



GOVERNMENT OF SAINT LUCIA

BUDGET ADDRESS

For the Financial year 2017/2018

"Building a New Saint Lucia"

Delivered By



SAINT LUCIA



SAINT LUCIA

Hon. Allen Michael Chastanet

***Prime Minister and Minister for Finance,
Economic Growth, Job Creation, External Affairs
and the Public Service***

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INTRODUCTION

Madam Speaker, I am extremely honoured today to deliver the policy statement on the budget for fiscal year 2017/18 to this house. This is also a very special occasion for me as I am for the first time presenting a budget address to this Honourable House. I feel extremely humble Madam Speaker and I wish to place on record my thanks and appreciation to the people of Saint Lucia, especially the people of Micoud South many of whom are here today, for reposing their confidence in the United Workers Party when they voted our party by a landslide majority into office on June 06, 2016.

Madam Speaker, I wish to inform the people of Saint Lucia that our Government will not let them down. This is why we began to work on the day after elections. We are confident that with the help of the people of Saint Lucia we will rescue our economy. Madam Speaker, Our Government has been in office for a little over 11 months, and now have a full appreciation of the state of the economy and the public finances. I must say, the situation confronting Saint Lucia, is far worse than we thought it was.

Madam Speaker, the dashboard of economic and social indicators for Saint Lucia shows that we are trapped in a vicious cycle characterised by low growth, high unemployment, and high debt. This malaise has brought untold suffering on the people of Saint Lucia. We intend, with the help of the people of Saint Lucia to turn this economy around. Madam Speaker, much has been written about the state of Saint Lucia's economy and I believe we all know the problems very well. The myriad of reports written by the International Monetary Fund (IMF), the World Bank, the Caribbean Development Bank, essentially highlight the same set of issues and challenges faced by this economy. These include low growth, high public debt and fiscal deficits, high unemployment, low productivity, lack of competitiveness, structural problems in the labour market and the high costs of doing business.

Madam Speaker, these issues have been discussed ad nauseum yet the problems still remain. We are determined to lift Saint Lucia out of this economic quagmire by taking the necessary tough policy decisions required to lead us back onto a trajectory of higher growth, sustainable debt, high levels of investment, low unemployment and an improved standard of living. Madam

Speaker, I have listened to many Saint Lucians of all walks of life and I feel inspired by them. I know that they are willing to partner with us in making the changes required to make Saint Lucia a prosperous economy.

We will not Madam Speaker achieve instant success. Rome was after all, not built in a day. This budget will lay the foundation for the implementation of the programmes, projects and policies which my Government intends to implement over the next four years to make Saint Lucia, the success story of the Caribbean. In this policy address, Madam Speaker, I shall outline the context, the vision, the plan, programmes and policies that we intend to implement which will be the foundation for the next four years. The road to our destination will be bumpy. Implementing change, is sometimes messy and never easy. I am however, confident in the people of Saint Lucia. They understand that we will have to choose a different path as the greatest risk is continuing to do the same thing. My Government will provide honest, effective and inspirational leadership to tackle the economic and social policy challenges in an equitable manner.

International Context

Madam Speaker, following the severe impact of the financial crisis, global economic growth has settled at a moderate rate of about 3%. The IMF is projecting that the US economic growth will accelerate to about 2.3% in 2017 and 2.5% in 2018 while the Euro Area is projected to grow by 1.7% in 2017 and 1.6% in 2018. Commodity prices have remained low, particularly energy prices, and this has contributed to low levels of inflation in most countries; crude oil prices have remained below US\$50 per barrel on average in 2016. This average remain significantly below its peak in 2008 when the average was US\$99.06 per barrel. Indications suggest a slight increase in inflation in 2017, particularly in advanced economies, as interest rates are expected to increase.

Regional Economic Performance

Madam Speaker, the economies of most Caribbean countries showed signs of strengthening in 2016 with the exception of Trinidad and Tobago. However, constraints to growth, namely high debt levels and external current and fiscal deficits, remained. The main drivers of growth were tourism and construction activity.

The tourism-dependent countries such as Barbados, Jamaica, the Bahamas and the Member States of the Eastern Caribbean Currency Union (ECCU) experienced increased arrivals, mainly from the United States.

The economies of the Eastern Caribbean Currency Union averaged a growth rate of 2.2% whilst Saint Lucia's economy grew by only 0.9% from 1.9% in 2015. The fiscal position of the governments of some countries improved markedly, most notably in Grenada, Montserrat and St Kitts and Nevis.

Domestic Economic Performance

Madam Speaker, Saint Lucia's 0.9% growth performance in 2016, though meager, was attributed to expansions in the construction, manufacturing, agriculture, wholesale and retail and financial services sectors. Over the past ten years from 2006 to 2016 the overall economy has been growing at an average rate of 1.3%.

Saint Lucia's economy continued to experience deflation in 2016 with the consumer price index falling by 3.1%. This was mainly due to lower energy prices. The country's major trading partners experienced negative to low inflation which also contributed to the lower consumer prices in Saint Lucia.

The increase in domestic economic activity was accompanied by an improvement in the labour force participation rate (which increased to 73.4%) and a further reduction in the rate of unemployment. There was a reduction in the unemployment rate from 24.1% in 2015 to 21.6% in 2016. While this is good news, there are still about 22,500 people unemployed in this country and a youth unemployment rate of 43.1% which is a serious matter that my Government is already tackling head-on.

The fiscal operations of the Central Government improved in fiscal year 2016/17 as evidenced by the narrowing of the fiscal deficit which moved from 100.9 million in 2015/16 to \$67.8 million in 2016/17. This was mainly due to higher growth in revenue and moderate growth in expenditure. Total revenue and grants receipts increased by 6%, while total expenditure

increased by 3%. The growth in current expenditure was driven by double digit increases in interest payments and current transfers.

Tourism

The tourism sector continued to dominate economic activity despite declining numbers in 2016. Total visitor arrivals fell by 7.3%, mainly due to a 13.2% decline in cruise arrivals. The drop in cruise passengers was partly offset by an increase of 0.9% in stay over visitors primarily from the US and the Caribbean. Visitor expenditure contracted by 4.8% to \$1.97 billion.

Agriculture

The agriculture sector grew by 4%. The sector was poised to make an even greater contribution, but its performance was impacted by Tropical Storm Matthew in September 2016. Banana exports were poised to record a second consecutive year of growth with the volume of exports increasing by 15%, up to the third quarter; however production declined in the fourth quarter as a result of the storm resulting in an overall contraction in volume of 1.1% to 14,629 tonnes. Export earnings were reduced by 11.2% to \$19.8 million. The pattern of banana exports appears to be shifting with the volume of export to the Caribbean region, surpassing exports to the UK for the first time. Purchases of other fruits and vegetables by supermarkets and hotels declined due to the effects of the storm.

Construction

The construction sector was the most dynamic sector as a result of investment in the construction of hotels and commercial properties accounting for approximately 60% of the growth in real GDP. In 2016 work on the 450 room Royalton Hotel provided a significant boost to the construction sector. Activity in the construction sector employed 17% of the 5,248 persons who gained employment in 2016.

Manufacturing

The manufacturing sector experienced further growth in 2016 evidenced by a 7.2% increase in production. Increases were recorded for non-alcoholic beverages as well as bakery products. A lack of competitiveness and low levels of utilization of productive capacity did dampen the growth

prospects for the manufacturing sector. Exports of manufactured products to the region were affected by the continued difficulties in Trinidad and Tobago in accessing foreign exchange.

Financial and Monetary Sector

Madam Speaker, I now turn to the financial and monetary sectors. This includes the activities of banks, credit unions, insurance and money services entities.

In the commercial banking sector, the stock of bank credit and loans and advances by banks continued to fall in 2016 indicative of a higher level of risk aversion and arguably a low growth environment resulting in a reduced number of '*bankable*' projects. This decline is happening within the context of continued growth in deposits, which has resulted in liquidity indicators such as the loans-to-deposit ratios declining to 90.1% by 2016 from 119% in 2013 and excess reserves held at the ECCB by commercial banks rising to \$451.1m from \$244.3m in 2013. The liquidity of the financial sector now presents the opportunity for increased lending by banks.

Madam Speaker, following the 2008 global financial crisis, there were a series of global initiatives dealing with mitigating tax avoidance and evasion and enhancing the transparency of the global financial system. These resulted in Saint Lucia having to amend its financial regulatory framework so as to be compliant with the new international norms. Permit me then Madam Speaker, to highlight a few topical developments in this vein;

- i.* De-risking,
- ii.* Foreign Account Tax Compliance Act (FATCA),
- iii.* Exchange of Information

De-risking

Madam Speaker, according to the World Bank, '*de-risking*' refers to the severing of correspondent banking relationships between local banks and overseas banks. Practices by global financial institutions threaten to cut off access to the global financial system for remittance companies and local banks in certain regions putting them at risk of losing access to the global financial system. If the current trend continues, people and organizations in the more volatile areas of the world or in small countries with limited financial markets such as Saint Lucia, could be completely cut off from access to regulated financial services. Keeping individuals and

businesses in regulated financial systems is a precondition for effective systems to mitigate risks and combat financial crimes.

FATCA

In March 2010 the United States enacted *FATCA* in a direct effort to stop tax evasion and enhance financial oversight. To become compliant, Saint Lucia signed onto the Inter-Governmental Agreement Model 1A with the United States on November 19, 2015 in order to facilitate information exchange. This allows for the two way **automatic exchange** of information between the US and Saint Lucia.

