phillips, Estridge and Mansion sites and is expected to be completed early in 2012. Work will begin in Fahies next year during which an additional three (3) sites will be identified for development. In addition to improving the water supply, there is a need for adequate storage for agriculture produce and, to address this issue, we have identified a site for the establishment of a packing house at the Department of Agriculture with the objective of ensuring consistent quantity and quality of produce supplied to the local market. The Crops Programme at the Department of Agriculture will continue to collaborate with the Caribbean Agricultural Research Development Institute (CARDI) and the Inter-American Institute for Cooperation and Agriculture (IICA) to ensure further training in areas such as Agro-processing, Greenhouse Construction and Management, Agri-business and, Sanitary and Phytosanitary Measures.

48. Mr. Speaker, the livestock sub-sector is facing challenges such as praedial larceny, high mortality, the high cost of feed and poor husbandry practices. These problems resulted in a 3.8% decline in output in 2010. Several initiatives have been implemented and will continue into 2012 to reverse this outcome. They include the growing, harvesting and storage of forage for use during the dry season as part of a strategy to deal with the cost of imported feed which has caused some livestock farmers to cease production as profit margins continued to narrow.

49. On the legislative front, there are now three (3) Bills before the Attorney General's Chambers namely the Public Pounds (Amendment) Bill, St. Kitts and Nevis Animals (National and International Movement and Disease Prevention) Bill and the Agriculture Produce and Livestock Bill. We have already taken steps to move the process forward with the introduction of the Dogs (Amendment) Bill which will include provisions for the utilization of tracking devices which will assist in the curtailing of dog attacks on livestock. The enactment of these bills will enhance and modernise the legislative framework and serve as a deterrent to those who wish to unlawfully gain or act with complete disregard for the investment of others.

50. Mr. Speaker, in the fishing sub-sector, fish landings increased by 29.8% to 394,390 pounds with a value of \$3.9 million when compared to the same period in 2010. This is indicative of the benefits of training provided to our fishers, particularly in the vertical long-line fishing method which was made possible with assistance from the Japanese International Cooperative Agency (JICA). Through the Department of Marine Resources, we will continue to conduct further training, provide assistance to fishers in the acquisition of the relevant gear and equipment when possible, target underutilized species and establish Fish Aggregating Devices (FADs) in an effort to improve our food security and nutritional intake, and to build resilience to global economic and financial challenges. In order to advance the continued transformation of the fishing sub-sector, the Department of Marine Resources has instituted the use of the Ecosystem Approach to Fisheries Management which aims to balance diverse societal objectives taking into account the knowledge and uncertainties of human and environmental factors in an integrated approach to fishing. The Department has received assistance from the University of the West Indies – Centre for Resource Management and Environmental Studies (UWI/CERMES) in the execution of an assessment exercise to determine the way forward as this approach is implemented. My Government will endeavour to foster a culture of sustainable fishing to preserve the longevity of the sub-sector as well as the diversity of the species inherent to this region.

## **Industrial and Enterprise Development**

51. Mr. Speaker, the Manufacturing Sector continues to be resilient despite the reduced demand attributed to the prolonged effects of the global economic recession. The sector has remained viable by making a critical decision to diversify its export market to include alternate markets in Asian, European and Latin American countries. This has provided an essential buffer in the face of continued uncertainty in the demand from our traditional export markets such as the United States. As a result, the sector has been able to preserve employment levels in an already challenging economy. In 2010, the sector contributed 6.8% to economic output, earning over \$98 million in exports and employing over 2,000 persons. The sector also made important indirect contributions to several other sectors including Freight, Shipping, Transportation and Financial Services, and Port and Customs Operations.

52. Mr. Speaker, I again emphasize that the development of new business arrangements in viable regions will determine our ability to survive this difficult period and to continue our development in the years ahead. Brazil has been identified as having one of the fastest growing economies in the world therefore we have been working towards the finalization of a Partial Scope Agreement which will provide new opportunities to our manufacturers. This Agreement will facilitate duty-free access for our manufactured products and is expected to increase income generated by manufactured exports by US\$30 million over a period of three (3) to four (4) years translating into additional employment opportunities. We anticipate that the process will be completed before the end of 2011 and use this opportunity to thank our Private Sector counterparts who have partnered with us in ensuring that this Agreement comes to fruition.

53. Mr. Speaker, the Services Sector contributes over seventy percent (70%) of our GDP and will continue to play a major role as the country intensifies its economic diversification programme. The export of professional and knowledge-based services will ensure the further expansion of trade, and by extension, the economy. However, we continue to face challenges with the adequate preparation of our service providers to explore opportunities for leveraging the provisions of various trade agreements to increase access to new external markets. The services market is valued at over US\$3 trillion and St. Kitts and Nevis is considered to have niche

markets in the areas of education, medical and wellness, legal, management, consulting, Information and Communication Technology (ICT), cultural and construction and construction-related services. Therefore, we will continue to support professional service providers in their pursuit of these opportunities. We will also continue to dialogue with service providers in the context of the ongoing negotiation process for the CARICOM-Canada Trade and Development Agreement. Training and consultation opportunities will also be made available to relevant individuals to facilitate greater understanding of the issues surrounding market access and assist them in identifying business opportunities.

54. Mr. Speaker, undeniably, small and medium enterprises (SMEs) play a pivotal role in our economic diversification and development agenda. Since its inception in 2009, the National Entrepreneurial Development Division (NEDD) has actively given support to the development of SMEs. As of October 2011, the Division has provided assistance to approximately 188 entrepreneurs in areas such as business development counseling, the facilitation of business training workshops and the provision of monitoring and extension services. In order to complement the services already being provided, efforts are being made toward the establishment of a business incubator. This facility will provide temporary office space for fledging businesses, thereby decreasing startup costs while facilitating the sharing of fees for utilities between businesses. My Government is currently in discussions with the Government of Mexico on the delivery of this facility to the benefit of the SME sector.

## **Information Technology and Telecommunications**

55. Mr. Speaker, I am pleased to announce that the one laptop per child programme is now in its second phase having received over 2,400 laptops in August of this year. Our students in the 4<sup>th</sup> and 5<sup>th</sup> Forms in both St. Kitts and Nevis have received their personal laptops which have been provided as a learning tool that will give them access to educational portals and additional research material. In keeping with my Government's commitment to provide the requisite tools for the development of 21<sup>st</sup> Century skills among our people, the specifications and configurations of these computers were improved when compared to those received during the initial phase of the programme. However, my Government is aware of the need to manage these



assets in order to ensure that they are used according to best practices and for the purpose for which they are intended. To this end, a service and asset management platform has been acquired to allow for 'Help Desk' functionality. The true benefits of the programme cannot be acquired without a teaching staff that is well trained in the integration of information technology in the learning environment. Therefore, training opportunities will be made available in the use of the operating system as well as e-learning content creation. An additional 2,400 laptops are expected to arrive to facilitate the distribution to our 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> Form students before the end of this year.

56. As we continue to integrate the use of ICT hardware in our daily processes there is a need for a more efficient use of the technology that is available. The days of stand-alone computers have given way to the development networks that facilitate greater efficiency and cost-effectiveness in the execution of business operations. In light of the benefits to be derived from such an undertaking, my Government, through the Department of Information Technology and Telecommunication, has embarked on a three phase plan to deploy a comprehensive Government Wide Area Network (GWAN) which will include a Government Communications Network, an Education Network, and a Police Communications Network. During 2011, the Ministry of Sustainable Development partnered with the Department of Information Technology and Telecommunication to access resources from the EU for initiating the process toward the establishment of the GWAN. With the technical assistance provided, work was completed on an assessment of the readiness of public sector entities to implement E-government services and an estimation of the resources required to achieve the programme's objectives. The exercise also involved a comprehensive technical audit of the information infrastructure within the public sector, development of recommendations for addressing the gaps identified and development of a comprehensive proposal for the implementation of the GWAN. The completion of this assignment has provided valuable information which will aid in charting the way forward in the development of the various components of this Network.

