2005 BUDGET ADDRESS
Presented to the House of Assembly
by Dr. the Hon. Ralph E. Gonsalves
Prime Minister and Minister of Finance
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INTRODUCTION

Almost three and three-quarter years have elapsed since the Unity Labour Party (ULP) administration came into office consequent upon the general elections of March 28, 2001. These have undoubtedly been the most challenging years for the economy of St. Vincent and the Grenadines since formal independence was achieved twenty-five years ago. The central challenges, however, have not been of our making; they have come to us from outside; they have been external to us. As the economists would say, they have originated in exogenous shocks.

Yet, despite these shocks the economy of St. Vincent and the Grenadines since 2001 has achieved real growth without volatility. That is to say, there has been consistent real growth over these years without the alternating peaks and troughs which have characterized much of the post-independence economic history of St. Vincent and the Grenadines. In each year, from 2001 onwards, the economic growth performance of St. Vincent and the Grenadines has been better than the average for the member-countries of the Eastern Caribbean Currency Union (ECCU). In 2001 St. Vincent and the Grenadines had statistically zero growth; in 2002, 1.7 per cent real growth; in 2003, 3.6 per cent real growth; and in 2004, the estimate is in excess of 5 per cent real growth. The projection for 2005 is of a similar order as in 2004.

In the process poverty has been reduced markedly; over 3,500 new jobs, net, have been created, including quality jobs; the quality of our people’s lives has improved significantly; the range and extent of government services have grown in quantity and quality; a revolution in education is being achieved; the physical infrastructure has advanced by leaps and bounds; and there is, as never before, a profound sense of hopefulness in this beloved land of ours. All of these achievements have been chalked up within a framework of significantly improved good governance, deepening freedom and democracy, and a markedly enhanced prestige of St. Vincent and the Grenadines in the region and internationally. When the history of this period is properly written, historians will marvel at the resilience and accomplishments of our people and nation despite an avalanche of external shocks, not of our own making.

Let us remind ourselves of these external shocks, their magnitude, and their adverse consequences to the economy of St. Vincent and the Grenadines. These external shocks include:
1. The worst economic condition internationally for over thirty years especially in the major economies of the U.S.A., Europe, and Japan.

2. The terrorist attacks on the U.S.A. on September 11, 2001, and their awful consequences.

3. The SARS epidemic in 2002 which shook tourism in the Caribbean, and elsewhere, to its very foundations.

4. The ill winds, rough seas and landslides of Tropical Storm Lili in September 2002 which took four lives and caused material damage in excess of EC$50 million or some 5 per cent of the country’s Gross Domestic Product.

5. The longest and severest drought in living memory from December 2002 to April 2003 which wreaked havoc on agriculture.

6. The ravages of Hurricane Ivan which caused economic loss and damage in excess of EC $110 million or 10 percent of the GDP of St. Vincent and the Grenadines.

7. Excessive rains and landslides in November 2004 which resulted in loss and damage in excess of EC $10 million.

8. The sharp increase in fuel prices from December 2003 to November 2004 which witnessed a jump in oil prices on the international market from US $30 per barrel to US $55 per barrel.

9. The worsening market regime and market condition for Caribbean bananas, including those from St. Vincent and the Grenadines.

These specific external shocks are in addition to the economic challenges for the economy of St. Vincent and the Grenadines which arise from the on-going process externally of modern globalisation, trade liberalisation, and the revolution in information technology.

**PHILOSOPHY, VISION, ECONOMIC APPROACH AND FISCAL STANCE**

As a nation we have been able to accommodate these massive external shocks and meet with much success the array of challenges because of the following, among other things:

1. The good sense, determination, adaptability, and the hard work of the vast majority of Vincentians.

2. The fashioning of a consensus in the nation around a core philosophy of social democracy applied practically within the context of our Caribbean civilisation and its Vincentian component.
3. A sound political and economic management of the nation’s affairs by the ULP administration.

4. The building of appropriate links and alliances with our regional and international partners, and the enhanced bonding with our Vincentian Diaspora.

5. The elaboration and implementation of a relevant and focused economic approach and fiscal stance.

In my Budget Address last year, I sketched the economic approach and fiscal stance which the ULP administration has been pursuing; so there is no need to repeat them here. They are well known.

The continuing pursuance of this economic approach and fiscal stance is the on-going focus for the fiscal year 2005. Within the general application of this focussed economic approach and fiscal stance there will be an emphasis on:

1. Sustainable growth without the volatility of peaks and troughs across the economy as a whole and in all the lead economic sectors.

2. A nuanced rebalancing of the State-market relationship or partnership in such a way that the private sector assumes a more pivotal role as the international economy rebounds and the counter-cyclical fiscal policy begins to taper off in a measured way by 2007 and beyond, save and except for the preparation, design and construction of the international airport — the largest capital project ever to be undertaken in St. Vincent and the Grenadines.

3. Elaborating, and consolidating, the central elements agreed upon in NESDEC for the Social Contract, including the reduction of poverty, the consolidation of the revolution in education and the deepening of democracy, and the conclusion of the allied Fiscal Covenant in a period of “Sustainable Growth Amidst Exogenous Uncertainties of Nature and the International Political Economy”.

4. The consummation of the “single market” elements of the Caribbean Single Market and Economy (CSME) and the laying of the basis for the “single economy”.

5. Elaborating and implementing a package of policies to stimulate further the development of the private sector, and more particularly Small and Micro-Enterprises (SMEs).