Exchange of Information

Madam Speaker, in addition to our obligations to the United States in relation to *FATCA*, Saint Lucia is party to thirty two (32) active Exchange of Information Agreements with various countries which is spearheaded by the Global Forum on Transparency and Exchange of Information for Tax Purposes.

Where are we now?

Madam Speaker, allow me for a moment to take a step back and reflect on Saint Lucia today or what I hope will be the Saint Lucia of the past. What do I see? I see high unemployment, high debt and chronically low growth and development. These have been the hallmark of our economy for some time. Let me now spend some time to go over some of the data to illustrate our economic and social plight.

From 1996 to 2015 the economy grew by an average rate of only 1.6 %. More significantly, growth averaged only 1.3 % over the last ten years and what is of great concern to this Government, Madam Speaker, is the fact that the economy grew by an average of 0.3 % over the last five years. Madam Speaker, low economic growth is the number one economic challenge that we face in Saint Lucia today. It is clear from the numbers that I have quoted that growth has become progressively weaker in more recent periods. While one may argue that the economy was severely impacted by the financial crisis of 2008-09, several of our regional peers have successfully recovered and are now doing better than us with their economies growing at

higher rates. For example growth in the ECCU from 2012 to 2016 was estimated at 2% compared to 0.3% for Saint Lucia over the same period. This is not acceptable.

Over the past decade our unemployment rate has increased significantly from 14% in 2007 to above 20% where it has stubbornly remained. Youth unemployment has followed a similar trend and has remained extremely high at 43.1%. It is an extremely sad reality that over one-fifth or 20 % of our productive labour force is unemployed and by extension Madam Speaker this implies unemployed capital in that scenario. This, in effect means that we have substantial capacity for expansion, growth and development.

Another major concern that we have to address in our economy is the issue of productivity. It is estimated that Saint Lucia's productivity has been falling by an average of 0.6 % from 2007 to 2016. The low levels of worker productivity can be directly linked to an acute skills mismatch in Saint Lucia. Our workforce is predominantly low skills as has been revealed by many reports. However the economy requires an ample supply of skilled and semi-skilled labour, which we are failing to produce. I believe it is worrying to know that jobs are available within the economy but our citizens are not sufficiently skilled to hold these jobs.

Our debt position has continued to worsen, with the debt burden creeping up from one year to the next. The increase in the debt stock coupled with low growth and its implications for servicing the debt has severely restricted our degrees of freedom in implementing expansionary fiscal policy to cushion the adverse impact of low growth. In addition, the structure of our debt, with a large percentage of it being in the form of short term instruments has significantly increased the roll-over risk.

I would also like to highlight Madam Speaker that the cost of doing business in Saint Lucia is in most cases higher than that of its competitors. One area where this disparity is quite clear is with the cost of electricity, which in most cases directly impacts the cost of production. Saint Lucia's ranking in the Ease of Doing Business Report has fallen from 34 in 2008 to 86 in 2016. This Madam Speaker, tells us clearly that Saint Lucia's trajectory is in the wrong direction and this trend must be reversed.

I wish to finally mention a critical element of the enabling environment that is essential for supporting growth and investment on physical infrastructure. Madam Speaker, we have an aging infrastructure and public assets have deteriorated significantly due to the lack of timely, adequate and at times no maintenance. Our roads, schools, hospitals, water distribution network, government buildings including police stations, require urgent attention. These costs are however beyond what this country's fiscal capacity can support.

Madam Speaker, if we are to propel this economy on a trajectory of higher growth and development, we must restructure our economy to enhance its competitiveness and productivity. The choices are stark, we either embark on the journey of transforming our economy or we continue to wallow in the vicious cycle of low growth, high debt and high unemployment. My Government, has chosen the path which will restore prosperity to our nation.

The Socio-Economic reality in Saint Lucia

Madam Speaker, this debate provides, as always, an opportunity for reflection and introspection. It is a task we must undertake with an honesty that is brutal and unrelenting. As I reflect on the social face of Saint Lucia, I am truly concerned. We are seemingly drowning in a pool of blatant negativity and decadent behavior. Let us not be shocked by such an assessment. It surrounds us in all its guises and forms. Crime, violence, abuse, lack of respect for people and property, these have become the norm and part of our daily existence. We must encourage discourse but not destruction. We have to set better standards for ourselves and for our children and take pride in our country.

We are confronted with rising levels of poverty and unemployment. Those who are vulnerable do not look with confidence to a system that is supposed to inform, support and empower them. So their vicious cycle of dependency and that of their household continues, with no hope in sight. We breed apathy, we nurture disinterest. We do nothing. Those who choose to deny such a characterization may do so, but my administration will not. For too long we have wallowed in mediocrity and negativity – content to stagnate and in some instances regress, while hiding behind the convenience of the socio –economic cards the world and its system has dealt us. In his last Budget Address as Prime Minister, Sir John Compton lamented the physical, economic and social divide that was unfolding within our country. He was strong in his conviction that a

“quantum leap” of thought and action was our only way out. Almost 10 years on, his words assume even greater relevance.

Madam Speaker, we are at a critical juncture in our development journey. We can either choose to act decisively to effect real change in our country or we can continue to plod an old familiar path to nowhere. We can find ways to harness the energy and industry of the majority of our people. We can seek to utilize and unleash their creativity and talents. Or we can allow the minority to continue to paint this sad face of Saint Lucia and we self - destruct, as a direct consequence of the inaction of the majority.

Our Government has chosen the path of change. We are committed to building a new Saint Lucia, with citizens who are humble and proud, committed to excellence and accepting of all people, thoughts and ideas. We relish the challenge of creating a society that is competitive, productive and inclusive.

A NEW VISION FOR SAINT LUCIA

Madam Speaker the times demand a new vision for Saint Lucia to provide a roadmap for growth and development. It cannot be business as usual and this new vision will require fundamental and structural changes in the economy. We want to build a Saint Lucia which instills pride, a place where businesses can flourish, where people can get jobs, not handouts, where people feel secure, care for each other, can access educational opportunities, receive quality health services, and enjoy a comfortable standard of living without imposing a burden on future generations. Our approach will engage all sectors of our society and be based on dialogue.

Therefore, the following strategic areas of focus will be aggressively pursued over the next four years with the underlying aim of achieving sustainable and inclusive growth.

- I. Creating Sustainable Employment**
- II. Reengineering Social Services**
- III. Reforming Government to make it more responsive to the business community and citizens**

- IV. Improving Security and Justice**
- V. Building Capacity in Renewable Energy**
- VI. Adapting to Climate Change**

I. CREATING SUSTAINABLE EMPLOYMENT

Madam Speaker creating sustainable employment is a priority of this Government and we have pledged to work towards an unemployment rate of no more than 15% by 2021 as stated in our manifesto. It is expected that many of the investments within the coming months will create employment throughout the island, particularly in the sectors of tourism, agriculture and construction. Clearly our approach is very different from the Labour Party. We aim to create the enabling environment for growth within the private sector – by providing incentives, enhancing government support services, improving efficiency in the public sector and addressing the existing skills gap.

We are currently working on a comprehensive incentives package which will create employment within the private sector and provide much needed support to businesses within Saint Lucia. More details will be given on the incentive package within the coming months.

Tourism Led Strategy

Madam Speaker, as one of the main contributors to our economy, the tourism sector will be reengineered in order to achieve its full potential and to be used as a catalyst for economic growth. We will work towards building a tourism product that is globally competitive, environmentally and socially sustainable and will maximize both backward and forward linkages particularly in the agricultural, manufacturing and construction sectors.

Madam Speaker, it is possible to expand the tourism room stock by 2000 rooms over the next 4 years throughout the island. Major tourism investments are expected. We have already witnessed the opening of The Royalton where at minimum 900 jobs have been created during operations.

The Harbour Club is expected to be opened towards the end of the third quarter of the calendar year, where 117 rooms are expected to be available and it is envisaged that a minimum of 150 jobs would be available.

Coconut Bay plans a 200-room expansion and is expected to employ a minimum of 400 persons during construction and an additional 320 jobs on completion.

Madam Speaker, there are, some other major investments under active consideration.

Work will begin on the Fairmont Saint Lucia Resort in Sabwisha Choiseul in September of this year. This development will employ 150 workers during construction and 250 workers upon completion. This resort will be a unique space that integrates local nature, a low-rise building complex and a wide range of recreational facilities. The hotel will include 120-five star hotel rooms, 37 villas, 3 restaurants, a spa, commercial areas for local producers and traders and 3 swimming pools. A special central place in the development is provided for local tradition – a number of shops for carvings and paintings will feature at the property.

The Redit beach will be redeveloped and will become the home of a luxury five star dual branded hotel called Curio by Hilton. This property will be built where the Rex Resorts was previously located. The Curio by Hilton will feature 500 luxury rooms; 350 rooms assigned to the Hilton and 150 assigned to the Curio by Hilton. This development will cost in excess of US\$100 million and it is expected to employ at least 650 workers during operations. Work on this property will begin within the last quarter of 2017.

Madam Speaker, we are expecting work to commence on the Honeymoon Bay Resort in Cannelles very soon. This resort will consist of two hotels; the first is a 250 room 5-star luxury, family all-inclusive hotel and the second is an 80 room, 5-star luxury hotel. This resort will feature an 18-hole golf course and club house and a museum. The development is expected to cost US \$360 million and will employ about 600 workers during construction and 750 full time and 300 part-time workers during operation.

