



**GOVERNMENT OF ST CHRISTOPHER (ST. KITTS) AND NEVIS**

**2014**

**BUDGET ADDRESS**

**Presented by The Right Hon. Dr. Denzil L. Douglas**

1. Mr. Speaker, I beg leave to move the second reading of the Bill shortly entitled the Appropriation Act (2014), 2013.

## **INTRODUCTION**

2. Mr. Speaker, the future of St. Kitts and Nevis is bright. Our diligence and hard work are now yielding fruits with a notable turnaround in the growth and development prospects for our country. After four years of negative growth, in 2013 we will record positive GDP growth around 2%, signalling that we have weathered the storm and are now bouncing back from the adverse impact of the global recession. I urge this Honourable House and indeed the Nation to celebrate this marvellous feat. Fortunately for us, we are also confident, fully confident that we are on a path to sustaining positive growth over the medium term.

3. We are all aware that over the last few years the Government has led this Nation through a period of adjustment and reform, recalibrating the economic framework into one that is now better suited to support economic growth and development, social cohesion and environmental sustainability. We are moving towards the completion of the fiscal adjustment period and now must squarely address the need to chart a course of sustainable economic growth for our small twin-island Federation. Our future is in our own hands and we can develop our own solutions to our unique set of challenges. Some eight years ago we made the decision to cease the production of sugar for export. Since then my Government has moved on to facilitate the rapid development of our tourism industry and the service sector in general. Using our experience over the last decade, I think we have arrived at a point in our journey where we must now refine and upgrade the model we want to adopt for the future development of our Nation. Today, I submit that we should set our sight high and seek to create a new model – one that works for us, one that is unique to us as a Small Island Developing State. This new model should harmonise our social, cultural, environmental and economic responsibilities; and make the most of our competitive advantage and our collective will to succeed.

4. But, in order to create a sustainable economy for St. Kitts and Nevis we must consider the following economic realities. Today as we know it, the Federation is surrounded by large but distant overseas markets. However, our local market is small, so there are few alternatives to traditional commodity export-oriented growth. History has shown that extreme protectionism will not work. Secondly, because of the size of our Federation and limited physical resources, there is little alternative but to export services, such as tourism and financial services, or to produce high-value items for export, as it is difficult for us to compete with the manufacturing capacity of the Far East. Thirdly, our existing capital structures are not suited to encouraging entrepreneurship and micro-enterprise but best serve existing established businesses. Lastly, tourism has become a large component of our economy and is particularly sensitive to environmental degradation and social issues, such as crime and violence.

5. Mr. Speaker, a real opportunity exists for us to create a new economy by making the Federation of St. Kitts and Nevis one of the world's first 'sustainable island-state'. It is no accident that my Government has chosen to present this Budget under the theme "A Green Economy – The Pathway Towards A Sustainable Island State" This is the vision that we

presented to our social and economic partners just recently at our annual National Consultation on the Economy. This is our clear vision for the future of this country. This vision was very well received at the National Consultation and is therefore presented in this Budget in keeping with our quest to ensure that key policies are informed by such consultations. I invite all citizens and residents to share in this vision because I truly believe that we can indeed achieve the status and maintain the status of a thriving, sustainable island state fuelled by a green economy.

6. This vision of a sustainable island-state should be founded on certain core values. Balance is a central part of the vision, where we acknowledge that truly sustainable development requires the harmonisation of people, heritage, environment and prosperity. We must have a clear sense of our identity. Recognising that it is necessary for our people to continually develop a sense of self. We must also come to the understanding that culture and the environment have a central role to play in our development. The movement to a sustainable island-state will require active management of our resources and assets. We the people of St. Kitts and Nevis must begin to see ourselves not only as beneficiaries or mere spectators but rather as the primary resource that is required for the process to succeed. We must endeavour to maintain our independence. This will require us to truly value and understand the importance of resource independence in water, food, and energy. We must adopt a zero tolerance for exclusion of any group among us. Every segment of our society must be equitably involved and fully incentivised throughout the process of building a sustainable island-state. Mr. Speaker, the binding principle for this process is leadership. This Government is ready, willing and equipped to lead this process. However, visionary leadership and governance is not the responsibility of the public sector alone. Leadership in the private and civil society sectors is also essential as this will determine the Federation's success in rising to this opportunity.

7. St. Kitts and Nevis has unique advantages in its aspirations to develop a green economy and a sustainable island-state. This opportunity lies in the small size of our population who are educated and patriotic. The physical environment of both islands is well preserved. Our land mass covers a manageable 104 square miles, with only two islands to administer. The islands have good potential for the development of renewable energy in the form of solar, geothermal and wind. St. Kitts and Nevis is emerging as a premium tourism destination and is increasingly establishing brand awareness in major markets. Our National Assembly has the ability to rapidly develop enabling legislation that can attract targeted businesses and industries. We have already established a substantial framework in sustainability planning, as evidenced by the existing National Physical Development Plan, modern Building Codes, the National Adaptation Strategy and the establishment of the Ministry of Sustainable Development which my Government created in 2009.

8. In our quest to become a sustainable island-state, we intend to continue the consultative process started at the National Consultation. We believe that we must engage our people in a dialogue and build a national consensus. The people of the Federation must be involved at every step of this process and have ownership. This vision cannot be achieved without support and commitment at all levels, from both administrations of the Federal Government and the Nevis Island Administration, all Government Ministries, the private sector, civil society and of course our individual citizens. We will create and market a national brand for St. Kitts and Nevis as one of the world's first sustainable island-states. This can be done on the world stage, with the help

of early adopters, and include a global public relations campaign. Very importantly, a national campaign will be mounted to ensure maximum participation of our local stakeholders.

9. We must then develop activities that would enable our current economy to transition to a zero carbon economy and then to a sustainable one. We must support the exploration and development of geothermal reserves, solar and wind energy on both St. Kitts and Nevis. We must develop businesses and social practices that encourage the sustainable use of the natural resource base of the Federation. The tourism sector needs to develop a road map for bringing its tourism plant in line with the requirements of a sustainable island-state. The Federation has already begun to address food independence by seeking to substitute some imported food with locally produced food. My Government has commenced this initiative with the launch of Capisterre Farm, the allocation of lands dedicated to farming and the development of water services to the agriculture sector. We must move to converting fossil fuel vehicles to electric and bio-fuel powered vehicles, becoming more open to use of bicycles and develop appropriate infrastructure. We must reduce the energy consumption of buildings, homes and public spaces. Our practices in waste management must be altered and we must ensure the protection of the Nation's air, land and marine resources.

10. Our aspirations to make St. Kitts and Nevis one of the world's first sustainable island-states can only be achieved if the daily actions of our people are aligned with the best of a green economy. This will require formal education, skills training and awareness programmes. We must develop a national consciousness, commitment, culture, and the skills necessary for a successful transition to this new economy. Many are seeking jobs and business opportunities and that is precisely what we intend to create. The development of St. Kitts and Nevis as a sustainable island-state will generate a new economy based on responsible tourism, information and communication technology, financial services, the alternative use of sugar lands and specialist exports. This important initiative not only holds the prospect for preserving our resources for future generations but will foster growth and development and bring down the cost of energy consumed by our people.

11. So today on behalf of my Government, I call upon the leaders of the private sector and civil society to join us in forming a Steering Committee that will take the Federation of St Kitts and Nevis forward on the path to becoming become a sustainable island-state.

12. Mr. Speaker, it is important to place our current situation in the context of the rest of the world. Therefore, I will now move to highlight some recent developments in the international and regional economy.

## **THE EXTERNAL ENVIRONMENT**

### **International Economic Development**

13. Mr. Speaker, there has been some improvement in the global financial conditions and short term risks have been reduced. However, the global economy continues to expand at a subdued pace. The actions and, in some instances, inaction of decision makers have caused medium term risks to emerge including adverse effects on financial stability as a result of unconventional

monetary measures in developed economies. The International Monetary Fund (IMF) in the latest edition of the World Economic Outlook (WEO) reported that the advanced economies are gradually strengthening while those of the emerging markets have slowed. Employment remains a major challenge in many advanced and some emerging economies as global output continues to expand below what is required to facilitate job creation. Unemployment is most severe among the weak economies in the periphery states of the Euro area as economic activity records severe contractions accompanied by stringent austerity measures. However, in recent months new downside risks have come to the fore as evidenced by the partial shutdown of the United States Federal Government and the protracted negotiation process regarding the increase of the debt ceiling. The decisions taken have not resolved these critical issues and the sustainability of the recovery through increased consumer and business confidence remains tenuous. Notwithstanding, we observe with interest the very positive employment report released by the US Government last week. The reduction in the rate of unemployment in that country was recorded at 7%, the lowest level since November 2008. This is certainly good news for our local economy.

14. Mr. Speaker, careful attention is still needed for devising the appropriate policy mix necessary for improving the pace of adjustment. This can positively impact the recovery of global economic output which is projected to expand by 3.6% in 2014, an improvement when compared to the projected outturn of 2.9% in 2013. The emerging market economies have experienced a sharper than expected slowdown in economic output. This decline is reflective of both cyclical factors and a decrease in potential output growth. Two of the fastest growing economies, China and India, have taken a proverbial economic tumble from double to single digit rates of growth. In 2013 economic activity in China is projected to moderate at 7.6% when compared to 7.7% in 2012 while output in India is estimated to expand by 3.8% in 2013 compared to 3.2% in 2012. In Brazil, growth is expected to improve, recording an outturn of 2.5% in 2013 after growing by a mere 0.9% in 2012. Notwithstanding the reduction of economic activity, this group continues to account for the largest share of global growth. Some decrease in growth compared to what it has been in previous years was anticipated. However, structural reforms such as the rebalancing toward domestic consumption in China and removal of barriers to investment in Brazil and India will make this period of adjustment more manageable.

15. The advanced economies are projected to expand by 1.2% in 2013 after recording a growth rate of 1.5% in 2012. The economic recovery within our two main trading partners, the United States and the United Kingdom, is hinged on the implementation of sustainable policy reforms. The uncertainty of the nature and strength of fiscal adjustment in the United States' economy, ongoing conflicts surrounding the raising of the debt ceiling and failed attempts at fiscal consolidation continue to threaten the recovery, resulting in a projected growth rate of 1.6% in 2013, a noticeable slowdown in economic growth compared to 2.8% in 2012. The economy in the United Kingdom has shown signs of improvement consistent with increasing consumer and business confidence with real output projected to expand by 1.4% in 2013 after a dismal showing of 0.2% in 2012. However, it is important to emphasize that this outturn remains well below pre-crisis levels and does not provide the environment to facilitate job creation. Output in Japan is projected to expand by 2.0% in 2013, remaining flat when compared to 2012. The new policy actions coined 'Abenomics' hold promise to facilitate a recovery but also have a degree of risk that is evidenced by the devaluation of the Yen. The Euro area will remain in recession with

economic output expected to contract by 0.4% in 2013 as a result of uncertainties in the major advanced economies and delays in policy implementation in key areas.

16. Continued delays combined with a 'kick the can' approach to decision making will result in new policy challenges and spillovers that may pose even greater concerns going forward in regards to the strength of economic recovery and the thrust of national development. The United Nations in the sustainable development action plan entitled Agenda 21 articulated that there is need for the global economy to be dynamic and stable as uncertainty would impede the development process. The path to sustainable development, particularly among developing countries, would also be impeded by high external debt, inadequate financing, barriers to markets and, unfavorable prices of commodities and terms of trade. In 2012, over 190 nations, including St. Kitts and Nevis, were represented at the Rio+20 Earth Summit where endorsement was given to the steps required to achieve sustainable communities. Among the identified actions was the launching of a process to establish sustainable development goals which include an outline on the means by which the green economy can be used as a tool to achieve sustainable development and advancing the movement beyond the use of Gross Domestic Product (GDP) as the sole means of assessing the wellbeing of a country. It is evident that there is increasing consensus that we cannot achieve sustained economic growth and development at the expense of the natural environment. The environment must therefore feature as an important element in our plans to improve the standard of living for our people and ensure future prosperity.

17. I now turn to Regional Economic Developments.

### **Regional Economic Developments**

18. Mr. Speaker, the island states of the Caribbean region have continued to take proactive steps to secure our economic and financial viability during the global economic downturn and protracted recovery period. The development trajectory of our small nations is catalyzed by the expectations of our people and the global community that the amenities provided in this region should be equal to or surpass what is provided in the developed world. In this regard, the region has been successful in achieving a quality of life which is of high standard as evidenced by the United Nations Human Development Indices which record achievements ranging from the medium to highest categories. The challenge going forward will be to develop the capacity to build resilience in light of our size, in terms of land mass and population, vulnerabilities to external shocks and natural disasters, and cultural dispositions that impede development. There will therefore be a need for the building of technical expertise, management and administrative competence and a commitment from all spheres of society to transform how we do business and interact in our individual capacities. This will require the integration of new methodologies and technologies across all sectors combined with the conservation of natural assets, investment in infrastructural resilience and increased private sector led development.

19. The economies of the ECCU contracted for the fourth consecutive year in 2012 with a growth rate of -0.2% albeit at a slower pace when compared to the average downturn of 2.9% for the period 2009-2011. This outturn can be attributed to a sluggish but positive rate of growth in the Tourism Sector of 1.4% and the further slowing of the contraction in the Construction Sector to -4.3% after an average decline of 13.9% over the last three years. Preliminary data for the

period January to June 2013 has indicated that economic output within the OECS expanded by 1.1% due to expansions in Agriculture, Construction, Tourism, Transport, Storage and Communications, Financial Intermediation, Real Estate and Public Administration. During this period, St. Kitts and Nevis recorded positive growth of 2.0% due to expansions in the Construction, Tourism and Wholesale and Retail Sectors.

20. Mr. Speaker, in 2012 the larger Caribbean Community continued to traverse a challenging economic period as the recovery process remained fragile when compared to 2011. Barbados recorded a flat rate of growth when compared to a positive growth rate of 0.8% in 2011 as a result of declines in the Tourism, Other Tradable Services and Manufacturing Sectors. The economy of Jamaica contracted, recording a real growth rate of -0.5% in 2012 following an expansion in economic output of 1.4% in 2011. This outturn was due to declines in the Mining and Quarrying, Construction and, Transport, Storage and Communication Sectors. However, the economy of Trinidad and Tobago recorded an increase in output of 0.2% after a contraction of 2.6% in 2011 as a result of positive growth in the Non-Energy Sector, particularly the finance and Distribution Sectors.

