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ENHANCING INVESTMENT, REVITALISING AGRICULTURE AND STIMULATING RECOVERY

BY

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INTRODUCTION: A Mandate with a Heavy Responsibility

Mr. Speaker,
Fellow Members,

I rise in humility to present the first budget to this Eighth Parliament. Mr. Speaker, in December of last year, the people of Saint Lucia renewed their confidence in this Administration to guide our country through what was widely understood to be arguably its most difficult period since independence. Indeed, Mr. Speaker, the mandate which was given to us on December 3rd 2001 was a clear and unambiguous indication that the people of Saint Lucia understood the enormity of the challenge which lay before us. It is because of their grasp of the seriousness of the global challenges confronting us, that the people of Saint Lucia made the sensible and historic decision to entrust us once more, with the task of charting the path for the social and economic advancement of our people and country in these turbulent times.

Let me assure you Mr. Speaker, that the members on this side of this Honourable House have not underestimated the enormity of the responsibility which has been placed on our shoulders. We take this responsibility seriously. We fully intend, Mr. Speaker, to approach our duties with the resolute commitment and resolve which the current situation demands.

I am confident, Mr. Speaker, that the statement which follows will validate the trust which has, once again, been placed in our Administration. I am also confident that, with the co-operation, understanding and commitment of all sectors of society, it will result in the balanced economic and social development to which we all aspire.

This budget, Mr. Speaker, is intended primarily to respond to the difficult global economic environment now impacting on Saint Lucia. Its main goal is to ENHANCE INVESTMENT, REVITALISE AGRICULTURE AND STIMULATE ECONOMIC RECOVERY.

As with previous budgets, inputs from the public were invited, submitted, considered and appropriately incorporated. Given the peculiarities of the current economic environment, the pre-budget process was longer, more rigorous and all-embracing. The result is a level of analysis and prescription that addresses the times we face; times that are conditioned by constantly changing world developments over which we have limited control.

Exacerbating Factors

The year 2001 was extraordinary and it deserves special mention. By the third quarter of last year, the global recession had begun to take its toll. Then the world was visited by the events of September 11, and things have not been the same since, and will never be the same.

Ours was the first government in the region to undertake an urgent revision of its earlier projections and to present a contingency plan of adjustments that had to be made in the light of the post-September 11 reality. The document entitled ***"Fortifying Our Economy to Meet the New Challenges"*** was presented to this Honourable House and sought to guide us through the rest of the fiscal year.

Striking the Right Balance

Mr. Speaker, since 1997, we have endeavoured to reshape and reposition our economy for the challenges facing our nation in the 21st century and beyond.

Through thick and thin we have sought to strike a balance between short-term requirements and long-term needs. We have endeavoured to do what is necessary to protect our people from increased prices, to release more people from the tax net to give direct assistance to the farming community and to increase concessions to local businesses. At the same time, we introduced those long-term measures that would better position us to withstand the shocks ahead.

This year's budget continues in that tradition.

We will now turn to an examination of the global environment which has been impacting upon our development efforts here in St. Lucia.

A DIFFICULT YEAR

International Economic Developments

Real growth in the global economy declined from around 4.7% in 2000, to 2.5% in 2001, the lowest in eight years. Even before the terrorist attacks in the United States, economic growth had fallen off significantly in many OECD countries.

The international economy had not fully recovered from the 1997-1999 crisis in emerging markets, when business confidence in the USA began to falter in late 2000. This carried over into 2001, marked by a significant decline in investment, particularly in the technology sector. The downturn in the US economy spread to other countries through the financial markets and via a decline in demand for exports. At the same time, the deepening stagnation of Japan's economy and the economic crisis in Argentina exacerbated the downturn.

The attack on the World Trade Centre had an immediate and pervasive effect on the world economy. Confidence collapsed, stock markets plummeted, and international trade, travel and tourism were dealt a severe blow. Subsequently, although tourism recovered somewhat in many countries, the overall impact was still catastrophic. In St. Lucia, for example, stay-over visitor arrivals declined by more than twenty thousand and total tourist expenditure dropped by around $122.3 million.

While inflation was generally lower because of slack demand and lower energy prices, 2001 was characterised by lower real growth, growing unemployment in many countries, and shrinking world trade in real goods and services. The volume of world trade declined by 0.2% in 2001, compared to positive growth of 12.4% in 2000.

Real economic growth in industrial economies fell from an average of 3.9% in 2000, to 1.2% in 2001. The USA declined from 4.1% to 1.2 per cent, the UK from 3.0 per cent to 2.2%, Germany from 3.0% to 0.6%, Canada from 4.4% to 1.5%, and Japan from 2.2% to negative 0.4%. Growth in the European Union as a whole fell from 3.4% to 1.7%.

The economic performance of developing countries is influenced both by domestic factors and by external developments in the rest of the world. Highly open economies, such as the countries of the Caribbean, are heavily dependent on international trade. Thus, performance of a country's trading partners can have a telling effect on the domestic economy. Given the prevailing global environment in 2001, it is not surprising then, that growth in the developing countries as a whole, declined from 5.7% in 2000 to 4.0% in 2001. Moreover, the countries of Central and Eastern Europe, as well as Russia and the Commonwealth of Independent States (the countries of the former Soviet Union), experienced lower growth of 5.0% in 2001, compared to 6.6% in 2000.

In general, most countries experienced a slowdown in the rate of economic growth, with many of them descending into recession.

With many of the underlying factors still unresolved, the prospects for recovery in 2002 are uncertain. Some economists and major international institutions believe that the recession may have already bottomed out (at least in the USA), and that world growth will be higher this year. The more pessimistic argue that severe weaknesses in the economies of the USA, some European countries and other regions will postpone that recovery.

For example, the buoyant consumer demand which significantly cushioned the U.S. economy in 2001 may not be sustainable. Both consumers and investors are heavily indebted and may be severely constrained in their capacity to provide a spending stimulus to the economy. Political instability in the Middle East, high and volatile oil prices, high levels of public and private sector debt in many countries, and economic crises in Japan and Latin America (particularly Argentina and possibly Brazil), could delay a return to buoyant growth.

We believe that, barring unforeseen shocks, our own economy, which derives strength from the fact that it is moderately diversified, will be stabilised towards the end of this year or early next year, after which we will begin to see the green shoots of growth. However, this will not happen automatically, and collectively we must work hard and be reasonable in our demands in order for that goal to be achieved.

REGIONAL ECONOMIC DEVELOPMENTS

The global recession has also had a significant adverse impact on the regional economy. The performance of most Caribbean Community economies declined in 2001, with at least five of them (including St. Lucia), experiencing negative growth. Barbados declined by around 2.8%, after eight years of growth averaging 2.9%. Dominica's decline is estimated to have been in excess of 3%, with Montserrat and Grenada experiencing negative growth. I shall go into greater detail on St. Lucia's performance shortly.

It is interesting that three of the five countries (St. Lucia, Dominica and Grenada), which suffered negative growth, have significant agriculture sectors. Agricultural output, exports and incomes throughout the region, were generally affected by drought and other adverse weather conditions, such as the hurricane in Belize. The low commodity prices, coupled with the exodus of producers from some agricultural sub-sectors such as bananas, further accelerated this decline.

Tourism activity from stayover visitors, already on the decline towards the end of 2000 and into 2001, was further weakened by a downturn in the last quarter of 2001. Barbados, Antigua and Barbuda, St Kitts, St Vincent, Grenada, the Cayman Islands and St. Lucia, were all adversely affected by the decline in tourism. In most countries, the growth in cruise ship arrivals could not compensate for the decline in stayover arrivals, or the heavy discounting of accommodation and other services forced upon the tourism sector.

The manufacturing sector declined throughout the region. The sector's lack of international competitiveness, combined with the global downturn, lie at the root of its unsatisfactory performance.

The fiscal position of most countries of the region deteriorated in 2001, as countries suffered revenue losses from the decline in export earnings and from the decision to delay passing on petroleum price increases. Governments were generally unwilling to cut expenditure, accumulating instead considerable debt on commercial terms, particularly from external sources. This placed additional debt service burdens on national treasuries at a time of weak revenue performance. A notable exception was Trinidad and Tobago, which enjoyed higher than expected revenue, mainly from the energy sector. However, even in that country, growth was lower at just over 4% in 2001 compared to 6.4% in 2000.

Inflation remained relatively low in most countries, in keeping with weak demand conditions, while liquidity seems to have increased somewhat as financial institutions found it harder to identify bankable projects.

In general, the OECS economies, Barbados, Belize and the Bahamas, were hit hard by the economic downturn in the world economy, exacerbated in some cases by adverse weather conditions. On the other hand, Trinidad and Tobago, Jamaica and Guyana experienced modest growth, underscored by a robust energy sector in Trinidad, the recovery of key mining, agricultural and other sectors in Jamaica, and the recovery of mining, agriculture and communications in Guyana. With the possible exception of Trinidad and Tobago, it will be a significant challenge for all Caribbean countries to sustain or enhance growth in 2002.

PERFORMANCE OF THE DOMESTIC ECONOMY

The past year has been particularly difficult for the St. Lucia economy. Following encouraging performances in 1998 and 1999 when the economy grew by 3.1% in each year, representing the highest growth recorded for the period 1993-2000, the rate of economic growth decelerated to 0.2% in 2000.

The worsening international economic climate, driven by the recessionary conditions, along with the most severe drought experienced in the past forty years, drastically affected St. Lucia's economic performance in 2001.

These external factors, which are outside the sphere of influence of domestic policy makers, stifled domestic economic activity. The rate of economic growth was estimated at negative 5.4% in 2001. Despite encouraging performances from the emerging domestic services sector, the vital foreign exchange and income generating sectors, agriculture, construction, hotels and restaurant, wholesale and retail, and manufacturing, which accounted for 56% of GDP, all contracted.

Agriculture

Following modest growth of 2.6% in the preceding year, value- added in the Agriculture Sector fell by 24.4% in 2001. This development resulted in a 1.5 percentage point decline in agriculture's share of GDP to 6%. Value-added in the banana industry declined by 4.8%, while its share of GDP fell from 3.5% to 2.2%.

Despite the attempt by Government to stabilize banana output, through the provision of additional financial assistance for the purchase of critical inputs, adverse weather conditions and leaf spot infestation induced a 51.3% decline in banana production and exports to 34,044 tonnes. This reduction in output, combined with a 5% depreciation of the pound sterling, resulted in a 52.1% reduction in banana revenue to $41.2 million. On the positive side, fruit quality increased by 5 percentage points, whilst the Free-On-Truck (FOT) price increased by 4.7% to £460.7.