Madam Speaker, the Range Developments signed an agreement with the Government of St. Lucia to acquire the Black Bay lands and develop Black Bay into an integrated master planned luxury touristic community. The Black Bay Master Development will consist of a luxury branded hotel and villas, and other amenities set on 180 acres on the southern tip of the island. The hotel is expected to have 180 rooms and will be the central anchor of the Black Bay Master Development. The estimated development value for the Black Bay Hotel is US\$130 million.

Initial site works are expected to commence in the fourth of quarter of 2017 or the first quarter of 2018 and the hotel is expected to be complete by the end of 2020. Peak employment during the construction phase will be 300 direct hires and 400 during operations.

Madam Speaker, Sandals Resorts International has confirmed plans to add a fourth resort on Saint Lucia. The property will offer 350 rooms and suites inclusive of the exotic Sky Pool Butler Suites, all-butler signature swim-up Rondoal Suites and an infinity-edge sky pool bar. This project is estimated to cost US\$250 million. Madam Speaker, yet another opportunity for the creation of an estimated 600 jobs during the construction phase and an estimated 875 jobs during the operation phase. Ground-breaking for the project is set to begin in 2018.

In addition to these developments we will focus our efforts on increasing the number of 3-star properties on the island, as we recognize this is a preferred property type for our European visitors and yachters. The Government's policy is to reserve 3-star property developments for Saint Lucians to invest in, in keeping with the village tourism.

Madam Speaker we are looking to increase our room stock this has the effect of increasing our capacity and hence make Saint Lucia more competitive to increasing air lift and open possible markets which were previously untapped. We will create and capitalize on the concept of village tourism. Eight fishing villages will be transformed into unique tourism villages based on their attributes and strengths. These villages will be uniquely themed and development plans will be established in a participatory manner which address the villages' infrastructure, culinary assets, architecture and capacity. This is in support of expansion of the shared economy in much the same way that Gros Islet continues to benefit from village tourism.

We will further develop our niche markets of romance, family and adventure based tourism; and expand our offerings in the areas of eco-tourism, sports tourism and business tourism.

Madam Speaker, it is our intention that everyone in society be given an opportunity to benefit from tourism development at some level. This is clear given the decentralization of tourism related investments, particularly, the development of Vieux Fort as a new tourism frontier.

National Apprenticeship Programme

Our Government will continue to provide support, including financial support for persons in hospitality training. Once these persons have successfully completed their programs, they will be eligible for employment with many of the major cruise lines.

Madam Speaker, to generate employment opportunities especially within the south of the island, for example, our Government has partnered with OJO Labs International to develop an artificial intelligence training and call centre to market and sell the products, services, software and technology of OJO and its clients, including the fastest growing real estate company in the United States. By September OJO will occupy leased retrofitted premises within the Saint Lucia Freezone to house this facility. Employees will be recruited and trained starting this month. It is anticipated that 50 jobs in the area of artificial intelligence training will be immediately created with the plan to expand ultimately to over 200. This is a first for the Caribbean and we will provide our people with advanced technological skills that are not currently unavailable in the region. This will provide an opportunity for our young people to be exposed to cutting edge technology from a first-world company.

Agriculture Led Strategy

Madam Speaker, this Government recognizes the importance of agriculture, particularly for creating employment, especially in rural communities, reducing poverty; generating income and achieving food security. Our Government will create the environment to enable the private sector to participate in the development of the agriculture sector and foster a commercialized approach to livestock rearing, fresh produce farming, and fishing.

Banana Resuscitation

We will revitalize the banana industry and increase banana production. The Ranju farms have been identified as available farm lands which will be utilized for banana cultivation. These lands will be leased to farmers, through Winfresh.

Banana Productivity Improvement Project

Madam Speaker a Banana Productivity Improvement Project will be undertaken during this financial year. In addition, to addressing the issues related to leaf spot control, that project will oversee the expansion of the current acreage by 600-1000 hectares, arrest the decline in production, rebuild farmers' confidence, increase productivity to 37-49 tonnes per hectare and restore production to satisfy the requirements of the market. With these efforts an export target of 60-70 thousand tonnes is anticipated by year three of the project. Assistance will be provided with input supply, leaf spot control, land development and drainage. Measures will also be adopted to build resilience to climate change and steps will be taken to help farmers mitigate the effects of natural disasters or economic shocks.

Agricultural Diversification

New opportunities will be created for generating income and employment in rural areas by expanding and diversifying production. Specific crops will be targeted and grown using greenhouse technology in an effort to reduce the seasonality of these crops. Additionally, specific farmers will be identified as producers for these crops and these farmers will enter into contracts with hotels for the constant supply of fresh produce. Madam Speaker, I am confident that this measure will reduce the uncertainty of supply amongst both farmers and hoteliers and create the environment for additional linkages to be made.

Madam Speaker, this government's agricultural diversification strategy will focus on national food security, the exploration and exploitation of niche markets for non-traditional products, and in so doing optimizing the employment opportunities available within the agricultural sector.

Through the Agricultural Transformation Program (ATP) of the Banana Accompanying Measures (BAM) project, a number of components will be undertaken will be undertaken. The first component is the refurbishment and retrofitting of agro-processing facilities on the island.

The second component is the construction of the National Diagnostic Facility. This activity is designed to enhance our research and technology capability.

The third component is Disaster Risk Reduction in Agriculture. It includes the procurement of inputs to control the Black Sigatoka disease. The Rehabilitation of Farm Community Infrastructure is also part of this component. The initial focus was on Drainage and Riverbank Stabilization. We will also place emphasis on Rehabilitation of Farm Roads, commonly referred to as Feeder Roads.

The fourth component is the Youth Agri-Enterprise Facilitation programme (YAEP), which seeks to create the enabling environment to allow the entry of approximately 150 young persons into Agriculture as young entrepreneurs. The objective is to increase the number of new farmers. The YAEP is also an incubator programme designed to accelerate the pace at which St. Lucia's agricultural sector is modernized, transformed and diversified.

Road Infrastructure Programme

Madam Speaker our road network has deteriorated badly over the years and funds allocated have been insufficient to adequately maintain the roads. This has been made worse by extreme weather events.

In the last fiscal year, only 5.35 million dollars was spent on road repairs and maintenance and we all see the poor results.

The Department of Infrastructure has prepared a comprehensive plan for the restoration of our road network. This plan is expected to be executed over 5 years, with restorative works to be carried out throughout the island, at an estimated cost of approximately 479 million dollars. We intend to explore cost effective options for financing this year's programme.

The rehabilitation and maintenance of the road network will include the following:

- repairs and maintenance, potholing, drainage and retaining structures and grills on primary, secondary and tertiary roads.
- The acquisition of a Road Maintenance Management system which will assist the Department of Infrastructure in planning their maintenance program.
- Reconstruction and rehabilitation of bridges, culverts and water crossings. A bridge condition assessment has been undertaken island wide. This study has identified the bridges to be maintained or replaced.
- Rehabilitation of roads within the city, towns and villages.
- Road works associated with the Choc to Gros-Islet Highway.
- Rehabilitation of the Millennium Highway roadway and junction improvement.
- Procurement and acquisition of road safety equipment; this includes traffic lights, guard rails, road signs and other equipment.
- .We will endeavor to undertake the rehabilitation of approximately 38.9 km of Agricultural and Feeder Roads in various parts of the island.

The Castries to Gros-Islet Highway

Madam Speaker, the northern highway from Castries to Gros-Islet is the busiest stretch of road in Saint Lucia; and based on current trends, it is expected to become even more congested in coming years.

In December our Cabinet considered all the options available for addressing the congestion issue and directed the Department of Infrastructure to undertake the following:

1. Full rehabilitation of the bypass roads to provide drivers with viable alternatives to the Highway.
2. An in-depth review of the Choc bridge to ensure economy in the designs.

Feasibility studies for the north south highway is complete and all indications are that this is the long-term solution to the issue of congestion in the City and Castries to Gros-Islet highway. Our government has decided that a holistic, long term solution is necessary.

The Desert Star Holdings Project – Pearl of the Caribbean

Madam Speaker there has been much discussion regarding the DSH project, but regrettably a lot of it has been ill-informed. I am now grateful for the opportunity to clarify the details of this exciting investment which has the ability to transform the face of the south and to provide much-needed hope to the thousands of unemployed youth who have been neglected for far too long. Finally we can bring some relief to the South.

The Government of Saint Lucia has entered into a framework agreement with Desert Star Holdings Limited for the development of the “Pearl of the Caribbean”. This project has 3 phases and will include a racecourse, residential properties, casino, hotel, marina and recreational park. The project will be phased over 20 years, with the race track at Beausejour, Vieux Fort comprising the first phase of the project. **This is the only phase of the project that has been approved by my government.** All other plans are under consideration and are being reviewed Madam Speaker and on completion of the review we will continue consultations with all stakeholders particularly residents and property owners in the south.

Madam Speaker, please permit me to show the most recent details for phase 3 of the project. As you can see following the initial consultations, the developer has listened to the concerns of the people and fulfilled his promise that the design will not connect to Maria Island, but is looking to enhance the Point Sable Bay.

The DCA has granted approval in principle for the race track pending an Environmental and Social Impact Assessment. This assessment is now complete and has been submitted.