6. Developing further, and implementing, an appropriate National Energy Policy as a central cornerstone of economic development.
7. Being more fiscally prudent than ever within the context of the quest for sustainable economic growth and social justice in this period of external shocks.

**PRIVATE SECTOR DEVELOPMENT AND POVERTY REDUCTION**

A focus in the Budget on further private sector development and entrepreneurship relates not only to sustainable wealth creation and employment but also to poverty reduction. Indeed, sustainable, and sustained, economic growth is the only way in the long run to improve living standards.

It is central to the economic responsibility of the government to engender a good investment climate which fuels economic growth by stimulating investment and higher productivity. A good investment climate, too, is vital in the fight against poverty. In this regard, we accept the World Bank’s definition of “good investment climate” “as the set of location-specific factors shaping the opportunities and incentives for firms to invest productively, create jobs and expand. Government policies and behaviour exert a strong influence on the investment climate through their impact on costs, risks, and barriers to competition”.

Investment in St. Vincent and the Grenadines comes through the mechanisms of the State and its agencies, the private sector, and the cooperative sector. Private sector investment comes from three sources: Domestic, from Caricom-member countries, and internationally in the form of foreign direct investment. Each is vital to St. Vincent and the Grenadines.

As a government, as a nation, we must deliver the basics of a good investment climate; and then more. This we label “the Basics Plus Campaign for a Good Investment Climate.”

In this regard, the eight Basics revolve around the following:

(i) Stability and Security;

(ii) Sensible and practical, but non-overbearing Regulations;

(iii) A fair, balanced and facilitating regime of Taxation;

(iv) A well-functioning, accommodating Financial and Banking System;

(v) A sound, infrastructure of Communications (including telecommunications), Water, Electricity, Education, Health and other Social Services, at competitive prices;

(vi) A democratic system of Good Governance, including a sound judicial system;
(vii) A trained, and trainable, workforce and a flexible Labour Market; and

(viii) The maintenance of the sound macro-economic fundamentals of a stable currency, low inflation, fiscal prudence, enhanced competitiveness, increased productivity.

Each of these Basics commands the attention of this Government and sound policies regarding them are continuing, and are more than ever reflective in this Budget and in the functioning of the relevant apparatuses of the State.

It is however necessary and desirable to go beyond these Basics to foster a good investment climate and enhance private sector investment. Selective and Strategic Interventions are required. Accordingly, fiscal and other measures in this Budget will address concretely "the Basics Plus Campaign."

Within the context of the overall thrust to enhance private sector development and entrepreneurship, an especial emphasis will be placed on Micro-and Small Enterprises (MSEs) which have shown internationally, regionally, and in St. Vincent and the Grenadines to be viable instruments in the war against poverty. To be sure, MSEs are not a panacea that swiftly solves the problems of unemployment, underemployment and poverty. Still, though, they have a crucial role in development, wealth creation, and poverty reduction. At least seven issues are of critical consideration for MSEs and which this Budget and public policy generally address, namely:

(i) Specific small enterprises promotion policies;

(ii) The fashioning of appropriate business laws and regulations;

(iii) The tailoring of labour policies to fit MSEs needs without diluting desirable, minimum labour standards;

(iv) The delivery of appropriate training to MSEs;

(v) The circumscribing of the scope of taxation on MSEs;

(vi) The designing of trade policies to assist MSEs;

(vii) The provision of finance to facilitate the development of MSEs.

The issue of finance, perhaps the most vital for MSEs, has been given international recognition: On November 18, 2004, the United Nations declared that 2005 will be the "International Year of Micro Credit."

Two well-known micro credit facilities in St. Vincent and the Grenadines are located at the National Development Foundation (NDF) and the Micro Enterprises Loan Programme (MELP) of the state-owned National Commercial
Bank (NCB). Since the inception of the MELP at the NCB in October 2001, 727 micro entrepreneurs have been trained, of whom 201 have received credit amounting to $2.4 million. The principal sum of $1.02 million has been repaid. This is a rolling programme with a committed portfolio of $2.5 million. In short, there is more money available through this programme for micro lending; and even more resources will be made accessible, to spur further micro-enterprise development. This MELP at the NCB has so far employed 394 persons in the micro enterprises Sector. It has a success rating of 70 per cent and a delinquent portfolio of 30 per cent which is a better than-average performance for micro credit programmes in developing countries. This is a far better performance than the loans granted by the former Development Corporation to much larger entities.

Each micro entrepreneur under the MELP can borrow up to a maximum of $15,000 without any security, surety or guarantee but he or she is required to undergo training for 30 hours and develop a relevant business plan as pre-requisites for accessing the loan.

The MELP at the NCB covers the whole of St. Vincent and the Grenadines; no geographical area has been left out. The types of business which have benefited include Beauty Salons, Catering, Boutique, Farming, Tailoring, Internet Cafés, Grocery Shops and Bars, Water Taxis, Restaurants, Construction, Block-making, agro-processing, garment manufacture, fishing, herbal medicine, art and craft, bakery, furniture repair, landscaping, retail vending, musical entertainment, graphic designing, and lumber production (chainsaw and milling).

The government will advance the MELP, and other programmes, micro credit and otherwise, for MSEs in 2005 in tandem with the Small Enterprise Development Unit (SEDU) which has been doing commendable development work for small enterprises in training, monitoring, practical guidance, and consultancy generally.