The volume of copra produced increased marginally, whilst fish production maintained its positive trend and grew by 5.7%. Livestock production expanded, and value added in this sub-sector increased by 10.3%.

Tourism

The industry which was most severely affected by adverse global events was Tourism. In the past decade, this industry has emerged as the mainstay of the economy and has served as a counterbalance to the decline in the banana industry. The intricate link which exists between economic activity in our major source markets and the performance of the domestic sector, was clearly evident. The global slowdown affected both the current performance of the industry and its medium-term prospects, as increased uncertainty delayed planned direct foreign investment flows into the industry.

Influenced by the global recessionary conditions, real economic activity in tourism, measured by value-added in the Hotel and Restaurant sector, contracted by 10.6%. Despite the contraction in value-added, the tourism industry maintained its position as the single largest contributor to GDP, accounting for 12.7% of national output.

Mobilizing additional financial support, Government acted aggressively in an attempt to reverse the adverse developments in the industry. Funds allocated for tourism marketing were supplemented by approximately $3.7 million, increasing the total marketing budget to $18.7 million. The success of this intervention was manifested by the generally steady recovery in arrivals, especially from the Caribbean.

Overall visitor arrivals increased by 3.2% to 749,339. The major growth impetus was cruise arrivals, which increased by 11.1%. The continued strengthening of this sector reflects St. Lucia’s increasing attractiveness as a cruise destination. Implementing measures aimed at increasing the indirect benefits derived from this section of the market will remain a major focus of government policy.

The negative external developments adversely affected the stay over segment of the industry, where value added is greatest. Stay over arrivals declined by 6.5%, as arrivals from the USA, Canada and United Kingdom contracted by 6.5%, 18.1% and 16.9% respectively. Arrivals from the Caribbean market grew by 10.3%, helping to improve the overall picture. Growth in arrivals from the Caribbean was influenced by increased air access and an intensive marketing campaign launched by the St. Lucia Tourist Board.

Consistent with the contraction in visitor arrivals, average hotel occupancy declined by more than 7.0 percentage points, whilst gross tourism expenditure contracted by 15% or $122.3 million.

Manufacturing
The manufacturing sector continued to struggle, despite the continuation of assistance in the form of consumption tax rebates, technical assistance grants and numerous other fiscal incentives. The difficulties experienced by the sector are largely associated with its uncompetitive pricing and structure. The ability of Government to provide further assistance to the sector is severely constrained by existing regional and international trading obligations.

Value Added in the sector contracted by 5%. Increases in the output value of food and beverages (5.1%), copra and copra derivatives (6.3%), were offset by reductions in the other major products, including paper products (21.3%), due to the fall in banana box demand from producers across the Windward Islands. Wearing apparel and textiles declined by 39.5% and electrical products by 41.6%. Declines in textiles, electronic and electrical products are directly related to the contraction of the U.S. economy, our principal market for these exports.

Construction
The construction sector was indirectly affected by global recessionary conditions. The reduction in the rate of domestic growth and the concomitant decline in tax revenue restricted the government’s ability to execute the planned capital expenditure program. The level of uncertainty generated by global developments led to the postponement of direct foreign investment in the hotel sector, thereby restraining private sector construction activity. The Capital Works program of Central Government was frustrated by delays in the planned execution of the Roads Development Program. As far as the Caribbean Development Bank was concerned, it was business as usual with respect to the frustratingly long gestation period for projects.

The intensification of works on the National Stadium and National Cricket Ground and the commencement of Fish Landing Facilities in Soufriere and Choiseul, provided much needed growth momentum in the sector, but this was inadequate to compensate for the decline in other areas.

Consequently, the construction sector contracted by 5%, and public sector activity declined by 7.1%, as actual Government construction expenditure fell by 27.7% or $52.5 million.

Services Sector

The growing importance of the services sector to national output was quite evident. Despite the weak performance of the other foreign exchange earning sectors, activity in the domestic services was encouraging and highlighted the continued transformation of our economic structure. Value-added in the Communications sector grew by 11.8% compared to 5.5% in 2000/2001. Activity in the Banking and Insurance sector increased by 2.5%. Increased activity was also recorded in the Electricity and Water sector, which expanded by 3.6%.

However, the retail and wholesale sector, where performance is more directly linked to that of the banana and construction sectors, recorded a 15.1% decline in value-added. The sector's contribution to GDP declined to 11.3% and was replaced by the Banking and Insurance sector as the second largest contributor to national output.

International Financial Services Sector

The International Financial Services Sector was fully established just over two years ago and has made moderate but steady progress since then. Some 440 International Business Companies have been registered to date, of which 101 were established in 2000, 242 in 2001 and 97 for the year so far in 2002. Eight companies are international trusts, eight are insurance companies, one is an administrator of mutual funds and one is a bank.

The comprehensive legislative framework, the separation of responsibilities between the supervisory and marketing agencies and our demonstrated commitment to creating a jurisdiction of high repute, have not gone unnoticed in the international community.

(1) St. Lucia has never been on the Financial Action Task Force (FATF) list of non cooperative territories with regard to money laundering. Several of the older and more established international financial centres were included on this list and had to take measures to come off. Our laws and regulatory standards ensured that from the outset we met the highest standards and were not, therefore, considered for negative listing.

(2) In addition, St. Lucia was removed from the OECD list of territories with harmful tax practices in March 2002. This was achieved with acknowledgement by the OECD in a press statement that St. Lucia "largely satisfied the OECD key principles of transparency and exchange of information".
The Caribbean Regional Technical Assistance Centre (CARTAC), had this to say in its paper on a strategy for strengthening the supervision of the OECS Financial System: "<u>with the exception of St. Lucia</u>, the legislation governing the operations of the offshore sector is generally deficient despite a number of amendments."

These observations have validated our efforts at ensuring that Saint Lucia remains a "zone of integrity". As our economy continues to adjust and modernize from agriculture to services, it is hoped that the Financial Services Sector will, in the future, make an even more important contribution to our national development efforts.

Money and Prices

In keeping with the slowdown in domestic and global activity, inflationary pressures subsided. The rate of inflation, measured by the percentage change in the twelve month moving average, declined to 2.1% in 2001 from 3.6% in 2000. In the recent past, Government has used the price of petroleum as one of its instruments to contain inflation. The current recessionary conditions have exerted downward pressure on the price of non- petroleum products, thus concerns about inflation have lessened. This development now requires a shift in government policy from inflation containment to revenue enhancement.

Money supply expanded by 4.7%. Of this, private sector demand deposits, savings deposits and time deposits grew by 0.2%, 6.4% and 8.9% respectively. Domestic credit grew by 15.5%, while outstanding credit to the private sector grew by 4.1%. Business credit grew by 5.1%, However, lending to agriculture, tourism, manufacturing and the distributive trade sector all registered declines.

Liquidity in the banking system improved, as the Loan to Deposit Ratio declined by 2.0 percentage points to 92.8%. St. Lucia continued to accumulate foreign reserves, albeit at a slower rate. Our imputed share of Central Bank reserves now stands at $117.3 million.

Fiscal Operations

There is a direct correlation between growth in nominal GDP and Central Government Revenue. In periods of declining economic activity, the volume of imports contracts, triggering a decline in revenue from consumption tax and import duty. Recessionary conditions are also associated with declines in corporate profitability and employment. These also produce concomitant reductions in corporation and income tax collected by Government.

Consistent with developments in the real economy, government’s current revenue declined to 24.7% of GDP from 26.1%. The increased demand for social services and the strategic policy adopted to maintain the level of employment in the public service, caused current expenditure to increase from 20.8% to 23.1% of GDP in 2001. The increase in the ratio of Current Expenditure to GDP reflects the absolute decline in national output.

Central Government capital investment in the social and economic sectors declined from 7.3% to 6.5% of GDP. The decline in investment spending was partially attributable to a reduction in the level of Government Savings.

Despite the implementation of expenditure controls, the steep decline in revenue associated with the economic contraction frustrated attempts at achieving fiscal targets. The Current Account balance declined from 5.3% of GDP in 2000 to 1.6% in 2001.

The level of Government savings generated was clearly inadequate and below the enviable standard previously established by this administration. However, given the prevailing international economic environment, the realization of positive savings is, nevertheless, a noteworthy achievement and demonstrates an ability to manage public finances in difficult circumstances.

I will now highlight some of our performance indices.

Performance Indices

	Target	**Actual**
1. Central Government Savings to GDP	Min 3% Desired 5%	1.4%
2. Central Government Current Revenue to GDP	Min 26%	24.7%
3. Central Government	Max 25%	23.1%

Expenditure to GDP		
4. Public Sector Savings to GDP	Min 7.8%	6.02%
5. Central Government Capital Expenditure to Total Expenditure	Min 30%	25%

The established targets provide a useful barometer to measure fiscal performance. However these targets are heavily influenced by the performance of the domestic economy. The inability of the Government to attain four of the five established benchmarks is largely related to the reduction in Current Revenue. The decline in revenue impacted negatively on the level of savings and consequently, Capital Expenditure. Central Government Expenditure to GDP, the only benchmark which was not directly influenced by revenue performance, was easily attained. The ratio of Central Government expenditure to GDP was 1.9% below the targeted maximum. Thus, despite the reduction in GDP, tight expenditure control ensured that this target was achieved.

Debt Management

A primary role of Government is the provision of public goods and services, which contribute to the long-term development of the country. It is very important for Government to allocate adequate resources to the enhancement of the human and physical capital stock. Such enhancement reduces the capital-labor ratio, increases productivity and creates an environment conducive to private sector development.

The resources required to pursue this worthy objective are not all available domestically. Therefore, they have to be acquired from external sources and financed with loans or grants. Grant funding of the magnitude required is simply not available and Government has to borrow to finance such development. Borrowing externally to finance development is certainly not unique to St Lucia. It is a critical component of development planning in all developing countries.

In accessing external funds on the private market, however, Government remains mindful of the need to ensure debt sustainability. Accordingly the debt position is being constantly monitored.

PROSPECTS: A DIFFICULT UPWARD CLIMB

Mr. Speaker, we are all aware that the St Lucia economy has gone through a very turbulent period. Indications are that the worst is over but the upward climb will be difficult. To confront the challenges posed by the current situation, the government has designed and will implement a comprehensive set of policy measures aimed at revitalizing the economy. These measures, along with the anticipated recovery of the United States and world economies, are expected to stimulate domestic output and income.

In this context of adjustment, we note that the IMF recently revised its global growth projections upward by 1.3 percentage points to 2.0%, in consideration of improved growth prospects for the U.S. economy. The government intends to maximize the possible gains from this scenario by increasing its investment in tourism marketing. Thus, assuming that the U.S. growth momentum is sustained, stay-over tourism arrivals are expected to show significant improvement.