21. It is vital going forward that the Caribbean, particularly the members of the Eastern Caribbean Currency Union (ECCU), take steps to transform our structural features, vulnerabilities, and cultural characteristics from hindrances into building blocks. This would enable us to create a new business environment that could enhance competitiveness and will redound to sustained growth and development. To advance this process, twelve (12) Caribbean states, including St. Kitts and Nevis, participated in the Caribbean Growth Forum (CGF), a participatory pro-growth initiative led by the Inter-American Development Bank (IADB), the World Bank (WB) and the Caribbean Development Bank (CDB) in collaboration with the United Kingdom Department for International Development (DFID) and the Canadian International Development Agency (CIDA). The objective of this undertaking was to identify the factors that hinder private sector development in the region under three central themes namely:- logistics and connectivity, investment climate and, skills and productivity. In February 2013 the National Chapter for St. Kitts and Nevis was launched and over a six (6) week period dedicated personnel from both the public and private sectors collaborated in the thematic groups to identify policies and initiatives that would facilitate growth and job creation in the Federation. The recommendations derived across the various National Chapters will guide the work of our professionals in all sectors as each country implements its development strategy. A clear indication of the commitment of the international community to advance this transformation process was observed through the regional launch of an innovative financing mechanism by the European Union (EU) in March 2013 aptly named the “Caribbean Investment Facility” (CIF). The objective of this initiative is to close funding gaps by blending and leveraging European Union (EU) grant resources with the lending capacities of finance institutions and private sector capital. This mechanism provides another means by which areas identified during the Caribbean Growth Forum such as, the promotion of infrastructure to prevent or mitigate disasters, the need for improved services and diversification in regard to energy, information and communication technology and the provision of water and sanitation can be addressed and improved. However, I use this opportunity to emphasise that continued partnership between all stakeholders in our societies, both in St. Kitts and Nevis and across the Caribbean region will remain vital to

ensuring that we derive the benefits that we desire from our own assets whether they are economic, environmental and/or social.

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

## **THE DOMESTIC ECONOMY**

### **Output, Prices and Balance of Payments**

23. Mr. Speaker, notwithstanding the mixed developments in the global economy, the Federation continues to show signs of an easing in its economic situation evidenced by a slowing of the contraction in economic output to 0.9% in 2012 when compared to an average decline of 3.2% during the period 2009 to 2011. This can be attributed to positive growth in the Manufacturing and Tourism Sectors which expanded by 10.2% and 2.4% respectively. In June 2013, preliminary estimates indicated that the economy had expanded by 2.0% during the first six months. The IMF having concluded its fifth and sixth reviews of the Standby Arrangement (SBA), have also projected an expansion in economic activity of 2.0% in 2013 based on the expected upturn in the Tourism Sector and the mobilization of several large construction projects. This positive report is confirmation of the success of our carefully executed economic plan that has placed priority on the continued diversification of our economy and the provision of stimulus packages where required to counter the negative effects of the global slowdown in preparation for a solid rebound.

24. On a period to period basis, the rate of inflation for the first six months of 2013 0.6% as compared to the 1.4% recorded for the comparable period in 2012. This can be attributed to the continued stabilization in prices over the three years since the implementation of the Value Added Tax (VAT). As inflation in the local economy is influenced by developments in commodity producing countries, we will continue to monitor fluctuations in the global market in order to devise new strategies to counteract emerging negative effects for the benefit of our people.

### **The External Account**

25. Due to the small size of the economy and its narrow resource, population and skill base, imports consistently exceed exports, resulting in a structural visible trade deficit which has averaged 28% of GDP over the 2007-2012 period. Surpluses on the services account, particularly tourism receipts, are instrumental in containing the current account deficit which has averaged 19% of GDP over the same period. Current account deficits are also contained by regular surpluses on the capital and financial account, which reflect direct investment and monetary flows. Foreign direct investment inflows play a major role in this regard.

26. Based on preliminary data on the performance of the external account, a current account deficit of \$222.4 million is projected for 2013 – a 13% increase over the deficit of \$196.3 million recorded in 2012. This reflects the impact of increased imports of capital goods and intermediate imports as activity associated with the increased levels of economic activity in the Construction and Tourism Sectors in particular. The surplus on the services account is expected to increase by

about 1% to \$203.5 million or 10.7% of GDP as a result of a projected increase in net travel receipts as the tourism sector continues to record increased levels of stayover arrivals. The surplus on the capital and financial account is projected to record a significant increase mainly as a result of strong foreign direct investment inflows related to the Citizenship by Investment programme. As in previous years, the surplus on the capital and financial account is expected to be sufficient to offset the current account deficit, resulting in an overall surplus of about \$116.3 million or 6.1% of GDP.

27. The United States remains the country's main trading partner, accounting for 64.4% of imports and 86.3% of exports. Trinidad and Tobago and the United Kingdom accounted for 6.3% and 4.1% of 2012 imports respectively.

### **The Tourism Sector**

28. Mr. Speaker, my Government continues to undertake the development of the Tourism Sector using policies carefully designed to ensure that the benefits of the improved performance redound into tangible benefits by stimulating entrepreneurial ventures within the various communities in our Federation. The development of our sustainable tourism product has required that the emphasis no longer be the pursuit of mass tourism propelled by increased arrivals but a concerted effort to improve expenditure per capita by our visitors and optimise the value of the impact of each investment. As a result of these efforts, St. Kitts and Nevis has become a premier island destination evidenced by our most recent accolade by USA News and World Report which ranks us fourth among the sixteen (16) Best Islands in the World after Santorini, Bora Bora and the Maldives. We are cognizant that the travel environment remains challenged as our source markets experience slow rates of growth and policy lethargy which will impact the employment potential and proportion of disposable income available for international travel. In light of this, it is vital that we incorporate the use of Tourism Satellite Accounting in order that we can adequately measure and monitor the development of the industry and its contribution to the Gross Domestic Product (GDP). To advance this process, my Government will commence the development of the Supply and Use Tables in 2014 which will inform the development of the Satellite Account in 2014.

29. The partnership established with American Airlines in 2004 has continued to prove beneficial with the most recent addition of two more non-stop flights from Miami since November 2013. These flights will operate on Thursdays and Saturdays complementing the Friday and Sunday flights that were added in November 2012. This brings our weekly airlift from Miami to eleven (11) which includes a twice daily service from Thursday to Sunday weekly. In order to maximize the New York route, the direct flight from John F. Kennedy International Airport has been changed to allow for an afternoon departure on Wednesdays and Saturdays and returning on the Thursday and Sunday mornings. This new schedule will further enhance the appeal of the destination to business, honeymoon and incentive travellers. US Airways has also shown its confidence in this destination and is scheduled to commence an additional flight in March 2014 which will arrive on Sundays. This Government has continued to explore the possibilities to fill the void left by American Eagle on the route between the Federation and San Juan. In this regard, we are pleased that arrangements are now in place for Seaborne Airlines to commence a daily service in January 2014 from San Juan to St. Kitts and continuing on to Nevis. The addition

of this new airline will open up a substantial number of new North American gateways for both islands because of the relationship it has established with American Airlines, JetBlue, and Delta. This new service will also expand airlift to and from the island of Nevis for visitors, citizens and residents.

30. Mr. Speaker, despite the challenging economic environment St. Kitts and Nevis has been fortunate enough to continue to attract the interest of the regional and international traveller justifying significant investment in both public and private infrastructure. We are particularly pleased that our local and foreign investors continue to have confidence in this destination as evidenced by the number of resort and tourist related projects that have been rolled out during 2013. Work has commenced on the much anticipated construction of the Park Hyatt Hotel at Banana Bay and the Imperial Bay Beach and Golf Residences which will comprise of eighty-six (86) one-bedroom condominiums. The neighbouring KOI Resort and Residences has completed the site preparation phase and will shortly begin the first phase of construction. The Kittitian Hill Development has continued to progress and is scheduled to have a soft opening in the first quarter of 2014 with the completion of the three star Belmont Farm Hotel, thirty (30) cottages, fourteen (14) villas and a golf course. Kittitian Hill remains the best example of sustainable practices incorporated in the development process through the use of renewable energy technologies, the utilization of edible landscapes comprised of fruit trees and legumes and the use of excavated soil and rocks in the construction process.

31. My Government has also continued to encourage the participation of local investors in the development of all sectors within our economy. Therefore, we were pleased to have the ground breaking and the commencement of work on the Golden Rock Commercial Park which is located adjacent to the R. L. Bradshaw International Airport. This facility, once completed will include a boutique hotel, supermarket, restaurant and bar, amphitheatre and meeting rooms providing options to our visitors, citizens and residents. Two of our established small hotels, the Ocean Terrace Inn and the Frigate Bay Beach Resort will undertake extensive renovations and refurbishment to facilitate the modernization and expansion of their accommodations. Work will commence at the Ocean Terrace Inn in May 2014 with an implementation period of nine (9) months while work at the Frigate Bay Beach Resort commenced in November 2013 and is scheduled for completion during the third quarter of 2014. The improvement of these premier local hotels will further enhance the room stock available to all who desire a getaway thereby facilitating an expansion in services and increased employment opportunities. We look forward to the completion of these works.

32. As our marketing and airlift capacity has improved we have observed increased inflows of passengers on a daily basis which has surpassed the capacity of the existing arrival hall. It is essential that we provide a comfortable environment for our passengers who enter the R. L. Bradshaw International Airport. Therefore, the St. Christopher Air and Sea Ports Authority (SCASPA) recently undertook renovations to refurbish and expand that portion of the airport as part of its efforts to provide quality service to its customers. The Cruise Sector also continues to expand requiring improved facilities and options for berthing of ships and the processing of the increasing number of passengers that visit our jurisdiction. In this regard, a new breasting dolphin is being installed at the cargo pier in Bird Rock to accommodate larger cruise ships while we anticipate work to commence on the construction of a second pier. The pier is

estimated to cost in the region of US\$31 million. This investment will provide a facility capable of accommodating two Oasis-class ships and is evidence of the practical approach being taken in respect of tangible high impact infrastructure development.

33. Mr. Speaker, my Government has taken a proactive role in ensuring that the potential for the creation of a green economy is made a reality for our people. Therefore, it was with great pride that we took a monumental step in the development of this Federation in the commissioning of a Solar Energy Farm at the R. L. Bradshaw International Airport that will provide the required energy for this facility with the excess provided to the St. Kitts Electricity Company Limited (SKELEC). I use this opportunity to acknowledge and express our appreciation to our partners in making this venture a reality, namely the Government of the Republic of China (Taiwan), SCASPA, the SIDF and SKELEC.

34. In April 2011, this Government designated the Basseterre Valley as a protected area under the Integrated Watershed and Coastal Area Management (IWCAM) Project. This was a major milestone as it signalled our commitment to providing protection for our water resources and an area for Low-Impact Development (LID). The vision for the transformation of the area was presented in a comprehensive Park Management Plan and site plan which outlined the proposed location of facilities within the area such as a botanical garden, plaza, visitor centre and an amphitheatre. The development of this area will be pursued as part of our efforts to ensure the continued sustainability of our tourism product through the creation of synergies between environmental protection, the creation of a pristine recreational environment and the development of sustainable management mechanisms that will benefit our citizens and residents.

35. In 2012, we became the first Caribbean country to participate in the first round of the Global Sustainable Tourism Council (GSTC) Early Adopters evaluation that utilized specific criteria to ascertain the existence or lack thereof of good practices and related recommendations to assist in the mainstreaming of sustainable tourism practices. In furtherance of these efforts my Government has become a member of the Sustainable Destination Leadership Network (SDLN) with the support and assistance of the global non-profit organization, Sustainable Travel International (STI). An Inter-Agency Sustainable Tourism Committee (ISTC) has been launched comprising of representatives from the public and private sectors and Non-Governmental Organizations (NGO). Training will be undertaken to increase awareness within the public sector to inculcate knowledge of the principles of sustainable tourism and facilitate increased outreach to other stakeholders. As we continue to implement our tourism strategy please be assured that steps will be taken to protect our natural capital while facilitating sustained economic growth.

## **Construction**

36. Mr. Speaker, this country has made significant strides during a very difficult period as a result of an appropriate mix of policies that have strengthened our economy placing us one step ahead and poised for greater achievements. The rewards of our hard work can be seen in the rebound of the Construction Sector which is projected to expand by 7.3% in 2013 after recording a decline in economic activity of 10.3% in 2012. This turnaround could not have been accomplished without the hard work, perseverance and vision of this Government in fostering beneficial partnerships with local institutions. The continued upgrade of our public infrastructure

is vital in ensuring that we are able to attract added investment not only to tourism but across each sector of the economy. In this regard, my Government has been proactive in commencing work to undertake the much needed upgrades to the Sir Kennedy Simmonds Highway and supporting road network. The objective of this project is to improve environmental and safety issues for all individuals who traverse the roads extending from the eastern end of the Basseterre Bay Road to the most southern end of the Highway. To date, work has been completed to alleviate drainage issues at the Zenway Boulevard round-a-bout as well as the bushing and the resurfacing of the road to Cockleshell Bay. In addition, extensive work continues to improve drainage conditions in the Ponds Pasture area, terracing at Timothy Hill to stabilize the soil and reduce the velocity of surface runoff to prevent erosion, and the construction of a round-a-bout at the junction of the Kim Collins Highway and the Frigate Bay Road.

37. Our efforts were not solely angled at stimulating growth but also to empower our citizens through land and home ownership. In June of this year, my Government approved the distribution of five hundred (500) additional residential lots ranging from 4,000 square feet to 15,000 square feet in several areas around the island of St. Kitts. This wide range of options for the purchase of land has been devised to accommodate persons from all economic classes as we continue to ensure the upward mobility of our citizens through land and home ownership.

38. As you would recall, in June 2011 my Government implemented the Building Material Incentive Programme (BMIP) which provided for the reduction in taxes applicable to building materials valued up to \$400,000 in the construction of residences for first time homeowners. This Programme had been scheduled for completion in December 2012, however, due to the overwhelming response from our citizens, the initiative was extended until the end of December 2013. As at October of this year, a total of 123 additional applications were approved bringing the overall total to 473 applications. I wish to thank my Cabinet colleagues and the Ministry of Finance for the development and the smooth execution of this initiative of the Government which has provided invaluable assistance to the citizens of this country. The SIDF has continued to partner with this Government to further stimulate the construction sector through the provision of financing under the Fund for the Realization of Economic Empowerment through Subsidised Housing (FREESH) and the Equity Assistance Fund (EAF). Since its inception in January 2012, to present over \$11 million has been disbursed through FREESH which has translated into the construction of some eighty-nine (89) homes on both St. Kitts and Nevis and the employment of over 400 persons in construction related jobs. In July 2013, the SIDF again partnered with our indigenous financial institutions in the Federation through the provision of HELP; that is the Housing Enhancement Loan Programme. This new initiative provides a maximum of \$100,000 at a fixed interest rate of 5% over the term of the loan to citizens who occupy the home on which the work will be executed to facilitate renovations, remodeling or extension of the structure. I encourage all of our citizens to explore the options that are now available to them in order to achieve their dream whether it is to facilitate the purchase of land, homeownership or the refurbishment of their existing homes while also integrating technologies and designs that will make their homes more efficient and environmentally friendly.