In the Capital Estimates for 2005 there is a total allocation of $2.295 million for small business development to be administered by the Ministry of Telecommunications, Science, Technology and Industry. There is a further $300,000 in that Ministry to establish a laboratory in the Bureau of Standards to facilitate product development in the private sector, including the MSE.

The government’s commitment to the development of the Micro-and Small Enterprises is manifested, too, in the construction of the beautifully-designed George McIntosh Community Market at Paul’s Avenue; the reconstruction of the small shops on Bay Street opposite Heritage Square; and the building of shops for micro business operators at Campden Pak by the state-owned National Properties. In the rural areas, this commitment by the government to MSEs is shown also in the building and operation of the Chicken Hatchery at Dumbarton; the construction (nearing completion) of the Root Crop Vacuum Packaging Plant at Lauders; the Coconut Water Bottling Facility — in conjunction
with the private sector — at Congo Valley; the Cassava Factory at Orange Hill; the Farmers’ Market at Diamond; and the export efforts in agriculture by National Properties.

In the 2005 Estimates there is a capital provision of $500,000 to commence the construction of a multi-million dollar Rural Development Facility at Georgetown which will include in addition to the Revenue Office, a commercial and production centre with shops/micro factories, and a meat and vegetable market. This project, in its first phase, has an estimated cost of $1.75 million.

Further, in 2005, through the Ministry of Agriculture, Forestry and Fisheries the following will assist the micro-and small business operators:

(i) The opening, with a restructured management, of the Modern Kingstown Fish Market which is being rehabilitated at a cost of US $6 million and the opening of the refurbished Fish Centre at Bequia;

(ii) The targeted increase of 15 percent in the production of small ruminants and a 15 percent increase in the production of cattle;

(iii) The construction of two banana reception and palletisation centers at La Croix and Belle Vue;

(iv) The continued self-sufficiency in pig production;

(v) The designing and building of the irrigation scheme at Rose Hall and Richmond to assist small farmers, covering an aggregate area of 600 acres of land;

(vi) The Rural Agricultural Development Coordination and Irrigation Consolidation Programme (RADCICP) amounting to $2.2 million in the capital estimates;

(vii) The Agricultural Diversification Programme for which $1.9 million has been budgeted in the 2005 Capital Estimates and which is intended to benefit small farmers;

(viii) The Hurricane Ivan Agricultural Rehabilitation Programme of $1 million which is intended to provide relief to farmers affected by the hurricane;

(ix) The planned establishment of the Agricultural Training Institute to develop capacity in the agricultural sector;

(x) A range of other interventions in the field of agriculture designed to assist small farmers;

(xi) The rehabilitation of the arrowroot industry, which has moved from a production of 100 acres in 2001 to 400 acres in 2003, and is poised for a further increase in acreage, consisting mainly of small farmers;
The continuing efforts to rehabilitate the banana industry of nearly 3,000 small farmers.

In 2005, the government will increase the subsidy to banana farmers from $500,000 annually to in excess of $1.5 million for Fersan and Kermira fertilizers, urea, and blue diothene, largely because of the price increases demanded by suppliers from January 2005.

Meanwhile, the government has been assisting micro, small and medium-sized businesses with duty-free concessions especially in the fields of construction, fishing, tourism, industry and information technology.

In each of these sectors, small and medium-sized enterprises have been blooming. Further, institutional arrangements have been established to facilitate private sector investment, locally and from overseas, and to enhance public sector investment. Two such institutions are the National Investment Promotions Incorporated (NIPI), which was established last year and formally launched earlier this year, and National Properties Limited (NPL) which was set up last year.

The NIPI's mandate is to promote investment in St. Vincent and the Grenadines and to guide, assist, and facilitate the investors in a variety of practical ways. NIPI and the private sector mounted earlier this year missions to Taiwan and London to promote trade and investment in St. Vincent and the Grenadines. A Taiwan-SVG Trade and Investment Promotion Association was launched in Taiwan in October 2004.

NIPI has been at the centre of negotiations with investors to build hotels in excess of 100 rooms at Buccament and Mt. Wynne-Peters Hope. Indeed, in the 2005 Capital Estimates the sum of $2.5 million is allocated to purchase the land at Buccament as a pre-requisite to the closing of negotiations. The going-concern on that property has already been purchased. Both NIPI and National Properties are far advanced in the negotiations for the hotel construction with the group of investors who are interested in the Mt. Wynne-Peter's Hope location. The land there was earlier conveyed to the state-owned National Properties by the government.

National Properties Limited is charged with the responsibility to develop state-owned properties, secure investment in relation to these properties, manage the Campden Park Industrial Estate and other properties transferred to it by the government, and to perform other relevant tasks assigned to it by the Government. National Properties has established the Farmers' Market at Diamond; it has set up an agricultural warehouse in Barbados, in partnership with a businessman in that country, to facilitate the export of agricultural commodities to Barbados; and it has a series of new business initiatives planned for 2005, including investment in a tourism facility at Orange Hill.
Public sector investment is being effected, too, through the Central Government and other public enterprises. In 2005, the budgeted Capital Estimates of $207.8 million are the highest ever, by far, in St. Vincent and the Grenadines. Large public sector investments are also being embarked upon by public enterprises: VINLEC has commenced the process towards the construction of a modern power plant at Lowmans Leeward which is estimated to cost just approximately $100 million. CWSA is currently building a high quality water supply system from Jennings Valley for the entire Windward side of mainland St. Vincent at a cost of $23 million.