The process of liberalizing the telecommunications industry is nearing completion. The issuance of licenses to various operators in the domestic market is likely to spur investment in that sector, thereby generating income and employment opportunities.

After being devastated last year by the worst drought in forty years when production plummeted to a low of 400 tons in week 27, banana production has surged to pass the 1000 ton mark per week. Due credit must be extended to our tried and tested farmers.

The implementation of the much delayed Road Development Program is expected to inject approximately EC$60 million into local construction. As our economic uncertainty diminishes, a number of delayed hotel expansion projects are likely to come on stream. These activities will substantially boost domestic construction, generating growth and employment activity. Meanwhile, significant investments in irrigation and drainage infrastructure, increased confidence and greater access to essential inputs are expected to fuel a significant expansion in the banana industry.

We are encouraged also by the fact that St. Lucia's core macro-economic fundamentals remain intact. St. Lucia's currency, the EC dollar, is strong, with the effective foreign reserve backing in excess of 90%. The continuance of this very successful exchange rate regime should be a source of confidence to the private sector.

Accordingly, government fiscal operations will focus on maximizing revenue collection through improved efficiency and the minimization of expenditure. The key objective of fiscal policy will be the continued generation of savings by Central Government.

The existing fiscal and monetary policy framework ensures that the St. Lucia economy, the most diversified in the OECS, is well poised for a gradual turn around. Obviously, this year will be a period of stabilization rather than dramatic growth. It will be difficult, but with the policy mix which this government proposes, the economy is expected to record positive growth towards the end of this year or early in 2003.

We must, nevertheless, remain aware that a number of factors at the domestic and international level could retard our recovery. Domestic dangers include excessive wage demands, resulting in a resumption of inflation pressures and a reduction in international competitiveness. This is clearly not the appropriate time for workers to lobby for unrealistic wage hikes. Borrowing by the central government to finance current expenditure is to be avoided. Equally unhelpful is the unwillingness by overly cautious banks to finance viable investment projects at reasonable interest rates. To counter this reluctance, the private sector must seek to utilize the recently established Eastern Caribbean Stock Exchange to raise equity financing.

The inability of the business and household sectors to obtain adequate financing at a reasonable cost, will have an adverse impact on the magnitude and pace of economic recovery in St. Lucia. The banks and financial intermediaries have a pivotal role to play in oiling the wheels of growth, and their actions can accelerate or retard economic expansion.

It is true that the banks have taken a step in the right direction by working with some of their clients to restructure their debts. However, those efforts have not been extensive enough to have a significant and lasting effect on the economy as a whole. There is a need to ease the burden on many more businesses and households, so that a critical mass is reached and the recovery gets underway.

The banks cannot, of course, do it on their own - no single entity or sector can. However, we must all work together to secure a return to growth as quickly as possible. The banks must explore every avenue in an attempt to improve bank efficiency, lower interest rates and reduce other costs to their customers and the economy at large.

These are a few examples of key domestic risk factors, which fortunately can be managed by domestic agents. On the international front, downside risk associated with increased oil prices and weakening economic performance of major export markets, are all real possibilities which domestic policy cannot influence.

INVESTMENT FOR ECONOMIC STIMULATION

Mr. Speaker, Government accepts that it must lead the way in stimulating the economy. An economy may be stimulated by increased investments and with a prudent but appropriate mix of fiscal and monetary policies. Fortunately or unfortunately, we can only use the tools of investment and fiscal policy.

The Public Sector will lead the way with the following investments:

(1) Construction of modern fish landing facilities in Soufriere and Choiseul. Thanks to the generosity of the Government of Japan, the facilities will be constructed at a cost of $44.67 million.

(2) Commencement of the Road Development Programme by July 2002. A provision of approximately 60 million dollars has been made in the Capital Estimates. The contract to undertake construction of the Vieux Fort/Soufriere highway will be announced this week.

(3) Construction of four new Police Stations, financed under the BOLT arrangements with NIPRO, at a total estimated cost of $5.7 million.

(4) Construction of a new fire station in Vieux Fort, at a cost of $2.03 million, through a BOLT arrangement with NIPRO.

(5) Ongoing construction of the Vieux Fort Police Station at an estimated cost of $6.2 million.

(6) Ongoing construction of the new jetties at Laborie and Canaries at the cost of $2.6 million.

(7) Commencement of construction of: (a) a new primary school at Union, at a cost of $7.5 million; and (b) a new Technical Institute at Ciceron, at a cost of $6.1 million. The Vieux Fort Primary (Technical Institute) will be completed at a cost of $3.2 million.

(8) Commencement of the CDB - financed housing programme, costing $13.8 million.

(9) Commencement of the reservoirs and installation of irrigation and drainage networks in the banana areas of Roseau, Cul-de-Sac, Canelles and Mabouya Valley at a total cost of $9.677 million.

These investments, Mr. Speaker, will be supported by major private sector investments, particularly in telecommunications and tourism. It is anticipated that the new telecommunication operators will invest over $150.0 million dollars to establish their operations, and will provide new employment opportunities. The construction industry is also expected to benefit.

In the tourism sector, Government expects that the long awaited extension to Sandals Halcyon will commence in November. Preliminary work will, hopefully, start on the design and eventual construction of a Beaches Hotel by the Sandals Group in Vieux Fort. Construction work continues on the expansion of Anse Chastanet hotel in Soufriere. The Soufriere South bay hotel and marina project is in its design phase. This investment, valued at approximately U.S. $75.0 million is being facilitated by the Government.

Government has also approved a charter for the establishment of a new Medical University, to be constructed in Black Bay, Vieux Fort.

All in all, Mr. Speaker, the economy will receive a healthy injection of investment flows this financial year.

STRATEGIC OBJECTIVES OF FINANCIAL PROPOSALS

From what I have said so far, it should be clear that the financial and institutional proposals of this budget virtually select themselves. This budget has four broad objectives:

- Firstly, **restoring and strengthening fiscal stability**;

- Secondly, **stimulating economic activity in the short term** so that Saint Lucia can return to a real growth path by the fourth quarter of the fiscal cycle;

- Thirdly, **enhancing investment prospects** by,

(a) reducing and eliminating where possible, institutional barriers and hindrances to investment; and

(b) engaging in more direct and strategic investment by Government; and

- Fourthly, **revitalizing and strengthening the agricultural sector**, particularly the continuing increase in the production of bananas.

These initiatives will be undertaken simultaneously with policies of fiscal consolidation. Resources will continue to be directed away from consumption and towards investment in productive sectors. Government will continue to apply a combination of expenditure reduction and expenditure switching policies. Precisely how these policy underpinnings will be implemented will be explained in due course.

ENHANCING INVESTMENT PROSPECTS

Mr. Speaker, every economy needs to be fed and nourished by investment, whether generated internally or externally. We cannot continue to build and maintain walls to protect us against foreign investment.

REPEAL OF EXCHANGE CONTROL ORDINANCE AND EXCHANGE CONTROL (Securities) Order 1994

Mr. Speaker, in an era when it was fashionable to control foreign exchange transactions, the legislature enacted, in 1951, the Exchange Control Ordinance, now Chapter 180 (Vol. 111) of the Laws of Saint Lucia. The legislation contains restrictions on persons, including Saint Lucians, issuing, transferring and substituting securities registered in Saint Lucia. "Securities" include shares, stocks, bonds, debentures, debenture stock units under a unit trust scheme and even shares in an oil royalty. This Ordinance is anachronistic and inconsistent with the spirit of the times. It was intended to satisfy colonial objectives, in colonial times.

The Exchange Control (Securities) Order 1994, sought to ameliorate the provisions of the Ordinance by allowing the issue and transfer of securities providing only, that the persons transferring or issuing are, or have been, resident in Saint Lucia or in the scheduled territories of the OECS, Barbados, Jamaica and Trinidad and Tobago. In effect, a person outside those countries may not confidently invest by purchasing shares in any company in Saint Lucia because he or she is not free to deal with them without the prior permission of the Government. This is a major disincentive to direct foreign investment in Saint Lucia. The Government proposes to review this Ordinace, with a view to inviting Parliament to consider repealing it.

ESTABLISHMENT OF OFFICE OF INVESTMENT CO-ORDINATION

Mr. Speaker, sourcing investment is one challenge, facilitating it is another. Unfortunately, Saint Lucia has acquired an unflattering reputation for red tape, procrastination, and insensitivity. Investors are required to work with several agencies of Government without technical support or guidance. The process is complex, bewildering and often frustrating. Typically an investor in the tourism sector must endure a sequence of applications and approvals of which the Ministry of Tourism is only one stop along the way.

The investor has to seek an Aliens Landholding License to purchase land. This involves the Ministry of Planning, the Cabinet and the Attorney General's Chambers. Then planning approval has to be secured, whether in principle or otherwise. Arrangements have to be made with Customs for duty free concessions for imported goods. Complete approval may take anything from five months to two years in extreme cases.

Mr. Speaker, I propose to deal with these problems directly by the following:

1. Establish in the Ministry of Commerce, Tourism, Investment and Consumer Affairs an Office of Investment Co-ordination. This office will be the focal point for the investor, whether local or foreign. Personnel of this office will work hand in hand with investors, virtually walking through the system with them to secure the necessary government approvals.

This office and the NDC will serve different clientele, but there will be complementarity between the services offered. This office will be operationalised on or before July 01, 2002.

2. Subject to the approval of Cabinet, I propose to streamline applications for Aliens Landholding Licenses in respect of investment in manufacturing, tourism and tourism-related products and services. Applications for investment will be made through the Office of Investment Co-ordination. All other applications related to the purchase of land and property will continue to be channeled through the Ministry of Planning.

REFORM OF WORK PERMIT LEGISLATION

For some time now, Mr. Speaker, the Government has been contemplating reforms to the Work Permit Legislation. In 1997, the Government increased work permit fees from $1,000 to $2,000 for Caricom countries; from $1,500 to $4,000 for citizens of the Commonwealth countries; and from $2,000 to $5,000 for citizens of other countries**.** These increases have yielded revenue in the past year of $1,857,451.00**.** It is our intention to present to Parliament a new Bill which will substantially reform the law governing the issuance of work permits. Under the new Bill, it is intended to link work permits to specific designations within applicant companies. That is to say, an employer would be able to fill a position created by the departure of a holder of a work permit without having to reapply. This would be valid for the remaining period of the original work permit granted to the original applicant, provided that fees are paid for the replacement.