57. Mr. Speaker, in our efforts to achieve the objectives in the White Paper on Education Development and Policy 2009-2019, my Government has taken the decision to provide the infrastructure required to connect all public schools to a managed education network via

broadband internet. The Government of St. Kitts and Nevis Education Network has been facilitated through the Eastern Caribbean Telecommunications Authority (ECTEL) with financing from the World Bank. The initiative will facilitate the supply, installation and commissioning of the Education Network and the training of persons who will be involved with its operation. We have already begun the procurement process for the required equipment and it is anticipated that the installation will be completed by April 2012. Upon completion, every classroom will have wireless communication with connectivity provided to administrative staff, as well as some outdoor common areas. The network will also host the recently completed Education Management Information System (EMIS) and support interschool web conferencing, team teaching solutions and other internet supported applications.

58. The Information and Communication Technology for Education Diversification and Competitiveness (ICT4EDC) Project was formulated with the overall objective to develop a vibrant and sustainable ICT sector through increased adoption of ICTs, development of the ICT service industry, empowerment of social groups, communities and individuals, and support of an ICT driven public sector. The Project also allowed for the expansion of the National ICT Centre to provide additional space for ICT development and possibly the establishment of a “Foundation for Information” which will be established as a think tank, stimulator and promoter to provide ongoing support in the use of ICT to foster development. In order to further sensitize our people to the benefits of ICT in their daily lives and to provide opportunities for networking and the sharing of ideas, we facilitated the second Caribbean Telecommunications Union (CTU) Road Show and the first ever Techno Village Exposition during June 2011.

59. Mr. Speaker, the role of ICT in our society will continue to change rapidly as the expectations of our people continue to demand that systems evolve. This has provided the impetus for the certification of the National ICT Centre as a Pearson VUE Test Centre in March 2011 to enhance its role as a vehicle for training our people. In light of this, the Centre is now authorized to provide certification examinations provided by various organizations such as Business Objects, the Chartered Institute of Management Accountants and the Computing Technology Industry Association. This is an opportunity for our people to take advantage of courses which would have once required travel to other countries.

## **Energy Sector**

60. The provision of reliable, cost effective energy is critical to ensuring the expansion of the production and services sectors, as well as improving living standards. These factors provide the impetus for the continued investment in the exploration of alternative energy sources. In October 2010, in pursuit of this objective, we executed a contract with North Star (St. Kitts) Ltd for the installation of wind turbines in the Belle Vue area. Following consultations with the host community, it is expected that installation will begin by the end of 2011 and completion will take approximately six (6) to eight (8) months. As we strive to achieve energy efficiency other options will be considered such as waste to energy, solar energy and wave action.

61. As we investigate and integrate green energy into our power generation systems, efforts continue towards improving the efficiency of fossil fuel generation and, in this regard, today I am pleased to report that on August 1, 2011 the St. Kitts Electricity Company Limited commenced operation. This process began in 2009 and included the valuation of inventory and assets, consultations with employees to address concerns and outline their employment options, the institution of a framework for the transfer of benefits and the formulation of severance packages. Considerable investment was also made in the upgrade of generation capacity with the purchase of four (4) Holeby generator sets in 2010. It is anticipated that continued improvements will be made to increase the efficiency of the operations, enhance financial management, and foster greater transparency and accountability. I would like to thank the Caribbean Development Bank (CDB) for its support throughout this process symbolic of its commitment to assist its Member Countries to achieve their development objectives.

62. Mr. Speaker, our vision for the energy sector is ‘to become an island nation where sustainable, reliable, renewable, clean and affordable energy services are provided to all citizens’. Achievement of this vision requires a holistic approach in order to address the changes required in fuel supply types and energy carriers, consumption patterns, infrastructure and management to facilitate the transition to a more sustainable Energy Sector. With support from the Organization of American States (OAS) and the European Union (EU) work is being undertaken on completing the formulation of a comprehensive National Energy Policy that will

provide the adequate legal, institutional and economic framework to support the development of a sustainable Energy Sector. The development of this policy was informed by consultations which were held earlier this year with public and private sector stakeholders in both St. Kitts and Nevis. With its final approval and adoption by the National Assembly, the policy framework will provide the parameters for the continued development of the Energy Sector.

63. During 2012 work will continue on the formulation of regulations to control the level of carbon emissions and to guide the development of renewable energy initiatives. We will also deepen our collaboration with regional and international agencies such as the CDB, the Alliance of the Small Island States (AOSIS), the OAS and the Global Environmental Facility (GEF) in order to secure technical and financial support. As evidence of our commitment to this transformation, my Government has taken the initiative to lead by example as we have successfully installed solar panels to provide electricity to Government Headquarters. This pilot project will provide tangible information to technicians, policy makers and of course the rest of our citizens regarding the benefits of the use of renewable energy moving us closer to generating at least sixty percent (60%) of our energy through the use of green energy. I use this opportunity to thank the Republic of China (Taiwan) and the Organization of American States for their continued support in the development of the use of renewable energy in St. Kitts and Nevis.

64. I turn now to the Financial Sector.

## **The Financial Sector**

### ***Commercial Banks***

65. Mr. Speaker, despite the uncertainty in the global financial markets, our commercial banks have remained well capitalized and stable. As of December 2010, the assets held by the commercial banks totaled \$5.0 billion, representing a 10.4% increase over the \$4.6 billion recorded at the end of 2009. During the year under review, deposits as well as loans and advances grew. Deposits increased by 6.0% to \$3.2 billion while loans and advances grew by 7.0% to \$2.5 billion. The increase in loans and advances is attributable to increased lending to the Construction, Tourism and Personal Sectors.

### ***Development Bank***

66. Mr. Speaker, the Development Bank remains a key player in the empowerment of our people in the advancement of our development agenda particularly during this period of economic slowdown. During 2010, the Bank approved 572 loans with a total value of \$17.8 million. Some \$6.9 million was allocated to higher education, \$3.7 million to general and business lending and \$2.0 million to mortgage financing. Already for the period January to August 2011, the Bank has approved an additional 345 loans totaling \$12.0 million. The Development Bank has remained proactive in the expansion of its mandate to provide financing for burgeoning businesses and personal advancement at an affordable rate. In so doing, it has formed an alliance with the Sugar Industry Diversification Foundation (SIDF) to provide access to a loan facility totaling \$8.0 million for the benefit of the Small Hotel and Restaurant Sectors. In addition, negotiations are ongoing with the CARICOM Development Fund to provide a line of credit in the amount of US\$5.0 million. Recognizing the need for client support services, an agreement has been finalized with the Centre for Development Enterprise (CDE) to facilitate the delivery of technical assistance to current and prospective customers at minimal cost. We believe that the combination of enhanced expertise and access to financial resources will ensure greater diversification in our production base, increased employment and stimulate the spirit of entrepreneurship among our people.

## ***Non Bank Financial Services***

67. Mr. Speaker, the Financial Services Regulatory Commission has now been in operation for approximately one (1) year and continues to ensure the integrity of the financial systems in the Federation and provide an essential safeguard against the use of the system for laundering the proceeds of criminal activity. During 2011, the St. Kitts Branch of the Commission conducted onsite inspections of one (1) insurance company, one (1) trust company, one (1) law firm and the Development Bank of St. Kitts and Nevis. Three (3) more inspections are expected to be carried out before the end of the year. The Commission also undertakes due diligence on all investors to verify the legitimacy of their funding sources. In an effort to safeguard the interests of policyholders, the Commission, through the Registrar of Insurance, petitioned the Court to appoint a judicial manager for CLICO International Insurance Company Limited to facilitate the restructuring of the company. The appointment was made in April 2011. Additionally, we passed the Co-operatives Societies Bill in October of this year which provides for the designation of the Registrars for Cooperatives. Under this arrangement, the Financial Services Regulatory Commission will be the Registrar for Credit Unions and the Ministry of Agriculture for non-financial co-operatives. This new regulatory structure now eliminates the gap which existed in the regulation and supervision of Credit Unions.