Since April 2001, the government has made remarkable advances in enhancing efficiency in the State economic sector, in effecting desirable organisation change in the State administration, and in marshalling those efficiency and strategic organisational changes to facilitate economic progress in both the public and private sectors.

The “efficiency” organisational changes have caused the evolution of certain departments or units of government into incorporated public enterprises, namely, the National Lotteries Authority, the Agricultural Inputs Warehouse Company, the Carnival Development Corporation, the St. Vincent and the Grenadines Postal Corporation, and the SVG Banana Growers’ Association.

Beyond the “efficiency” organisational changes, there have been strategic organisational changes to facilitate the achievement of well-defined strategic objectives. All this is evident in the establishment of the National Investment Promotions Incorporated, the National Properties Limited, the transformation of the Offshore Finance Authority into the International Finance Services Authority (IFSA), the Financial Intelligence Unit (FIU), the Commerce and Intellectual Property Office, the External Trade Unit, National Holdings Limited, the Recovery Company Limited (RC Limited), the Supervisory Department for Non-Bank Financial Institutions, the Canouan Development Committee, the International Airport Development Supervisory Committee, the National Economic and Social Development Council (NESDEC), the Tripartite Committee on the Economy (TCE), the Monitoring Committee on Public Enterprises (MCPE), and the Cabinet Committee on the Economy (CCE).

The institutional/organisational changes of both the “efficiency” and “strategic” kinds are designed to meet efficiency and strategic objectives and challenges. They are buttressed by appropriate legislative and/or administrative actions. All of this is done within the overall philosophy, vision, policies, and programmes of the ULP administration and a focused political and administrative leadership at the centre which links with the people. With this modern, scientific approach lodged within a participatory democratic framework of good governance, it is not surprising that the administration gets so much excellent work done for the people of St. Vincent and the Grenadines.
INTERNATIONAL AND REGIONAL ECONOMY

Despite rising oil prices and residual uncertainties, global recovery has been strong. According to the International Monetary Fund (IMF), global economic growth averaged 5% between mid-2003 and mid-2004. This figure is 1 percentage point above its historical annual trend. Industrialised countries registered strong growth while emerging markets such as China, experienced rapid expansion. World output is projected to grow in 2005 by 4.3%, with advanced economies growing by 2.9% and emerging market and developing economies growing by 5.9%.

With regard to the international trade in goods and services, global trade volume is expected to increase by 7.2% in 2005. Advanced economies are expected to increase imports by 5.6% while emerging markets and developing economies are expected to increase imports by 11.9%. Concerning exports, advanced economies are expected to increase their volume by 6.3% while other emerging markets and developing countries are expected to increase by 10.6%.

Focussing on Latin America and the Caribbean, the Economic Commission for Latin America and the Caribbean (ECLAC) pointed out in its preliminary overview of the economies of member-states that most countries were emerging with sound fiscal and monetary policies, accompanied by competitive foreign exchange rates. Even countries such as Argentina and Mexico which were previously plagued by severe economic crises have already exhibited signs of improvement.

DOMESTIC ECONOMY

Following fairly moderate growth of 1.7 per cent in 2002, the St. Vincent and the Grenadines’ economy rebounded to register improved performance with real Gross Domestic Product increasing by 3.6 per cent in 2003. This performance is impressive given the prevailing world economic climate, the natural disasters and the negative influences associated with the war in Iraq and rising oil prices. The main impetus for the growth in 2003 was expansion in the Construction Sector, Wholesale and Retail Trade, Mining & Quarrying and Electricity and Water. Although their performance was not as strong, there was also positive growth in Communications, Banking & Insurance, Manufacturing and Government Services.

Specifically with regard to the Construction Sector, the 9.4 percent increase followed a 2.9 percent contraction in the sector in 2002. This performance must also be taken in the context of a declining banana industry, continuously challenged by a hostile external trading environment. This growth reflected increased activity in both the public and business sectors, and at the household level. The increase in the value-added from this sector was concomitant with the 5 percent increase in real output from the Mining and Quarry Sector as well as the 7.5 percent growth recorded for Electricity and Water.
Wholesale and Retail Trade recorded a growth rate of 5.7 percent reflecting increased commercial activity. Meanwhile, the Manufacturing Sector recorded a slight increase (0.7 percent) in value-added mainly from increased output from beverage and rice production.

Notwithstanding these increases, the growth rate in several other sectors slowed in 2003. The Transport Sector recorded growth of 5.5 percent, slightly below the 6.2 percent recorded in 2002; the growth rate in the Banking and Insurance Sector slowed from 6.9 percent in 2002 to 1.5 percent in 2003; and growth rate of the Government Services slowed from 3.7 percent in 2002 to 2.3 percent.

This overall growth in real GDP was achieved despite contractions in the Agriculture and Tourism Sectors. In 2003, value added in Agriculture declined by 2.2 percent and this movement reflects the effects of the many challenges facing the banana industry. The increases in value-added from the other agricultural sub sectors, were insufficient to offset the decline in the banana industry and as a result the value added from the Agriculture Sector as a whole fell. The value-added from Other Crops increased by 7.9 percent, Livestock by 1.8 percent, fishing by 26 percent, and forestry by 1.1 percent reflecting some early gains from our agriculture diversification thrust.