REVIEW OF ALIENS LANDHOLDING LEGISLATION

Mr. Speaker, as we march towards a regional Single Market and Economy, Saint Lucia will be required to join other Caricom States and repeal legislation requiring Caricom nationals and companies to obtain aliens landholding licences before they can register companies or purchase shares in companies, or purchase land for purposes of investment. Other Caricom states will be required to grant Saint Lucians similar rights and privileges. I wish to assure Honourable Members that this Government will jealously guard our patrimony and will ensure that the legislation is enacted on the basis of reciprocity. Caricom nationals shall receive no more and no less latitude than their Governments extend to Saint Lucians.

The advent of the Single Market and Economy will compel a revisit of the recently enacted Aliens Landholding License Act, No 9 of 1999. Government will also take the opportunity to perfect the imperfect.

In order to spur investment it is necessary to remove restrictions on the purchase and disposal of shares. Shares in companies should be freely acquired and sold in St. Lucia.

The revised legislation will thereby re-focus on its original target, that is, monitoring the sale and /or lease of land to non-nationals.

ESTABLISHMENT OF EQUITY FUND

Experience in Saint Lucia has shown that many of our businesses are too heavily dependent on debt, mainly commercial bank financing. In other parts of the world, corporate entities structure their financing with reasonable proportions of debt and equity.

In periods of economic uncertainty, businesses with sound debt/equity structures may remain more stable than those which do not have such structures. This contrasts starkly with some investments in our hotel sector, which were already experiencing financial difficulties before the bad times hit us.

In an attempt to address the issue of excessive debt overhang, the Government of Saint Lucia has joined the Bank of Saint Lucia in establishing a $15 million Productive Sector Equity Fund. This will be an independent fund, managed by the Bank of St. Lucia. The Fund entails investments of $5 million from the Government of Saint Lucia, $4 million from the National Insurance Corporation, $5 million from the European Investment Bank and $1 million from the resources of the Bank of St. Lucia.

The Fund will be used to take equity positions in small to medium sized enterprises that intend to produce goods and services for domestic production and export. Such enterprises must have good management, secure markets and must be potentially profitable. The Fund will also invest in existing productive sector enterprises that require financial restructuring to realize otherwise promising performance prospects.

The maximum investment in any enterprise will be the higher of $750,000 or 40% of the equity capital in the enterprise, and the owners/managers must hold at least 51% of the enterprise's equity position. The investment will be for a period not exceeding 7 years, after which the owners can buy out the Fund's interest in the enterprise at negotiated market rates.

The Fund expects to make a reasonable return so as to recycle its resources into other enterprises and to induce others, including Saint Lucian institutions, companies and individuals, to invest in the Fund to make it grow to meet the tremendous needs for equity funding in the country.

NEW PUBLIC OFFICERS TO RECEIVE NIC PENSIONS

Mr. Speaker, from the inception of the National Insurance Scheme in 1978, it was envisaged that public officers, like other workers, would receive their pensions through the National Insurance Scheme. This was never implemented and Government continued to be responsible for the payment of pensions of all persons who joined the Public Service and qualified for pensions under the Pensions Act, No. 9 of 1967, as amended. In the recently enacted National Insurance Corporation Act, No. 18 of 2000, provision has been made for pensions of public officers to be paid by the National Insurance Corporation.

In 2000-2001, The Government of Saint Lucia paid a staggering sum of $32.6 million for pensions. This figure will increase if the Public Service expands or as Public Officers proceed on retirement. Unless action is taken now, future Governments will find the payment of pensions unsustainable.

The amounts allocated to the payment of pensions over the last ten years tell the story:

YEARS	PENSIONS PAID
1990-1991	$11,100,145

1991-1992	$11,640,446
1992-1993	$13,346,308
1993-1994	$12,616,578
1994-1995	$14,856,228
1995-1996	$15,189,027
1996-1997	$17,122,419
1997-1998	$21,393,645
1998-1999	$20,323,161
1999-2000	$24,740,752
2000-2001	$32,606,511
2001-2002	$31,522,795

Commencing January 01, 2003, all new entrants to the Public Service will pay contributions to the National Insurance Corporation on the same basis as other employees in the Private Sector. The Government, as employer, will pay the contribution mandated by law. This date has been selected to permit the Minister, pursuant to section 66 of the National Insurance Corporation Act, to make Regulations to provide for treating persons employed by the Government "in like manner as if such persons were insured persons in the employment of a private person".

I wish to emphasize, Mr. Speaker, that this policy shift does not affect the rights of existing Public Officers or if you prefer, all persons employed in the Public Service prior to January 01, 2003. Their pensions will be paid in the usual manner in accordance with the Pensions Act.

REVITALISING THE AGRICULTURAL SECTOR

On that note, I now turn my attention to the Agricultural Sector.
From time to time, the impression is conveyed that our banana farmers are oblivious to the millions of dollars poured into the banana industry over the past five years. Indeed, some are unconcerned about the sacrifices made by the tax payers of this country. Perhaps, some reminders will help. Perhaps too, the taxpayers who bear this burden need to be informed of the extent of their commitment to the survival of the banana industry.
Financial Support to the Banana Industry
The financial help provided to the banana industry over the past four years includes:

(a) $44 million debt write off and $700,00 forgiveness of outstanding trade payables owed by the SLBGA;

(b) $3.65 million from the European Union for the retrenchment of SLBGA staff;

(c) $16.3 million provided by the European Union to fund the banana production recovery plan (PRP);

(d) In 1998, $6.1 million in loans was provided by Geest Bananas to the SLBGA to assist with input financing, working capital and the cost of dead freight;

(e) The construction of three modern Inland Reception and Distribution Centres (IRDC), costing $12.5 million, to stimulate quality improvements;

(f) Between October 2000 and March 2001, $2.5 million was provided to fund Leaf Spot control. Additionally at the end of 2000 $1.4 million was provided to facilitate reducing the price of banana cartons by $1.00 and in April 2001, $3.5 million was made available by the Government for the establishment of a revolving input credit scheme;

(g) Special leave was sought and obtained from the European Union, to utilize funds under the 1995 STABEX Transfer, totaling approximately $2.5 million, to finance Leaf Spot control activities between April 2001 and December 2001 (this depleted the funds that had been allocated under the PRP to fund on-farm irrigation);

(h) Over $20 million has been mobilized under the European Union's Special Framework of Assistance 1999 and 2000 for the banana industry.
These interventions do not take into consideration the duties foregone from the provision of 100% import duty and consumption tax exemption on farm vehicles, or the 100% duty concessions on production inputs.

Therefore, in total, between 1998 and now, $109 million in direct financial support has been provided to the banana industry. This should lay to rest any claims that the Government has ignored the Banana Industry.

ESTABLISHMENT OF BANANA EMERGENCY RECOVERY UNIT

In 2001, a Banana Industry Task Force, headed by Mr. George Theophilus, submitted a comprehensive report on the way forward for St. Lucia's banana industry. The Government commissioned this study because we were unhappy with the generic prescriptions that had been proposed for the Windward Islands industry.

One of the first actions that the Government will undertake during this financial year is the commissioning of a Banana Emergency Recovery Unit (BERU), which will oversee the implementation of a Banana Emergency Action Programme. The BERU will comprise a Technical Coordinator, an agronomist (the only two positions that are being sourced from outside of the existing public service structure), a plant protection officer, a senior field officer and five extension officers.

The $11 million banana recovery programme, will seek to do the following:

(1) Restore farmer confidence in the banana industry;

(2) Reverse the decline in production and quickly restore production to the level that would satisfy market requirements;

(3) Begin the process of targeting potentially viable high-yielding farms which could meet the product certification standards set by the market; and

(4) Assist with the improvement of fruit quality, and in particular, liaise with the industry and provide technical guidance on the subject of pest and disease control.
These objectives will be pursued through a series of interventions that will include:

(1) The targeting of farms located in the agro-ecological zones (AEZ) that have been classified as optimally suited for banana cultivation – i.e. only those farms that meet set criteria and are capable of producing a minimum of 12 tonnes per acre will be considered eligible for financial and technical support;

(2) The broadening of the input credit scheme to make available a total of $5 million in a revolving fund facility, administered through the Banana Industry Trust and the Bank of St. Lucia, for the purchase of inputs by qualifying farmers;

(3) The coordination of the monitoring of pest and disease development, particularly Leaf Spot Control, advising on the timing and nature of spray treatments, and providing assistance to the industry on the use of pest and disease control technologies that are appropriate, safe and environmentally sound;

(4) The allocation of $2.0 million to establish a revolving credit mechanism for on-farm irrigation and drainage works, which will allow farmers to take advantage of the off-farm infrastructure established under the SFA programme;

(5) The rehabilitation of 1500 acres of banana farm land, which will consist of the addition of lime to reverse the acidity of soils, land preparation for replanting, and the use of high yielding, disease-resistant tissue culture varieties in a replanting programme. This element of the Emergency Recovery Plan will cost EC$6.0 million; and

(6) The initiation of a major information campaign that has as its major objectives farmer education, information sharing and confidence building.
Simultaneously, a major irrigation and drainage programme will be implemented using the funds of the European Union's SFA 1999 and 2000 transfers. I am heartened by the knowledge that St. Lucia is the only island in the sub-region to have already received funds from the European Union Special Framework of Assistance (SFA) programme. I wish to place on record the thanks and appreciation of the Government and people of Saint Lucia to the European Union, and in particular, the European Delegation in Barbados for their generous support.

Under SFA 1999, the drainage network in the Mabouya Valley, will be improved. An off-farm irrigation network will be constructed for the Cul-de-Sac Valley, and this will facilitate the irrigation of 440 acres of farm lands. Additionally, a 56,000 cubic metre reservoir will be constructed in Cul-de-Sac, together with the installation of a 2.2 kilometre gravity fed distribution line and abstraction structure. In the Roseau Valley, an off-farm irrigation system will be constructed to provide for the irrigation of 180 acres, while Canelles and Marquis will benefit from the construction of off-farm systems for the irrigation of 69 acres.

SFA 2000 will allow for the construction of a 74,000 cubic metre reservoir in Roseau, together with the installation of a 2.5 kilometre gravity fed distribution line, and an abstraction structure. The Roseau Valley will also benefit from the construction of off-farm irrigation systems to irrigate 140 acres, and the amelioration of the drainage network. SFA 2000 will facilitate a much-needed improvement in the drainage system in Cul de Sac.

These two projects will complement the two irrigation projects that were completed during this Government's first term of office, which resulted in the irrigation of 94 acres in the Mabouya Valley and 32 acres in the Troumassee Valley.