Madam Speaker, we know that this is a bold and sweeping project and that the scale of the project is unprecedented – but at the time, so was the Pigeon Island Causeway, the Millennium Highway, the John Compton Dam, the Hess Oil Refinery, the Rodney Bay Marina. **And we cannot be afraid to embrace development because without it there is no hope for our people. The jobs they need so desperately will not fall from the sky – we must create them.** And this Government will do so. And we will do it in a manner which marries respect for our environment with the need to develop. For the two must go hand in hand.

Phase one of the project will be implemented later this year, all in relation to the race track:

- Domestic & International Barns
- Equestrian Lawn
- Equine Clinic & Quarantine Barn
- Fractional Ownership Homestead Villa
- Race Course Boulevard
- Infield Park & Polo Field
- Permanent Grandstand
- Temporary Grandstand

During the construction phase there will be an estimated 500 to 800 persons on site, with a management team of 10 to 20 persons.

Once the racecourse is operational, persons will receive training and employment in the areas of horse husbandry, maintenance of facilities, and management of the race course and training of the racehorses. On average in the horse racing industry 3 to 4 jobs are created for every thoroughbred, such jobs being jockeys, trainers, barn managers, grounds keepers, groomers, veterinarians, vet's assistants and blacksmiths. It is estimated that we will have over 400 horses.

Madam Speaker, the DSH project will transform Vieux Fort from the ghost town that it has become under the Labour Party administration into a modern, progressive city full of opportunities for its citizens. No longer will high rates of joblessness plague Vieux Fort and no longer will the people of the south feel like abandoned children. This project will also make use of underutilised lands in the south, particularly in Beausejour, and create several ancillary industries and linkages with existing businesses. The opportunities this project presents are endless and our Government is grateful to the developer for expressing this level of confidence in our country and in our Government to make such a large-scale investment here. We welcome this development and look forward to the job opportunities it will provide to our young people, particularly those from the south.

The Hewanorra International Airport

Madam Speaker, our government is committed to the development of the Hewanorra International Airport. On assuming office, SLASPA had engaged the International Financial Corporation (IFC) to serve as lead advisor to develop and advise on the feasibility of implementing a public-private partnership transaction for the development of the HIA. On review of the IFC proposal our government decided to embark upon exploring alternative financing arrangements within the context of the broader vision for development in Vieux Fort, which includes the development of the HIA.

Madam Speaker as part of the development of Vieux Fort we aim to enhance the natural deep water harbour to accommodate cruise ships and build out a home porting facility given its close proximity to HIA.

An announcement on the confirmation of financing will be made this year.

The Castries Redevelopment Programme

Madam Speaker, there is no question that our city is in desperate need of redevelopment if we are to be competitive and modern and ready to face the future.

My government will undertake several projects which we envision are critical to the modernization of the city. Traffic congestion must be addressed and the construction of a new cargo port at Cul de Sac will enable the relocation of cargo operations. The port will be enhanced to accommodate larger cruise ships and a marina. The freed land area will become available for significant cruise-related commercial, entertainment and residential developments. These redevelopments will include shops and plazas, duty free shopping zones and restaurants. Sewage treatment in Castries has long been unacceptable. The construction of a sewage treatment facility to handle the black water generated by the areas of Central Castries that are connected to the sewerage network is a priority as well as a pre-condition for the expansion of cruise and water related activities in the Castries Harbour.

The International Business Companies Act has been amended to allow for headquarters of regional companies to be located in Saint Lucia. My government will be following up this legislation with incentives for local developers to construct residential, commercial and mixed use developments to accommodate these companies.

II. REENGINEERING SOCIAL SERVICES

Madam Speaker, we must pursue a more equitable and just society. All sections of our population, particularly the most vulnerable must have access to a system that provides support and services. And we must build a society that is proactive and embraces risk in a positive way.

Madam Speaker, this new society must be anchored on the pillars of the individual, the family and the community. Accordingly, our social services regime must be reoriented. Our newly configured Ministry of Equity, Social Justice, Empowerment, Culture and Local Government and Youth Development and Sports has been tasked with the responsibility of bringing life to this vision. At the core of this new system for administration of services and programmes within this sector is the Local Government Authority. Every intervention, every extension service must now be placed within that context. It means our Social Transformation Officer, our Family Case Worker, our Youth and Sports Officer all must work within the framework of that local government jurisdiction and the same must apply to those agencies like SSDF, Belfund and CDF. Every provider of service will determine its role within the broader mandate of facilitating the growth of compassionate and resilient individuals, families and communities. Our government will develop the After School Programme as the model to demonstrate this new arrangement. In recent times, this programme has been regarded as a stand-alone intervention, administered through the Community Services/Development Unit but we recognize that there is the potential to realise even more significant benefits.

In the area of sports, we intend to focus on sports like football, basketball and athletics, where we believe the greatest opportunity exists for our young persons to progress academically and professionally. We will endeavor to engage coaches at the community level as opposed to the more recent school based efforts, which can lead to a dilution of the overall coaching impact.

Similarly within the creative arts sector, we will create an avenue for CDF and other creative arts facilitators to enhance the quality of talent at the individual and community level.

Madam Speaker, this approach will link school to community, community to sporting and cultural organisations and ultimately ensure that our youth, primarily those at risk, are productively engaged. It will also serve to maximize the use of our school plant and community centres, which traditionally are underutilized for significant periods of the day. We will try to engage -- through our Youth empowerment Service Programme -- those out-of-school, out-of-work boys and girls who are unoccupied through initiatives such as an After School Programme. We will do this through our partnership with the CDB and USAID.

Madam Speaker, we must reform our social protection system in order to assure access to services for those most in need. It is unacceptable that in this era of technology, where the need for data and evidence-based decision making is incessant, that we are referencing poverty data that is over 10 years old. It is equally unacceptable that we have not established an architecture that enables us to be more client friendly. We will therefore initiate this new system by supporting the conduct of the country poverty assessment, inclusive of a quantitative and qualitative assessment. We will also (after years of delay) finalize a targeting instrument, the SL – NET Proxy Means Test to ensure that we can categorically identify those who require the state’s support. I want to stress that this instrument which will incorporate income and non-income criteria and will be administered and utilized by all Ministries, Agencies, Departments and organizations delivering state supported and/or endorsed social services. Such an instrument however will be useless, unless we establish a central registry or database to enable us to adopt a “one client – one record” system that provides an historical map of a particular applicant, outlining his/her circumstance, support provided and noted achievements and impacts. The final pillar of this reform is the integration of social, financial and other forms of assistance.

Education Revolution

Madam Speaker, in order to realise the transformation in our economy, education must be given priority; education must be seen as the platform to enable citizens to attain their full potential. Our population growth is slowing and we have a fast declining school age population. We will conduct a comprehensive assessment of all public schools, their inventory, and students in order

to maximize the use and resources deployed at our island's schools. Additionally, a diagnostic study of the education system will be undertaken to inform the transformation of the education sector. The Government will introduce and enforce standards throughout the education system. These will include standards for school buildings and infrastructure, school supervision, policy administration, teacher preparation and curriculum delivery.

At the level of early childhood education and development we recognize the private sector is playing a critical role as the main provider, therefore the Government through the Ministry of Education will work towards the setting and monitoring of standards, which should be adhered to by early childhood education facilities. Additionally, vacant space in primary schools will be utilized for the provision of early childhood education.

Madam Speaker we are living in a rapidly changing world, one which continues to evolve through globalization and information and communication technology. We must prepare our students to compete globally by modernizing our curriculum and incorporating technology into the delivery of lessons. The use of ICT must be embraced by students and teachers and a greater effort must be made to incorporate ICT into our education system.

The Ministry of Education will work with our teachers to develop digital content catered specifically for students. It is our intention to reduce the dependence on textbooks and create an environment which embraces electronic learning. Madam Speaker, it is our intention to create a generation which is technology literate who can use ICTs for productive means and are capable of functioning effectively in a globally, technologically driven society.

Additionally, the Ministry of Education will source platforms which allow for independent learning by students and caters to individual learning styles.

Advancing the Health Reform Agenda

Madam Speaker, "the highest attainable standard of health care as a fundamental right of every human being" is enshrined in the World Health Organization's Constitution. My government is committed to providing improved health care to all the citizens of Saint Lucia.

Madam Speaker, the health sector requires an immediate overhaul. The quality of health care, the legislative framework, human resources for health and very importantly health financing are all areas on which our government will focus. Too many of our people are denied access to healthcare because they cannot afford it. Too many of our children are dying because their parents cannot pay for critical care. This cannot continue.

The Ministry of Health estimates that a minimum basic package of health services for the population will cost approximately \$179 million. This cost will allow for the provision of primary, secondary and tertiary care services.

The funding will be used to cover the operating and maintaining of the two new hospitals, improving primary care services by increasing hours of operation in support of the hospitals and strengthening mental health services. Currently the budget for the Ministry of Health is \$110 million. Hence, there is a financing gap of \$69 million.

We were given the option to increase NIC by 5% which would generate an additional \$55 million, this would only allow us to open up the hospitals. It meant that people who could not afford health care before would still not be able to. And so Madam Speaker this was not an option.

Our objective for this sector is to transform the government's role from a direct provider of health care services through hospitals and clinics and a direct funder through budgetary subventions to a policy maker and regulator. My government aims to achieve this by implementing a two-pronged strategy, which pursues public private partnerships for provision of services and the introduction of national health insurance. My government believes that to preserve the future sustainability of the sector we must establish a financing mechanism.