## **St Kitts Investment Promotion Agency (SKIPA)**

68. Mr. Speaker, the St. Kitts Investment Promotion Agency (SKIPA) continues to play an essential role in the economic development of our Federation by facilitating both local and foreign investors who express an interest in undertaking business ventures. SKIPA has facilitated a number of investments such as Manor International Incorporated and Vista Villas, Retreat Housing Development, Westin Medical University and Peninsula Resort and as of September 2011, over one hundred inquiries for investment projects have been made. The Agency continues to assist with the streamlining of the investment process through its advocacy programme evidenced by the South East Peninsula Stamp Duty (Amendment) Act which was formulated under this programme. It is expected that the reduction of the stamp duty of 18.5% to 12.0% of the market value of the properties on the South East Peninsula would encourage

additional inflows in a period when Foreign Direct Investment (FDI) has failed to return to pre-crisis levels. In addition, our restaurants continue to benefit from the extension of the Full Service Stand Alone Restaurant Duty Free Scheme which will conclude at the end of this year. This package has stimulated economic activity encouraging linkages between other sectors of the economy such as Agriculture resulting in the purchase of local agriculture produce worth over \$1.0 million annually during the period of implementation.

## **Cross-Cutting Issues**

### ***Social Development***

69. Mr. Speaker, the strengthening of protection systems for the most vulnerable in our society is a major priority of Government's development efforts during this period of global uncertainty and domestic fiscal adjustment. Amidst all of this economic turbulence, the Government remains deeply committed to ensuring that the most vulnerable people can access social services which can help them to meet their basic needs and access education and health services. In the last Budget Address, I highlighted the completion of work on the assessment of our social protection systems. Technical support for this work was provided by UNICEF and the World Bank.

70. Over the last year, on the basis of this work and the findings of other technical studies, the Ministry of Community Development, Culture and Gender Affairs continued its preparatory work on the development of a new national Social Safety Net Strategy. The central feature of this strategy is the consolidation of three existing cash assistance programmes into a single benefit with clear responsibilities and internal management systems that are designed to monitor and evaluate social and economic impacts both for the clients and the Nation as a whole. The restructured social protection will be supported by clear eligibility criteria and an information system that allows continuous monitoring of the circumstances of enrolled beneficiaries.

71. Consequently, the preparatory work has involved a focused effort on collecting, collating and analyzing data from the many social assistance programmes that are offered to our citizens. This crucial exercise has provided a clear picture of who are our vulnerable groups, how they are distributed across St. Kitts and Nevis, what are the characteristics of these groups – their ages, gender and the kinds of services required. This investment is a critical one which the Government takes seriously as it is designed to ensure that the financial crisis in no way heightens the risk of the vulnerable.

72. Another important feature of the new model is the introduction of Co-Responsibility Mandates – a system in which beneficiaries of state funded assistance programmes are informed



of and held responsible for specific actions and practices that are designed to support their individual development.

73. To begin this process of introducing Co-Responsibility Mandates, the Government in 2012 will pilot MEND, our local adaptation of the best practice model for holistic poverty alleviation out of Chile. MEND which means Mold, Empower, Nurture and Direct Families in St. Kitts and Nevis seeks to empower families and the individual members who are in extreme poverty or high vulnerability to transcend to a higher level of functioning and involvement. At this time, I wish to register the appreciation of the Government to the individuals and organizations that serve on the National Coordinating Team for this initiative.

74. In November of this year, the Ministry of Community Development, Culture and Gender Affairs with the continued partnership of UNICEF and UN Women, launched the National Consultations for the drafting of the National Social Protection Strategy. Following these targeted discussions, the general public will then be afforded the opportunity to review the draft document which will be submitted to Cabinet for approval at the end of the 1st quarter of 2012.

75. Despite the global financial crisis, while the re-design of the social protection system is in progress, the Government of St. Kitts and Nevis has remained committed to ensuring that our social safety net programs remain at a level commensurate to need.

76. Mr. Speaker, to address the continuing plague of child abuse and sexual exploitation that continues to deprive our children of their innocence, my Government continues its thrust towards the development of a National Child Protocol for the prevention, reporting and management of child abuse, a National Action Plan for the implementation of the protocol and the development of a training and stakeholder outreach programme to guide the effective implementation of, and adherence to the protocol and prevention action plan.

77. In 2012, activities under the Child Development Project will continue. These include the commencement of a review exercise of our National Foster Care Programme and training for the judiciary staff, probation officers and other relevant personnel. Accelerated efforts will also be

made to provide intense training for all staff in the Ministry of Community Development, particularly those who are responsible for Child Protection Services. This training seeks to provide officers with the necessary tools to enhance the delivery of service which aims to improve the safety and well-being of our Federation's children.

78. In the first quarter of 2012, concentrated efforts will also be focused on intense training for staff who will be employed to work at the New Horizons CO-ED Rehabilitation Center. The training of staff is a critical exercise prior to opening of the Center in the second quarter of 2012, as it is of key importance that persons are well prepared for the task of rehabilitation.

79. The Government is grateful for the continued support and encouragement we receive from our regional and international donor agencies including CDB, UNESCO, UNICEF, UNWOMEN, OAS, OECS Secretariat and CARICOM Secretariat and the Embassy of the Republic Of China (Taiwan).

### ***Law and Order***

80. Mr. Speaker, my Government remains committed to the maintenance of law and order as we continue to formulate a multi-faceted response to those in our society who are misguided and by their actions seek to destabilize the economic and social progress which has been made in this Federation. As a result of the inextricable link between development and security, the continued deterioration of law and order will not only inhibit the delivery of services and other economic and social activities, but have serious negative effects on investor confidence and the quality of life of our citizens and residents. In this regard, my Government has been and will continue to take steps to address the diverse issues that have arisen in our society with a special focus on crime and violence, particularly those perpetuated with the use of firearms. These gangsters must not be allowed to hold our society hostage and usurp the authority of the judicial system, but they must be deterred, apprehended, prosecuted and reformed by us together as a society.

81. With assistance from our development partners, we have accessed various training opportunities to improve the performance of our Security Forces. Over the past three (3) years,

approximately sixty (60) security professionals have received training in various disciplines such as maritime repair, civil aviation security, trafficking and border security and forensic and financial crimes investigations. During the course of 2011, forty (40) Police and Defence Force Officers benefitted from training in crime scene management provided by the United States Embassy Force Protection Detachment Programme in collaboration with the United States Naval Criminal Investigative Service (NCIS). In addition, four (4) officers from the Financial Intelligence Unit received training in financial investigation, money laundering and intelligence gathering facilitated by the Drug Enforcement Agency (DEA). The benefits of past training initiatives have been evident in the execution of duties by the newly formed Delta Force which has been given the responsibility to execute what has been appropriately named the “Zero-Tolerance Take Back the Streets Initiative”. This group is comprised of officers from both the St. Kitts-Nevis Defence Force and the Royal St. Christopher and Nevis Police Force. These security personnel have received specialized training preparing them for this role and will receive additional training in securing crime scenes, taking statements and the interview of potential witnesses. We will maintain and establish new linkages with other security agencies in order to strengthen the knowledge and skills of all of our officers in the various divisions of the security forces in order to effectively implement our new Anti-Crime Strategy.

82. Mr. Speaker, given the complexity of the current threat before us, strong partnerships are required among stakeholders nationally, regionally and internationally. During the course of this year, we have continued to benefit from the generosity of the Private Sector, collaboration between Government Departments and Agencies, and persons in their private capacities here in St. Kitts and Nevis and overseas. This has resulted in the receipt of security vests, patrol bikes and vehicles. I use this opportunity to thank the Windsor School of Medicine, the Rotary Club of Liamuiga, Ross University School of Veterinary Medicine, Christophe Harbour Development, the St. Kitts-Nevis-Anguilla Trading Development Company (TDC) Limited, the Port Zante Merchants Group and the Customs and Excise Department for their support in this regard. In keeping with the spirit of partnership, the OAS, through its Promoting Firearms Marking in Latin America and the Caribbean Project, provided a firearm marking machine and training to ten (10) officers in the use of this equipment as a means of strengthening the controls against the illicit trafficking of this type of weapon. As part of this initiative, computer equipment was also

donated to facilitate the process of maintaining data on marked firearms. We will continue to collaborate with the OAS on the establishment of policies and legislation requiring the marking of firearms at the time of manufacture or importation. Recognizing the importance of border security, my Government has installed a technologically advanced Border Management System with the capabilities of intercepting international criminals and those seeking to enter our country based on fraudulent documentation. We have also upgraded to a biometric machine readable passport which has the highest level of security and integrity based on international standards.