A critical difference between this plan and all of the other plans in the past will be its strict targeting of farmers, and its provision of direct technical support and extension to farmers. These considerations were conspicuously absent in previous initiatives. Only those farmers who are financially viable and capable of achieving the required minimum productivity levels will receive financial and technical assistance.

Productivity Grant to Banana Farmers

Under the European Union's Special Framework of Assistance Programme, approximately 840 acres of banana farm lands will be provided with off-farm irrigation infrastructure. Additionally, under the Banana Emergency Action Plan, a total of $6 million is allocated for field rehabilitation and the introduction of tissue culture plants in the banana valley areas.

We recognize, however, that many of our banana farmers will not benefit from either of these productivity enhancement schemes. While it is vitally important that we maximize productivity in the major banana producing valleys, we cannot ignore the important contribution that banana farmers in other areas have made and will continue to make to the industry. We must, therefore, provide some level of support to those farmers who cultivate bananas on the approximately 5,000 acres of farm lands that fall outside of the productivity enhancement programme.

Therefore, in the coming financial year, we will provide a grant to banana farmers who fall outside of the areas earmarked for irrigation and drainage and land rehabilitation work under the EU-funded programme, but who farm within approved agro-ecological zones. This grant will help offset the costs of inputs and replanting on the targeted farms. In total, $2.5 million will be earmarked for this purpose. The grants will be administered by the Banana Emergency Recovery Unit, through the Banana Industry Trust, and will be applied as a credit for the farmer against the purchase of inputs or tissue culture plants.

SUPPORT FOR AGRICULTURAL DIVERSIFICATION

Mr. Speaker, while all of my discussion on the agricultural sector so far has revolved around bananas, our plans for the sector are not confined to the banana industry. A central plank of Our Vision for Saint Lucia was our commitment to stimulate further growth in the agricultural sector, and we intend to accomplish this by focusing attention on the entire sector.

Therefore, in the coming financial year, we will pursue a number of initiatives aimed at creating the right environment for the development of the sector.

New Incentives Regime

In our 2001 Manifesto, we stated that incentives should be given to those with a capacity to produce and a willingness to innovate. Consequently, very early in the financial year, we will implement a comprehensive Agricultural Incentives Regime that will seek to stimulate entrepreneurship and encourage greater investment in the agricultural sector.

Credit

Access to agricultural credit remains a critical bottleneck for the sector. While we do not intend to revisit the failed experiments of the past, we have to ensure that the conditions for agriculture lending encourage rather than discourage, and stimulate rather than frustrate.

Under the Special Framework of Assistance 1999 programme, an initial allocation of $1 million will be made available to fund investments in agricultural diversification. We are currently in discussions with the European Union and the banking sector to explore the feasibility of providing a technical assistance grant to persons accessing these funds, which would allow the agri-entrepreneurs to invest in new technologies, market promotion and product development. This fund will be augmented by subsequent SFA programmes and the credit facility will be administered by approved credit institutions.

Information Management

With the financial assistance of the European Union, a national Agricultural Information Management System (AIMS) will be established. This AIMS will allow for the easy accessing and sharing of information on levels of production, market statistics, technological packages, and other information pertinent to the agricultural sector. No longer will persons requiring information on the agricultural sector have to wait for an eternity for a response to requests for data or technical information.

Institutional Support

Our Government is always keen to work with the private sector in the delivery of services. Indeed, this has been one of the defining characteristics of this administration. Unfortunately, the national agricultural landscape has traditionally been dominated by public sector agencies.

Mr. Speaker, there is the need to change the culture of 100 percent dependence on Government. So, with financial support from the European Union, we will work at establishing a National Consortium of Agricultural Associations, which will be a private-sector driven body that will attend to many of the needs of the sector. Already, we have organizations like the Coconut Growers' Association and the Agriculturists' Association that attend to the needs of segments of the sector. There is a need to bring these organizations together into one all-embracing body that can provide the level of assistance that our producers need. Not only do we find that the general membership of these various small bodies comprise the same persons, but the executives of many of these organizations are mirror images of each other. The single new agency will be able to coordinate production, seek markets, and provide ancillary services, such as input supply and credit support for its members.

MARKETING OF TOURISM SECTOR

The tourism industry has emerged as the dominant economic sector of the St Lucia economy. The performance of this sector is a key determinant of the economic fortunes of the country.

The level of resources available for marketing is one of the primary determinants of the performance of the stay-over market and consequently the sector's overall contribution to national output. The government is cognizant of the need to invest adequate resources in that sector, which is regarded as the primary engine of domestic growth. In order for St. Lucia to sustain its rate of return in this globally competitive industry, a high level presence is required in the regional and international market. Maintaining the requisite presence is a very costly exercise. However, government will continue to make every effort to ensure that adequate funds are allocated for tourism marketing.

Our promotional efforts last year proved very successful in increasing arrivals from the Caribbean and attracting increased airlift from major markets. This resulted in the introduction of US Airways direct service from Philadelphia and increased flights by Virgin Atlantic and British Airways.

The intended focus of the 2002/2003 marketing campaign was originally geared towards the broadening of activity in the Italian market and the development of the Swedish market. However, in the light of the negative international developments, the marketing plan for **2002/2003** has been reformed.

The planned increase in the marketing budget will help sustain initiatives already in motion. Thus, there will be an intensification of activity in traditional markets as the Tourist Board attempts to maintain and increase market share.

The attention of the Tourist Board will also be focused on revitalizing the German market, possibly in conjunction with other OECS countries. Special attention will also be paid to the Canadian market. Visitor arrivals from Canada have declined and efforts will be made to revamp this market. Promotional activity in the UK and USA, geared towards increasing St. Lucia's visibility and consolidating its position on the market, will be intensified.

St. Lucia has a significant hold on the wedding, honeymoon and soft adventure markets. This year the Tourist Board will seek to utilize our new sports infrastructure to promote sports tourism. The integration of sports and tourism will reinforce the viability of St. Lucia's new sports facilities.

Marketing Blitz

Mr. Speaker, increasing the number of stay-over arrivals is vital, particularly at this time. The decision of the Minister of Tourism to undertake, in conjunction with Air Jamaica, a marketing blitz in North America and Europe is, in the circumstances, deserving of support. So important is this initiative that I have indicated that other ministers will be made available to support these efforts. I, too, will assist once it is possible to do so.

TOURISM HOSPITALITY AND DEVELOPMENT BILL

Mr. Speaker, in the 2001/02 Budget Statement, I announced that Government intended to "permit the maximum of fifteen years on the duration of the concessions period to be extended by an additional year, for each $10 million invested up to a maximum of twenty years".

On reflection and after consultation with stake-holders, it became apparent that Government needed to address "the entire hospitality industry".

Currently, the Tourism Incentives Act, No. 7 of 1996, contains Income Tax benefits (Part III) and specifies applicable Customs Duty Exemptions (Part IV) to any approved tourism project. The Act is not only complicated, but fails to set out with clarity the range of incentives which are available to investors. Moreover, it is necessary to contain the incidence of repeated requests for concessions.

The new Tourism Hospitality and Development Bill will retain the concept of "an approved tourism project", but will widen its definition to include not only hotels, but also restaurants, villas, time-share properties, recreational facilities, and leisure craft. The legislation will specify the goods, including building materials, which an approved tourism project can import or purchase locally free of duties and taxes. The Bill will also introduce a ceiling on the frequency with which concessions may be granted.

These changes are necessary, Mr. Speaker, not only to ensure the balanced development of our tourism product, but crucially, to enable us to maintain our competitive advantage. The environment in which we compete is aggressive and unrelenting and we cannot ignore it.

FISCAL POLICIES AND INITIATIVES

Mr. Speaker, the challenging times will not force a retreat from introducing fiscal and other policy measures to assist the private sector and to redefine our financial landscape.

I shall now proceed to introduce this year's fiscal policies and initiatives.

BROADENING PARTICIPATION IN THE BANK OF ST LUCIA

The National Commercial Bank of St Lucia was partially privatised in 1999 and successfully merged with the St Lucia Development Bank in 2001.

The foresight of our Administration in establishing a National Bank more than two decades ago, privatising it when the time was right, and merging our two primary financial institutions under one roof, has proven to be sound.

Government assumed the role of catalyst, then broadened participation when it became appropriate and the institutions were sufficiently mature. Ultimately, Government sold sixty per cent of the Bank to citizens and to the private sector, and retained forty per cent. Public sector participation of forty per cent proved to be a source of comfort for private investors, including those from overseas. The Bank has grown from strength to strength.

However, one consequence of Government's strategic approach to the development of its financial institutions was that other public sector entities were prevented from purchasing shares despite the strong interest from institutions like the National Insurance Corporation (NIC). It was Government's view that Central Government itself should retain ownership of forty per cent of the Bank, given the need to generate a high degree of confidence in the new entity. Investor and shareholder confidence in the Bank has been achieved and continues to be high, although, as in every institution, there is much room for improvement in some areas of the Bank's operations.

The time has now come to give other public sector bodies the opportunity to participate in the ownership of the Bank of St Lucia.

The Government has, therefore, offered one quarter of its ordinary shares to the NIC and one quarter to the Saint Lucia Air and Seaports Authority. This will reduce Government's shareholding to twenty per cent and give each of those institutions a large enough stake to appoint one director each to the Board, with Government reducing its own directors by two. In addition, the NIC will purchase 2.73 million preference shares which Government owns in the Bank. Those shares have a fixed rate of return of 7% per annum. The NIC will be able to convert these to ordinary shares over a 10 year period, according to a formula which will ensure that three ordinary shares are offered for sale to the public for every two preference share converted to an ordinary share by NIC. The use of the formula will make additional shares available to the public over the 10 year period and maintain the public-private ownership ratio.

This phase of the Bank's growth reflects Government's role as a catalyst in stimulating financial sector development and diversifying the ownership of our institutions. Meanwhile, the Government will monitor the progress of the Bank and will, in time, determine a course of action for the next phase of its development.

Tax Payment Settlement Plan

Mr. Speaker, over the years, the Inland Revenue Department has been making inroads in persuading taxpayers who have arrears to settle their obligations to the State. Notwithstanding, I have often been approached by taxpayers who, although recognizing their obligations, request that some relief be granted on interest and penalties to ease the tax burden.

As a result of the above, I am happy to announce that the Department will be offering a Tax Payment Settlement Plan. It is the intention of the Department to offer interest and penalty waivers as part of the Plan. The Plan is not an amnesty offered for a specific period of time, but will be a permanent arrangement where taxpayers can be offered the opportunity to settle their arrears in accordance with a prearranged payment plan tailored to their specific cash flow projections and their ability to pay. The Plan is, however, designed to offer incentives for early settlement. If, for example, a taxpayer agrees to take advantage of the Settlement Plan and indicates his desire to settle over a short term, the waivers offered will be more generous than if, say, the settlement period was over a longer period.