39. Mr. Speaker, it was Warren G. Bennis who said that ‘leadership is the capacity to translate vision into reality’. Taking a cue from this statement, this Government is planning to implement a new housing solution aptly named Habitat Independence 30 which will have three hundred

(300) homes powered by solar panels. This initiative will be undertaken in partnership with the SIDF providing an opportunity for a segment of our citizens to achieve energy independence while controlling their household expenditure for the use of this utility. In 2014, we will undertake the development of a Housing Policy that will guide the future development of the Housing Sector promoting equity, access and affordability by devising specific action plans and approaches that will further improve access by vulnerable groups, protection of the environment, conservation and rehabilitation of existing housing and enhancement of the quality of the housing constructed. Priority will be given to recommendations on the use of alternative building materials to reduce the cost of construction bearing in mind the finite access to natural resources, our susceptibility to natural disasters, and resource efficiency designs such as the use of green and alternate energy sources, natural lighting and high efficiency toilets as a means of reducing operating costs in both existing and future housing stock. As we continue to take bold steps in transforming our Nation, my Government calls on the support and partnership of all stakeholders.

## **Agriculture**

40. Mr. Speaker, agriculture continues to have an important role in the development and transformation of our economy. However, the impact of this sector is not confined to the parameters of ensuring food security and employment but extends to the conservation of the environment. Therefore, the growth within this sector must be sustainable through the integration of techniques and processes used in crop cultivation, livestock farming and marine resource management. This would ensure that output in the sector is enhanced while reducing the real risks of land degradation, depletion of water resources and soil nutrients, contamination of the soil, potable and coastal waters, destruction of terrestrial and marine ecosystems and food loss. Our focus is not entirely restricted to achieving high production in this sector but rather to take full consideration of prevailing environmental standards. We will continue to take decisive actions that will promote growth while protecting the environment to facilitate continued productive use of our resources and promote the wellbeing of our people. Therefore, in terms of development of the Agriculture Sector we have adopted an approach that facilitates growth while implementing sound environmental management practices that will redound to the benefit of the sector and wellbeing of our people.

41. The use of traditional methods in crop production will leave us vulnerable to the effects of climate change which include longer dry periods and intense rainy periods when they do occur. These trends introduce risks that can constrain the potential of the sector to enhance our nation's food security and the development of high-impact productive activity. This is why we continue to seek out new technologies and, where feasible incorporate them in our activities to ensure results across sectors. In this regard, during 2013 this Government through the Agriculture Resource Management Project (ARMP), facilitated the expansion of the use of shade houses by constructing an additional eleven (11) bringing the total to eighteen (18). We intend to continue the use of this method as a means of providing a controlled environment in which crops can be propagated year round notwithstanding changes in weather patterns. Priority will be given to utilizing this approach in the cultivation of new plant species in an effort to find varieties that are resilient and will promote a higher yield and improved profit margins for our farmers. The management and availability of water is vital to the continued development of the Agriculture

Sector. However, there is need to strike a balance between the competing uses of this very valuable resource. To ensure that our farmers have better access to this important input during periods of drought and to facilitate opportunities for irrigation, this Government through a component of the Agriculture Resource Management Project (ARMP), undertook the construction of three (3) additional dams in the Belmont, Brotherson and Parson Estate areas bringing the total to eight (8). Already plans are being developed to facilitate the provision of drip irrigation equipment to a number of farmers. The addition of this method will complement the continued efforts to maximize the use of our water resource within the sector.

42. Mr. Speaker, our agro-processing industry continues to expand by leaps and bounds which is a testimony to the commitment and confidence that this Government has shown in its development. This niche market provides an opportunity to assist in the reduction of poverty through employment generation, the creation of sustainable livelihoods and the preservation of our cultural heritage while addressing food security through the reduction of food losses, increased food availability and improved access to food. Cognizant of the tremendous benefits that can be derived from agro-processing, this Government has allocated additional space in the newly constructed Pack House at the Department of Agriculture. This outpost will be made available to the farming community during 2014 allowing access to dry and cold storage facilities. We encourage all agro-processors to view this facility as an incubator to foster their development. Opportunities abound to acquire training in business management and startup financing through facilities such as the Small Enterprise Assistance Fund (SEAF) and the Small Entrepreneur and Enterprise Development (SEED) Fund. These avenues are part of the role of Government to provide a facilitating environment where businesses can emerge and flourish to stimulate further growth and development.

43. It is important that the diversification of the sector be undertaken in a holistic way to ensure the protection of the terrestrial ecosystem. Therefore, as we explore new avenues to advance agriculture production, this Government has given priority to ensuring that our environment is conserved through the promotion of the propagation of traditional trees such as, the breadfruit and breadnut, and the sweet potato as a means of enhancing our nutrition while deriving economic and environmental benefits. To advance this process, we have collaborated with our development partners from the Food and Agriculture Organization (FAO), the Caribbean Agricultural Research and Development Institute (CARDI) and the Technical Centre for Agricultural and Rural Cooperation (CTA) to develop strategies for the increased utilization and commercialization of the products from these crops. Careful attention has also been given to the restoration of our coconut trees that have been devastated by the lethal yellowing disease resulting in the loss of an important part of our biodiversity. Therefore, the Ministry of Agriculture in collaboration with the SIDF will undertake a replanting initiative in 2014 using a variety of the plant that has a greater resistance in the Conaree, Dieppe Bay and Frigate Bay areas, where the disease has been most prevalent. The replacement of these trees will not only restore our picturesque scenery but provide a sustainable resource for persons who earn a living from the various materials that these palms produce.

44. Mr. Speaker, the Livestock Sub-Sector has faced many challenges which have resulted in a decline in the overall production of the sub-sector by 27.6% in 2012. Notwithstanding these setbacks, we remain confident that we can produce quality meat products without placing undue

pressure on the environs. Emphasis has been placed on the sourcing of livestock varieties that can enhance yield without farmers making huge financial outlays for the purchase of commercial feed or employing poor husbandry practices. In February 2013, the St. Kitts Livestock Association was established and, with assistance from Government, gained access to resources from the SIDF which has been used to acquire eighty (80) pigs from the United States of America, specifically the Duroc and Yorkshire breeds. These two varieties require less feed but gain a significant amount of weight which is vital in the increase of output and resultant revenue while reducing production costs. Plans are being developed to facilitate the breeding of this stock and cross breeding with existing stocks in order to widen the gene pool. In 2013, the Ministry of Agriculture took action, with assistance from the SIDF, to address the spread of the Dermatophilosis and Tropical Bont Tick which are spread by roaming animals. This initiative provided of assistance to over two hundred (200) livestock farmers through the purchase of Bayticol, the tagging of the ruminant population and the undertaking of a public awareness programme. As a result of this initiative, there has been some decrease in the incidence of these diseases, however, farmers should exercise vigilance and be proactive in preserving the health of their investment.

45. Mr. Speaker, Small Island Developing States (SIDS), which include St. Kitts and Nevis, rely heavily on their marine, coastal and fisheries resources to provide needed protection to the coastline, sustained livelihoods and nutrition. This is the context in which Government, through the Department of Marine Resources has incorporated the Ecosystems Approach to Fisheries (EAF) management to facilitate the transition of the Fisheries Sub-Sector from a Fishery-based Management System to a Holistic Marine Resource Management System.

46. In order to ensure the effective management of our marine resources and the curtailment of Illegal Unreported and Unregulated (IUU) Fishing, we have sought assistance from the Commonwealth Secretariat in resolving our outstanding maritime boundaries issues with five (5) neighbouring countries. In October of this year a delegation from St. Kitts and Nevis and the Netherlands met at the headquarters of the Secretariat to negotiate the delineation of the marine boundaries with our Dutch neighbours. Significant progress has been made in this regard and it is anticipated that an agreement will be finalised by the end of the second quarter of 2014.

### **Industrial and Enterprise Development**

47. Mr. Speaker, the Manufacturing Sector showed signs of a rebound in 2012 despite the continued slow economic recovery in its major trading markets. The sector's output increased by 10.2% recording a total value of \$114.6 million. This outturn is attributed to the performance of the Enclave Sector which involves the assembly of electronic components exported to the United States which expanded by 28.8% with a total value of \$94.6 million in 2012 when compared to the 90.5 million recorded in 2011. My Government, cognizant of the important role that the sector plays in providing consistent employment, has continued to provide financial and technical support when required to ensure stability for the hundreds of persons, predominantly females, who rely on the viability of the various business ventures in this sector. As we embark on the second phase of the transformation of our economy, it is important for us to foster the development of industries that will support the transition to a sustainable island-state as well as expand our production base. The opening of Speedtech Energy (St. Kitts and Nevis) Limited is a tangible example of my Government's attempts to attract new businesses that will help us to

strike a balance between good environmental management and progressive development for the full benefit of our people.

48. Over the past year we continued to explore all opportunities available through various trade agreements to provide opportunities to entrepreneurs within the sector to enhance their earning potential. In this regard, we have remained committed to the finalization of the Partial Scope Agreement (PSA) which will provide our manufacturers duty free access to the Brazilian market. This arrangement continues to have potential for continued growth, thereby increasing our prospects for additional employment opportunities and improved foreign exchange earnings. The required administrative arrangements have been completed by both parties and we look forward to the ratification of this Agreement by the Brazilian authorities very shortly. The Ministry of International Trade, Industry, Commerce and Consumer Affairs will continue to provide the technical expertise to facilitate trade policy development, management and implementation, and participate in the various negotiations in order to ensure that benefits are derived from agreements such as, the CARICOM-Canada Trade and Development Agreement, the European Partnership Agreement (EPA), the OECS Economic Union and the various bilateral CARICOM Trade Agreements.

49. Mr. Speaker, although trade agreements can facilitate the expansion of business opportunities, the use of hazardous chemicals in the production of goods and the failure to appropriately dispose of them can have serious implications for both businesses and consumers. Over the past two decades, St. Kitts and Nevis has become party to three environmental agreements namely; the Stockholm Convention, the Basel Convention on the Control of Transboundary Movements of Hazardous Waste and their Disposal, and the Rotterdam Convention on the Prior Informed Consent Procedures for Certain Hazardous Chemicals and Pesticides in International Trade. As we move forward in the development of industries, it is vital that these matters be given serious attention, as failure in this regard can lead to the contamination of our land, water and marine environment. During 2014, the Ministry of International Trade will focus on strengthening the capacity of the Multipurpose Laboratory and Bureau of Standards in order to ensure that it can undertake the necessary tests across the various industries and sectors. The Bureau of Standards has already taken the lead in the implementation of the Eastern Caribbean Energy Labelling Project (ECEL) here in the Federation which will facilitate the introduction of energy efficiency labels and standards for electrical household appliances and lighting equipment, and the promotion of energy efficient products. The greening of the economy requires us to be ready to validate the chemical components of inputs and outputs of production as well as the efficiency of mechanisms that drive the engines of industry. I use this opportunity to thank the members of the Pesticides and Toxic Chemicals Control Board for their continued work and vigilance and indicate our commitment to become a party of the Minamata Convention for Mercury in order to avail ourselves of the opportunities it provides in protecting the health of our people and the environment from the adverse effects of mercury.

50. The Ministry of Industry and Commerce continues to provide a facilitating environment that will foster the development of Small and Medium Enterprises (SMEs). Our SMEs continue to face the challenge of skill development, financing and energy cost. The National Entrepreneurial Development Division (NEDD) continued to provide technical support to entrepreneurs in the Federation in the preparation of Business Plans, Grant Proposal Writing and other areas vital to

building and sustaining viable businesses. The assistance provided by NEDD has been invaluable to these business ventures as they pursue financing options provided through the Small Enterprise Assistance Fund (SEAF) and the Small Entrepreneur and Enterprise Development (SEED) Fund.

51. Mr. Speaker, in October 2012, we approved the removal of the Customs Service Charge and Import Duty on renewable energy and energy efficient technologies. The overall objective of this policy decision was to encourage the incorporation of these types of equipment and supplies as an energy saving mechanism across all sectors, particularly our small businesses and manufacturers to reduce their overhead costs related to energy consumption. The support provided by my Government remains vital in the development of our small and medium businesses. Therefore, I encourage our entrepreneurs to look beyond the traditional business ventures. A green economy cannot be created or sustained here in St Kitts and Nevis without the willingness of our manufacturers and other entrepreneurs to explore new areas. Indeed, I am encouraged to observe the willingness of some local businesses to act on the invitation extended by my Government to partner with us in the ‘greening of our economy’. I make specific mention of S.L. Horsford and Company Limited and the T.D.C Group of Companies which have invested and recently commissioned solar energy infrastructure at Valu Mart and TDC Home and Building Depot respectively. The proposal for TDC to introduce a ‘Green Department’ that will specialize in energy efficiency commercial and household products is also welcome news. Both companies and all other businesses making similar investments deserve commendation for the very tangible demonstration of the type of forward thinking and action my Government has been advocating for some time.

52. Moreover, we are confident that there is potential for a mix of business opportunities to create green jobs ranging from the assembly of renewable energy and energy efficient equipment to the use of upcycling through which old or discarded materials are converted into something useful and beautiful. It is encouraging to note that there is already some initiative taken by existing businesses and civil society to embrace. I use this opportunity to commend the Reach Hamilton Community Group in Nevis who has embarked on a venture utilizing this process as a means of addressing issues related to the environment and youth at risk.

### **Information Technology and Telecommunications**

53. Mr. Speaker, we believe that the development of St. Kitts and Nevis and the advancement of our people are not constrained by our physical boundaries but by the limits we impose on ourselves. To facilitate the engagement of our young minds, we have continued to provide improved technology tools to our teachers and students. We believe that technology can accelerate the development of new teaching methodologies, create education-based information societies, innovation and creativity at all levels of our education system. Although, the One-to-One Laptop project has concluded, we have continued to meet our commitment as evidenced by the distribution of additional laptops in April of this year to our teachers and, most recently, our first and second form students. In order to facilitate the integration of this equipment in the learning process my Government commenced work to develop an Education Network (EduNET) in 2012 for installation in our eight (8) public high schools. This initiative was financed by the National Telecommunications Regulatory Commission (NTRC) Universal Service Fund (USF)

to provide an education communications network to remove the divide of geography and infrastructure through the provision of broadband empowered interschool resource sharing and internet access. This undertaking was successfully completed in November of this year and now provides digital inclusion, virtual classrooms, peer tutoring and master teacher instruction.