83. The improvement of our security infrastructure has remained a priority for my Government even during this period of economic downturn. To this end, I am pleased to report that, with the assistance of the Government of Mexico, we have completed the construction of the Dieppe Bay police station which was officially opened on November 14, 2011. This facility provides an outpost for a collaborative approach to anti-crime and homeland security efforts through the assignment of Police Officers, Fire Services and Customs Officers in the service of the communities that extend from Harris' to St. Pauls. The completion of this police station is the first phase of this initiative, as on that same date we broke ground in Tabernacle for the construction of a police station in that community which will strengthen security efforts from Lodge to Harris'.

84. Mr. Speaker, we are about to embark on a new initiative which will further enhance both the financial and human investment which has been made in the Anti-Crime Unit and the Ministry of Homeland Security. As early as 2006, my Government had identified Safety and Security as the focal sector to be financed utilizing resources from the 10<sup>th</sup> European Development Fund (EDF). We have now completed the approval process and will implement this initiative over a three (3) year period starting in January 2012. This Programme will complement our Anti-Crime Strategy as it focuses on areas such as institutional strengthening, policy formulation, the provision of modern equipment, police training curriculum development and the construction of a new police training facility and prisoner rehabilitation centre. These initiatives are intended to place our Police Force at the top of the spectrum of advanced policing, and ensure at the same time that those who are on the wrong side of crime are given an opportunity to reform themselves for the greater good of their communities and society at large.

85. Mr. Speaker, this Government has dedicated significant effort in the past year toward upgrading the legal framework to respond to the increasingly sophisticated crime environment and the evolution in various social norms, thereby providing needed support to the efforts of both the Security Forces and the Office of Public Prosecution. In this regard, we passed the Criminal Law Amendment (Amendment) Act and the Liquor Licence Amendment Act preventing persons under the age of eighteen (18) from entering a night club or similar establishment, and prohibiting the sale of alcohol to those under the age of eighteen (18) as a means of safeguarding the wellbeing of our young people. The proliferation of gangs and related criminal activity in our society has prompted the need to strengthen the legislative framework in order to ensure that vital evidence is collected and admissible, and expediently introduced into the court system. The legislative framework now includes the Proceeds of Crime Amendment Act, the Interception of Communications Act, the Small Charges Amendment Act, the Gang (Prohibition and Prevention) Act, the Evidence Act and the Magistrates Code of Procedures Amendment Act. The passage of these laws underscores my Government's zero-tolerance towards all criminal activity as we strive to maintain order in this Federation.

86. Mr. Speaker, I turn now to Public Finance.

## **PUBLIC FINANCE**

### **Fiscal Review**

87. Mr. Speaker, it is well known that small open economies such as ours are not immune to global events and crises. We are, in fact, quite vulnerable to external shocks whether they be natural disasters, rising food and oil prices or financial meltdowns. As a country, the global recession has had an adverse impact on our economic activity since 2009 and has forced us to make some difficult decisions in some very challenging times. We recognize that the past few years have indeed been quite demanding for our citizens and residents alike and that the Government needs to ensure that it has sufficient fiscal space to assist the needy while at the same time stimulate economic growth and development in our country. It is for this reason that we are forging ahead with our economic recovery programme which, with the support of the IMF, will result in the stabilization of our fiscal and debt situation in the very near future.

88. Mr. Speaker, as we examine the outturn of the fiscal accounts for 2010 we note that Recurrent Revenue was 3% less than we anticipated and 6.7% below the revenue that was collected in 2009. The fall off was directly related to the global recession and was mostly evident in the significant reduction in corporation tax that was paid during the year. For the 2010 fiscal year, Taxes on Income amounted to \$81.5 million whereas Taxes on Income in 2009 was \$135.5 million.

89. A contraction in indirect taxes collected from the production and consumption of domestic goods as well as from international trade was also observed. These taxes which totaled \$186.3 million were 3.0% less than the amount realized in the previous year and 9.1% less than the budget. Stamp Duties, Import Duties, Consumption Tax and other charges levied on imports including the recently introduced Value Added Tax were the main drivers of indirect taxes.

90. Non-Tax Revenue, however, performed very well amassing a total of \$144.4 million. This surpassed the 2010 estimate by 26.4% and was also in excess of the previous year by \$28.8 million or 25.0%.

91. Mr. Speaker, the outturn of Recurrent Revenue was largely dependent on external factors over which we, as a country, had little control. As we were aware of this fact, we monitored our revenue collection throughout the year and upon realization that we would not achieve the revenue that we anticipated, we implemented measures to contain discretionary expenditure as much as possible. The curtailment of discretionary expenditure, however, was insufficient to secure a surplus on the Recurrent Account given the magnitude of the contraction in revenue and the high level of non-discretionary expenditure. Consequently, for the 2010 fiscal year, a Recurrent Account Deficit of \$87.4 million was recorded.

92. With respect to Capital Expenditure, Mr. Speaker, in 2010 Capital Expenditure was \$105.4 million or 5.8% of GDP. This was above the budget by \$5.5 million and surpassed the amount that was expended in 2009 by \$38.3 million or 57.0%. You may recall, Mr. Speaker, that since 2008 we have been investing in the necessary infrastructure to ensure that the citizens of this country are provided with a reliable supply of electricity. In 2009, a total of \$20.6 million was spent on the purchase of a generator and to maintain our capacity to generate electricity. In 2010, a total of \$65.9 million was spent. This represented 62.5% of total Capital Expenditure and demonstrates my Government's commitment to address the all too frequent electricity outages. The electricity situation has been quite a challenge but we are confident that having vested the new generators in the recently established Electricity Company, the unexpected blackouts that we have been experiencing will soon be something of the past. Such a significant outlay for the Energy Sector compounded by lower than anticipated aid for capital development hampered our ability to proceed with a number of large capital projects during 2010.

93. Although the receipt of Development Aid was below our expectations, we did, however, benefit from budgetary support totaling \$41.8 million from the European Union, the Republic of China (Taiwan) and other donors. We are very grateful for their support especially during this prolonged recession and we look forward to their continued assistance in the future.

94. Mr. Speaker, the Primary Balance is a key indicator that is monitored by the international community. It is an indication of the funds that Government has at its disposal to meet its debt

service payments. Mr. Speaker, for the first time in six (6) years a Primary Balance Deficit of \$31.5 million or 1.7% of GDP was recorded and an Overall Balance Deficit of \$144.6 million or 7.9% of GDP was realized. This was reflective of the contraction in our revenue collection and the rise in both Recurrent and Capital Expenditure. We, however, expect to see a significant turnaround in our fiscal position from as early as 2013 as our economic recovery programme gets underway. In fact, we are projecting that we will achieve a Primary Balance Surplus of 5.1% of GDP in 2011, 4.3% of GDP in 2012 and 5.5% of GDP in 2013.

95. With the realization of a Primary Balance Deficit in 2010, the debt of the Central Government increased by \$73.2 million or 4.3%. Central Government's debt therefore stood at \$1.8 billion or 96.8% of GDP. Loans that were disbursed during the 2010 fiscal year were primarily to support infrastructural development on the island and to stimulate economic growth. More specifically, 50.0% of total loan disbursements were directed toward the Energy Sector while 37.0% was in support of the General Administration Sector to assist in Government's maintenance of the overall macroeconomic framework. To facilitate the construction of roads, \$5.0 million or 7.0% of total disbursements was drawn down during the year while Economic Infrastructure and the Education Sector benefitted from 4.0% and 2.0% of total disbursements respectively.