The Plan also gives the Comptroller the opportunity to waive a portion of the tax charged as well as interest and penalties, on long outstanding assessments where there is evidence that the taxpayer does not have the ability to pay or where assessments were derived arbitrarily.

Mr. Speaker I will now explain some of the features of the Plan.

With respect to income tax assessments for Income Years 1996 and prior, there will be interest and penalty waivers of up to 70% and 100% respectively. Thus, for example, if settlement is before March 31, 2003, the Plan will offer waivers on interest up to 70% and waivers up to 100%. However, if the settlement extends to March 31, 2004, the waiver offered may be as low as 40% on interest and 100% on penalty.

For income tax assessments for Income Years 1997 to 2000, there will be interest waivers of up to 40%. If the taxpayer agrees to settle tax obligations before March 31, 2003 the waiver will be up to 40% on interest and up to 100% on penalties. However, if settlement extends to March 31, 2004, the waiver offered will be 30% on interest.

Further Mr. Speaker, the Comptroller will be in a position to waive up to 50% of interest if the settlement period is beyond March 31, 2004. This will be dependent on the Income Year for which the tax is due.

Moreover, should payments be made within a six month period, no interest will be charged on the outstanding balance during the period. In other words Mr. Speaker, the shorter the payment plan, the more generous the interest waiver.

It is my hope, Mr. Speaker, that taxpayers will take advantage of this Payment Plan being offered by the Inland Revenue Department, as we clearly want everyone to own up to their responsibilities to ensure that their tax affairs are in order.

Increase in Personal Allowances

Mr. Speaker you will recall in my presentation to this Honourable House last year that I indicated that there would be phased increases in the Personal Allowances that individuals can claim for Income Tax purposes.

Most Honourable Member are familiar with the position of the Income Tax (Amendment) Act, No.9 of 2001 (Section 21 page 135), which amended the Sixth Schedule of the Income Tax Act to allow for claims for Personal Allowances of $12,000.00 in Income Year 2001, $14,000.00 in Income Year 2002, and $16,000.00 in Income Year 2003. I wish to reaffirm Mr. Speaker the intention of this Government to progressively ease our people from the burden of Income Tax. This year, it is expected that an additional 1,000 taxpayers will benefit, bringing the total so far to 4,200 taxpayers.

Mr. Speaker, the adjustments for Income Year 2002 came into effect on January 1st, this year, while the increase to $16,000 for Income Year 2003 will come into effect from January 1st, 2003. I urge taxpayers, therefore, to ensure that they programme the change into their tax codes so that they may realise immediate benefit.

CORPORATE TAX ADJUSTMENTS

Mr. Speaker, we continue quietly to make adjustments to the Income Tax regime, as promised. This year we will focus on Corporations. I wish now to announce two adjustments that will be implemented to the Corporate Tax regime. The first is with respect to Capital Cost Allowances and the other relates to the utilization of losses by companies within a group.

Capital Cost Allowances

I intend to amend the Income Tax Act to allow for certain qualifying businesses in the commercial sector to qualify to claim capital allowances on commercial buildings.

Currently, the Income Tax Act allows for capital allowances to be claimed on buildings used for the manufacture of goods or materials, the extraction of natural resources by mining or drilling, and for agricultural purposes. I intend to expand the scope of the allowances to include commercial buildings used in the retail and services industries. Capital Allowances will not be claimed by companies that are granted fiscal incentives in the Tourism industry. These companies already enjoy 100% income tax waivers.

The capital allowance will be set at an annual rate of 2.5% of the initial cost of the building, in the case of a new acquisition or on the written down value of buildings brought into the calculation for the first time. The allowance will be applicable for companies from income year 2002.

Accumulated Tax Losses

Beginning income year 2002, accumulated Income Tax losses will be made available to the subsidiary or parent companies of a group on the reorganization of that group of companies. The utilization of the tax losses will be based on the substance of the group reorganization, which must be approved by the Comptroller of Inland Revenue. The losses will be made available under the current rules (i.e. available for carry forward for five years and at a maximum of 50% of the taxable profits for any income tax year).

Usually, corporate restructuring and reorganization of groups of companies involve the rationalization of assets and liabilities. In most cases, these transactions may include changes in ownership of assets and liabilities. Under our current stamp duty ordinance the imposition of stamp duties would apply. This makes the cost of the transactions prohibitive. Once the Comptroller has approved the reorganization, I propose Mr. Speaker, to waive all stamp duties applicable to such transfers.

It is expected that companies within a group can now take advantage of this opportunity to reorganize their structure so that they can become more competitive in the present environment. Further companies within a group can now be encouraged to diversify certain aspects of their operations to take advantage of listing on the OECS Security Market.

Mr. Speaker, Honourable Members, I come now to the most critical juncture. How do we finance this budget?

FINANCING THE BUDGET

Mr. Speaker, I can assure you that the formulation of the budget for the fiscal year 2002/03 was no easy task. Some very tough decisions have to be made this year, if we are to steer the economy back on course for a more balanced and sustained recovery from the deep contraction we experienced in 2001. We are faced with the arduous task of reversing the deterioration in fiscal performance in fiscal year 2001/02, caused by a substantial shortfall in revenue collections.

Principles Underpinning Budgetary Policy

This budget must provide the platform for macroeconomic stability, which will provide the basis for higher levels of economic growth and employment in the future. This Budget is, accordingly, characterised by two core elements:

(1) a strong commitment to sound fiscal management; and
(2) an equally strong commitment to the transformation of the economy, which is reflected in a range of policy measures and spending proposals that I shall elaborate later in my presentation.
The fiscal stabilization measures which I outlined in the Statement to the House of Assembly on September 25, 2001 will continue until further notice.

We will not sacrifice our long-term goals in the face of extreme short-term pressures. It is tempting to succumb to the short-term pressures and borrow ourselves out of the current recession. In fact, history has shown that many countries have done just that and we know where they have ended – at the doorsteps of the IMF. Mr. Speaker, I wish to reconfirm: I will not be lured into excessive borrowing to the extent that our debt position becomes unsustainable. Whatever borrowing that is needed, will be within acceptable limits and utilized for the purpose of stimulating growth.

Reduction In Expenditure

To indicate Government's commitment to the implementation of the policies aimed at increasing the rate of domestic savings for investment, I propose to contain recurrent expenditure. Over the last three fiscal years, recurrent expenditure has grown by 4.6%, 7.2% and 11.2% respectively. In the face of a contraction in revenue, this rate of growth must be reduced in order to safeguard macroeconomic stability.

The wage bill, including salaries, accounts for the largest component of current expenditure; this year it is projected to account for 50.3% of this expenditure. It is important, therefore, that we restrict its growth. In this regard, one of the programmes that regrettably we have to defer is the civilianization of the Immigration Department, due to the high wage cost.

Review of Planned Expenditure

Total planned expenditure for 2002/03 amounts to $780.8 million, 8.9% lower than the previous year. This is made up as follows:

(1) Recurrent Expenditure, exclusive of debt amortisation, amounts to $460.5 million, representing 59.0% of total budgetted expenditure or 25.8% of GDP.

(2) Debt Amortisation of $32.3 million or 4.1% of total budgetted expenditure.

(3) Capital Expenditure of $288.0 million, representing 36.9% of total budgetted expenditure.

Total Planned Government Expenditure of $780.8 million will be financed from the following sources:

Recurrent Revenue of $473.1 million in 2002/03 or 26.5% of GDP;

Capital Revenue of $26.2 million, representing the divestment of shares in Bank of Saint Lucia;

Grant funding of $66.9 million;

Loan funding of $214.6 million, of which $130.1 million will be provided from loans already contracted. The World Bank is providing approximately $6.4 million in the form of direct budgetary support.

Allocation of Expenditure

Mr. Speaker, I will now provide a brief summary of the allocation of projected Government Expenditure among agencies for the fiscal year 2002/03, paying particular attention to investment expenditure of special significance. Given that a number of agencies were reconfigured after the General Elections in December, one must be careful in making comparisons with previous fiscal years.
The Economic Services Agencies will receive $459.6 million or approximately 58.9 percent of total expenditure. Amounts of $83.9 million and $27.0 million are earmarked for debt servicing and pensions respectively.

Mr. Speaker, I indicated that this Government would be an Agriculture Government. In keeping with this commitment, I propose to allocate to the Ministry of Agriculture, Forestry and Fisheries a sum of $50.6 million, for much needed investment in this sector.

The tourism sector will receive $23.4 million for investment purposes, of which $20 million is for tourism marketing and promotion.

The Ministry of Communications, Works, Transport and Public Utilities will receive $71.0 million or 24.7% of the Capital Budget. Mr. Speaker, this agency receives the largest share of the Capital Budget this year and reflects the overall importance we place on improving and upgrading the road infrastructure.

The Ministry of Planning, Development, Housing and Environment will receive $64.7 million, the second largest share of the capital budget.

An allocation of $1.9 million is provided for the Ministry of Commerce, Investment and Consumer Affairs, which is to be utilised for the Repositioning of the Micro and Small Scale Enterprise Sector, the Small Furniture Manufacturers Project, the Establishment of E-Commerce and other Trade, Industry and Consumer initiatives.

The Social Service Agencies will receive an allocation of $228.3 million, of which $175.3 million is for recurrent purposes and $53.0 million is for capital expenditure. The Ministry of Education, Human Resource Development, Youth and Sports will receive 108.9 million, or 22% of the total recurrent budget. The Ministry of Health, Human Services and Family Affairs will receive $52.5 million, approximately 10.7 percent of the recurrent budget. A sum of $13.8 million is allocated to the Ministry of Social Transformation, Culture and Local Government, of which $1.1 million is for the newly established Cultural Development Foundation.
The capital allocation of $53.0 million is distributed as follows:

(a) The Ministry of Education, Human Resource Development, Youth and Sports is to receive $29.3 million;

(b) The Ministry of Health, Human Services and Family Affairs is to receive $8.3 million; and

(c) The Ministry of Social Transformation, Culture and Local Government is to receive $15.4 million.

In the area of Health, $3.5 million is allocated for the New National Hospital, $1.1 million is available to Victoria Hospital for repairs and for the purchase and repair of medical equipment, and $1 million is allocated for rehabilitation of primary health care facilities.