Real output in the tourism sector, as measured by the hotels and restaurants sub-sector also recorded a decline relative to 2002. This even though there was a 6% increase in the numbers of stay over visitors to the country. A close examination of the data indicates a decline in the number of visitors using the traditional paid accommodation. Further, the contribution of cruise tourism, yachting and other tourism related activities are captured elsewhere in the national accounts and not treated as tourism. This limitation needs to be addressed.

Available data show that the rate of inflation for 2003 was 2.7 percent compared with negative 0.1 percent in 2002. The rate for 2003 was as a result of 4.5 percent increase in the groups “Food” and ‘Household Furniture & Supplies.”

For 2004, the rate of inflation so far is 3.2 percent and reflects the high international oil prices, which are impacting on electricity and other areas. The external current account for 2004 widened as merchandise exports declined and imports increased reflecting a decline in banana exports and increases in wholesale and retail trade, and construction activity.

Despite the many challenges facing our economy, an analysis of selected economic indicators reveals that the level of economic activity increased during the first nine months of 2004. Banana exports, for example, increased by over 25 percent, while visitor arrivals increased by 15 percent. There continues to be significant levels of activity in the Construction Sector and this is expected to intensify as many more of the projects and programmes of this administration enter their construction phases. It is also anticipated that the level of economic activity would increase in 2005 as these three sectors continue to expand. The
capital investment programme would continue to accelerate, and would in turn stimulate growth in the transport, mining & quarry, and electricity & water sectors.

AGRICULTURE, FORESTRY AND FISHERIES

There have been many positive developments in the Agricultural Sector over the last year or so. This is testimony to the fact that our agricultural diversification drive has begun to bear fruit as reflected in the several projects which have been recently implemented. These include the coconut water bottling plant; the cassava plant; the hatchery project; and the arrowroot rehabilitation programme.

Bananas

Following the decline in banana output in 2003, the combination of corrective measures and more favourable weather conditions facilitated improvements in production. As a result, for the first nine months of 2004, banana production and exports increased by 25.4% with output of 20,949 tonnes compared with 16,707 for the corresponding period of 2003. At the same time, export earnings from bananas at EC$26.2 million, registered a 26.7% increase. This compares with a 32.9% decline for the corresponding period in 2003.

Unfortunately, the industry was yet again to suffer as a consequence of natural disasters. When Hurricane Ivan hit St. Vincent and the Grenadines in September, there was a 25 percent damage to the industry which affected over 1100 farmers. As a result, the projected target for 2004 would not be achieved; and production for the year will now be approximately 26,250 tonnes, with a projected revenue of $30 million.

The Government continues to advocate for the changes necessary to make the industry internationally competitive. To date, 653 farmers have been certified under the Eurep Gap Certification Programme and an additional 200 farmers are expected to be certified before the end of this year.

The question of the introduction of a tariff-only regime for bananas by 2006 continues to be a major issue. All of the Windward Islands Governments have been putting much effort towards a solution on this issue. In February of this year a delegation of Windward Islands Prime Ministers visited the U.K. and Brussels, and an International Conference on Bananas was held in St. Vincent to forge an acceptable way forward for the Windward Islands on the negotiation of the tariff-only system. The European Union has recently announced its plans to impose a duty of 230 Euros (290 US dollars) per tonne on bananas. This level is neither acceptable to Latin America nor the ACP States. It does appear that the realistic practical path forward for Windward Islands' bananas is to build the alliances for the maintenance of the status quo of tariffs and quotas, at least until 2008. I assure the nation, especially banana farmers, that this government is
focussing a great effort on securing the best possible market regime for our bananas.

Another challenge which has been posed to the industry is the rapid increase in international prices for agricultural inputs. In an effort to assist the farmers in maintaining their competitiveness, the Government has decided to maintain the prices for fertilizer and diothene at the existing levels for the next twelve months, at least. This means that Government will have to increase the subsidy on fertilizer from the existing $6 per sack to $17 per sack for physically blended fertilizer and to $21 per sack for chemically blended fertilizer. The total cost of this subsidy is in excess of $1.75 million including the cost of maintaining the price of diothene at $135 per roll.

The purpose of this subsidy is to give farmers sufficient time to adjust to the international situation by making the necessary improvements to their farms and farming techniques. In order to assist the Agricultural Input Warehouse Inc in meeting the cost of this subsidy, Cabinet has decided to transfer the sugar operations of the Marketing Corporation to the Agricultural Input Warehouse with effect from January 2005. The profits from the sugar operation will be used partially, to offset any loss from the trade in agricultural inputs.

Regarding the future of the arrowroot industry, Government in 2001 adopted a Strategic Action Plan as the blueprint for resuscitating the Arrowroot Industry. The Strategic Action Plan covered a range of actions in areas of marketing and sales, factory improvement and expansion, field operations improvement, quality assurance, environmental enhancement, governance and management, and education and training. Implementation of the Plan commenced in April 2002 under the Arrowroot Industry Improvement Project which was estimated to cost EC$15 million over a five year period.

The project has had several achievements. Among these are: substantially increased acreage; the Owia Factory has been upgraded and refurbished to produce better quality starch; the Milling and Pulverizing Plant has been renovated and improved; and the Head Office of the industry has been relocated to the main farming area. Further expansion of the arrowroot industry is on the cards in both field and factory operations.