96. When we consider the entire stock of Public Sector Debt, there was an overall increase of \$105.4 million or 4.0% so that at the end of December 2010, the Total Public Sector Debt amounted to \$2.7 billion or 151.2% of GDP. In addition to Central Government's 4.3% increase over the previous year, the debt of the Nevis Island Administration grew by \$28.8 million or 8.6% while Public Corporations' indebtedness increased by \$3.5 million or 0.6%. Mr. Speaker, we know that we cannot sustain this level of debt and the resultant debt servicing any longer. It is for this reason that in June 2011 we announced our intention to seek the cooperation of our creditors as we restructure the debt. We therefore engaged the services of international debt advisors who have been assisting us with our negotiations. It is envisioned that the restructuring exercise will be completed during the course of the upcoming year and that we will have a medium term strategy in place that will guide the overall management of the debt as we prepare ourselves to better respond to the needs of our people.



## **Fiscal Prospects**

97. Mr. Speaker, the global economic crisis is expected to continue or have a similar dampening effect on revenue collections for 2012 as was the case in 2011. We have again had to cut back substantially on Recurrent and Capital Expenditure for 2012 in order to maintain fiscal stability. However there are a number of critical services such as Education, Health, Safety and Security as well as Social Assistance that Government must deliver. Careful attention has therefore been taken to provide adequate resources to ensure that the quality and scope of these services are not in any way compromised.

98. Recurrent Revenue for 2012 has been estimated at \$401,312,666 which is \$31,608,045 below the 2011 Estimate of \$432,920,711. The major portion of this decrease can be attributed to the loss of revenue from the Electricity Department. The St. Kitts Electricity Company is now fully operational and therefore Revenue and Expenditure in respect of the Electricity Department is no longer included in Government's Budget for 2012.

99. On the other hand, Recurrent Expenditure for 2012 (excluding loan principal payments) has been estimated at \$400,920,309 which is \$398,995 or 0.1% less than the 2011 Estimate of \$401,319,304. This would give rise to a Current Account Surplus of \$392,357 for 2012. As mentioned before, the expenditure of the Electricity Department is no longer a part of the Budget and this is reflected in the decrease in Recurrent Expenditure.

100. Mr. Speaker, I will give a synopsis of some of the main initiatives that will be undertaken during 2012 under the various Ministries.

101. The Ministry of Justice and Legal Affairs has been allocated \$11,475,198 for Recurrent Expenditure for 2012. This represents a 39.1% increase over the amount of \$8,250,362 for 2011. The increase in allocation will allow this Ministry to implement a number of initiatives aimed at strengthening its capacity to assist in the fight against crime.

102. In addition, a National Prosecution Service office will be established to handle all prosecutions for both the Police and the Director of Public Prosecutions. This is expected to create greater synergies and effectiveness in the prosecution of offenses through enhanced coordination of scarce human and material resources. Other initiatives to be implemented include the completion of the Law Revision Project by capturing legislation from 2003 to 2009 and the revision of the Nevis Ordinances as well as the establishment of an Intellectual Property Office separate from the High Court.

103. The Office of the Prime Minister has been allocated \$41,312,756 to carry out its recurrent programmes and activities for 2012. This amount represents a decrease of 2.6% when compared to the amount allocated for 2011. During 2012 the Human Resource Department will continue its drive to modernize the Public Service with a view of improving efficiency and productivity. These activities will be supported by the new Civil Service Act which provides the necessary pillars for a more modern Public Service.

104. Mr. Speaker, the Citizenship by Investment Unit continues to play a critical role in the development of our country by attracting foreign direct investment into the economy. In 2012 we will enhance its management structure to improve efficiency and to make it more responsive to overseas investors.

105. In the context of escalating crime, it was necessary for certain deliberate actions to be taken. One such action was to establish an Anti-Crime Unit comprising the Police and Defence Forces under the Office of the Prime Minister so that the issue of crime could be given the fullest attention it deserves. This Unit is overseen by a Ministerial Committee chaired by the Prime Minister. This configuration will ensure that all issues relating to the fight against crime can be addressed decisively and expeditiously. The Anti-Crime Unit will be given the necessary human and financial resources as well as political support to allow it to effectively address the serious crime situation.

106. Capital projects to be implemented in 2012 include the construction of a new Police Station in Tabernacle and the upgrading of the National Registration System to include records of births and deaths. This project will be done in collaboration with the Ministry of Health.

107. Mr. Speaker, I now turn to the Ministry of Homeland Security, Labour and Social Security which is a newly configured Ministry. This Ministry emerged in response to the changing nature of threats confronting our Federation and the recognition of the efficiencies that could be derived from having the management of several inter-related departments under one unified security structure. Such a structure would enhance our Federation's capacity to protect against current and future threats. This newly configured Ministry has an important role to play in the overall safety, security, economic and social well being of all who reside in our beautiful Federation. Its mandate includes effective management of our borders and labour relations.

108. This Ministry has been allocated \$9,691,020 for its recurrent programs and activities for 2012. During the upcoming year, focus will be given to transforming and realigning the Prison Services, the National Emergency Management Agency (NEMA), Immigration, Fire and Rescue Services as well as Passport, Citizenship and Residency Services to a more effective, efficient and integrated entity whose primary responsibility is to protect the Homeland.

109. In 2012, work in the Prison Services will continue to focus on human resource development, the implementation of programmes to promote skill development and attitudinal and behavioural changes amongst young people who have transgressed the law. Moreover, construction of a new correctional facility will commence which, upon completion, will be able to accommodate approximately 300 prisoners. This will greatly reduce the overcrowded situation that now exists at the Prison. In going forward, the intention is to collaborate with the Ministries of Justice and Legal Affairs, Social Development, Youth Empowerment and Education to develop programmes to reduce the need for incarceration.

110. During 2012 the Labour Department will be implementing all components of the International Labour Organization's "Decent Work Agenda" which is a global development agenda subscribed to by the OECS sub-region and the wider CARICOM region. This is a

mechanism through which the ILO supports the initiatives by the tripartite constituents to fulfill their priorities aimed at achieving decent work. To this end, the Labour Department will be collaborating with the ILO and local stakeholders to ensure that success is achieved in a number of areas including reviewing and updating labour legislation, strengthening labour market information systems, promoting inclusive workplace policies on HIV/AIDS and non-communicable diseases and increasing dialogue among government, employers and workers on national and regional social and economic issues.

111. Mr. Speaker, the Ministry of International Trade, Industry, Commerce and Consumer Affairs has been allocated \$2,974,175 for 2012. This Ministry's programmes and activities for 2012 will continue to focus on implementing the CARICOM Single Market and Economy (CSME), the OECS Economic Union, the CARIFORUM-EC Economic Partnership Agreement and other negotiated bilateral and multilateral trade agreements.

112. In addition, during 2012 the National Entrepreneurial Development Division (NEDD) will be exploring ways to expand its scope of assistance to micro and small indigenous businesses building on the gains already achieved in the development of a Small Business Policy and the Legislation enacted in support of the implementation of the policy.

113. Mr. Speaker, the Ministry of Finance has been provided with \$164,818,123 to carry out its various recurrent programmes and activities for 2012. This represents a 15.6% increase over the 2011 allocation which is mainly attributable to an increase in scheduled debt service payments.

114. The Ministry will continue to implement strategies to maintain fiscal and debt stability through strong fiscal discipline, prudent financial management of scarce resources and debt restructuring. The management of the IMF Programme to ensure that all benchmarks are achieved and the restructuring of the Public Sector debt will continue to be the main preoccupations of this Ministry in 2012, the goal being to stabilize the fiscal situation and to reduce the public debt to a sustainable level.

115. The Ministry of Social and Community Development has been allocated \$6,291,674 for Recurrent Expenditure and \$8,402,735 for Capital Expenditure for 2012. This Ministry will be extremely active during 2012 implementing measures to reduce the effects of the global financial crisis on the poor and vulnerable who would now need to access more social services to assist them in meeting basic needs as well as education and health services.