54. We have long understood the importance of the integration of technology in enhancing the efficiency and effectiveness of the provision of services to the public. However, the high cost of unmanaged, stand-alone Information and Communication Technology (ICT) investment and the segmented approach to E-government in the region has been identified as hindrances to the smooth integration of appropriate hardware and software into our established systems. In this regard, my Government sought to benefit from the economies of scale through our participation in the Caribbean Civil Registry Project that has been implemented by the Organization of American States (OAS) with funding from the Governments of Canada, Luxembourg and Korea. This initiative has been facilitated in six (6) Caribbean Community (CARICOM) member States to assist the digitization of births, deaths and marriage registration in order to provide uniform vital statistics across the Caribbean region. The Project facilitated the purchase of required equipment, access to the developed software and training of seven (7) persons locally. This team facilitated the scanning and input of information from 426 registry ledgers containing 8,520 pages of birth certificates. Although this initiative was completed in September of this year, work will continue to ensure that death and marriage certificates are uploaded as we aim to reduce our carbon footprint while continuing to enhance the efficacy of our operations.

55. Mr. Speaker, this Government has made great strides in the development of the ICT Sector as we choose to 'think big, start small and scale up fast'. In order to continue to capitalize on the gains made and accelerate the integration of information technology solutions there is need to ensure that our legislative and policy framework is aligned with regional and international requirements. Consequently, my Government has sought assistance under the Enhanced Competitiveness in the Caribbean through the Harmonization of ICT Policies, Legislation and Regulatory Procedures (HIPCAR) to provide in-country assistance to update draft legislations to bring them in line with best practices. During 2013, work was completed on the Privacy and Personal Information Protection Bill (2013), the Right of Access to Information Bill (2013) and amendments to the Electronic Crimes (2009), Interception of Communications (2011) and Electronic Transactions (2010) Acts. These laws will serve to clearly outline the legislative parameters that will guide the management and access to data and documents inclusive of electronic files. My Government, through the various Ministries and Departments will continue to take the necessary steps to enhance the technological landscape to facilitate our continued social and economic development.

## **Energy**

56. Mr. Speaker, this Government remains cognizant of the need to have a reliable, affordable, clean energy supply in order to facilitate sustained economic growth and development. However, the high cost of oil on the international market as geopolitical relations remain tenuous required that this caring Government devise mechanisms to reduce the impact of the resultant increase in electricity rates on our citizens. As a result, we have implemented a medium term plan to subsidise the fuel surcharge which has already brought relief to all residential consumers.

Currently, customers who consume less than 250 kilowatt hours (kwh) of electricity are not required to pay the fuel surcharge while benefitting from added reductions in the monthly payments on their electricity bills. Mr Speaker, well over 16,000 residential customers are benefitting from this programme at an estimated assured cost of \$8 million. As at April 2013, households had saved over three quarters of a million dollars. In line with market forces and an equitable distribution of benefits, those consumers who utilize in excess of 250 kilowatt hours (kwh) have been provided assistance allowing for the payment of the fuel surcharge ranging from fifty percent (50%) to ninety percent (90%) based on their consumption patterns. I implore our citizens to adopt energy conservation practices as part of their daily operations, whether it is in their private or professional capacities, in order to maximize the benefits of this initiative.

57. As indicated earlier, my Government has always chosen to lead by example and it is no different as we pursue the integration of green energy technologies and methodologies across the Federation. Again I use this opportunity to highlight our most recent accomplishment of the commissioning of a Solar Energy Farm at our own R. L. Bradshaw International Airport. This plant, with a full capacity generation of 1.3 megawatts annually, will provide the energy needs of this facility thereby saving SCASPA approximately \$800,000 in energy cost. The opening of Speedtech Energy (St. Kitts and Nevis) Limited in July of this year has changed the trajectory of the renewable Energy Sector from one of merely consumption to a production based sector. This company has been undertaking the required training of persons from both St. Kitts and Nevis to provide them with the knowledge and skills to facilitate the assembly of the solar panels that will be produced. These training exercises will be completed by the end of 2013 and the factory will commence full operation during the first quarter of 2014. The presence of such a business on our shores will redound to significant reductions in the cost of this renewable technology and ease of access to the ordinary people.

58. Mr. Speaker, my Government remains committed to the development of geothermal, wind and waste-to-energy as viable means of providing affordable electricity to our citizens. This Federation pioneered the exploration of green energy in the Organization of Eastern Caribbean States (OECS) region and it is time for us to illustrate that size is not a liability but an asset. In this regard, my Government will continue to explore opportunities for viable partnerships which will facilitate the development of geothermal energy. Once fully developed, it will allow for significant reductions in the cost of energy and provide the possibility for a new export product and a new stream of revenue. The development of waste-to-energy will serve to address two critical issues; the need for alternative sources of energy and waste management. The rapid development of St. Kitts over the past two decades has resulted in increased demand on the Conaree Landfill to facilitate the disposal of waste generated both residentially and commercially. Therefore, in 2013 the Government took a two pronged approach through the purchase of a baler to facilitate the hygienic storage of waste transported to the Landfill. The product from the baler will then be used as part of the source material in the conversion of waste-to-energy. The establishment of a waste-to-energy plant can assist in reducing the quantity of waste stored in the Landfill by roughly ninety-five percent (95%). As we continue to develop these various initiatives, the opportunities for employment in new areas will continue to emerge further expanding our economic output.

59. This is why my Government very shortly will be launching an initiative where affordable homes provided by the National Housing Corporation (NHC) will be equipped with and powered by solar panels. Indeed we are excited, that through this programme the beneficiaries, our citizens, will realize significant reductions in their energy costs.

60. I turn now to the Financial Sector.

## **The Financial Sector**

### **Commercial Banks**

61. Mr. Speaker, I am pleased again to report to this Honourable House that our commercial banks continue to be sound and well capitalized ensuring their readiness to be a major facilitator in the continued development of St. Kitts and Nevis. When this Government entered into the Stand-By Arrangement (SBA) with the International Monetary Fund (IMF) in 2011 we established a Banking Sector Reserve Fund (BSRF). This mechanism was put in place as a type of insurance to provide stability to the domestic financial system in the event of adverse effects of external shocks. The Eastern Caribbean Central Bank (ECCB) has continued to undertake quarterly stress tests of the sector and have determined that it remains resilient to a range of shocks. This is evidenced by the fact that this Government has no reason to request a release of funds from the Banking Sector Reserve Fund (BSRF). We remain committed to the efforts of the Joint Financial Sector Task Force comprised of the ECCB, the Caribbean Development Bank (CDB) and the IMF as we are aware that the continued stability of the Banking Sector will provide confidence to our investors and individual depositors. However, this accomplishment will not translate into benefits for our people unless the excess liquidity is made accessible to facilitate investment in productive activities. We therefore call on our partners in the sector to seek the appropriate balance that will ensure their financial stability while expanding their involvement in an economy poised for a strong rebound.

### **Development Bank**

62. Mr. Speaker, the Development Bank continues to play an important role in our development providing well needed assistance to our citizens particularly the most vulnerable among us. As at October 2013, the Bank approved 601 loans with a total value of \$44.7 million. Of this amount, \$10.8 million was allocated to higher learning, \$13.3 million to business lending and \$14.2 million to mortgage financing. To further improve the rate of distribution of needed resources the Development Bank, in collaboration with the St. Kitts-Nevis-Anguilla National Bank, has taken steps to provide a new payment solution to facilitate the disbursement of student loans eliminating the standard six (6) to eight (8) week processing time required for international transactions. This is evidence of the commitment of the Bank to enhance its services making it comparable to other service providers while addressing the needs of our people to have timely access to resources to assist in their development.

63. The Development Bank has continued to provide financial and technical support to facilitate the achievement of the development agenda of the Government and its mandate. This is evidenced by the provision of financing in excess of \$25 million to our citizens to aid in the

construction of one hundred (100) homes resulting in the employment of over four hundred (400) persons. The Bank has also collaborated with the National Entrepreneurial Development Division (NEDD) in the training of the owners and staff of Small and Medium Enterprises (SMEs) in the areas of customer service and financial management. The Development Bank has provided assistance to the Department of Youth Empowerment in its outreach efforts and facilitated a summer camp which provides participants with training in business management and innovation.

### **Developments in ECCU Money and Capital Markets**

64. Mr. Speaker, as at September 2013, a total of eighty-six (86) securities were listed on the Eastern Caribbean Securities Exchange (ECSE) which comprised thirteen (13) equities, eight (8) corporate bonds and sixty-five (65) government instruments. There are currently thirteen (13) companies listed on the Exchange of which eleven (11) are domestic to the ECCU with five (5) residing in our Federation. Domestic equity market capitalization was valued at \$11.7 billion during the period under review, a slight increase from \$11.5 billion recorded one year earlier. The ECSE Share Index which stood at 133.29 at September 25, 2012 stood at 148.13 when compared to the same period in 2013 reflecting an increase in returns for investors. The equity market serves to facilitate the mobilization of financial resources across the ECCU as well as the globe as our citizens gain an opportunity to participate in the investment and expansion of listed institutions. Through the continued involvement of these shareholders the private sector can continue to raise needed capital to support activity that will translate into sustained growth and development.

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

65. Mr. Speaker, during 2013 the St. Kitts Investment Promotion Agency (SKIPA) continued to undertake its mandate to attract new investment to St. Kitts and to support the expansion of existing businesses particularly in the areas of Tourism, Information Technology, Financial Services, International Education, Manufacturing, Renewable Energy and Agriculture. The Agency has developed a promotional strategy that is aimed to create synergies between our tourism and investment markets illustrated by its new slogan “St. Kitts Visit and Invest”. In 2013, these efforts translated into a number of large scale real estate projects coming on stream and over a half billion dollars in investment in the pipeline that will result in increased local and Foreign Direct Investments (FDIs) in 2014. The main driver of investment activity has been the Citizenship by Investment Programme (CIP) which has resulted in a robust luxury real estate sector dominated by mixed use condominium and villa and hotel projects. SKIPA has facilitated approvals for the construction of the US\$90 million Pelican Bay Condominium Hotel at Potato Bay, the US\$40 million Hillsboro Sunset Suites at Mattingley Heights and the US\$100 million Prime Developments at Half Moon Bay. Local investors have also capitalized on our favourable investment climate to establish businesses that create employment opportunities for our people. These include the launching of an Adventure Park in Saddlers and the construction of the Golden Rock Commercial Park.

66. SKIPA has continued to receive positive responses from investors as it relates to the development of renewable energy. To facilitate the comprehensive review of proposals presented

for consideration, the Agency has worked closely with stakeholders from the public sector including the Department of Energy and SKELEC. One of the achievements of this multi-disciplinary committee has been the advancement of the waste-to-energy initiative. The Manufacturing Sector has also attracted the interest of potential investors who see a lucrative opportunity in the green economy. Discussions are well advanced to facilitate the establishment of a business venture that will manufacture Light-Emitting Diode (LED) lighting products for the local and regional markets. This project once approved will bring substantial benefits to St. Kitts and Nevis by making inroads in promoting energy conservation which represents one of our key policy initiatives, as well as the creation of employment and the expansion of our production base.

## **Cross-cutting issues**

### **Social Development**

67. Mr. Speaker, the green economy has been identified as a major component in facilitating sustained growth and development within the Federation which will translate into poverty reduction. This Government is aware that the pursuit of a green economy will not automatically alleviate the issue of poverty but requires a concerted effort to ensure that formulated policies are equitable in areas such as, housing, land use, academic and skills training, access to clean water and energy, and health care. My Government has taken proactive steps to provide the supporting environment to provide assistance to those who are most vulnerable within our society. During 2013 preparatory work on the implementation of PHASE 1 of the National Social Protection Strategy continued. The Ministry conducted three (3) key activities. They were:

- the completion of the implementation work plan
- the development of a Programme document for the Moulding, Empowering, Nurturing and Directing (MEND) Co-responsibility
- the training of social assistance Officers in monitoring and evaluation techniques

68. To ensure the success of this programme, my Government has committed the necessary resources required to bring about a notable change in the provision of the service delivery and proper monitoring and evaluation. Hence, the Government's major input has focused on building capacity to deliver a much needed service to families through the MEND families programme. This is an example of the Government's commitment to uplifting families. We firmly believe that families are immeasurably important and are the building blocks of a strong and cohesive society. As a result, some of our poverty reduction strategies will be targeting the family. The twenty-one families participating in this pilot MEND Programme will receive a financial benefit along with a circle of wrap around services designed to strengthen family bonding. The services will also empower them to make decisions to improve their well-being and identify and acquire skills to enter the labour market. Financial and psychological support will be provided for two years. The Programme is centred around seven pillars:

- Identification – Each family will acquire at least 3 basic forms of identification for its family members.
- Health and Wellness – Families will be required to take annual check ups, ensure that children are immunized and attend health informational sessions.
- Education – Families will be responsible for ensuring that children attend school regularly and attend school parent teacher conference meetings.
- Family Dynamics – Families will be required to set aside family time and participate in developmental workshops, for example, in areas such as health, budgeting, and parenting. It is expected that these activities will contribute to the positive emotional and social development of adults and children within families thereby building resilience and nurturing supportive relationships.
- Housing – The living conditions of homes will be assessed and a plan for improvement will be put in place.
- Employment – Adult family members will be encouraged to identify skills for the labour market and training programmes will be tailored to facilitate entrance to the labour market.
- Income – Budgeting will be a core activity for families. Families will learn to manage the financial benefit they receive under this Programme.

69. A fundamental value which underpins this experience is that of RESPONSIBILITY. Through the various activities, the families will be expected to fulfil the conditions in order to receive the financial benefit via a debit card. This new system will help families to more confidently manage their monies with the guidance of the assigned case workers. It is for this reason that all the service providers across Ministries, for example; Education, Health, Youth, Sustainable Development and Department of Labour, play an important role in this Programme.

70. Increasing the resiliency and self-sufficiency of clients remain an overarching goal. It is hoped that at the end of two years, families would have become more confident in their decision making and would have acquired skills for the labour market and may be employed. An assessment would then be conducted to verify areas of improvement so that families can exit the Programme. This pilot exercise begins with 21 families and by 2015, we expect the number to increase to 80. The programme should accommodate 140 families in 2016, and 200 in 2017.

71. Mr. Speaker, progress continues in 2014 with the finalization of a best fit proxy means test to ensure improved accuracy of targeting and the development of a monitoring and evaluation plan that would provide useful data to inform any changes in the Programme. Allocations will continue to be made to support the other social assistance programmes for older persons and children including food vouchers, burial, and medical assistance.