Mr. Speaker, the lion's share of the capital allocation of the Ministry of Social Transformation, Culture and Local Government is to be injected into the Poverty Reduction Fund, which shall receive a total amount of $11.0 million, or 61.7% higher than the previous year. One of the programmes being funded by the Poverty Reduction Fund is a Rural Employment Programme, for which a sum of $1.9 million is available.

The Portfolios of the Attorney General's Chambers, the Ministry of Justice, and the Ministry of Home Affairs and Gender Relations, which together comprise the Justice Agencies, will receive $62.7 million. Under capital expenditure, approximately $2.1 million is provided for fire fighting vehicles and equipment, $7.5 million is allocated for the completion of the Bordelais Correctional Facility and $200,000 is provided for a Local Frame Relay Network that will allow for improved communications in the Police Force.

The allocation for the General Service Agencies, which include the Office of the Prime Minister, the Ministry of Labour Relations, Public Service and Cooperatives and the Parastatal Monitoring Department, is $25.2 million. An amount of $1.9 million will be made available for the Private Sector Development Programme.

The Office of the Governor General and the agencies of Parliament, namely, the Legislature, the Service Commissions, the Electoral and Audit Departments will receive a total of $5.0 million in 2002/03, representing an increase of 3.6% over the previous fiscal year.

MEASURES TO GENERATE REVENUE

Mr. Speaker, Central Governments' fiscal position deteriorated sharply during the last financial year. Government savings, so necessary, particularly for the financing of, our social investment, were unavailable. Therefore Mr. Speaker, in support of this budget, I propose the following revenue measures.

TAX ON CELLULAR PHONES

The liberalisation of the telecommunications industry has revolutionised the telephone landscape. A new market sophistication has emerged, and prices are set to decline significantly. The general thrust of the government tax policy has been to gradually shift from a direct to an indirect tax system.

In keeping with this strategy, I propose a 10% cellular tax to be applied on gross sales or gross receipts. Therefore Mr. Speaker, every provider of a cellular service shall, from the effective date, add to the price or charge for such service and collect from every purchaser, 10% of the gross charge thereof. As an example Mr. Speaker, if a post-paid customer has a monthly charge of $50 for his cellular phone in a billing period, a $5.00 tax will be collected by the provider on behalf of government. Similarly, if a pre-paid customer purchases a $40 cellular card that customer will pay an additional $4.00.

A similar tax will be introduced in respect of cellular telephones used by visitors to Saint Lucia. Our air-space is a resource to be used wisely. Implementation of this tax will entail some adjustments to the present billing system of current and future service providers. The tax will be added to the call charges before the final billing process.

Let me make it clear Mr. Speaker that this tax will apply ***Only*** to the cellular service and ***NOT to Regular Telephones.*** This measure will take effect on May 4th 2002, and all providers and sellers will be required to remit all sums due to Central Government no later than the 15th of the succeeding month.

EXCISE TAX ON MOTOR VEHICLES

Mr. Speaker, over the past decade there has been a significant and rapid expansion in the used car market and an accelerated decline in market share of the new vehicle dealers. In the process, we have experienced:

1) extreme congestion on our motorways; and

2) substantial accumulation of derelict vehicles, which is hazardous to the environment.
Importantly too, Mr. Speaker, when the Government deregulated the sector in 1999, allowing for greater competition in the market, it was never intended to encourage under-invoicing or for that matter the consequential loss of revenue.

Consider Mr. Speaker, the following statistics, when the periods April to December 2000, and April to December 2001 are compared. Imports of used cars more than doubled, from 1,366 units to 3, 427 yet the total value of the vehicles as assessed by Customs declined from $23.4 million to $19.3 million: a drop of 21%. The assessed duty liability declined from $15.9 million to $9.8 million, a drop of 38%. This situation is alarming. So, while there was an increase in imports, the customs value dropped by 21% and the assessed duty by 38%.

The present situation is untenable for many reasons, Mr. Speaker. The secondary market for used cars is virtually dead. Persons who purchase new cars are unable to resell their vehicles, as second purchasers prefer to buy imported used cars. Banks who repossess used cars are discovering that they are unable to attract buyers. Much as I believe, Mr. Speaker, that individuals have a right to own vehicles, the current situation is untenable.

Against this background, Mr. Speaker, I propose the following changes in respect of the importation and applicable duties and charges for motor vehicles of heading 8703 of the Customs Tariff:

1) Firstly, I propose to remove the five year age limit on the importation of used vehicles.

2) Effective May 4th 2002, the Excise duty for vehicles classified under Tariff Head 8703 will be reduced by 10 percentage points. By way of example Mr. Speaker, a motor car of a cylinder capacity exceeding 1500 cc but not exceeding 1800 cc, which currently attracts excise duty of 40.5% of the customs value will now attract a 30.5% rate.

3) The following changes to the Environmental Levy Act are also proposed:
a) New Vehicles $1,000
b) Used Vehicles –
i) up to 2 years $6,000
ii) exceeding 2 years

but not exceeding 4 $9,000
iii) exceeding 4 years $12,000
This measure is expected to increase revenue intake by approximately $3 million.
I wish to emphasize that the foregoing will not affect the duty-free importation of vehicles by returning residents.

PETROLEUM PRICES

Mr. Speaker, in the 1998/99 Budget Presentation, I introduced two significant reforms in respect of petroleum pricing. The consumption tax on gasoline and diesel was fixed at a desired rate of $2.85 per gallon, which includes a $0.45 per gallon consumption tax to compensate for the removal of the annual vehicle licence fee and allowed to fluctuate within a range of plus or minus 10 cents. Therefore if the world price of these fuels changed, pump prices would change in line. In so doing, both the consumer and the state would have benefited or shared in any possible gains or losses.

The benefits of this arrangement for the average consumer were realised when, in October of 1998, gasoline prices were reduced in line with a fall in world market prices. However, conditions on the world market have changed dramatically and world oil prices have since sky-rocketed. As a consequence, except for a brief period between October 1st 2001 and March 4th 2002, the desired consumption tax rates for both gasoline and gas oil (diesel) have not been realized.

The strategy of absorbing increases in the world price of oil through reductions in consumption tax intake represented a deliberate attempt by the government to control inflation. This policy was very costly, but was necessary to maintain macroeconomic stability.

Allow me, Mr. Speaker, to draw to the attention of this Honourable House the cost to Government of not adjusting gasoline prices. Between 1999 and 2001 Government lost a total, of EC$ 48,826,958.66 in revenue in order to control price inflation. Honourable members should also note that, had a partial adjustment not been made on October 16, 2000, the loss in 2001 would have been substantially higher.

Based on the current world price of petroleum, the government currently subsidises domestic petroleum purchases by $1.14 per gallon. Indeed Mr. Speaker, every time an individual purchases one gallon of petroleum the government effectively pays $1.14 of the cost. In the light of the fact that oil prices depend heavily on economic and political factors, which at the moment are very volatile, indications are that world market prices will increase further.

Failure to adjust domestic prices to reflect world prices will result in the further loss of significant revenue for this financial year.

Mr. Speaker, with inflation decreasing from 3.6% to 2.1%, the government has decided to abolish the policy of absorbing the full effect of increases in the price of oil. Therefore, we have no choice but to utilise the pricing mechanism announced in the 1998/99 budget effective May 5, 2002. If followed, petroleum prices would be as follows:

Unleaded gasoline	$8.11
Gas Oil (diesel)	$7.11

However, the government is conscious of the effects of such a substantial charge on the average consumer and will continue to subsidize petroleum prices by 36 cents per gallon. Therefore, petroleum prices will be as follows:

Unleaded gasoline	$7.75
Gas Oil (diesel)	$7.00

Mr. Speaker, part of the increase will be used to address the concerns of the dealers and suppliers.

Mr. Speaker, **I want to emphasise that the price of Kerosene and LPG (cooking gas) will not be altered**.

The fiscal performance of the economies of the OECS has been severely affected by the upward movement in world oil prices. Mr. Speaker, the countries which have attempted to absorb the price effects without any adjustment have come under tremendous fiscal pressure. St. Lucia has taken a more balanced approach by protecting consumers through potential subsidization and ensuring that the fiscal position is not eroded.

Mr. Speaker, the options are clear. Either we borrow to subsidise the cost of fuel or we make the adjustment needed. It is not an easy decision, but let us do what has to be done.

Government will continue to monitor and analyse the developments in international oil prices and in keeping with the spirit of the 1998/99 budget will make further adjustments where necessary.

In order to provide some level of relief to our fishers, the cost of local fishing licenses will be reduced from $25 to $5 per annum. This is the minimum amount required to cover the statutory costs of licensing vessels for sea worthiness and safety. The new fee for fishing licenses will be in effect from 1 April 2002.

TICKET TAX FOR MARKETING

Mr. Speaker, the point has been made that there can be no tourism without marketing. As Honourable Members have noted, marketing for tourism takes money, significant sums of money. This year's marketing budget is 20 million dollars.

All regional economies that depend on Tourism as their lead sector are under extraordinary fiscal stress at this time. Money for marketing must, however, be found somewhere.

At the Nassau Summit on Tourism it was proposed by hoteliers that a regional marketing fund be established by levying a tax on all tickets purchased by travelers to the Caribbean. This proposal is attractive, but care would need to be exercised in selecting the rate of the tax, lest it becomes a disincentive to travellers.

The principle of levying a small charge on persons enplaning to the Caribbean was introduced in Bermuda in January 2002, albeit to meet increased security costs. Likewise, all visitors to Grenada pay EC$ 20.00 as a "Facilitation Fee", regardless of origin.

Saint Lucia proposes to follow the lead of Bermuda. Effective July 1st, 2002, all persons enplaning to Saint Lucia, will be required on purchasing their tickets to pay a fee of U.S. $5.00. This revenue will go towards marketing of our tourism product. It is expected that this measure will yield EC$ 2.7 million dollars.

The introduction of such a fee is nothing new. Saint Lucians who travel to the United States pay the U.S. Government approximately EC$ 110.90 in airport taxes, while those who travel to the United Kingdom pay approximately EC$ 110.40. The traveler is not aware that he or she is paying those charges since they are included in the ticket price.

INCREASE IN CONSUMPTION TAX ON TOBACCO

Mr. Speaker, in the 1998/99 Budgetary Statement, I announced an increase in the Consumption Tax on cigarettes, cigars, cheroots and cigarillos. Apparently, this increase did not deter or discourage smoking, even among my parliamentary colleagues who should set the example.

In the circumstances and given the clear medical advice to limit and discourage smoking, I propose to increase the consumption duty on tobacco and tobacco products by 15%. A certain percentage of the revenue raised by this initiative will be given to the St. Lucia Cancer Society to intensify its work in cancer screening throughout the country.