116. Mr. Speaker, the Ministry of Agriculture, Marine Resources, Constituency Empowerment and Cooperatives has been provided with \$5,201,977 for Recurrent Expenditure to carry out its programmes and activities for 2012. The development of non sugar agriculture is one of the pillars in the diversification of our economy. Therefore, the Ministry of Agriculture has an important role to play in creating stronger linkages between the Agriculture Sector and the Tourism Sector and increasing the level of food security in the Federation.

117. During 2012, the Ministry will embark on a number of initiatives which are expected to improve the income opportunities of farmers. These include the construction of green houses under the Agricultural Marine Resource project which will enable the production of high vegetables under controlled conditions in the dry seasons. The year 2012 will also see the construction of a multi-purpose post harvest facility which will expand the chilled storage space at the Department of Agriculture. It will also provide drying and processing equipment for peanuts, cassava and other crops. The construction of water harvesting structure for crops and livestock production will also continue. This is expected to boost the output from the Agriculture Sector both in terms of crops and animal products.

118. Mr. Speaker, the Ministry of Tourism and International Transport has been allocated \$17,819,162 to carry out its recurrent programme and activities for 2012. The Tourism Sector still remains the dominant sector of the economy even though the Hotel Sector has been experiencing challenges due to the effects of the global economic crisis. I am, however, happy to note that these effects have not affected our Cruise Sector. In fact, I am pleased to note that a double digit increase in cruise visitor arrivals is expected in the 2011- 2012 cruise ship season. The challenge now would be to find ways to increase greater visitor spending so that all sectors of the economy can benefit to a greater measure.

119. Mr. Speaker, the Ministry of Housing, Public Works, Energy and Public Utilities has been allocated \$25,952,836 for Recurrent Expenditure and \$6,406,500 for Capital Expenditure. The Recurrent Expenditure represents a decrease of 47.7% when compared to the 2011 budgeted allocation. The decrease is as a result of the exclusion of the Electricity Department from the 2012 budget whose operations are now taken over by the new Electricity Company. During 2012, a number of projects will be carried out to expand the growing water supply. Drilling is expected to commence in April 2012. This project is intended to expand water services to the Frigate Bay area and the South East Peninsula. The expansion of portable chlorinated water will continue with assistance from the Government of Spain. This will help to keep our water safe and drinkable. During 2012, the Water Department will also relocate its Water Billing and Customer Services Division as it would now be responsible for its own billings and collections since the Electricity Department has transitioned to the new Electricity Company.

120. The rapid expansion of housing development has created an increased demand for water. In response to this, the Water Department will develop a comprehensive master plan which will include a comprehensive review of the Water Sector and the development of a plan up to 2020.

121. In 2012, the Public Works Department will embark on a project to resurface the South East Peninsula Road. This will enhance the development taking place on the South East Peninsula. In addition, a road safety and resurfacing plan will be developed which will involve a study of all roads constructed or under construction. Another initiative to be undertaken in 2012 will be a review of the Public Works Department in an effort to improve efficiency, productivity and Resource Management.

122. Mr. Speaker, the Ministry of Education and Information has been allocated \$54,327,339 for Recurrent Expenditure and \$7,492,642 for Capital Expenditure during 2012. The Recurrent Expenditure represents a 1% increase over the current year. Despite the challenging economic times that we are experiencing, my Government has seen it fit to provide the Ministry of Education with the necessary resources to ensure that our outstanding performance in Education continues.

123. During 2012, the Ministry of Education will undertake a number of initiatives to further improve the quality of education at all levels. Research projects will be taken to probe teaching and learning variables at primary school and secondary school levels to explore the effect of single sex classrooms and subject groupings at the grade three level and beyond. Research will also include surveys on school climate, students' risk behavior assessment, and school needs assessment as the Ministry continues to develop programmes to promote peace in our schools and among young people in general.

124. There will also be increased focus on the upgrading and expansion of the Early Childhood facilities, repairing existing facilities, and recruiting workers to staff the new facilities. Curriculum Reform will be given the highest priority. The work done in 2011 on reviewing and upgrading the Test of Standards will help to guide the Curriculum Reform efforts in servicing teachers' development and other interventions aimed at improving the Curriculum in the core subject areas at the primary schools.

125. Also, in respect of Technical and Vocational Education and Training (TVET), the road map that was formulated in 2011 will be further developed into a strategic plan for TVET which will define outputs, targets and performance indicators. In addition, the structure for the delivery of the Caribbean Vocational and Education Qualification (CVQ) in secondary schools and AVEC will be further enhanced. It is also intended to establish an accreditation agency to support the operation of the Accreditation Board and strengthen the regulatory framework on monitoring of the off-shore Education Sector.

126. In 2012, the Government Information System (SKNIS) will be upgraded through the acquisition of equipment, electronic hardware and software that is necessary to provide high quality services in an efficient manner. It will also embark on a training programme for staff and strengthen the relationship with all Ministries with a view of improving the effectiveness of the Unit.

127. Mr. Speaker, I now turn to the Ministry of Health. This Ministry has been provided with \$34,099,832 in Recurrent Expenditure and \$1,700,000 in Capital Expenditure for 2012. The allocation for Recurrent Expenditure represents a slight increase over the comparable allocation for 2011. Despite the serious fiscal challenges that we are experiencing, my Government has ensured that this Ministry continues to receive adequate resources to deliver quality, affordable and accessible health care services as we strongly believe that this is a fundamental right of every citizen of this Federation irrespective of race, religion, political affiliation, social or economic status. During 2012 the Ministry of Health will continue to build on its outstanding achievements which include a marked increase in life expectancy which is now 73 years, a lowering of the infant mortality rate from 25 deaths per thousand to 12 deaths per thousand live births and the elimination of most of the serious childhood infectious diseases due to an effective immunization programme.

128. In the upcoming year the focus will continue to be on implementing programmes to arrest the increased incidents of chronic non-communicable diseases such as heart disease, stroke, diabetes, hypertension and cancers that have become the main causes of mortality and morbidity.

129. A number of projects will be implemented in 2012 including the establishment of a Haemodialysis Unit at the JNF Hospital; the reconstruction of the Old Road Health Centre; upgrades to the Mary Charles Hospital; and a Health Sector Improvement Project to upgrade Health Centres and the mental wing of the Cardin Home.

130. Mr. Speaker, the Ministry of Youth Empowerment, Sports, Information Technology and Posts has been provided with \$7,598,374 for Recurrent Expenditure and \$3,574,530 for Capital Expenditure. The role of this Ministry is even more important as we continue to find ways to counter the increasing number of our youth who find themselves caught up in negative lifestyles that threaten our social and economic well being.

131. During 2012, the Ministry of Youth Empowerment will collaborate with other Ministries such as Education, Health, and Community and Gender Affairs to address issues relating to childhood obesity, the increasing incidents of lifestyle diseases, identification of troubled youth



and conflict resolution. The Ministry will continue its programmes to equip our youth with social and employable skills which will empower them to provide for themselves and their families and contribute positively to our national development.

132. The Ministry will also collaborate with line agencies and private sector stakeholders to develop a business plan for Sports Tourism with a view to deriving continual and reliable economic benefits from the use of the major stadiums and recreation grounds. This will have the added benefit of lessening the present burden on Government of maintaining these facilities.

133. During 2012, the Technology arm of the Ministry will continue its drive to create the enabling environment to spur the rapid growth and development of ICT as well as a proper regulatory environment by enacting relevant legislation. In addition, a Public Private partnership will also be formed to construct, install and commission a Government Wide Area Network (GWAN) to provide integrated and interactive e-government services. This will enable the Public Service to provide more efficient services to the populace and would make government services more accessible.

134. Mr Speaker, the Ministry of Sustainable Development continues to play an important role in coordinating and overseeing the implementation of the National Adaptation Strategy as we continue to transition our economy to a service economy. This Ministry has been allocated \$4,393,515 for Recurrent Expenditure and \$7,571,715 for Capital Expenditure. During 2012, the Ministry will implement the 10th EDF Project which will focus on safety and security. Other activities to be carried out in 2012 include:

- Launching the Poverty Reduction Strategy,
- Finalizing the population census and
- Implementing a new IT based Land Application Management System and develop a website for the Special Land Distribution Initiative.