Madam Speaker, my government aims to utilize the resources of the National Health Insurance Fund to finance health care. A number of matters will be addressed including purchasing and contracting with public private service providers, consumer choice, the administration of the fund, the regulations and the finalization of the packages of services to be provided to all registrants for health service. The aim is to provide health coverage for all our people as too many are falling through the cracks.

III. Reforming Government to make it more responsive to The business community and citizens

I turn now to Reforming Government to make it more responsive to the business community and citizens

Madam Speaker, I am pleased to announce that the Inland Revenue Department's Electronic Payment Platform has gone live as of March 21st, 2017. Electronic payments are now possible for all major tax types for both individuals and businesses using either a debit or credit card. This is just one practical example of steps taken by the Government to improve the business environment, thereby improving the ease of doing business in Saint Lucia.

Madam Speaker, I mentioned earlier that there was a need to improve productivity economy-wide if we are to build a competitive and robust economy. This will no doubt require a comprehensive re-engineering of the public service given its size and influence on the rest of the economy. The public service continues to operate as it did in the 1980s. Since then the world has changed dramatically but the public service has continued to operate "business as usual" being guided by the Staff Orders for the Public Service of Saint Lucia issued in the 1980s.

The Public Service of today, Madam Speaker, must be fixed. I intend Madam Speaker to ensure that we have the Public Service Management Bill tabled in this House within this financial year. The citizens of today are more demanding and require a better and higher quality of service. The public service must therefore have as its fundamental objective the provision of excellence in service delivery. Many services ought to be accessible and available 24 hours a day, 365 days a year. But in order for this to happen Madam Speaker, there must be comprehensive changes in the legislation, the accountability systems, and the introduction of relevant ICT.

Madam Speaker, expenditure on wages and salaries inclusive of NIC contributions on behalf of public officers is just under \$410 million or about 35.4 percent of the total recurrent expenditure budget. It is important that we ensure that the taxpayers get value for money and that proper accountability systems are put in place in the public service. In this regard, Madam Speaker we have started the work of developing a results-oriented framework for the budget. This framework is to be cascaded to the level of the public officer so that accountability is established at all levels.

I am convinced Madam Speaker, that unless we hold every public officer accountable for the work that they do, we will continue to perpetuate a situation in which the public service continues to operate inefficiently with everyone playing the blame game.

We need to embrace ICT in the public service to reduce costs and improve efficiency and service delivery. I am keen to see the introduction of online services to better serve our people. Once a person has access to the internet, services can be accessed from the convenience of their homes. In the case of driver's licences there should be no need to drive to Union to apply for a licence renewal. There is no reason these applications cannot be made online.

Madam Speaker, the departments in the public service continue to operate largely in a vacuum and turf control is the order of the day. This has resulted in widespread inefficiency about which our citizens complain from year to year but which only seems to be get worse. We can no longer afford to allow the public service to operate in this manner and we must put in place systems and processes to ensure that a holistic government approach is taken in making decisions on critical policy matters which have implications for more than one agency. It is for this reason, Madam Speaker that we have created a system of clusters, whereby relevant agencies are grouped within a particular cluster to work together. This approach should allow for greater collaboration and cooperation among agencies within the cluster and therefore lead to better policy formulation and implementation.

Inclusive Growth

After reviewing the state of the economy it has become quite clear that we must embark upon a strategy to significantly grow this economy if we are to manage debt, provide sustainable productive employment and improve the standard of living of all citizens.

My Government believes there is sufficient potential within Saint Lucia that from 2018 onwards we can generate and maintain high levels of growth. This growth will initially be driven by the Construction and Tourism sectors with linkages being capitalised on in agriculture, manufacturing and, real estate. This growth will not be localised to any one group of individuals but will be a growth that will be felt throughout the economy and enjoyed by all our people.

We have begun the consultative process with stakeholders on the development of a growth strategy which focuses on productive employment, equity, enhancing the business environment, building our innovative capacities and upgrading the skills of our human resources. Thus far we have identified a number of bottlenecks to growth including low productivity, lack of skilled workers, limited access to credit and the high cost of operation. We will continue our work with the private sector and civil society on sustainable solutions to these challenges as well as the eventual development of a National Growth Strategy.

Resolving Insolvency

Madam Speaker, access to credit has long been a challenge for us in Saint Lucia, both at the household level, but more so for the private sector. Difficulty in accessing credit continues to constrain economic activity within our country. The challenge is not due to a lack of liquidity, but rather, risk averse lenders concerned about the high levels of default of loans within Saint Lucia. The delinquency of some, has resulted in all of us being penalised by elevated interest rates and more stringent conditions to access loans. In the upcoming year the Government will continue work with all stakeholders on the establishment of a Credit Bureau, a Registry of Movable Assets and A Secured Transactions System. New, more relevant legislation and regulations are being drafted on insolvency. This suite of legislation will provide the mechanisms to ensure viable businesses continue as a going concern and preserve their value, despite encountering financial challenges. A Secure Transactions Bill is also being drafted, which will result in a modern and functional Secured Transactions System which will feature a modern collateral registry. The Secure Transactions reform will allow many small businesses and entrepreneurs to utilize non-traditional forms of collateral such as inventory and other movable assets to secure credit to expand their business. Madam Speaker all of these actions are meant to address the challenges which we face as a country in accessing credit.

IV. IMPROVING SECURITY AND JUSTICE

Madam Speaker, this Government will work to improve the administration of justice and the security of our country. Saint Lucia's courts have been without a home for some time, which has resulted in delays in the hearing of cases and the rising remand population in the prisons.

The Courts will be temporarily relocated to the grounds of the National Cultural Centre. A temporary structure will be erected to house the Family court, First District Court, the High Court, Magistrates court and the Offices of the Director of Public Prosecutions while the National Cultural Centre will be relocated to an alternative location.

Madam Speaker the Office of the Director of Public Prosecutions has been short of resources for some time. This has hindered the pace at which cases can be handled. We will strengthen the office of the Director of Public Prosecution through adequate staffing and the provision of other enabling services such as proper equipment. This will further assist with the reduction of the backlog of cases. Madam Speaker we can report that with the appointment of the new DPP, significant progress has already been made in reducing the back log of cases and I would like to publicly congratulate him and his Department on their success thus far.

Madam Speaker I am pleased to report the Forensic Science Laboratory reopened during this financial year. We expect this to assist the Royal Saint Lucia Police Force in their crime-fighting efforts. In addition, we will increase the resources of the Royal Saint Lucia Police Force by training 46 recruits and providing additional vehicles and other much needed equipment. We cannot keep expecting our police to perform better if we do not give them the necessary support and tools to perform.

Madam Speaker, through our intelligence-driven crime fighting strategies we aim to increase surveillance within the city of Castries with the installation of CCTV cameras throughout the city, particularly in areas prone to crime. The Government will be partnering with the private sector in the supply and maintenance of cameras.

Madam Speaker there is the need to improve organizational effectiveness within the Royal Saint Lucia Police Force. A number of senior police officers have retired and it is the intention of my government to establish a leadership training programme to ensure a proper succession plan and to provide effective leadership at all levels of the force. Our government is committed to ensuring that officers are kept abreast of new and advanced crime-fighting techniques.

Strengthening Border Control

Madam Speaker, permit me to turn my attention to the issue of security at our air and sea ports. At present four agencies perform border management functions in Saint Lucia, these are; Customs and Excise Department, Immigration Department, Marine Unit and the Quarantine Division of the Department of Agriculture. Collectively, these agencies have responsibility for overseeing the movement of people, animals and plants, the imports and exports of goods and services and the securing of Saint Lucia's borders.

Madam Speaker, these agencies are facing elevated security threats, increased global trade and scarcity of resources. Other challenges include archaic data storage and retrieval practices, inadequate sharing of information, non-transparent legislation and increased procedural requirements as well as a greater demand against their resources due to increased travel and trade into and out of Saint Lucia. These factors have placed an immense burden on these agencies and on the resources of the Government of Saint Lucia.

Madam Speaker, there is need to re-think our approach to securing our borders, which would bring about greater efficiency and effectiveness in the dispensation of border control and management. To this end, we will develop a Border Control Services Agency.

This agency will be responsible for:

- Border Management and the processing of people, goods, plants and animals at all ports of entry
- Customs and immigration services
- Enforcement of relevant legislation
- Protection of Saint Lucia's borders

Madam Speaker we expect that the formation of one agency with responsibility for border management will correct many of the existing deficiencies.

To this end a committee has been set up with representatives from key agencies to examine the options for the establishment of a border control services agency.

V. BUILDING CAPACITY IN RENEWABLE ENERGY

Madam Speaker, the great scientist Albert Einstein once said that “*In the middle of difficulty lies opportunity*” and the challenging global economic situation has forced countries to seek creative new means of promoting social and economic development.

While generally recognised as a critical factor of production and one vital for overall national development, Energy has usually not been seen as a sector in its own right within our country. We wish to change this view and to foster the development of a national sustainable energy sector that will spur investment and job creation while broadening and diversifying the national economy and supporting efforts at protecting the environment and combating climate change. This objective will be pursued through a Sustainable Energy Sector Development Strategy.

The strategy will be to increase the demand for sustainable energy services in the economy. To this end, Government will seek to continue, and to accelerate, ongoing work on the diffusion of renewable energy and energy technologies. This means that Government will more aggressively pursue the installation of photo-voltaic and solar hot water systems on public buildings. Government will also seek to advance ongoing work in the areas of geothermal exploration and solar farm development.