**Fisheries**

This ULP administration recognizes that with a growing population, and in the face of declining land availability for agricultural use, full utilization of the marine resources in a sustainable manner is essential. Accordingly, our overall policy for this sub-sector continues to be the sustainable use of the country’s marine resources and the development of a commercially viable sub-sector. The intention is to contribute to the enhancement of our national food supply, reduction of unemployment, poverty alleviation and increased foreign exchange earnings.
To this end, we have signed a Letter of Intent with the Government of the Republic of China (Taiwan), which would give new impetus to the development of the Fisheries sub-sector, in general. The aim is to enhance cooperation in marine capture fisheries, aquaculture, post harvest handling and processing and marketing. Specifically, this cooperation will serve to strengthen the commercial aspects of the industry through joint ventures, enhancement of industrial capacity through various training opportunities for public and private sector enterprises and collaboration on scientific research on all aspects of the industry.

At the same time, we are continuing our efforts to improve the conditions for the sale of fish. During this year, the enhancement of marketing infrastructure to meet international standards for fish quality continued. The construction phase of the project for the remodeling of the Kingstown Fish Market commenced in February 2004 and is on target to be completed by February 2005. In addition, the project for the upgrade of the Bequia Fisheries Centre will be completed before the end of this year.

While we have taken much care to improve the physical surroundings for our fishing industry, we have simultaneously been putting much emphasis on organizations and capacity. To this end, a state-owned company has been established for the supervisory management of the Kingstown Fish Market and proposals are being solicited from the private sector for the day-to-day management of the modern Kingstown Fish Market and the upgraded Bequia Fisheries Centre. Further, new regulations and administrative procedures have been developed to ensure that appropriate measures are in place within the fishing industry, to facilitate compliance with international fish quality standards.

In addition, we are making arrangements to strengthen fisher folk organizations. Two cooperatives, the North Leeward Fisheries Development Co-operative Society and the Calliaqua Fisher Folk Co-operative Society were registered this year, while the Barrouallie Fisheries Development Co-operative Society Ltd was registered in 2003. Cabinet has already given approval for these three organizations to take over the operations of the Fisheries Centres located in Chateaubelair, Barrouallie and Calliaqua, respectively.

A habitat enhancement Project funded by the Japanese Government was launched in August of this year. Under this project, two artificial reefs have been deployed in Bequia and Mustique. The project is expected to increase the populations of lobsters and fish in the waters around these islands. These populations of fish and lobsters will be monitored over the next five-year period.

TOURISM

The increasing challenges presented by the global economic environment, fuelled by the fast-paced changes in information and communications technology, require St. Vincent and the Grenadines, like other Small Island Developing States, to have an economic base which is diversified. Government has identified as one of the pillars of its development strategy, the goal of
economic diversification, with the Tourism Sector playing a leading role in this process.

Government has determined therefore that the development of the sector must proceed in a planned and coordinated manner, so as to ensure that maximum benefits accrue to the people of the country, while at the same time ensuring that any potentially adverse impacts on the physical and social environment and on the general quality of life of the population are minimized.

We have had many challenges in tourism since coming to office, but we have remained undaunted. We have put our plans and policies in place and maintained our focus. As a result, we have begun to see the rewards by way of increased visitor arrivals.

For the first 9 months of 2004, total visitors to this country increased by 14.5% to 186,885. All categories except the yacht category witnessed encouraging increases. Cruise ship passengers increased by more than 50% to 58,125. Stay over visitors increased by 10.7% to 63,081. The decline in the yacht category is attributed to a mix of factors both internal and external, inclusive of the harassment factor, marketing constraints and most recently, the implications of the Caribbean Hurricane season.

In 2005, the Ministry of Tourism & Culture will continue to focus its attention on the development of the tourism sector by placing emphasis on the legislative and regulatory framework to facilitate the process, expansion of the marketing campaign, major work on the development of sites and attractions, and the public education and training programmes.

The major initiatives planned for 2005 are as follows:

- Development of the legislative requirements for the establishment of the National Tourism Authority;
- The establishment of the National Parks Authority and the implementation of a tourism site development master plan;
- The implementation of a licensing and inspection system for tourism service providers in keeping with the proposed Tourism Standards Bill.
- Intensification of marketing programmes regionally and internationally.

The Government is cognizant of the importance of tourism development and more so foreign direct investment. In 2004, we witnessed the re-opening of the Raffles Resort formerly the Carenage Bay Resort in Canouan. Raffles Resorts Canouan currently employs over 450 persons directly. Many more are indirectly employed, in agriculture, fisheries, furniture-making and other areas. Much more development is planned for Canouan including the huge real estate development in conjunction with the Trump organisation and a top class marina.
to be built in a partnership between the government, the Developers and Moorings.

Efforts are continuing for the upgrade of the Canouan airport to a jetport. The final report of the Technical and Environmental Feasibility Study and Risk Analysis has already been submitted and the financing secured. We are currently awaiting the necessary approvals from the Directorate of Civil Aviation (DCA) to proceed to the detailed design stage and construction.

Government is also continuing with its plans for the upgrading of the main village in Canouan in line with the development plan developed by EDSA and sanctioned by the people of Canouan. These include the construction of a new police station and a new administrative complex, the upgrade of the existing roads and drainage network and the beautification of the village.

While much emphasis is placed on Canouan, the Government has not neglected the other Grenadine islands, and is continuing its efforts to further develop and enhance the social services and tourism facilities on these islands. To this end, Government has appointed a manager to the Tobago Cays Marine Park and to revamp the Board of the Tobago Cays. In 2005, the park will become fully operational with moorings and a fee paying system for visitors utilizing this invaluable resource.