135. The 2012 allocation for the Ministry of Foreign Affairs is \$12,305,358 for Recurrent Expenditure. This Ministry will continue its mandate to effectively manage and coordinate our

foreign policy with respect to our regional, bilateral and international relations to safeguard and enhance the political, economic, cultural and other interests of the Federation. During 2012 the Ministry of Foreign Affairs will embark on an initiative to publish a Foreign Policy Document which will outline the basic guidelines on how the Ministry engages foreign countries, regional and international organizations and more importantly the Diaspora. This document will also serve to educate the public on a number of issues confronting the Ministry and the approaches to be adopted that will redound to the benefit of our Nationals.

136. As the Government is committed to the regional integration movement, the Ministry will continue to work with the OECS and CARICOM to facilitate progress in this area. In doing so, it will ensure that the views and concerns of the Federation are clearly articulated in order to shape the way forward. The OECS Economic Union and the Caribbean Single Market and Economy are the two key components which will effectively bring a higher quality of socioeconomic achievements to the people of the region.

137. Recognizing the importance of communication and information sharing, the Ministry will be reviving its website in order to assist in the necessary work of information sharing which is an important part of its mandate.

## **Fiscal Measures**

138. Mr. Speaker, you would recall that over the past two years my Government has introduced measures to tighten our fiscal stance and strengthen public finances in response to the global recession and to set the stage for sustained economic growth. This multipronged reform agenda was intended to create the virtuous cycle of reform, management and growth which would transform the economy. These measures included the introduction of the Value Added Tax (VAT) in November 2010, and the revision of the electricity tariffs in order to bring the base tariff closer to the cost of producing electricity thereby reducing Government's subsidy. The ultimate goal was to remove the provision of this service from the books of the Government and to establish a corporatized entity which would be able to provide electricity services in a more efficient and cost effective manner. This was accomplished in August 2011. The reform of the

Housing and Social Development Levy was also another important reform that was introduced during 2011.

139. In addition, our efforts to prioritize Capital Expenditure were intensified in 2011 as we concentrated on those projects which would foster economic growth. We also placed strict caps on expenditure heads such as Allowances and Overtime and began to analyze some of Government's practices and procedures such as the provision of fuel to public vehicles and the functions carried out by the Supply Office and the costs associated with these practices. Mr. Speaker, I am happy to report that these issues are currently being addressed. By January 2012 Government will not operate the service station that provides fuel to Government vehicles. All of the equipment that is situated in the Public Works compound is the property of SOL. We have therefore decided to allow SOL to manage the facility. This will save Government the cost of operating such a facility. It will provide convenience for Government and avoid congestion at the other service stations especially as it relates to large vehicles like the fire trucks and ambulances. A proper system of controls will also be put in place including the use of purchase orders, a list of vehicles that are authorized to obtain fuel and monthly reconciliations.

140. Mr. Speaker, with respect to the Supply Office, we now have a proposal for the divestment of the Supply Office and this will be done by the end of the first quarter of 2012. More information will be forthcoming shortly. However, in the mean time, interested entities in the private sector should begin to ready themselves to import the items that are currently provided by the Supply Office.

141. Mr. Speaker, the measures which we introduced in 2011 along with others constitute our own home grown financial programme which was endorsed by the IMF and supported by a Stand-By Arrangement. An integral part of the IMF programme is a debt restructuring strategy aimed at bringing public debt to sustainable levels so that by 2020 we will meet the ECCB Monetary Council's target for debt to GDP ratio of 60%. Our Debt Advisors have been working with the Ministry of Finance to implement the plan that was agreed upon to restructure the debt. This approach includes the launch of an exchange offer for external debt and the creation of a Special Purpose Vehicle for secured domestic debt. We have made substantial progress with the

comprehensive debt restructuring process and we are on track to make the exchange during the first quarter of 2012. I am also pleased to announce that the Caribbean Development Bank (CDB) has agreed to support our restructuring efforts by providing a partial guarantee for the new bond.

142. Mr. Speaker, it is very important that I reiterate that the Treasury Bills is not part of the restructuring process. The Treasury Bills are our short term source of cash and since it is important for us to have that liquidity support during the restructuring period as well as after the restructuring, we made a strategic decision at the outset not to include the Treasury Bills in the restructuring process.

143. Mr. Speaker, I must inform our citizens that not all of our previously announced measures have yielded the expected level of revenue. In fact, a report by the Caribbean Regional Technical Assistance Centre (CARTAC) on our Revenue Enhancement Measures projects that by the end of 2012 the Housing and Social Development Levy would only have achieved 50% of the targeted revenue. My Government is aware of the reason for this shortfall. In the original proposal from the Consultant, the recommendation was for the increase in the Levy to apply to the lowest tier of employee income. However, my Government, recognizing the impact that this would have on the masses of the people in our country, did not increase the Levy on the lowest tier of income and therefore the yield on this measure has fallen short. We made this strategic decision at a time when the state of the global economy was pointing to very difficult times for open economies like ours and therefore we decided not to put an additional burden on persons earning the minimum wage. We still stand by this decision as it was intended to relieve the tax burden on these fixed income earners and we feel that by leaving their income intact, we were able to bring some relief to them during these difficult times.

144. The fact remains that we must ensure that we generate sufficient revenue in support of our fiscal consolidation programme and even though we do not want to introduce new taxes we must take steps to secure sufficient revenues. We believe that there are administrative measures that can be implemented to ensure that the Government is collecting what is rightfully due. This is the case with respect to the Housing and Social Development Levy. Therefore, beginning in

2012, reconciliations of the Levy collections will be undertaken by the Inland Revenue Department in collaboration with the Social Security Board which is responsible for the administration and collection of the Levy on behalf of the Comptroller of Inland Revenue. Where it is found that businesses have not been complying with the law, they will be required to make restitution.

145. Mr. Speaker, it is estimated that Revenue foregone through concessions for 2011 will amount to EC\$110 million. We believe that before we can introduce new taxes we should try to rationalize the current exemptions with a view to improving our revenue intake. To this end, in 2012 we intend to undertake a complete review of the exemptions which still exist on the Customs Service Charge to ensure that they are all in line with legislation and policy.

146. With respect to the VAT, we will undertake to improve compliance on the VAT collections. In particular, we will review the practices and procedures for administering the input credit system for VAT in the Tourism Sector as we have received reports from the consultant who did an analysis on the VAT performance that there could be serious non-compliance. We will also begin to publish the names of those taxpayers who are non-compliant as provided in the law. In addition, when the current exemption on the supply of construction services on commercial construction expires, we will treat the Construction Sector similar to the way in which the Banking Sector is treated. That is, all services provided for a fee will be subject to VAT. However, amounts received by contractors to be disbursed as wages or to purchase materials will be exempt from VAT. We will also treat the Insurance Sector in a similar manner in the new year 2012. That is, services provided for a fee will be subject to VAT while amounts specifically collected as premiums will be exempted from VAT. We will also fine tune income tax filings for insurance companies to make them more transparent.

147. Mr. Speaker, we intend to pass a new Corporation Tax Act in 2012. However, there are certain loopholes in the current Income Tax Act that we intend to close from January 1, 2012. The threshold on personal income will only be deductible from one cost center in a Corporation or other business entity. In other words, a person who receives \$180,000 in annual income will

not be able to claim three amounts of \$60,000 from three different branches, subsidiaries or other related entity of the Corporation and hence reduce taxable income by tax avoidance.

148. Mr. Speaker, we also intend to improve the administration of the Excise Tax system and increase our collection efforts in this area. We will re-examine the subsidy on Liquid Petroleum Gas (LPG) which costs the Government over \$4 million annually. For the year 2011, the Sugar Industry Diversification Foundation (SIDF) has financed this subsidy so that no further financial burden would be brought to bear on our people. However, this subsidy cannot go on forever and we will begin to phase this out from 2012. We will also continue to examine the fee structures for the services which Government provides and ensure that these fees adequately cover the costs which we incur to provide these services.