Madam Speaker, the strategy will also include the promotion of increased manufacturing energy enterprises in Saint Lucia. For many years now, the manufacture or assembly of solar water heaters has been undertaken in-country. It is now time to diversify the manufacturing base to include photo-voltaic and other components and energy-efficient street lamps and street lighting and this will be achieved by directly targeting investment in this area.

Government will pursue the development and implementation of energy efficiency guidelines to reduce energy costs in its operations and to further signal its readiness to be an exemplar of energy use. This Sustainable Energy Sector Development Strategy, Madam Speaker, will be to encourage Energy Innovation. We will aim to reduce dependence on fossil fuels while at the same time increasing foreign exchange through a reduction in imports of fossil fuels.

Madam Speaker, a fully-fledged Energy sector will require the presence of a corresponding enabling environment and a comprehensive review of the relevant policy, legislative and fiscal framework will be undertaken.

VI. ADAPTING TO CLIMATE CHANGE

Madam Speaker, climate change poses a major challenge to our sustainable development and a threat to the very survival of many small island developing states and threatens to do so, well into the future. The successive hottest years on record, rising sea levels, the increasingly violent tropical storms, crop failures, the outbreaks of vector-borne diseases in new parts of the world: these all bear testimony to the seemingly inevitable onslaught of climate change. No matter what the naysayers would have us believe, this phenomenon is a reality.

What is more, even the proverbial ostrich can no longer bury his head in the sand as the sand has now grown too hot. In other words, Madam Speaker, inaction will not make climate change disappear. It is widely known that although Saint Lucia and other small island states are not the main contributors to global warming, they are among the most vulnerable to climate impacts. Our survival is at stake. We must take action now!

Adaptation continues to be a major concern as we seek to build resilience in our water, agriculture, tourism, health, fisheries and other sectors. Over the last decade, a number of pilot adaptation projects have been implemented but these need to be significantly scaled up if we are to meaningfully adapt to climate change.

In December 2015, in ratifying the Paris Agreement, Saint Lucia undertook a Nationally Determined Contribution that, once implemented, will see sharp reductions in Saint Lucia's greenhouse gas emissions through, among others, the diffusion of renewable energy and energy-efficient technologies and practices.

Madam Speaker, climate change adaptation and emissions reduction, or mitigation, will not come cheaply. While we must pay attention to ensuring our own survival and to play our part towards the greater global good, we will not be able to adapt or mitigate fast enough relying

purely on our own resources. As such, this financial year, a particular effort will be made to pursue available climate financing from various sources. We will focus on expediting access to the Green Climate Fund and other similar climate entities and we will address institutional and other barriers which have impeded access to such financing.

Madam Speaker, every effort will be made to achieve synergy between the climate change and energy agendas.

OUR FISCAL STRATEGY

Madam Speaker, the Government is currently working on a medium term fiscal strategy aimed at crafting a clear path towards growing the economy while improving Saint Lucia's fiscal and debt position.

From 2012-2016 the level of public debt continued to grow. While some measures have been taken to curtail expenditure while improving revenue intake, we are still spending more than we collect in revenue resulting in increased borrowing and higher public debt. The low⁸ levels of economic growth have not helped in correcting our fiscal imbalance. Hence the fiscal strategy that we will adopt entails a two-pronged approach of increasing the level of growth while improving the productivity of expenditure.

Madam Speaker, we will soon be introducing to this honourable house a new Public Financial Management Bill. The Bill does not only set new guidelines for the management of the country's finances but requires the Minister for Finance to report to Parliament no later than one month after the second quarter of every financial year on the state of the public finances.

Tax Reforms

My Government has made tax reforms a major priority over the medium term. In this regard, Madam Speaker, work has already commenced in a number of areas geared toward improving competitiveness and stimulating growth.

Value Added Tax

Madam Speaker, one of the promises made in our 2016 manifesto is to provide tax relief to Saint Lucians in the areas of personal and corporate income tax and VAT. In keeping with this promise on 1st of February of 2017, we reduced the VAT rate from 15% to 12.5% as part of the initial VAT reform. It is the view of this Government that the reduction in VAT will reduce prices to the consumer and/or boost profits for business, thereby stimulating confidence in the economy.

VAT Deferral for Manufacturers'

Madam Speaker our manufacturers, have complained about the burden from VAT on imported raw materials used in their production processes. Given that VAT is a border adjusted tax, when goods are imported into Saint Lucia, the manufacturer is required to pay VAT upon clearance of these goods. This input VAT incurred is claimable and is offset against any VAT collected when a VAT return form is submitted by the 21st of the following month. If the manufacturing collects less output VAT than the amount paid on inputs, then the difference is refunded within four (4) to six (6) weeks of processing the claim. This Madam Speaker, can create an unnecessary cash flow strain, thus adding to the financial burden on manufacturers, in that, they must source financing either from loan financing or overdraft, which can be expensive and render their businesses uncompetitive.

Madam Speaker, we have designed a VAT deferral system to minimize the impact of the VAT obligations faced by manufacturers. This system will eliminate the VAT payment on imports of raw materials and no such payment is required subsequently, to the extent that the manufacturer is allowed to claim the full input VAT.

For example, a manufacturer has VAT payable on imports of \$20,000. The manufacturer will be allowed to clear the goods with no payment of this VAT. If the manufacturer is entitled to claim 100% of inputs for that month, there will be no cash VAT payment on that transaction.

A payment will be required to the extent that a portion of this input VAT is not claimable and the manufacturer has no VAT refundable. This gives manufactures immediate use of the imports to manufacture and sell the goods that they have produced.

The IRD has already produced the draft legislation to allow for the implementation of the deferral tax system on certain imports; this draft legislation will therefore be amended to incorporate raw materials imported by approved manufacturers.

Personal Income Tax

I now wish to highlight the reforms my government proposes to undertake in respect of personal income tax.

Any properly structured personal income tax system, Madam Speaker, must be seen as fair in the sense that it is progressive and simple to administer both from a taxpayer and tax administration perspective. The overall competitiveness of the economy will be improved if we are able to achieve this objective.

The reforms proposed are extensive, Madam Speaker. Allow me to describe the scope and flaws of our current system, and explain how my government wishes to reform it.

Personal income tax is currently calculated as the total income one earns less the personal allowance and any deductions which serves to determine 'chargeable income'. This 'chargeable income' is taxed under a multi-rate and multi-band system.

In addition to having the first \$18,000 or \$24,000 (in the case of pensioners) exempt, persons can reduce their chargeable income by making a claim of any combination of the twenty-eight existing deductions, some of which have numerical caps and some of which do not. This has resulted in:

1. The requirements of taxpayers to file to verify claims of deductions
2. A considerable amount of resources being allocated by Inland Revenue in processing tax returns
3. The huge variance between tax collected and tax due from taxpayers as a result of deductions made during the year. This gives rise to overpayments by some taxpayers; data shows that in any given year this overpayment may be to the tune of \$15.0 million
4. The magnitude of deductions claimed is correlated to income. Simply put, high income-earners have the ability to make significant claims for deductions thereby significantly reducing chargeable income and tax otherwise due.

In light of these issues Madam Speaker the policy direction of the government with respect to PAYE is as follows:

- i.* Simplify the system such that filing is no longer required by the tax payers
- ii.* and Allow for more progressivity in the system

It is therefore proposed Madam Speaker, that both the personal allowance and the applicable deductions be reformed with a view to simplifying the system while simultaneously making it more progressive. It is also the intention of the Government to place a cap on personal income tax. We will make an announcement Madam Speaker of the changes to be made in the personal income tax prior to its implementation.

Foreign Residency Programme

Madam Speaker, it is the intention of this Government to introduce a foreign residency program that will allow high net worth persons to take up residence in Saint Lucia. In order to qualify, the foreign resident will have to invest in real estate, open a company that hires more than 10 people or invest in our sovereign fund. Those persons, once they have acquired residence in Saint Lucia will be treated like Saint Lucians except they will **not** have the right to vote or to own a Saint Lucian passport.

Sovereign Wealth Fund

The Government has commissioned a study to review mechanisms to enhance the competitiveness of the existing CIP program and to amend the tax legislation to make it attractive for foreign persons to become tax residents of Saint Lucia. As a result of the studies Government will be taking steps to establish a Sovereign Wealth Fund (“the fund”) that will allow participants in the CIP program the option of making an investment in the Fund along-side the Government of Saint Lucia.

The Fund will be designed to ensure that it meets appropriate governance standards and will be staffed by professional investment managers. It is expected that the majority of the Fund’s capital will be deployed in liquid foreign denominated securities with the balance being earmarked for

suitable investments in the Saint Lucian economy. Profits derived from investments in the fund are expected to be used for Central Government expenditure.

Citizenship by Investment Programme

Madam Speaker, the Government has taken steps to encourage greater participation in the CIP. Honourable members would be aware that the donation component was reduced from US\$300,000 to US\$100,000.

Madam Speaker, we will take measures to strengthen background checks. We expect an increase in the number of applications as more projects are implemented.

Revenue Measures

Excise Tax on Fuel

Madam Speaker, over the years we have not been able to allocate enough money to maintain our road network which has come under tremendous pressure from the rapidly increasing number of vehicles on our roads. In 2016 the number of vehicles imported in Saint Lucia increased by 40.8% to 3,137. There has been increased traffic congestion, and resulting deterioration of our roads. The high level of public debt and the current sources of tax revenue do not allow sufficient resources for road rehabilitation and expansion of the road network. Therefore, my Government will dedicate a stream of revenue to go towards maintaining and upgrading the road network and associated infrastructure such as bridges. This stream of revenue will come from an increase in the excise tax on gasoline and diesel which will be increased from \$2.50 a gallon to \$4.00. This will take effect from June, 2017.