72. I wish to extend sincerest thanks to the regional and international agencies that worked with the Ministry of Social Development to provide the technical and financial assistance. We are very proud that these agencies are using St. Kitts and Nevis as the model in the OECS for the consultative and measured approach to tackling poverty. Our appreciation goes to the OECS Social Development Unit, Organization of American States (OAS), UNICEF and UN Women for providing the opportunities to train our key focal points in the Ministry in strategic planning, monitoring and evaluation, and also offering training in social planning tool kits. St. Kitts and Nevis will now lead the way on sharing best practices about social protection.

73. My Government is cognizant that knowledge and skills development is a vital component in improving the earning potential of our people and advancing our efforts to reduce poverty. This need became even greater as our economy continued to contract due to the protracted effects of the global recession. As a result, this visionary Government, in partnership with the SIDF embarked on the development of the People Empowerment Programme, affectionately referred to as PEP, as a means of providing unemployed citizens, particularly our young people, an opportunity to learn a skill and access short term employment opportunities in preparation for the jobs that are being created as the economy expands. With the strategic guidance of public and private sector partners, the PEP is currently being executed under six (6) sub-projects; the Engaging Qualified Interns Project (EQUIP), the National Infrastructure Improvement Project (NIIP), the Agro-Enterprise Training and Management (ATM), the Women in Construction Trades (WICT), the Skills Training and the Entrepreneurial Development (STED) and the Women In Small Enterprise (WISE) initiatives. As at October 2013, a total of 2,932 persons from both St. Kitts and Nevis were enrolled across these various sub-projects. To date, some of these individuals have found permanent jobs. Notwithstanding the achievements recorded to date under this Programme, my Government through the Ministry of Education and Information commits to intensify its efforts to facilitate the continued development of our Adult Continuing Education Training Framework. This Framework will ensure that the certifications provided are in line with the Caribbean Vocational Qualification (CVQ) Framework to support the anti-poverty strategy of this Government to improve the national, regional and international marketability of our people.

74. Mr. Speaker, my Government acknowledges that access to affordable health care is a precondition for creating an inclusive, equitable, economically productive and healthy Nation. To this end, I am pleased to report that the preparatory work to facilitate the implementation of a National Health Insurance Scheme has advanced following the completion of the recently-launched National Health Accounts (NHA) initiative, undertaken in collaboration with the United States Agency for International Development (USAID) and the University of the West Indies (UWI). The estimates collected continue to be instrumental in informing evidence-based decision-making in order to ensure that every national of St. Kitts and Nevis is provided with a cost-effective, comprehensive and sustainable health care insurance scheme to reduce the financial burden that can accompany major illnesses. This national health care scheme will include coverage for a number of medical services such as, mammograms, air ambulance service, breast cancer treatment, dental and eye care, and elderly care in order to improve the overall health and wellbeing of our citizens. I use this opportunity to thank all stakeholders in the public and private sectors who have partnered with us in bringing these achievements to fruition.

## **Law and Order**

75. Mr. Speaker, as my Government focuses on the establishment of comprehensive Safety Net Programmes and the stimulation of economic growth to enhance the welfare of our people, we are cognizant that these gains cannot be achieved in an environment void of law and order. The success of our strategy has been evident in the increased capabilities and professionalism of our security forces, and the reduction in the reported incidence of crime in several areas. However, we remain vigilant as the causes of criminal activity are multi-faceted and require persistent effort and determination from all stakeholders in our society. This Government will continue to undertake its mandate to provide the necessary financial and technical support required to strengthen our security forces in collaboration with stakeholders from the private sector, Non-Governmental Organizations (NGOs), Community-Based Organizations (CBOs) and those who have chosen to partner with us in a private capacity. We remain confident that there is one goal that is to ensure that our Federation is guided by law and order and is a safe place for residents, visitors and, local and foreign investors to engage in leisure and business activities.

76. We have continued to undertake a broad based approach to capacity building to enhance the knowledge, skills and abilities of our security officers through our partnerships with local, regional and international agencies. In July of this year, the Windsor University School of Medicine, in collaboration with the United States Justice Department and the Violent Crimes Division of the St. Christopher and Nevis Police Force, conducted a seminar in Crime Scene Investigation Medical Forensics. Over 150 first responders from the Federation and across the region, including crime scene investigators, doctors, Emergency Medical Technicians (EMTs), nurses, medical students and members of the legal fraternity were provided the opportunity to learn modern methods of preserving and retrieving evidence from victims of crime. In October, vital training was accessed through the United States Department of Justice and administered by the Federal Bureau of Investigation (FBI) and the Drug Enforcement Administration (DEA) in critical areas such as, defensive tactics, firearm exercises and drug enforcement. This training opportunity was made available to members of the St. Christopher and Nevis Police Force, the St. Kitts and Nevis Defence Force and the St. Kitts and Nevis Customs and Excise Department to strengthen the partnership across these security agencies by ensuring that there is alignment in knowledge and approach to combating criminal activity. Through two of our premier educational institutions, the Clarence Fitzroy Bryant College (CFBC) and the Advanced Vocational and Education Centre (AVEC), we have introduced the first phase of new training programmes for our police officers, traffic wardens, crossing guards and other security personnel to enhance basic skills in subject matters such as Computer Literacy and the fundamentals of the English language. These training opportunities will further enhance the provision of administrative services, relations with the public, and the use of technology as a crime fighting tool. With the assistance of the Coalition of Support for St. Kitts and Nevis Security Initiatives (CSSKNSI) and the Government of the Republic of China (Taiwan) opportunities have been provided to two (2) officers to pursue undergraduate degrees in the fields of Information Management and Security and Criminal Justice Administration. I use this opportunity to thank our partners for their support in the advancement of our security personnel as these opportunities also include the option to pursue postgraduate degrees. This Government will continue to pursue opportunities to enhance the qualifications of our men and women in uniform, to improve their prospects for professional mobility and to strengthen the capacity of the Agencies they represent.

77. It is imperative that we continue to integrate new approaches, technologies and equipment that not only enhance the crime fighting capabilities of the security forces but bring their operations in line with regional and international standards. In December 2012, the Crime Stoppers St. Kitts and Nevis initiative was launched as an additional crime fighting tool to provide a means by which vital information can be provided confidentially thereby increasing that very important partnership with the public. Since it became operational, several arrests have been made and two cold cases have been re-opened as a result of concrete tips received from our citizens. We will promote the increased use of this medium by continuing to highlight its accessibility, confidentiality and benefits to the society. Efforts have continued to use technology for the benefit of the Police Force in the execution of its duties while also empowering the public to protect themselves and their property. In this regard, Absolute Software Corporation has donated two hundred (200) free licenses of the LoJack Laptop Recovery System for a period of one year. This software will be made available to businesses and consumers to enable the tracking and management, and the enhancement of security to facilitate the retrieval of laptops in the event theft occurs. The capabilities of this system have already proven to be effective in the recovery of these devices through its deployment at our medical universities and will be most vital in protecting not only private investment but those made by the state in the education system. The use of Closed Circuit Television (CCTV) surveillance continued to be a priority in reducing the incidence of crime within our communities. In this regard, my Government has partnered with the Coalition of Support for St. Kitts and Nevis Security Initiatives, the Government of the Republic of China (Taiwan) and the SIDF in order to design an effective robust system that will benefit both islands over the medium to long term. In order to ensure sustainability of this system the implementation of this initiative will be undertaken in phases with the primary focus being those areas that have been identified as hotspots for criminal activity.

78. Mr. Speaker, the unwavering support of our international partners in the development of the Security Sector should not be taken for granted. With the assistance of the European Union (EU), we continued to implement activities under the Safety and Security Improvement Programme (SSIP). During 2013, work was accelerated under the various components of this Initiative bringing us closer to finalizing the purchase of needed vehicles such as, a fire tender earmarked for commission on the island of Nevis, a mobile police station and five (5) 4WD vehicles. We have undertaken the procurement process to recruit a technical assistance team that will facilitate the coordination of the Project and undertake vital work in regards to the institutional development of the police and prison services. This initiative has also assisted the implementation of ten (10) Youth-At-Risk Programmes executed by public sector ministries and entities, NGOs and CBOs from both St. Kitts and Nevis. The Government of Mexico has remained a willing partner in providing support to improve our security infrastructure as work commenced to construct a new police station in Tabernacle which will provide accommodation for all branches of the security forces. It is anticipated that this new outpost will be completed by the end of this year.

79. My Government will continue to ensure that our legal framework is modernized in order to support the judiciary in effectively prosecuting those who infringe on the rights of the State. During 2013, this Honourable House passed several pieces of legislation including the National Emblem and National Anthem Act which recognizes both of these national symbols as the

property of the State requiring that a permit be sought in order to use these images while making provisions for recourse when there is incidence of abuse. We have also passed the Deoxyribonucleic Acid (DNA) Act which provides a legal basis for the collection and analysis of DNA in the investigation and prosecution of crimes with provisions for the law to be applied retroactively to crimes committed prior to the enactment of the legislation and the Integrity in Public Life Act which serves to mitigate corruption in the public service. Amendments to existing laws were also undertaken including the Evidence Amendment Act to facilitate provisions for the introduction of DNA evidence in line with the introduction of the Deoxyribonucleic Acid (DNA) Act and the Bankruptcy and Insolvency Act which repealed the Bankruptcy Act (1889) introducing new procedures and practices applicable to both individual and corporate entities, and the establishment of the post of Supervisor of Insolvency. In August of this year, we took an important step to further enhance our cooperation with the international community in regards to combating crime and providing recourse in the judicial system with the signing of an extradition treaty with the Republic of China (Taiwan). This agreement strengthens our global approach to crime fighting ensuring that those who have broken the law in either jurisdiction will not find refuge in the other state.

80. Mr. Speaker, I use this opportunity to again emphasize that security and an efficient judiciary is an essential precondition in providing a facilitating environment that is conducive to the development and expansion of business and investment opportunities. Therefore, this Government will continue to intensify its crime fighting and security efforts, and modernization of our judicial framework.

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

### **Fiscal Review and Outlook**

82. Mr. Speaker, you may recall that a few years ago, 2011 to be exact, my Government approached the International Monetary Fund (IMF) to assist us with the execution of our Economic Recovery Programme. The Programme is focused on the implementation of several structural reforms that would put us on an even stronger footing in the management of public finances, improving our institutional framework in various areas and providing a strong Social Safety Net Programme. So far, we have made substantial progress with our reforms and if I may, Mr. Speaker, I will outline a few of our successes to date.

83. One of our major undertakings in recent times was the comprehensive restructuring of our debt. As you can imagine, this was not an easy decision but it was a necessary one. The restructuring exercise is almost complete and has so far resulted in a significant reduction in the public debt. A company called the Special Land Sales Company (St. Kitts) Ltd. was established and we are in the process of having it fully operationalized. This company will facilitate the sale of lands that were associated with the debt for land swap. To safeguard the successes we have achieved so far and to keep the debt on a sustainable path, we prepared a Medium-Term Debt Management Strategy which we use as a guide to manage the debt stock. The Strategy was laid before this Honourable House last year and will be updated from time to time. In addition to the Medium-Term Debt Management Strategy, a Medium-Term Expenditure Framework was prepared to improve our annual budget process and to strengthen the link between our policies,

planning and budgeting. The Framework is intended to make sure that public monies, that we are responsible for, are used efficiently and effectively. The efficient use of public monies will also be governed by the Procurement and Contract (Administration) Act that was passed by this Honourable House in September last year. The Act is intended to ensure that there is public competition for all procurement, with a few exceptions, and to make the entire procurement process a transparent one. The enforcement of the Act will make certain that we obtain the best value for money through the establishment of a modern competitive procurement system.

84. Mr. Speaker, for quite a number of years we have been speaking about Civil Service Reform but progress in this area has been slow. I am now pleased to inform you, Mr. Speaker, that my Cabinet approved an Action Plan that will make certain that work in this area is advanced. The Action Plan highlights the need to review the organization and structure of the Civil Service and address wage policies and the management of the payroll. My Cabinet also approved a National Social Protection Strategy that was informed by a comprehensive review of the Social Safety Net Programmes that we administer to the poor and vulnerable. The Strategy will be implemented in phases with the first phase focusing on the consolidation and strengthening of the Social Safety Net arrangements in the Federation in order to improve their coverage and impact for the poorest and most vulnerable members of the population.

85. The structural reforms that I just mentioned were accompanied by a number of fiscal measures such as the restructuring of the Housing and Social Development Levy, the introduction of the Value Added Tax, the elimination of exemptions from the Customs Service Charge, the corporatization of the Electricity Department and the implementation of a wage and hiring freeze. These measures have contributed to an improvement in the fiscal outturn since their implementation.

## **2012 Fiscal Performance**

86. Mr. Speaker, as we look back on our fiscal performance for 2012, I can now confirm that at the end of the 2012 fiscal year we realized a Recurrent Account Surplus of \$101.3 million, an Overall Surplus of \$102.9 million and a Primary Surplus of \$199.3 million. The Recurrent Account Surplus was \$54.7 million above the outturn for 2011 and exceeded our 2012 estimate by \$100.9 million. The success of our Citizenship by Investment Programme continued to have a positive impact on Non-Tax Revenue which was the primary contributor to the strong fiscal performance for 2012. Tax Revenue, on the other hand, amounted to \$314.6 million. This was \$2.3 million (0.7%) below the 2011 level and \$12.7 million (3.9%) less than the 2012 estimates. This underperformance of the tax revenue is in keeping with the economic conditions we experienced in 2012 as a result of the global recession. However, we expect tax collections to increase substantially as the growth rate increases.

87. Taxes on Income continued its downward trend where collections for 2012 were \$5.2 million (7.0%) less than the previous year but surpassed the budget by \$2.2 million (3.3%). The Housing and Social Development Levy, which was restructured in 2011, continued to perform beyond expectations exceeding the budget by 5.9%. Revenue from Corporate Income Tax, however, was 1.5% below the estimate and 8.8% less than the amount collected in 2011.

88. Taxes on Domestic Goods and Consumption were also lower than both the previous year and

the budget mainly on account of a reduction in revenue from the Value Added Tax. Taxes on International Trade and Transactions, however, exceeded what was collected in 2011 as exemptions from the payment of Customs Service Charge were curtailed in an effort to improve Tax Revenue. Nonetheless, this category of taxes fell below the budget as non-fuel imports for 2012 were less than expected.