149. Mr. Speaker, there are some actions that we are already taking in 2011 to ensure that we remain on course to achieve the fiscal targets that we have set. In particular we have discontinued all expenditure commitments for the rest of 2011. We will only make payments for salaries and other statutory expenditure. I am therefore using this opportunity to appeal to all ministries and Departments to cooperate with the Ministry of Finance in implementing this measure. We are also appealing to commercial houses to refrain from taking orders from anyone in Government by telephone or word of mouth as the only commitments that will be honoured are those that they receive on an official Government Purchase Order printed from our ITMS system. Otherwise they run the risk of not being paid. This does not only apply to this current season but to Government's operations in general.

150. Mr. Speaker, I am very confident that this mix of administrative adjustments and procedures will achieve the revenue levels that we need to meet our needs and help to place our fiscal on a sustainable path as well as put our debt on a firm downward trajectory.

## SUMMARY AND CONCLUSION

151. Mr. Speaker, I have walked us very carefully through my Government's plans and priorities for 2012 and beyond. I have also presented to this Honourable House and the people of the Federation of St. Kitts and Nevis a report on the performance of my Government over the past year. I am sure that, having received this report, our citizens are now in a better position to navigate these turbulent times having gained sight of our ultimate vision and seeing how individually they fit into this collective vision for our country.

152. Mr. Speaker, it is a time for all of us to put our heads together and collaborate having that determination to weather this storm successfully. It is not just in the good economic times that we are supposed to live peacefully and harmoniously as one people, but it is especially during the tough times that we must come together and support each other and our Nation. The risks we face as a small Nation seeking to traverse very turbulent waters are higher than ever before and if we do not pool our talents and capabilities we could see much of our outstanding progress as a Nation undermined.

153. Mr. Speaker, we are confident that as the economic turnaround gathers momentum, the measures introduced will yield the returns that we are projecting and the resulting macroeconomic stability will generate growth. We all long to return to those days when things were relatively cheap, when \$5.00 could buy you a meal or you could go on a vacation for \$400.00. We reminisce about the good old days when we just had to put on our pots and go to the neighbour's house for something free from her garden to cook. I cannot promise our citizens that those days will return for we cannot reverse the hands of time. Indeed, the entire globe has changed over time. Hence, we cannot look back lest we turn into the proverbial 'pillar of salt'. We must move forward. We must confront the challenges that we face now. We must see the world as it is, even as we meticulously search out every opportunity to advance our Nation and improve the quality of life of every Kittitian and Nevisian.

154. Moreover, we simply cannot spend too much time bemoaning the adverse global developments that are beyond our control, lest we find ourselves enmeshed in a sea of negativity

that could only thwart our progress as a Nation. Instead, we must draw inspiration from our many achievements over the years. In the words of the song writer, we must count our many blessings. We should count our blessings for the abundance of opportunities that are afforded us for higher education and learning. We should count our blessings for our advancement in the area of health. We must count our blessing for access to cutting edge technology and communication systems. We should count our blessings for access to a wealth of knowledge through the broadband internet facilities. We should count our blessings for our continued infrastructural development that has helped to attract such high levels of investment flows and have contributed so significantly to employment and economic activity. We must count our blessings for the talent, determination and resolve of our people that has seen us through so many difficulties over the years and have consistently placed us among the top echelons of the United Nations Human Development Index.

155. Mr. Speaker, we firmly believe that the actions which we took in introducing tax reform and other revenue measures, in controlling public expenditure and in freezing the wage bill have helped us to avert economic disaster. We agree that some of these actions involved sacrifices but despite our best efforts, such sacrifices could not be avoided in a crisis of this scale and magnitude. Hence our focus now is to minimize the suffering, especially among the poor, and on planning for the future after the crisis. It is for this reason that we went into this fiscal adjustment programme with a heightened sense of the possible impact on the poor and vulnerable and it is for this reason that we have been emphasizing to the international community the importance of having our social safety nets in place at this time. We have therefore, as a matter of policy, sought to strengthen social safety nets even in the midst of difficult times.

156. Mr. Speaker, this crisis has provided us with an opportunity to evaluate everything that we do to determine whether it is necessary and whether it is being done in the most cost effective and efficient manner. It is similar to an individual losing a source of income who has to prioritize carefully what he or she would do with the remaining income. Quite often the result is that even when income returns to the former level there are certain things that one would have no desire to become involved in anymore. Similarly, let us as a Nation evaluate the things that we do and do only those things which are beneficial and build us in some way.



157. Mr. Speaker, we have taken the necessary actions to further strengthen all of our systems whether financial, education, health, the environment or legal framework. We are also doing everything in our power to fight crime and to uphold law and order and we have seen the results on the ground. Hence, notwithstanding the tight budget constraints that we face, we have provided the resources necessary to ensure that these critical functions are carried out effectively and not impeded in anyway.

158. Mr. Speaker, the results of our actions clearly indicate that we are on the right path. The IMF has just completed its first quarterly review of our performance under the IMF Programme. I am pleased to report that subject to final approval by the IMF Board, we appear to have met all of the fiscal targets and performance criteria as at September 2011. We are now in the process of ensuring that we continue to perform well in our efforts at fiscal tightening and therefore meet the December 2011 targets as well. Of course our aim is not just to please the IMF or any other external body. As I said before, the Programme that we are implementing was formulated by us and the targets set are our own targets that have been endorsed by the IMF. We believe that as an independent Nation, we must take responsibility for our future.

159. Mr. Speaker, even as we look to the future, we are also determined to foster growth and employment in the short-term. The Central Government faces serious financial constraints but we will continue to provide the climate for private sector entities to implement projects and promote economic activity. This is the reason why we have provided a wide range of fiscal incentives to facilitate business development and to boost the performance of the Construction Sector. We believe that the implementation of a number of critical projects during 2012 will also advance economic activity and create jobs for our people. In particular, we have been advised that construction activity at Kittitian Hill will be boosted significantly at the commencement of the New Year with the construction of several cottages and this will continue into 2013 and 2014. We are also pleased that a range of projects involving the hotels, condominiums, villas and other residential units are being implemented and will continue into 2012 and beyond. These include Marriott Residences, Christophe Harbour, Ocean's Edge, Sunrise Villas,

St. Christopher Club, Manor-on-the-Sea, Sundance Ridge, Peninsula Cove, Scotch Bonnet and a number of other tourism-related enterprises.

160. We are also determined to take whatever action is necessary to rebuild the momentum at Beacon Heights and ensure that this important and expansive project realizes its objectives of providing modern homes for our people, spurring economic activity, creating employment and generating returns for Social Security. Moreover, we expect that economic activity will also benefit significantly from the \$8.1 million Taiwanese Agro-tourism Farm to be implemented in January 2012 and a new SIDF construction financing programme that would assist low income families encountering difficulties in raising the down-payment for acquisition of new homes. These initiatives will help to provide the short-term stimulus that is required to propel economic growth during 2012.

161. Mr. Speaker, in a nutshell, our Nation has had to make great sacrifices. As a people, we have encountered some hardships as a result of the actions we had to take to protect our economy from devastation, but our sacrifice is not in vain. There is light at the end of the tunnel, and as early as 2012 we can look to a resumption of economic growth. Even more critically, we are positioning our economy to emerge from the effects of the global crisis with even greater capabilities – with reduced debt, with enhanced expenditure management systems, with stronger revenue earning potential, and with more efficient public sector entities. We are confident that through our sacrifice, will come great rewards. I share the view of Ernest Renan who stated that “As soon as sacrifice becomes a duty and necessity to mankind, I see no limit to the horizon which opens before him”. Indeed, through our sacrifice, decisive action and hard work, we can look forward with great optimism to the creation of a new and vibrant society that we can proudly pass on to our children and future generations.

162. Mr. Speaker, I so move.