Expenditure Measures

Tackling the National Debt

Madam Speaker, the time has come to tackle our national debt problem. For too long successive Governments have been paying lip service to this situation and the problem gets worse each year.

This government will not let another term go by with no decisive action. To do so would be to undermine our fiscal reform effort, and to jeopardise the potential that this country has, to enter into a new era of sustained higher economic growth. We owe this to future generations and we must tackle it now.

And so we have developed a Medium Term Debt Management Strategy (MTDS) to address this situation the objective of which is to analyze the costs and risks inherent within the debt portfolio, referencing the interest rate risk and refinancing risk. This strategy document comes against a background of adverse economic and financial developments within the ECCU including Saint Lucia. The management of the debt programme involves the design and implementation of debt strategies which will effectively align the debt level with fiscal sustainability.

Madam Speaker, our current debt burden has hindered our ability to accumulate buffers and to implement fiscal policies to spur the economic growth needed to place the country on a more sustainable path. The current debt portfolio consists largely of short term domestic debt putting significant pressure on cash flow and creating high rollover risks.

Madam Speaker, to solve the debt problem we will have to do our fair share as a Government and as a people. We cannot do it alone. To restore the public finances we must recognise that our fiscal stability is a shared interest for all stakeholders in our economy. We will have to act in partnership with the private sector, and with our bilateral and multilateral stakeholders. The burden of adjustment will have to be shared by all.

Over the next few months we plan to announce several initiatives which we believe are necessary to place our debt on a sustainable path.

Reduction in Transfers

Madam Speaker this budget is geared towards revenue reform, restructuring of the tax system and enhancing economic growth; however, we must exercise fiscal responsibility and discipline. We must look carefully at transfers and determine whether the performance of statutory bodies and affiliated agencies justifies continued support of these agencies. There may be instances where a merger of agencies, or an elimination or reduction of transfers is the most suitable

option. In some cases the environment has evolved, and the purpose for the creation of these agencies no longer exists. In other instances agencies may be better placed to operate as private institutions and allow market forces to set rates and determine the true cost of operations. This is no easy task, but is a necessary part of the journey to exercising fiscal discipline and reducing our debt burden.

Madam Speaker, the first agency of Government for which transfers have been reduced, is the Saint Lucia Tourist Board. Upon assuming office my Government took a decision to close the Saint Lucia Tourist Board and to establish the Saint Lucia Tourism Authority. This has resulted in the reduction of administrative expenses from \$8.6 million in 2016/17, to \$5.6 million programmed for the 2017/18 financial year.

We have also identified a number of other agencies whose operations and performances have been reviewed and a determination will be made on their continuation in their current form in the coming weeks and months; these include:

a. The Saint Lucia Marketing Board

The St Lucia Marketing Board was established in 1968 to solve food marketing deficiencies which existed at that time. The primary purpose of the Board was to encourage agriculture production and facilitate the distribution of farm produce from farmers to final consumers. Over the years, particularly during the 90's and early 2000's the Marketing Board was the primary "farm gate" purchaser across the island. This is no longer the case.

Massy Stores as well as other ad hoc farm-produce purchasing and distribution companies, coupled with direct interactions between hoteliers and farmers has resulted in a diminished position of the Marketing Board. Currently, it handles approximately only 2% of the total produce of farmers. Consecutive years of losses have now rendered the Board virtually obsolete although its liabilities continue to burden taxpayers. The liabilities in 2014 were in excess of 2 million dollars. The Farmers are also dissatisfied with the Board highlighting low and non-guaranteed prices, arbitrary grading standards and unreliable pick-up service as just a few of their many complaints.

Madam Speaker, the Saint Lucia Marketing Board cannot be allowed to continue down this path and a determination must be made on its future. Through the years several reports have been prepared making recommendations from closure of the Board, to restructuring of the shareholdings to full privatization. We have decided to solve this issue by winding up the operations of the Board within the upcoming financial year.

b. The Saint Lucia Fish Marketing Corporation

Madam Speaker the Saint Lucia Fish Marketing Corporation is another institution which has registered disappointing performances within recent years, and whose financial and operational performance leaves much to be desired.

It was established in 1984 with the goal of aiding in the development of the sector by providing a guaranteed market for fisher folk. At that time large volumes of fish were landed in Saint Lucia which oversaturated the market and resulted in fishermen having to take up the role of supplier/vendor as well, thereby reducing their productive time. Several competitors have now entered the market and stand ready to accept fish which has landed on island. This current situation now calls into question the role of the Saint Lucia Fish Marketing Corporation given that the competitors now are performing the role of the Corporation and are doing it more efficiently.

Madam Speaker, the Fish Marketing Corporation, has also been heavily criticised by the same fishermen whom the Corporation was established to assist. One common complaint is late payments. In addition, the Corporation has accumulated a significant debt over the years. In 2015 Government borrowed \$1.5 million to assist the Corporation to meet its obligations, and has been added to the debt stock of the country. Over \$5 million dollars is now owed to the Government from advances which have been made to the Corporation. It should be noted that this sum does not include amounts borrowed by the Government on the Corporation's behalf. Madam Speaker repayment of this amount will certainly be a struggle for the Corporation which has consistently underperformed and Government will have to make an imminent decision on its future.

c. Radio Saint Lucia

Madam Speaker, Radio Saint Lucia (RSL) is another state affiliated entity which appears to have lost its way. The financial performance of RSL in recent years has been far from desirable, and it continues to accumulate liabilities which could possibly be inherited by Government. As at March 31, 2015 the company's accumulated losses amounted to \$3,362,725 and the company also reported a loss of \$515,497 in 2015. The company has failed to meet its statutory requirements by way of wage-related expenses. RSL owes the National Insurance Corporation \$543,000 for unpaid employee contributions and owes Government \$231,000 in unpaid taxes. This is in addition to a significant accounts payable balance and contingent liabilities.

Madam Speaker the annual Government subvention of \$417,636 is unable to meet the significant liabilities which are being accumulated by RSL. Like the Marketing Board and the Fish Marketing Corporation, the factual matrix upon which RSL was established has changed. When RSL was established there were few avenues for disseminating information to our citizens. The radio was the most widely used tool for mass media and there were very few other radio stations. Madam Speaker, the current climate is far different; the internet, television, cell phones have taken over in terms of communication. The airwaves are saturated with radio stations, and multiple avenues exist for Government to get its message across to its citizens. We must therefore revisit the question of the role of RSL in this current climate. Madam Speaker, my government will reorganize the GIS to more effectively disseminate government information and its programmes. The company currently known as RSL will be closed, and the relevant programs will be restructured to take advantage of the new technologies for information dissemination.

d. The Supply Warehouse

Madam Speaker we propose to review the operations of the Government Supply warehouse. The supply warehouse is the sole distributor of bulk rice, flour and sugar on the island. The Supply Warehouse also facilitates special requests for the import of flour and sugar and performs quality checks on these commodities. The department has for some time operated at a loss, with expenditures surpassing revenue collections. The Government will make a determination on the way forward for the Supply Warehouse after the review has been completed.

e. The Saint Lucia National Trust

The Trust is charged with conserving the natural and cultural heritage of Saint Lucia. It is an advocacy group and is responsible for developing the sites which have been vested in it. As an advocacy group, the Trust performs that function reasonably well. The Trust has, however, not performed well in developing the sites that are vested in it. The Government has supported the Trust through an annual subvention as well as through the vesting in the Trust, premier heritage sites. These valuable national assets can and should be leveraged to generate more significant revenue to sustain its operations, and thereby the Trust is being asked to revise its business model to become financially independent. As a result, the annual subvention will be discontinued. However, the government will continue to provide support to initiatives the Government believes has merit in supporting the development objectives of the state.

f. The Saint Lucia Postal Service

Madam Speaker the Saint Lucia Postal service has served us well. It predates independence and has connected individuals, businesses and families both locally and abroad. Traditionally, however, the operations of the postal service have been run at a loss. With the advent of the internet and email, the demand for postal services has declined significantly resulting in a reduction in revenue from these traditional services. This cannot continue, Madam Speaker, particularly given our recent fiscal constraints. In our effort to increase the efficiency of the public service we must re-assess the role of the Postal Service.

We will therefore consider privatization. This is not a decision we will take lightly but one which we must consider given the requirements of the times and our dire fiscal situation. Privatization will accomplish two things - it will force the organization to review its operations and become more efficient, and the value of the services will face market forces and be priced accordingly.

Madam Speaker, none of these decisions will be easy to make, nor do we take them lightly, but these tough decisions are necessary if we are to begin to turn our economy around. Subventions and grants to state affiliated agencies should not be a black hole into which money is poured,

but rather should be viewed as investments which should produce returns of relevant, quality services to the people of Saint Lucia.

FINANCING THE 2017-2018 ESTIMATES OF EXPENDITURE

Madam Speaker, during the fiscal year 2017/2018 the Government intends to spend a total of \$1.513 billion representing a 6.1% increase over the 2016-17 approved estimates and a 14% increase over the preliminary outturn for the preceding year. Of the total amount budgeted for in the fiscal year 2017/18, recurrent expenditure accounts for 76.1% and an amount of \$1.151 billion is allocated while the amount allocated for Capital expenditure is \$362 million representing 23.9% of total expenditure. The budgeted amount for recurrent expenditure includes \$124.5 million for Debt Principal Repayments.