Moorings will also be placed in neighbouring Union Island and Mayreau. The total cost of installing these moorings in the Southern Grenadines is $0.35 million which has been budgeted for the fiscal year 2005.

The 2005 Capital Estimates contain several capital infrastructure projects for Bequia, Union Island and Mayreau. The Parliamentary Secretary for Grenadines Affairs will detail them later in the Budget debate.

**AIR TRANSPORT**

The position of this Government on its three pronged approach towards the development and sustainability of air access and airport development have been enunciated on numerous occasions. Our policy mix involves continued support for LIAT and a nexus with BWIA, the upgrade of the Canouan airport to a jet port and the construction of an international airport on mainland St. Vincent. In the transitional period before the international airport is constructed, the E.T. Joshua airport will be improved in that context.

In terms of our progress in the area of air-transport, we continue to provide leadership in the rationalization of Air Services in the region given its importance to the CSME. In addition, our commitment to the restructuring efforts of LIAT has been steadfast. During the past year, a team of consultants was engaged to review the extent of the in-house restructuring undertaken by LIAT and to recommend the necessary steps to prepare the airline for the nexus with BWIA in
the short to medium term and to attract private investment in the longer term. The Consultants have advised the shareholders of four (4) options:

(i) liquidation;
(ii) status quo with full recapitalisation;
(iii) status quo with partial recapitalisation; or
(iv) formal restructuring

The Consultants were satisfied that LIAT had done all it possibly could under the prevailing circumstances to bring its operation within the realm of acceptable efficiency and that the range of options now facing the airline were circumscribed by those outlined above.

The Consultants concluded that LIAT can be viable in the short to medium term, but that this required three related ingredients to converge:

(i) a significant debt write-off;
(ii) a refocused business model, devoid of past operating practices and strategies; and
(iii) a recapitalisation plan.

The Shareholders in August 2004, accepted option 4, which is the formal restructuring option, having made a full assessment of all options.

The restructuring plan involves the injection of $45 million in funding in 2 tranches; the development of a new business model and debt write off. In this respect, the Government of St. Vincent and the Grenadines has committed and contributed EC$5.7 m towards the first tranche of EC$22.8m. This amount was made available by the Government of Trinidad & Tobago in the form of a loan of zero percent interest. Discussions are currently taking place among the shareholder Governments regarding the distribution of the second tranche of EC$22.2 m. Once again, the Government of Trinidad & Tobago has committed itself to providing the funding on the same terms as the previous loan facilities. There have been some delays in the timely remittance of the funds pledged towards the restructuring plan and as a consequence, it is now estimated that the funding requirements have increased to approximately EC$56 m.

The company has since submitted a draft business model which aims to position the airline as a high productivity, low cost carrier while at the same time provide a solution to a fundamental regional problem; position the airline to meet the air transportation needs of the CSME and the 2007 cricket World Cup and to preserve as many jobs as possible in the region included in St. Vincent and the Grenadines.
On account of the injections of capital by the Governments of Antigua and Barbuda, Barbados and St. Vincent and the Grenadines, the Shareholding of the company has changed. As a result, St. Vincent and the Grenadines now has two directors on the Board while Barbados has assumed the chairmanship.

TELECOMMUNICATIONS

Our progress and efforts in the Telecommunication Sector continue to be fashioned by our understanding of, and our commitment to, the value of collective action among the countries of the OECS; and the fundamental principles enshrined in the Treaty establishing the Eastern Caribbean Telecommunications Authority.

The current phase of the liberalization programme has been focused on consolidating the gains realized earlier and our advancement towards a model regulatory regime and a highly developed and vibrant market. The changes we have witnessed in the telecommunications landscape since the introduction of competition in mobile services in 2003 are phenomenal.

At the end of 2002, the customer base for mobile phones was 20,000 and 26,000 for fixed line phones. As of the end of September 2004, the mobile market having reached a peak of 61,000 handsets has stabilized at 58,000 active subscribers. The fixed line customer base has however shown a reduction to 18,000. A significant percentage of the reduction in fixed lines can be attributed to changes in consumer preference.

In addition to the growth in customer base, we have also benefited from lower rates on domestic mobile calls; lower rates on international calls; increase in the country’s tele-density, which is much better than many developed countries in the world. In other words, there is now increased access to all strata of society; increase in customs imposts and licence fees are direct benefits to the Consolidated Fund. The entry of the two (2) new mobile providers as well as technological upgrades by the incumbent has also contributed to an increase in direct investment. There is also a net increase in employment opportunities not only among the major service providers but also as a result of the establishment of businesses providing customer premises equipment and services and international simple voice resale (calling cards).

The print and electronic media as well as community organizations, charities and other civic groups are also beneficiaries of a fiercely competitive market structure. At the regional level, there were significant achievements in key areas of operation, namely, Spectrum Management, Legal & Regulatory, Tariffs, and Public Awareness.

With respect to Spectrum Management, equipment valuing approximately EC$8 million has been acquired to monitor the electro-magnetic spectrum.
Components of this equipment have already been deployed and commissioned in the five (5) ECTEL participating states.

During the 2003/2004 year, work continued on the Price Regulatory Regime and Telecommunications (Retail Tariff) Regulations; Dispute Resolution Regulations, Interconnection Fees Regulations; Broadcast Licence (Telecommunications Act) and other licencing issues.