89. With respect to Recurrent Expenditure, Mr. Speaker, expenditure for 2012 surpassed the estimates by 7.3% but was 11.1% less than the amount spent in 2011 mainly on account of the Electricity Department being corporatized. As a result, the operations of that Department were no longer a cost to the Federal Government. The corporatization of the Electricity Department, however, meant that the Government not only had to pay for electricity consumed by the various Ministries but also for street lighting. Although provision was made in the 2012 estimates to pay for the consumption of electricity, the actual amount that was spent for the year exceeded the budget. I therefore urge Government Ministries and Departments to do their part in transforming our economy to a green economy. We need to conserve energy; we need to use alternative energy; we need to go green. Apart from the over expenditure on the consumption of electricity, the amount expended for consultancy fees in relation to the debt restructuring was higher than anticipated as the debt restructuring exercise took longer than originally envisioned. Nonetheless, the restructuring of the debt was the primary reason for Interest Payments being 1.3% below the estimate and 4.6% below that spent in 2011.

90. The over expenditure on Goods and Services was moderated by savings that were realized in Personal Emoluments, Wages and Allowances as the wage and hiring freeze that was implemented in 2010 continued into 2012. Consequently, this category of expenditure was 1.4% less than the budget and 0.3% less than the previous year.

91. The Overall fiscal outturn was aided by the receipt of grants, mostly from the European Union, which were used to finance both recurrent and capital expenditure.

92. Mr. Speaker, for the 2012 fiscal year Capital Expenditure and Net Lending amounted to \$55.5 million; 6.2% below what we anticipated we would spend but 22.4% above what was spent in 2011. Of the projects that were undertaken during the year, 65.5% of them were financed from revenue while 21.1% were funded through loan disbursements and 13.4% from grant funds. Included in the revenue-funded expenditure were the purchase of an office building at Golden Rock, a project to enhance the border security capabilities of the Customs and Excise Department and expenditure related to the Special Land Distribution Initiative. Revenue was also used to expand the water capacity on the island, relocate the Customer Service Division of the Water Department, install a new billing system for that Department and upgrade several of the sporting facilities around the island. As we made a concerted effort not to increase the debt burden, the use of loan financing for capital projects was kept at a minimum. In fact, out of the myriad of projects that were undertaken in 2012, only three were financed by borrowing – the Hurricane Lenny Rehabilitation Project, the Child Development Project and a project to upgrade the equipment at the Public Works Department. The E-Passport and the Border Management System Projects continued into 2012 and were facilitated through the acquisition of grant resources.

## **Outlook for 2013**

93. Mr. Speaker, as we approach the end of 2013, it is only fitting that I share with you our expectations for this fiscal year. Based on the information we have to date, we anticipate that Revenue and Grants will be \$731.7 million; 38.2% higher than the target. Recurrent Revenue will be in the region of \$663.6 million or 42.9% above the estimate and will comprise of \$334.9 million in Tax Revenue and \$328.7 million in Non-Tax Revenue. We also expect that Recurrent Expenditure will be approximately \$427.0 million; 4.3% in excess of the budget. With Recurrent Revenue being higher than Recurrent Expenditure, a Recurrent Account Surplus of \$236.6 million is being projected. Capital and Budgetary Grants are expected to amount to \$68.1 million, surpassing the estimate by 4.5%. However, Capital Expenditure and Net Lending which is projected to amount to \$63.1 million will most likely be less than the budget by 11.6%. With projected Total Revenue and Grants exceeding the projection for Total Expenditure of \$490.1 million, it is anticipated that we will realize an Overall Surplus of \$241.6 million and a Primary Surplus of \$309.1 million.

## **Public Debt and Debt Restructuring**

94. Mr. Speaker, in my last Budget Address I noted that the Total Public Sector Debt for 2012 stood at \$2.7 billion. As a percentage of our most recent GDP estimates, that translates to 137% of GDP. Today, Mr. Speaker, I can report with great pride that as of September 2013 the Total Public Sector Debt was \$2.1 billion or 103% of GDP. Mr. Speaker, as you can see, we are well on our way to meeting the ECCB's target of 60% by 2020 and I assure you, we will get there. The total debt stock at the end of September 2013 therefore declined by \$0.6 billion or 21% from where it stood at the end of December 2012. This significant reduction in the debt stock was primarily the result of the debt for land swap that took place between the Central Government and the St. Kitts-Nevis-Anguilla National Bank at the beginning of July 2013. Consequently, the debt of the Central Government contracted by \$0.5 billion (28%) from \$1.8 billion at the end of December 2012 to \$1.3 billion at the end of September 2013.

95. This is a major achievement for the Government and the country as a whole. The restructuring exercise was long and challenging but we are almost at the end of the road. Allow me, Mr. Speaker, to briefly recap where we have come from and the journey that we have travelled. Mr. Speaker, in June 2011 when our debt was \$2.9 billion or 147% of GDP, we sought the support of our creditors in the restructuring of our debt. Then, in February 2012, we launched our debt exchange offer to eligible creditors, putting forward the option to take a Discount Bond or a Par Bond. The debt exchange offer was closed in April 2012 and the new debt instruments were issued. The debt exchange resulted in a \$130.9 million reduction in the debt. In May 2012 we met with our Paris Club creditors following which the UK Department for International Development (DFID) cancelled our \$9.7 million debt with them in full and the United States Agency for International Development (USAID) consolidated and rescheduled our debt payments to more favourable terms. In October 2012 we, in this Honourable House, passed the St. Kitts-Nevis-Anguilla National Bank Limited (Vesting of certain Lands) Act which facilitated the transfer of certain Crown lands to the bank. Subsequently, in July 2013, the debt for land swap was effected, resulting in a contraction of \$0.6 billion in the debt stock. Mr. Speaker, up to this point, because of the support of our creditors we have achieved a reduction in our debt of

\$0.7 million. We express our sincere thanks to our creditors for their understanding and cooperation. We could not have done it without them.

## **Fiscal Prospects**

96. Mr. Speaker, as I mentioned earlier, it now appears that we are emerging out of the effects of the global economic recession and gradually rebounding to sustained positive economic growth. However, it is imperative that we position ourselves to withstand the fiscal vulnerabilities that are inherent to our small open economy. We must therefore continue on the path of fiscal consolidation.

97. Our focus in 2014 will continue to be on stimulating economic growth through facilitation of the construction of a number of high private sector impact projects including but not limited to Imperial Bay Resorts, Koi Resorts and Residences, Kittitian Hill Resorts and Prime Developments Limited. My Government is also committed to strengthening our infrastructural capacity through our ongoing Public Sector Investment Programme with major projects such as road improvement and drainage projects. We have been successful in creating a positive out turn in terms of our Fiscal account. Therefore in 2014, Total Revenue and Grants is expected to grow by 14.2% over the 2013 estimate. The projected increase in Revenue is mainly on account of expected increases in Citizenship by Investment Fees, Capital Grants and Value Added Tax.

98. Recurrent Revenue for 2014 is projected at \$517,394,195 which is \$53,023,751 or 11.4% above the 2013 estimate. On the other hand, Recurrent Expenditure for 2014 is projected at \$447,153,518 which is \$37,870,002 or 9.3% above the 2013 estimate. The Recurrent Account surplus is therefore estimated at \$70,240,677. While we welcome this very positive news we recognise that it is not a signal to take off on a spending spree. Rather, we must continue to be judicious and measured in our consideration of measures that will result in increasing expenditure.

99. Mr. Speaker, details of the programmes and activities are outlined in the Draft Estimates for 2014. Therefore, allow me the opportunity of highlighting some of the major initiatives to be undertaken in 2014.

100. Mr. Speaker, the 2014 allocation for the Ministry of Justice and Legal Affairs is \$6,524,991, an increase of 3% over its 2013 allocation. An efficient and effective legal system is one of the pillars on which our economic and social development rests. It is therefore important that we continue to build on the improvements we have achieved so far. During 2014, the Ministry of Justice and Legal Affairs will continue its efforts to improve the efficiency and effectiveness of the Justice System by launching the Legislative Reform Project of the Criminal Justice System. This project will seek to consolidate the various laws of our Criminal Justice System into a comprehensive and coherent document. The main output of this project will be a Criminal Code.

101. This Ministry will also focus on operationalizing the Law Revision Commission which has an indispensable role to play in law reform and the ongoing revision of our laws. The activities of the Commission will promote a greater degree of transparency and accountability that is

consistent with the contemporary application of the principles of Natural Justice and the rule of law.

102. In the upcoming Budget Year, work will also continue on strengthening the National Prosecution Office and the Office of the Director of Public Prosecution. A highly trained Director of Public Prosecution has been recently recruited and it is expected that his level of expertise and experience will enhance the capacity of that office to respond to the challenges encountered in its day to day operations.

103. Mr. Speaker, the Office of the Prime Minister has been allocated \$67,543,136 for 2014 Recurrent Expenditure representing an increase of \$15,553,992 or 30% over the allocation for 2013. In the upcoming year, this Ministry will continue to lead the Developmental Agenda of our Federation by developing policies and strategies that foster sustainable development and result in an even higher standard of living for our people.

104. The empowerment of people is at the centre of all that this Ministry does. As a result the Human Resource Management Department has been provided with over half a million dollars of additional resources to buttress support for the granting of scholarships at the tertiary level and afford more of our students the opportunity of a university education. I am also happy to report that Government is partnering with the University of the Virgin Islands and Munroe College to provide scholarship to nationals attending these institutions. I strongly urge our students to take full advantage of these opportunities.

105. During 2014, the training of our Public Servants will be intensified as we seek to create a more responsive Public Service capable of delivering quality and efficient services. In addition, work will continue on the implementation of the new training policy, dress code, the Public Service Act 2011, and the drafting of appropriate Terms of Reference for the Employee Assistance Program. The implementation of these initiatives should result in significant improvements in the operation of the Civil Service. This is critical to giving St. Kitts and Nevis a competitive edge especially as we endeavour to improve our business climate and attract additional investment to our shores.

106. Mr. Speaker, 2014 will also see the implementation of the much anticipated World Bank funded Public Sector Modernization Project. The main objectives of this project are the following:

I. To improve the management and efficiency of personnel expenditure for the Public Service through the development of a reliable public employment wage bill and payroll database by conducting a payroll audit.

II. To align human resource needs and policy initiatives by conducting functional reviews in four pilot Ministries. This will assist with optimizing personnel allocation in line with Government policies and programs and service delivery in the medium to long run.

107. I now turn to the Anti- Crime Unit which falls under the Office of the Prime Minister. This Unit has the overarching responsibility of creating and maintaining a safe and secure

environment for the people of St. Kitts and Nevis by focusing on the key areas of law enforcement and national defence. The role of this Unit is of critical importance in creating an environment that is conducive to economic and social development and more specifically to our ability to attract Foreign Direct Investment.

108. Mr. Speaker, I take the opportunity to commend the Anti-Crime Unit and the officers of the Police and Defence Forces for their work in creating and implementing strategies that have resulted in a significant reduction in crime and violence. For the period January to October 2013, an 18.3% reduction in crime was observed when compared to the corresponding period in 2012.

109. During 2014 the focus will continue to be on at-risk youth. Officers will be placed at certain schools to curb gang recruitment and to deter incidences of school violence. The capacity of the newly established Firearms Investigation Unit will also be enhanced with assistance from the Caribbean Basin Security Initiative, to enable the Unit to build on its success so far in recovering an increasing number of weapons from our streets.

110. Effective crime fighting requires a multiagency approach. Being fully cognizant of this, the Anti-Crime Unit will continue in 2014 to strengthen its collaboration with the Customs and Excise, Social and Community and Education Departments. Investment in the training and development of our security officers has been a priority of the Anti-Crime Unit and so significant resources continue to be devoted to this activity. During 2014, emphasis will continue to be placed on training in order to build capacity and the skills needed to increase productivity and effectiveness.

111. I now turn my attention to the Citizenship by Investment Unit. Let me take this opportunity to state once again that our Citizenship by Investment Programme is considered to be one of the best programmes of its kind anywhere in the world and one that is becoming increasingly popular. As a result of the increasing number of applications, an additional \$13.0 million has been provided to the Citizenship by Investment Unit for 2014 to carry out the necessary due diligence checks that are a part of the application process. It is now evident to all that this Programme has brought and continues to bring tremendous benefits to every sector of our economy, positively impacting businesses and the lives of every man, woman and child in one way or another. It is noteworthy that the performance of the Citizenship by Investment Programme has exceeded our wildest expectations injecting over \$200 million into our local economy in 2013. During 2014, the focus will now be on attracting more investors who, besides investing in the SIDF or real estate, are willing to invest in larger businesses and tourism related projects.

112. Mr. Speaker, I am happy to report that the Department of Constituency Empowerment is now activated. This Department was established to increase the participation of people in our democracy and to empower them through the implementation of programmes and activities that will:

- Improve the nature of the dialogue between citizens and elected representatives;
- Include all constituents in community governance and decision making; and

- Transform the nature of policy and planning to one that is based on evidence derived at the community level.

113. During 2014, the Department of Constituency Empowerment will implement at least three major community based projects focusing on environmental stewardship, green farm practices and gender focused leadership training island-wide. Besides this, the Department will continue work on developing key instruments to facilitate the creation of community profiles, building of community group databases, project manuals and undertake a situational analysis of existing livelihoods of each community. The Department will take a collaborative approach partnering with relevant Ministries, NGO's and community groups in implementing projects under the themes of community activism, sustainable resilient livelihoods and participatory governance.

114. Mr. Speaker, the 2014 allocation for the Ministry of Homeland Security and Labour is \$11,814,646, representing a 6% increase over its 2013 allocation. During 2014, this Ministry will continue to implement initiatives to enhance border security, and promote adherence to the Immigration Laws of the Federation. Comprehensive reforms will be instituted at the Labour Department with a view to modernizing its functions to enable it to better administer the Labour laws and Government's labour related policies. Training of personnel will be intensified as the Ministry endeavours to build the capacity of its human resource. Fiscal year 2014 will also see the rolling out of an Unemployment Benefit Scheme. This Scheme is meant to provide partial income replacement to Social Security contributors who are temporarily unemployed and actively seeking employment. The Labour Department will have a critical role to play in the operation of this scheme. Work will also continue on the development of a Labour Code which will bring employment practices in line with international standards.

115. The Ministry of International Trade, Industry, Commerce and Consumer Affairs has been provided with \$3,023,086 to carry out its operations for 2014. This amount represents a 9% increase over its 2013 allocation. The work of this Ministry in promoting and accelerating sustainable growth and development through economic diversification cannot be overstated. During 2014, the Ministry will intensify its support to the Small Business Sector and further foster the entrepreneurial spirit that is so evident among our people. Already there has been a dramatic increase in the demand for the services of the National Entrepreneurial Development Division (NEDD) from Small and Medium Enterprises that have received support from the SIDF. Therefore, in the upcoming year, NEDD would be provided with additional manpower and expertise to give it the capacity to provide greater support to SME's.