The budget will be financed as follows:

1. **Recurrent Revenue** of \$1.073 billion comprising :
 - a. Tax Revenue of \$958 million (89.3% of revenue)
 - b. Non Tax Revenue of \$115 million (10.7% of revenue)
2. **Capital Revenue** from the proceeds of the sale of assets amounting to \$7.4 million
3. **Grants amounting to \$87.4 million** from friendly governments and multilateral institutions including:
 - i. Republic of China (Taiwan) contributing \$35.7 million
 - ii. Caribbean Development Bank (CDB) contributing \$9.9 million
 - iii. European Development Fund (EDF) contributing \$13.8 million
 - iv. Government of Mexico contributing \$9.1 million.
 - v. World Bank (IDA/IBRD) – contributing a total of \$9.8 million
 - vi. United Nations Environmental Programme (UNEP) - \$4.2 million
4. **Government Instruments**, including **Bonds** of \$208 million and **Treasury Bills** of \$50 million.

5. Other **Loans totaling** \$84.8m comprising
 - a. \$43.1 million from the Caribbean Development Bank
 - b. \$ 24.9 million from the World Bank
 - c. \$13.6 million from the Republic of China (Taiwan)
 - d. \$1 million from the National Insurance Corporation (NIC)
 - e. \$2.2 million from the Kuwait Fund for Arab Economic Development

Allocation of Expenditure

Madam Speaker, I wish at this time, to provide a brief summary of the allocation of expenditure. You may recall that a number of agencies of Government were reconfigured into clusters, and so a comparison to the previous year may be somewhat difficult.

The Economic Sector Departments are poised to receive the largest share of total expenditure in the amount of \$899.6 million or 60%. This represents an increase of \$87.2 million, or 10% over the last financial year 2016/2017. Of this amount a sum of \$612.8 million or 69% is allocated to recurrent expenditure while \$286.8 million or 31% represents the share allocated to capital expenditure.

The Ministry of Finance will receive the largest share of this amount totaling \$499.2 million or 56% of the total expenditure for the economic sector. It is extremely important to note, Madam Speaker, that approximately \$376.1 million or 76% is budgeted for debt service payments and retiring benefits.

Madam Speaker, I propose to allocate to the Department of Economic Development, Transport and Civil Aviation the sum of \$67.8 million for Capital Expenditure, of which \$27.5 million is to be allocated to the Disaster Vulnerability Reduction Project (DVRP). The objective of this project is to reduce vulnerability to natural disasters and climate change. I am also proposing an allocation of \$19.1 million for the St. Jude's Hospital Reconstruction Project and \$19.2 million for the Constituency Development Programme.

Madam Speaker, I have discussed the poor condition of our road network. In this regard, I propose to allocate to the Ministry of Infrastructure, Ports and Energy the sum of \$60.8 million for Capital Expenditure out of which \$14.9 million is for the Disaster Recovery Programme. This programme is intended to address the impact of Hurricane Tomas and reduce the risks associated with landslide and flood hazards. The balance of the capital investment in the amount of \$42.8 million, will go towards road improvement and rehabilitation works throughout the country.

Madam Speaker, our Government intends to resurrect, revitalize and reinvigorate the Agriculture Sector and I wish to propose a major capital injection of \$ 49.3 million to help stimulate that sector. Of this amount, \$13.8 million is proposed to go towards the Banana Productivity Improvement Project, \$10.9 million to the Agricultural Transformation Programme and \$3.9 million to the Rehabilitation of Farms following Tropical Storm Matthew.

In respect to our water supply system, I am extremely pleased to announce an allocation of \$10.6 million and \$5.9 million for the Dennerly and Vieux-Fort Water Supply Redevelopment projects respectively.

Madam Speaker, I wish to propose a capital of \$33.6 million to the Department of Tourism, Information and Broadcasting. Of this amount, \$28.9 million will go towards Tourism Marketing Promotion to support Tourism Marketing and airlift into the country.

Madam Speaker, in respect to the Department of Housing, Urban Renewal and Telecommunications, I propose to allocate \$25.5 million, the bulk of which will be directed to PROUD/Settlement Upgrade Project, PROUD III, the National Sites and Services Programme and the CDB funded Housing Construction Programme.

Madam Speaker, I now turn to the Social Services sector. An allocation of \$406.7 million is proposed for this sector, of which \$359.2 million is recurrent expenditure and \$47.4 million is for capital expenditure. This represents an increase in allocation of \$11 million over last year's budget.

It is no surprise Madam Speaker that the bulk of the recurrent expenditure, a sum of \$289.9 million is earmarked for the Ministries of Education and Health and the remainder of \$69.3 million is to be distributed to the Ministries of Equity, Labour, Youth Development and Local Government.

As it relates to capital expenditure, a sum of \$22.6 million is proposed for the Ministry of Equity, of which a provision of \$10.7 million is for the Basic Needs Trust Fund 7th and 8th programmes. A further \$5.3 million is for the Home Care Programme and \$3.2 million for the Youth Empowerment for Life Project.

Further Madam Speaker, a capital provision of \$18.7 million is allocated for the Ministry of Health and Wellness. A sum of \$6.6 million and \$4.7 million is earmarked for commissioning the New National Hospital and New National Hospital works programme respectively.

Madam Speaker, I now wish to focus on the Justice System, which has been badly neglected. We will address the issues plaguing it. An amount of \$139.7 million is to be allocated to this sector of which \$132.1 million is for recurrent expenditure and \$7.6 million for capital expenditure.

In the area of capital expenditure, \$3.8 million is to be allocated to the Fire Service Department particularly for firefighting equipment and to effect repairs to Fire Stations. I wish to announce that we will be commissioning the Babonneau Fire Station.

Madam Speaker, the police are in desperate need of vehicles, many of which are in poor condition. In this regard, I am pleased to allocate an amount of \$772,000 for purchasing vehicles.

With respect to the General Service Agencies, Madam Speaker, I propose an allocation of \$58.5 million. Of this amount, \$38.1 million is recurrent expenditure and \$20.4 million is capital expenditure. The share of this amount is as follows: - Ministry of Public Service - \$27.5 million and the Office of the Prime Minister - \$8.7 million.

Madam Speaker, I wish to make mention of a \$10 million allocation for the National Apprenticeship Programme, which includes two components namely a Call Center and Hospitality Training.

A provision of \$5.9 million is allocated for the Caribbean Regional Communication Infrastructure (CARCIP) for the roll-out of the Government Wide Area Network (GWAN).

Finally Madam Speaker, I wish to propose an allocation of \$8.9 million to the Agencies of Governance which include Legislature, the Service Commissions and the Electoral and Audit Departments.

Madam Speaker, I wish to reiterate that our Government through this budget has demonstrated its unwavering commitment to grow this economy by investing more in its capital programme, which reflects an increase of \$36.2 million or 11.1% from last year.

CONCLUSION

Madam Speaker, the people of Saint Lucia elected the United Workers Party on June 06, 2016 to bring back, confidence and prosperity to our country. This budget puts us onto the road to economic recovery. Our Government, believes that we must pursue an aggressive pro-growth strategy led by a competitive private sector which is ably supported by a responsive, efficient and effective public sector. The current cycle we find ourselves in of low growth, increased deficit has crippled the government's ability to provide basic services such as globally competitive education, security for our people, road infrastructure and social services. If we make no changes the quality will continue to decline. It is our firm conviction that our strategy will deliver higher levels of growth, and greater levels of investment, more sustainable jobs, and efficient management of our resources which can lead to surplus government to provide a higher standard of living for the people of Saint Lucia. It is important that we understand that in order to achieve a higher standard of living for the people, we need to generate consistent government savings.

Madam Speaker, one of the challenges that I foresee in pursuing our policy agenda is implementation. It is no secret that we have suffered from a serious implementation deficit in the past and this has seriously affected our ability to implement projects in a timely and cost-efficient manner. My Government's mantra Madam Speaker is "execute, execute, execute". We intend to put in place the institutional framework and strengthen capacity to enable us to accelerate the pace of implementation.

The transformation programme that we will put in place will require bold, courageous and decisive leadership. Our Government shall provide this leadership Madam Speaker my Cabinet of Ministers and I intend to be the champions of our reform and change agenda.

Madam Speaker, I have witnessed first-hand the depth of despair and hopelessness that many families are experiencing in Saint Lucia. It is for this reason, our Government felt that there was need to provide immediate relief to Saint Lucians by way of the reduction in the Value Added Tax from 15 % to 12.5 %.

We wish to pursue with urgency Madam Speaker the implementation of a social safety net system for the lower income group in our society. We are a caring and empathetic Government that will address the plight of the less fortunate in our society.

Madam Speaker, this budget is part of a four year plan that will reform, transform and modernize our Saint Lucia. This budget will therefore provide the foundation for the future growth and development of our economy.

And so our Government has chosen the path of change. We are focused on building a new Saint Lucia, with citizens who are proud and committed to excellence, who are accepting of all people, thoughts and ideas. We relish the challenge of creating a society that is competitive, productive and inclusive with opportunities for all.

I wish to thank everyone who provided support to the budget process, including all of the stakeholders who shared their ideas and provided significant input in the budget process. I would also like to thank all of the agencies for their valuable contribution and in particular, the staff of the Department of Finance for putting together all of the budget documents.

It is my pleasure Madam Speaker to move the Appropriation Bill for the 2017/18 Financial Year.