CAPITAL INVESTMENTS

Mr. Speaker, In the 2001/2002 Budget presentation, I alerted Honourble Members to the plans of the Government to provide a secondary school place for every child. The road is now clear. I am pleased to present the financial details of the programme to ensure that our children can become productive and globally competitive citizens of the new Century.

THE ROAD TO UNIVERSAL SECONDARY EDUCATION

Government has increased access to secondary school substantially over the last five years and we are now on the threshold of realizing Universal Secondary Education. The new O.E.C.S. Education Development Project, financed with the assistance of the World Bank, will help to make this a reality and significantly improve the quality of education. The importance of this project to the future of education and our overall development cannot be over-stated.

The total cost of the new project, including investment and recurrent costs, is US$19 million or E.C. $51.3 million dollars. This will be financed by a combined World Bank/International Development Agency loan and credit of US $12m, together with counterpart funding of US$2.8 million. An additional US$3.4 million in recurrent cost will be financed from the education budget, and grant funding of US$0.8 million will come from the British Department for International Development.

The targets to be attained by this project include:

Creation of an additional 1,785 secondary school places through the construction of two additional secondary schools. The new schools will be constructed in Gros Islet and Anse La Raye.

Upgrading of 420 existing spaces from Senior Primary to Secondary, by expanding, upgrading and rehabilitating existing schools in Micoud and Dennery (including the conversion of the Grande Riviere Senior Primary to secondary status).

Increase in our net enrollment rates at secondary level from 64% to 77% by 2006;

This project will be complemented by the following institutional strengthening measures:

(a) improving the quality of teaching and learning;

(b) improving governance and management; and

(c) redesigning the common entrance exam.
On completion of this project, the dreaded Common Entrance Exam will be completely redesigned. Instead of a do or die, one shot exam, students will be continually assessed throughout their primary education career in both academics and other areas to determine their readiness for secondary education.

NEW PSYCHIATRIC HOSPITAL

Mr. Speaker, if one of the tests of modern civilization was a society's treatment of its psychiatric patients, then Saint Lucia would surely fail. What we have inherited as a psychiatric institution is an affront to humanity. We must build on the efforts of the former Minister of Health, Hon. Sarah Flood-Beaubrun, and put an end to the indignity endured by patients at Golden Hope. We will shortly do so with the support of the People's Republic of China.

On completion of the National Stadium, technicians of the Government of the People's Republic of China will commence design work for the construction of the new Psychiatric Hospital. It is anticipated that construction will commence in early 2003. The hospital will be located at a site near La Perle, Marigot.

APPROVED FUNDING FOR NEW HOSPITAL

Mr. Speaker, Honourable Members will recall that I advised that the Government of Saint Lucia intended to construct a new hospital to replace Victoria Hospital. I am pleased to report that arrangements for the funding of the construction of the hospital have been finalized with the European Union. The new hospital will be constructed at a cost of Euro 29.9 million or E.C. $67.16 million dollars. Of that amount, E.C. $55 million is allocated to construction works and E.C$12 million is earmarked for the provision of equipment and supplies. Of the $67 million, funding has been secured from the European Union for E.C. $65.756 million leaving a balance of E.C. $1.344 million to be funded by the Government of St. Lucia.

The pre-feasibility study is now complete and Government has authorized the next stage, that is the design of the hospital, engagement of consultants, preparation of the construction tender dossiers, the launch of the construction tender process and the evaluation of tenders.

Consistent with the practice of this Government, the principal stake-holders, our doctors, administrators and nurses will be engaged in the design process.

ROAD REHABILITATION AND CONSTRUCTION

The road network is of vital importance to the economy of St. Lucia. Accordingly, the Government of St. Lucia recognizes the importance of maintaining the road network and has initiated a comprehensive rehabilitation programme.

Mr. Speaker, I have, in a previous budget, already dealt extensively with the major components of the Road Development Programme, and will not bother the House, once again, with its full details.
Agricultural and Economic Feeder Roads

A sub-component of the Roads Development Programme is the formulation of a Tertiary Roads Programme or, as it is commonly referred to, the Agricultural and Economic Feeder Roads Programme.

The main goal of this programme is to develop a prioritized programme of road maintenance, rehabilitation and reconstruction works for St. Lucia's 460 kilometers of Agricultural and Economic Feeder Roads.

The feeder road network represents a significant and expensive part of St. Lucia's infrastructure in general, and road infrastructure in particular. The network plays a major role in our economic and social life and constitutes an important national asset. During the past two decades the condition of the Agricultural and Economic Feeder Road network has deteriorated quite significantly. Greater attention will now be paid to feeder road maintenance in order to halt the deterioration.

In pursuit of a systematic approach to this initiative, the Government of St. Lucia has approached the French Development Bank, Agence Francaise de Developement (AFD) to undertake a feasibility study to identify a sub-programme of priority Agricultural and Economic Feeder Roads for immediate rehabilitation. AFD has provided grant funding for the implementation of the study.

The study will target about 100km of roads, in particular, roads of economic and agricultural value.

The duration of the study will be four to five months. If the project is feasible then actual implementation should begin in April 2003.

In this financial year, I propose to allocate the sum of EC$500,000 to the Ministry of Communications and Works to facilitate emergency works on critical aspects of the Agricultural and Economic Feeder Roads Programme, thereby bringing some measure of relief to road users, while we patiently await the conclusion of the AFD funded study.

Reconstruction and Rehabilitation of Roads

Mr. Speaker, the Government plans to undertake the reconstruction and rehabilitation of roads not earmarked for improvement in the Road Development Programme or the Agricultural and Economic Feeder Roads Programme.

Below are some of the roads identified for inclusion under this project:
Paix Bouche – Bougis
Bois Jolie
Derriere Morne
Victoria – Martin – Mongouge – Le Riche
Millet – Venus
Cas en Bas
Coolie Town main road
(Ti Rocher- Fond D'or- Couville)
Augier – Cartier
La Pointe (Patience)

Provision has been made in the Capital Estimates for the expenditure of EC$4 million towards the implementation of this project.

Bridges and Culverts

In 2001, the Ministry of Communications, Works, Transport and Public Utilities undertook an inventory of over 50 bridges island wide. As a result, two bridges have been identified for rehabilitation in this fiscal year: the Belmont Main Bridge and the Vigier Bridge. An amount of EC$600,000 has been allocated in the Capital Estimates for the repair of bridges.

CASTRIES FIRE STATION

Mr. Speaker, the Saint Lucia Fire Service has long complained about the inadequacies of the location of the Castries Fire Station. Among its many disadvantages, the current location is hampered by:

(1) An immediate environment that is susceptible to flooding;

(2) A structurally unsound building

(3) An access that is impeded by a main roadway that runs along the response route;

(4) A traffic control light that is located to the front, the only response route; and

(5) Limited yard space that impedes the maneuverability of personnel equipment.
Moreover, Mr. Speaker, in the study entitled "An Urban Design Strategy - Castries 2020," the consultants recommended that the Government relocates the Castries Fire Station to release the present site for port related commercial activity.

The St. Lucia Fire Service has recommended to Government an appropriate site and this is presently being actively considered.

POLICE STATION FOR BEXON

Mr. Speaker, we all agree that strengthening our security services to deal with increasing crime is a pressing need at this time.

For this fiscal year, Government will embark on the construction of two new police stations in the villages of Dennery and Micoud to replace the existing buildings which are dilapidated. These projects will be financed under BOLT arrangements with NIPRO, costing the government approximately $1.9 million each.

In addition, the Government proposes to construct a new police station in the Bexon community as part of its efforts to curb and reduce the incidence of crime. Official statistics indicate that incidents of crime are particularly high in the Castries South East Community. Moreover, praedial larceny is rampant and uncontrollable. The farmers need help; so too do the citizens who must confront criminal behaviour on a daily basis.

CONCLUSION: OUR COUNTRY AT THE CROSSROADS

In the eyes of its many citizens, the Caribbean is at a recognizable crossroad.

Across the region, very few countries have the luxury of certainty. The old familiar roads to economic growth are now complex highways, and the traffic is intense. We are at the crossroads, and our self-reliance is, being severely tested.

But a crossroad need not be a place of imminent crisis, for it is also a nexus of need and opportunity. It is a junction where we <u>recognize the need</u> to make definitive decisions about our future, at a point where we actually have <u>the opportunity to choose</u> new directions from a map of options. If we are already on course, we should proceed. If not, we adjust and move on.

Many of us did not even notice, even when our own societies, our own businesses, were experiencing phenomenal growth. We saw ourselves as sleepy little islands, grateful for the handful of curious allies and adventurers paying us scant attention. We still do not appreciate that the Caribbean is not just at a crossroad; we are the crossroad: a virtual junction for global traffic in tourism, investment, trade, transport, politics, information, language and culture.

In many of these areas we are highly competitive. We have distinct strengths and strategic advantages. For instance, we compete in the world tourism market with very few subsidies or market distortions, despite some of the highest structural costs found anywhere. Many of our cost factors are related to size and scale and carrying capacity. Some are related to the maturity of the society and its institutions.

Both as a region and as a nation, what we do collectively from here on, is likely to have a far more significant effect than those things we choose to do individually. For these reasons alone, this crossroads at which we find ourselves must be used for a meeting of the minds.
The challenge for us all lies in fostering and sustaining an economic, social and legislative environment that encourages viability and vitality in both the public and private arenas. Such an approach requires adequate investment in human as much as physical infrastructure. It requires a productive workforce: in the private sector which undertakes investment, as well as the public sector which facilitates such investment. For all of us then, it is about an environment which encourages, supports and rewards increasing levels of productivity and efficiency, and it is to this cause that we must commit ourselves.

Ultimately, this debate should be about growth. It should be about the systematic and sustainable expansion of business and industry. It should be about those things we agree to do collectively which will have the most lasting effects on the shaping of our future.

In this vein, the overriding hope is that a true spirit of public/private partnership will develop, deepen and evolve in support of economic activity which turns size, population and finite resources to distinct advantage. We cannot afford to miss any opportunity to grow through healthy interdependence. We must adopt best practices and establish performance benchmarks by comparison with our peers as well as our competitors.

After all, while we may have varying perspectives, we share the same hope - however differently expressed - of maximizing the economic and social benefits of each opportunity. Ultimately, our shareholders come in variations on the same theme: they are our families, our citizens, our customers and employees, our voters, and the communities that sustain us all. We live in a very small world. We can expand that world by combining our resources as well as our imaginations and creative energies to create, sustain and enhance our considerable advantages. With that in mind, let us proceed.
I am, therefore, honoured, Mr. Speaker, to move the second reading of the Appropriation Bill 2002/2003.