116. The Ministry, working closely with regional and international agencies such as Caribbean Export and UNCTAD will also be providing guidance to manufacturers, exporters, and service providers on how they could consolidate and expand their access to the Brazilian market under the Brazil-Guyana-St. Kitts and Nevis Partial Scope Agreement.

117. Since the closure of the Supply Office about a year ago, the role of the Department of Consumer Affairs has become even more vital. The Department of Consumer Affairs has therefore been provided with additional human and other resources to allow it to more effectively carry out its price monitoring functions to ensure that consumers are not taken advantage of. In

2014, the Department will augment its public education and outreach campaigns to better inform consumers of their rights and responsibilities.

118. Mr. Speaker, the Ministry of Finance has been allocated \$167,237,830 for 2014, a 4% increase over its 2013 allocation. In 2014, the Ministry will continue to pursue policies that will help put our economy on a sustainable path, build resilience and stimulate growth. During 2014, there will be continued focus on stimulating economic growth through the implementation of high impact projects from the Public Sector Investment Programme. A number of ongoing and new initiatives will also be implemented with a view to:

- Coordinate the preparation of the new development strategy
- Strengthen the debt management function
- Strengthen the oversight of Public Corporations
- Update the Medium-Term Expenditure Framework
- Implement Post Clearance Audits
- Restructure the Chart of Accounts
- Manage of Tax Information Exchange Agreements
- Adoption of International Public Sector Accounting Standards (IPSAS)

119. Mr. Speaker, the Ministry of Social and Community Development has been provided with \$8,060,818 for Recurrent Expenditure for 2014. This amount represents an 8% increase over its previous year's allocation. In 2014, the Ministry will be seeking to strengthen community based participation by increasing outreach. To facilitate this, the organizational structure of the Ministry would be reconfigured to allow cross team building. This approach would foster meaningful collaboration, communication, connectivity and resource sharing. The human resource capacity across Departments will be connected so as to stimulate community participation, better target community needs and strengthen community leadership.

120. During 2014 the Ministry will be implementing the first phase of the new National Social Protection Strategy with the piloting of 21 families under the MEND Programme. The New Horizon Rehabilitation Centre will be fully operational, the staff having undergone intense training and are now in a better position to respond to the needs of persons who will reside there. The Ministry will be collaborating with the Ministry of Education which will be responsible for delivering skills training as part of the Centre's rehabilitation program.

121. Mr. Speaker, the Ministry of Agriculture, Marine Resources and Cooperatives has been provided with \$7,060,440 for 2014 representing an 8% increase over its 2013 allocation. During 2014, the Ministry will continue to implement its Agricultural Diversification Strategy 2013-2015 as it seeks to address challenges facing the sector such as small scale and low technology units, weak linkages with other sectors in the economy, difficulty in accessing financing and the need for training in all areas of agriculture.

122. The initiatives to be implemented in 2014 have the overall objective to pursue food and Nutrition sustenance security and to close the import – export gap. The second phase of the new ecosystem programmes of the Department of Marine Resources will be implemented with a view to enhancing habitat management and protection so as to ensure sustainability of the fishing

stock. Meanwhile, the Department will continue its activities to increase fish landings. Aquaculture will be a new focus in 2014 and the Department of Marine Resources will be collaborating with the St. Kitts and Nevis Aquaculture Pilot Project and Environmental Research (SNAPPER).

123. Mr. Speaker, I now turn to the Ministry of Tourism and International Transport. This Ministry has been provided with \$17,986,137. This is the leading sector in the economy and hence its performance impacts overall economic growth as a result of its linkages with so many other sectors in the economy.

124. In the upcoming budget year, this Ministry will increase its efforts to further spur the growth of our economy through increased visitor expenditure and consumption and new and ongoing direct capital investments from local and foreign investors. While doing this, careful attention will be paid to adhering to sustainable tourism best practices and the economic empowerment of our people by ensuring that the benefits of tourism are spread throughout our rural communities. In 2014, the Ministry will increase its efforts to maintain and expand airlift to and from our key tourism markets as this is critical to the expansion of the sector. It will also lead the efforts to modernize Port Zante and the RLB International Airport.

125. Mr. Speaker, in respect of the Ministry of Housing, Public Works, Energy and Public Utilities, an allocation of \$15,821,981 is being proposed to support recurrent expenditure for 2014. The amount represents a 5% increase over the 2013 allocation. In 2013 this Ministry was extremely active in implementing a number of projects including the resurfacing and building of roads, the upgrading of school facilities and sporting facilities. During 2014 it will continue with the upgrading of the South East Peninsular Road.

126. The Water Services Department under this Ministry will be focusing on the development of a Water Master Plan which will chart the course for development of our water resources for the next twenty years and the development of an additional 2 million gallons of ground water resources. This would help to meet the growing demand for water especially for the Agriculture and Tourism Sectors. Other water development projects to be undertaken is the restoration of wells in the Basseterre Valley and other areas and the chlorination programmes in the rural districts.

127. The Ministry of Education and Information has been provided with \$63,633,726 to carry out its programmes and activities for 2014. This represents a 12% increase over its 2013 allocation. The upcoming budget year will see the construction and equipping of new early childhood facilities and the renovation of existing ones. The ultra-modern Early Childhood Facility in St. Paul's is a welcomed addition to our stock of early childhood facilities and will give the children of St. Paul's and the surrounding areas learning opportunities in a comfortable environment. It is also worthy of note that the CFB College now offers an associate degree in Early Childhood. Early Childhood educators are encouraged to take full advantage of this opportunity afforded to them.

128. TVET Education remains a priority of the Ministry of Education. A TVET implementation plan has already been developed that addressees among other things the scarcity in certain

technical and vocational skills needed for the Agricultural, Manufacturing, Construction and Services Sectors. Besides this, a medium term implementation plan is now in place and the relevant tools and equipment have been purchased to upgrade the technical programmes in schools. The physical facilities at AVEC and the CFBC have been upgraded to facilitate TVET training.

129. During 2014, the Ministry will continue to implement initiatives to improve the overall quality of education and to improve the professional development, accountability and appearance of educators. Therefore, supervision will be enhanced, a teacher appraisal system put in place and the amended dress code policy introduced.

130. Mr. Speaker, I now turn to the Ministry of Health. This Ministry's allocation for 2014 is \$37,967,385. This is a 9% increase over the amount allocated in 2013. My Government recognizes health as a basic human right and a prerequisite to national development. We also subscribe to the philosophy that health care should be accessible to all of our citizens. It is with this in mind that in 2014 the Ministry of Health will be rolling out the first phase of a Universal Health Insurance Scheme. In this first phase the uninsured, particularly the vulnerable and most at risk groups will be covered to protect them from being impoverished by catastrophic medical bills.

131. Fiscal year 2014, will also see the implementation of an updated National Health Policy and the enactment of several other pieces of legislation including a new Pharmacy Act and a new Medical Act to strengthen the legal framework for the Health Sector. A new Public Health Act will incorporate national and international health regulations, and measures to mitigate current health risks such as tobacco and obesity caused by the consumption of unhealthy foods.

132. The initiatives to be implemented will focus on the following themes:

- A robust policy framework;
- Adequate, predictable and sustainable financing; and
- Evidence-informed decision-making.

133. Mr. Speaker, the Ministry of Youth Empowerment Sports and Information Technology has been allocated \$8,740,413 for 2014 representing a 9% increase over the previous year. The work of the Ministry continues to be centred around developing youths into responsible citizens who can positively contribute to the economic and social development of our Federation.

134. During 2014, the Ministry will be involved in a number of initiatives including the following:

- Provision of training to unleash the entrepreneurial spirit among youth;
- Collaboration with the Ministry of Education and the Ministry of Social and Community Development, Culture and Gender Affairs to address the prevalence of childhood obesity, the increasing incidences of lifestyle diseases among youth and in identifying youth at risk for early intervention; and

- Development of in a Business Plan for Sports Tourism in consultation with stakeholders so as to implement revenue generating initiatives for use of the major stadiums and grounds.

135. The Ministry also intends to strengthen and reconfigure the Department of Technology so that it can better address the increasing demands placed on it. A Public Private Partnership proposal to construct, install and commission a Government Wide Area Network (GWAN) to provide integrated and interactive e-government services is under consideration.

136. The Ministry of Sustainable Development has been allocated \$4,970,339 to carry out its programmes and activities for 2014. During 2014, it will continue to perform its role as the lead Government agency with responsibility for national development planning, coordination of development cooperation programmes, development of the Public Sector Investment Program and the production of Government statistics. During 2014 the Ministry will continue to collaborate with the Human Resource Management Department in implementing the World Bank Funded Enhanced Public Sector Governance and Efficiency Project that seeks, among other things, to improve efficiency in personnel expenditure and align human resource needs and staffing with policy initiatives.

137. In 2014, an initiative will be undertaken to transition the Statistics Department which is now a Department in the Ministry of Sustainable Development into an independent agency. It is believed that an independent statistics agency would have more latitude in managing its affairs and would be better placed to perform a wide range of statistical services more efficiently and provide more timely statistics to assist better decision making.

138. The Ministry of Foreign Affairs' allocation for 2014 is \$16,159,799, an increase of 13% over the 2013 amount. These resources will enable the Ministry to effectively discharge its role in monitoring, analyzing, adjusting, coordinating and managing the national agenda for St. Kitts and Nevis for 2014 and beyond. The work of the Ministry continues to yield significant socio-economic benefits to St. Kitts and Nevis in such forms as scholarships and Foreign Direct Investment. Other issues of an international nature where the Ministry of Foreign Affairs provides adequate representation for our Federation include global financial practices that negatively impact small island states; advancing renewable energy initiatives and supporting efforts to reduce the spread of HIV and AIDS.

139. One major initiative to be implemented in 2014 is the establishment of a St. Kitts and Nevis embassy in Cuba. This will indeed strengthen the already strong relationship that exists between our two Governments and at the same time provide on the spot services to our nationals living and studying in Cuba.

140. Mr. Speaker, in 2013 we made some administrative changes which resulted in the separation of the Office of the Attorney General from the Ministry of Justice and Legal Affairs. This action was pursued to allow more focus to be placed on the constitutional and other responsibilities of the Attorney General. This initiative has allowed the Attorney General's Chambers to devote more attention and resources to the needs of Government agencies and functionaries.

141. During 2014, training of staff will continue to be of high priority and the human resource capacity of the Chambers will be augmented with the retention of two additional attorneys and clerical staff. This will give the Chambers added capacity to respond to the ever increasing requests for legal advice and services. The Office will also be modernized by computerizing many of its processes including document storage and retrieval. Other initiatives to be implemented in the upcoming budget year include:

- The establishment of online research facilities and upgrade of the Office library, and
- The enhancement of staff and research capacity.

These initiatives are expected to dramatically improve the efficiency of the Office of the Attorney General.

142. Mr. Speaker, when all is said and done there is no denying that substantial resources have been provided to advance the work of all Government Ministries and Departments. We believe that these resources will go a long way to deliver the quality of services the public is demanding. Furthermore, we are confident that the comprehensive programmes and initiatives outlined in this year's Budget Estimates would help to build a platform for further growth and development of our Federation, a better quality of life for our people and more cohesive communities.

### **Fiscal and Other Strategic Measures**

143. Mr. Speaker, as indicated in my earlier review of fiscal performance and as independently confirmed by the IMF and the ECCB, the combination of tax reform, expenditure containment efforts and our debt restructuring programme has resulted in the creation of some much needed fiscal space. The very strong performance of the Citizenship by Investment programme has created some additional fiscal space. The debt restructuring agenda is proceeding and we are now confident that, with continued responsible fiscal management, we could bring the debt stock down to less than 80% of GDP by the end of 2016 – even while we meet our debt repayment obligations which are expected to peak between 2014 and 2015. Indeed, as demonstrated by the comfortable margins by which we have exceeded the targets to which we are committed under the IMF programme, our economic programme is now somewhat ahead of the curve and the economy is we are now well poised to consolidate the recovery effort by focusing more firmly on the growth agenda.

144. In this environment, Mr. Speaker, our major strategic challenge at this juncture is how to use the available fiscal space in a structured and coordinated manner in support of our economic growth targets. In the preparations for this budget presentation, we have considered the options and accepted the following guiding principles. Firstly, expansion of expenditure must be moderate and measured. This principle applies particularly to recurrent expenditure and, as such, we plan to keep any growth in this area in line with the growth of tax revenues. The second fiscal management principle that we propose to adopt is linked very closely to the first and it is that the use of the surplus resources being generated by the Citizenship by Investment programme will be heavily biased towards investment spending on programmes and projects that are carefully designed to strengthen the country's productive capacity. The third principle commits us to accelerating the implementation of a number of structural reforms that we have identified as

being critical elements of the institutional infrastructure required to support sustainable growth and the enhancement of the economy's competitiveness. This agenda includes continuation of the public financial management improvement programme, business climate enhancement, pension reform, public sector modernization and the re-engineering of our social service delivery system.

145. Over the medium term we will review the system for administering tax concessions. This will be done in the context of our efforts to improve competitiveness and enhance efficiency in terms of resource allocation among different areas of Government's responsibility and strategic interest. In pursuit of this objective, the Ministry of Finance will collaborate with SKIPA, the Customs and Excise Department and the Inland Revenue Department to develop and implement a set of consistent methodologies for the measurement of foregone revenue, mechanisms to promote transparency and accountability of the system for administering concessions. The overall intention is to provide Government and indeed the national community with clear information on the cost of tax concessions and the extent of their contribution to the objective of economic growth, foreign exchange generation and employment creation. This initiative will require some restructuring of the processes for the application, approval and monitoring of tax concessions. In parallel with these administrative improvements, we propose to undertake a complete review of the policy and regulatory framework with a view to embarking on a more comprehensive approach to modernizing our incentive framework.

146. Further, as part of our 2014 Fiscal Management Strategy, the Ministry of Finance will play a coordinating and lead role in the implementation of the remaining items on the structural reform agenda, continue to strengthen expenditure management systems as well as tax administration and compliance, and modernise systems supporting the preparation and implementation of the Public Sector Investment Programme (PSIP). The immediate target will be to prepare and publish the PSIP for the period 2015-2017 which will provide the policy context and strategic priorities to inform the choice and sequencing of investment priorities over the next 3 years. It will also provide the baseline information to support the monitoring of Capital Expenditure and a framework for the mobilization of external funding and technical support.

147. Let me now outline the measures that we propose to take in support of efforts to strengthen the management of public finances. In order to ensure the maintenance of accurate debt records and the timely payment of debt service charges. The Accountant General Department will start using the latest version of the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS Version 2) during 2014. The enhanced features include the ability to record both lending and debt instruments in the same database, the production of an extended list of reports, forecasting dates for debt instruments that can factor in non-business days, allowing for adjustments to interest forecasts where necessary and data export facility for World Bank Public Sector Debt Statistics Database. This Department will also undertake a comprehensive upgrade and enhancement of the Integrated Treasury Management System (ITMS). A number of improvements are planned to enhance the financial management system used by the various Line Ministries and Departments. Some of the improvements include: Report Writing facilities; Enhanced System and Data Security; Development of a Cash Management and Fiscal Reporting Module; Upgrading of the Payroll and HR Module; Enhancement of the Accounting and

Reporting Module; and Upgrading of the Purchasing Module in ITMS. Taken as a whole, it is expected that implementation of these activities will result in a more efficient and reliable Public Financial Management System.

148. Mr. Speaker my Government is focused on building a thriving private sector with new firms entering the market, the creation of jobs and developing innovative products that can contribute to a more prosperous society and sustainable green economy. As such, my Government embraces its role in supporting a dynamic ecosystem for firms by setting the rules that establish and clarify property rights, reducing the cost of doing business and increasing the predictability of economic transactions.

149. In this regard, we will be focusing on working with the private sector towards enhancing our tax administration environment by building the cash flows of the private sector to drive investment. We will build these cash flows by extending the time for the payment of selected taxes. Mr. Speaker, my Government understands the opportunity cost of time. Preparing, filing and paying the firm's annual taxes could take up many hours of a business staff's time. We are therefore proposing that, commencing in January 2014, we will change the payment period for the Excise Tax, Hotel Room and Restaurant Tax, Insurance Premium Tax, Island Enhancement Fund, Travel Tax and Unincorporated Business Tax from being paid on a monthly basis to a quarterly basis.

150. Mr. Speaker, the World Bank's Doing Business Report stated that the average business in St. Kitts and Nevis has to sometimes file in excess of 36 payments or filings in a year to the Inland Revenue Department. This is a large number of submissions and it continues to put St. Kitts and Nevis at a disadvantage relative to the other countries here in the region and around the world. These changes will enable businesses to save time and money, as their staff will now be able to focus on other productive activities. It is very important that, as policy makers, we continue to do all we can to improve the economic environment for doing business here in the Federation. For example, we must ensure that we reduce the time it takes to start a business, standardize rules and procedures, simplify and consolidate our tax laws, reduce the cost of compliance and employ the use of cross functional teams among all Departments and Agencies in Government to maximize the gains operational output of our people and scarce resources. On casual observation, these changes might appear small, even insignificant to the unsuspecting observer; but I want to make the point, that they are critically important in helping to strengthen and enhance the efficiency of our regulatory framework primarily by improving the business environment in St. Kitts and Nevis.

151. Mr. Speaker, this additional time and cash flow resources should be used wisely by our private sector partners to build innovative products to enhance their competitive position in the market. I hasten to add, however, that we will be carefully monitoring the implementation of this initiative to ensure that these extended payment periods are not abused or used by anyone to evade payment of the respective taxes. More importantly, we will be extending existing legislation to guard against persons who may collect these taxes on behalf of the Government and not pay them over to the Inland Revenue Department (IRD). The full details of these legislative changes will be provided at a later date.

152. The Ministry of Finance and the Inland Revenue Department's choice of the correct organization structure is a key component in our strategy for improving revenue generation through enhancing the administrative effectiveness of the administration of our taxes. International best practice in tax administration suggests that it is necessary to have the right organization structure in place in order for revenue administrations to operate effectively and to optimise their revenue collection and compliance efforts. At the Inland Revenue Department we are well advanced in adopting a structure based on what is called a function based model. This will enable the management of that Department to establish a full-service Audit and Collection Enforcement section, dedicated to providing service to our large and medium taxpayers. This structure is in line with international best practice and is based on the theory that in grouping together similar activities that require similar skills or specialties, real performance gains are achieved through an increased depth of knowledge in core areas of business expertise.

153. Mr. Speaker, while we are not in a position at this very early stage of the Inland Revenue Department reform and modernization process to categorically state or quantify what is likely to be the revenue impact or return on investment during the initial period, there is no doubt that it will be credible, substantial and real. Reforms and transformational change such as we are embarking on take time, patience and foresight, but we are committed and we have seen the early gains, as we are confident, with perseverance our ultimate goals will be realized.

154. Mr. Speaker, I am proud to add that one of our goals towards building a sustainable green economy is the application of technology to IRD's operations. In my last Budget Address to this august body, I mandated that the IRD must move into the era of E-Business. Businesses can now pay almost all of their taxes online. I must add that we were the first country in the OECS sub-region to achieve this milestone and among the first countries in the CARICOM. This innovation by my Government is translating into positive benefits for our private sector in terms of extending opening hours (as businesses that register for e-filing now has until 11:59 pm to pay their taxes without penalties) and businesses pay their taxes at their convenience as they can choose to no longer spend time queuing in lines at the Department. In 2014 the Inland Revenue Department will be adding Property Taxes to its online e-business platform.

155. Mr. Speaker, we are a Government that listens to our people and we are a Government that seizes all practical opportunities to partner with the private sector and civil society. I have mandated the Ministry of Finance to evaluate the proposal for repeating for a third time the implementation of a reduced VAT day in 2013. As you are aware, we have publicly communicated the rather generous decision to again sponsor two days of reduced VAT. The days indicated were 5th December and 20th December, 2013. Today, I am taking this decision further and pronounce that vehicles will be included as an item subject to a 5% reduced VAT on 20th December 2013. I would also like to invite the businesses that stand to benefit from increased volumes of sales to join the Government and sweeten the deal for their customers by offering additional discounts equal or above the rates offered by the Government. We wish the business community a successful and profitable 2013 and look forward to a vibrant year of business in 2014. mentioned earlier that we have created some fiscal space and last year we took the opportunity to bring some relief to the private sector by reducing the rate of Corporate Income Tax to 33%. This year we are taking some time out to look closely at the public sector. You are aware that over the last three years there have been a lot of sacrifices made in the public sector

particularly among our Civil Servants who bonded with the Government in order for us to pursue our fiscal consolidation agenda. Mr. Speaker, I am referring to the courageous and bold partnership we formed as employee and employer to make a success story of our expenditure control measures. I am sure you can remember growing up that older people used to say that “ungratefulness is worse than witchcraft”. This Government will never practice ungratefulness and that is why we were able to negotiate and secure the necessary resources to pay a bonus in celebration of our 30<sup>th</sup> anniversary of independence.

156. This was just the beginning of the package designed to bring relief and express gratitude to our hard working Civil Servants. As early as January of this year we signalled to the IMF a desire to use some of the fiscal space created from the sacrifice of Civil Servants to reward their diligence and hard work. Starting in January 2014 we will discontinue the wage freeze and restore increments so that all Civil Servants who are eligible for incremental payments can look forward to receiving this well-earned payment. Mr. Speaker, we are also committed to providing an upgrade in the pay package for Civil Servants. In addition to restoring increments, we will increase wages and salaries by 10% over the next three years starting in 2014 with an immediate increase of 4%, to be followed by 3% increases in 2015 and 2016. Similar adjustments will be made to the pension payments of retired Civil Servants.

157. In making this announcement, I wish to signal the Government’s intention to adopt a new approach to the critical question of public sector wage determination as we move forward. This approach will involve a formal review of the public sector wage bill every 3 years as opposed to the past practice of allowing fairly long periods to pass by without adjusting compensation packages. The major weakness of this old approach was that it attempted to correct the erosion of public sector wages after the fact. The new policy proposes a more proactive approach to protecting the real wages of our public servants. Mr. Speaker, please permit me to share a few words with the national community on the rationale for adopting this approach.

158. The objective of our employee compensation policy is to support continuous enhancements to the productivity of the public sector while protecting the real wages of the individual worker. Of course, as in all other areas of public expenditure, affordability is a major consideration since employee compensation is the largest single expense undertaken by Government, accounting for, on average, an estimated 43% of total expenditure. In short, public sector wage policy must strike an appropriate balance between productivity and the welfare of the individual worker while keeping the growth of public expenditure within affordable limits. In striking this balance, we also have to ensure that the public sector continues to attract and retain the level of talent and commitment required to deliver on the increasingly complex development agenda that we have embarked upon.

159. This is the context in which we now propose to adopt the approach of reviewing and adjusting the public sector compensation package every 3 years as obtains in other countries in the region. Mr. Speaker, a major consideration in adopting this new direction is the need to put the determination of public sector compensation packages on a more predictable footing. This will have benefits for both the individual public sector employee and the Government, as both parties would have the advance information required for them to arrange their respective affairs in a more orderly fashion.

160. Finally, I also want to signal that within the framework of our public sector reform initiative, we propose to move towards a system that allows the establishment of more transparent linkages between productivity and the payment of increments. This will require a restructuring of our performance appraisal systems and procedures – a task that will have to be undertaken as part of our public sector reform programme. I am confident that both the national community and the public sector work force would welcome this attempt to improve the efficiency of public spending in this critical area. Once again, I thank the public sector work force for the sacrifice and commitment to the national cause that they have demonstrated over the last 3 years.

### **Summary and Conclusions**

161. Mr. Speaker, judging from the record of our sterling successes and progress, the practical yet impressive plans put forward for 2014 and the passion and energy being applied to the implementation of real solutions to the challenges of our country, you must agree that it is SPRING TIME here in St. Kitts and Nevis. Yes, we are ushering in a new season of rejuvenation and visioning for our future prosperity! My Government and the country as a whole have definitely made some important strides over the last year.

162. Mr. Speaker, in considering the current fiscal position of the Government and the forecast for 2014 we have determined that there will be no major changes in the tax regime. I want to make it clear to this Honourable House and the Nation that this is a tax free Budget. The broad macro-economic policies that my Government adopted in 2013 are working and therefore will for the most part remain unchanged during fiscal year 2014. It is anticipated that corporate income tax will recover and grow in line with GDP, international trade taxes will grow as imports increase and Citizenship by Investment programme will continue to grow from strength to strength.

163. Our ‘home grown’ approach to dealing with our own debt situation has received international recognition and we have received much commendation on the creative approaches we have designed and the policies we have implemented toward addressing our debt service obligations. In fact, as you are aware, as Prime Minister and Minister of Finance of this Federation, I recently led a Commonwealth delegation of Small Island States to meet with the International Financial Institutions (IFIs) including the IMF, World Bank and Inter-American Development Bank. The purpose of those discussions was to examine how the debt situation of the Commonwealth SIDS can be managed in a way that would bring immediate relief and over the long term lead to debt stabilisation in these small vulnerable states. Overall, I am pleased that St. Kitts and Nevis was able to share its experiences with the rest of the world and the fact that this initiative holds great promise to yield tangible outcomes for all Commonwealth SIDS including our Federation.

164. Mr. Speaker, Theodore Roosevelt said, “It is not what we have that will make us a great Nation; it is the way in which we use it.” This Government is charting a course that will facilitate the achievement of greatness for St. Kitts and Nevis ensuring sustained development and the reduction of poverty through the strategic utilization of our natural assets to create a sustainable island-state. We have shown commitment in this regard through the development and approval

of the National Energy Policy (2011), the installation of over 100 induction lights along the Kim Collins Highway and a portion of the Frigate Bay Road, the use of solar lighting on the main road from Sandy Point to St. Pauls and at the R. L. Bradshaw Memorial Park, and the use of solar panels to generate a proportion of the power used by our very own Government Headquarters and, most recently the R. L. Bradshaw International Airport. We are pleased that our concession and duty free packages have provided the impetus for the integration of renewable and energy efficient technologies by our people in their homes and businesses.

165. However, the greening of the economy includes more than ensuring energy efficiency. It also involves the fostering of eco-innovation across all sectors bringing business and innovation together to create sustainable solutions that make more efficient use of our precious resources. Embracing the concept of a green economy can help to reduce the negative side-effects of our economy on the environment while creating economic benefits and competitive advantage. This will be the thrust of our development as we endeavour to remain one step ahead in an uncertain global economy which requires sustained collective action not only in St. Kitts and Nevis, but across the entire region. We are convinced that the transformation of St. Kitts and Nevis into a sustainable island-state would help to protect us from the massive fluctuations in the global economy by reducing our import bill and moving our economy towards greater efficiency in energy for electricity and food production.

166. Mr. Speaker the overarching objective of my Government is to improve the quality of life of our people. The main vehicle to achieving this goal is sustained growth and development. In this Budget we have therefore been careful to commit resources to key areas that would drive growth including Tourism, Agriculture, small and medium enterprise development and Infrastructural Development. Despite the fiscal challenges that we face, we have ensured that the programmes and initiatives critical to improving the quality of life of our people have been adequately resourced.

167. We will therefore continue to reform our education system to make education more relevant to the needs of our young people and equip them with the skills and expertise that are in demand in the private sector. The objective is also to position them to be able to compete locally, regionally and internationally. The availability of scholarships to persons wishing to attend university has also increase. In this Budget our focus on poverty reduction and social protection will continue. A new National Social Protection Strategy will be implemented along with the introduction of the new Unemployment Benefit Scheme. Further, substantial resources have been provided to our Security Forces to continue their safety and security initiatives to further reduce crime, building on the success they have achieved so far in significantly reducing crime.

168. We will continue upgrade our health system to provide our citizens with modern diagnostic equipment and tertiary level healthcare services such as haemodialysis. This Budget addresses the issue of the inability of many of our citizens to afford the cost of health care especially in the case of catastrophic illness. Therefore, provisions have been made in this budget to implement the first phase of a universal health care scheme. This phase will provide healthcare coverage for the uninsured beginning with the more vulnerable groups.

169. As I indicated at the at this year's National Consultation on the Economy, my Government believes that it is important for all stakeholders, public, economic and social, to share in the

process of consensus building on critical issues of development. Therefore, we will create opportunities to continue the dialogue on the vision of a green economy and the transformation of St. Kitts and Nevis to a sustainable island-state throughout 2014. It is also worth repeating my belief that as with our debt management strategies, when it comes to the pursuit of a green economy, as a Nation we can push hard and arrive ahead of the pack. We are already on a good track and we should remain focus, focus on becoming the greenest and the most energy efficient economy in the region.

170. Mr. Speaker, we are confident that the comprehensive programmes and initiatives outlined in this year's Budget Estimates will help to build a platform for further growth and development of our Federation, a better quality of life for our people and more inclusive communities. This Budget is designed to win BIG for our people in 2014 and is testament to my Government's unwavering commitment to continue to win BIG for every man, woman, and child who call this our beloved Federation home.

171. Mr. Speaker, I so move.