A noteworthy achievement was the conclusion of the Price Cap discussions/negotiations with Cable & Wireless for a Price Regulation Regime. The development of the regime proved to be most challenging and time consuming.

Consequent upon the finalisation of the Price Cap Plan, the following going-in rates have been established:

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In addition to these reductions, a minimum of 60 minutes of free Fixed-to-Fixed calling on night and weekend calling periods will be provided to each residential access line. The negotiated rates will take effect from January 1, 2005 and will be in place for one year. Thereafter a regime of further reductions will be in operation.

In the area of Public awareness, the regulators have developed a comprehensive set of programmes designed for Television, Radio and the print media. All of these programmes are currently being implemented and cover various aspects of regulatory regime including the rights of consumers.

In spite of the successes achieved so far, St. Vincent and the Grenadines and indeed, the OECS sub-region still suffer from relatively high connectivity costs. As a consequence, our competitiveness is still being restrained by high Internet costs and broadband access. This situation forces most of the new service providers to utilize satellite links as their means of international telecommunication access. It is well known that Submarine Cable provides the greatest telecommunications bandwidth at the least cost and it is the preferred mode of access in terms of cost and quality. However the incumbent still exercises monopoly control over this aspect of the infrastructure. Efforts to introduce other providers of this service did not materialize during the past year on account of the licensee’s failure to mobilize the necessary resources.

Given the importance of this issue in the transformation of our economies, the matter will be treated with great urgency and priority in the ensuing year. In addition, work will continue on the drafting of new regulations, including the Dispute Resolution Regulations which will address consumer concerns and complaints; Universal access and a comprehensive review of the Telecommunications Act to provide the Regulatory System with greater enforcement capabilities.

ENERGY

Work on the first phase of the new power plant at Lowmans Bay is progressing satisfactorily. Tenders for supply of the plant and construction of the civil works were received in June this year and after evaluation a decision was taken to award the contract to a Canadian firm, MAN B&W, in the amount of approximately US$22.5 million or EC$61 million. The final contract price is to be determined after negotiations. Work on this project is expected to commence early in the New Year and to be completed in early 2006. This figure does not include the transmission and distribution component of the project. In all, the Lowmans Bay Power Plant Project amounts to approximately US $37 million or EC $100 million.

In addition to the 8.6-megawatt plant, the project includes construction of substations at Lowmans Bay, Cane Hall and Lowmans Windward, expansion of the transmission network and construction of sea defences at Lowmans Bay.
When this first phase is completed, the power plant would generate approximately forty percent (40%) of the electrical energy in the State. As new units are installed at Lowmans Bay, the older units at Cane Hall will be decommissioned. In approximately fifteen to twenty years the Cane Hall plant will be decommissioned as a generating plant.

The Caribbean Development Bank and the European Investment Bank are providing loans of US$18.3 million and US$10 million respectively to finance this first phase of the project. The balance of the funds will be provided from Vinlec’s own internally generated resources.

Further, Vinlec is acquiring the Canouan Power plant which until now has been owned by the Central Government and operated by Vinlec through an informal management arrangement. Vinlec will purchase the Canouan operation free of all liabilities and encumbrances for a consideration of $8.1 million. The Company will then be in a position to make the necessary investment for expansion of the power supply on Canouan in partnership with the Canouan developers.

Government is mindful of the significant capital outlays, which Vinlec is expected to incur on these and other necessary developments over the short to medium term. Our analysis shows that there is no immediate need for any increase in the basic electricity rates to support these investments. Financial projections prepared by Vinlec show that the company will be able to generate the required counterpart funds for the planned investments, and to meet its debt service obligations as they became due. As at December 31, 2003 the Company had cash resources amounting to $19.81 million and total equity of $119 million, which are more than adequate to support the investment and borrowing plans.

Notwithstanding the stability in the basic electricity rates, consumers have in recent times been required to pay significantly more for their electricity consumption as a result of the large increase in the fuel surcharge. This situation is a direct result of international developments whereby prices of oil on the international commodity markets have sky-rocketed during 2004, moving from approximately US $30.00 per barrel in November 2003 to $US55 per barrel in October this year. Although the prices have since declined somewhat, oil prices are still at historically record high levels.

The increasing oil prices have had a direct impact not only on electricity charges but also on production and consumption nationwide, and most importantly on Government’s revenue. In August 2004, Government took the decision to increase the prices for petroleum products on the domestic market by $0.75 per gallon. Even so, the prices paid by the consumers are less than the cost and Government continues to subsidise gasoline, diesel and Kerosene at approximately $1.20 $0.70 and $2.60 respectively per gallon respectively. The total cost of these subsidies for the first ten months of this year is in excess of $2 million.
Government’s trade policy emphasises the need to work with our OECS and Caricom partners to help combat the challenges posed by globalisation and trade liberalization. A strong and forward-looking regional economic integration is seen as critical to achieving many of our economic goals. St. Vincent and the Grenadines is therefore amending and reforming its laws to ensure full compliance with the implementation of the Caribbean Single Market and Economy. During this year, several important pieces of CSME related legislations were passed. The Competition Policy Act has been drafted and is now being discussed.

An analysis done by the Caricom Secretariat in November this year shows that St. Vincent and the Grenadines still has a few minor outstanding matters to bring it into full compliance with the requirements for establishment of the Caricom Single Market and Economy. One such matter is the Bottle Deposit Levy, which the Caricom Secretariat has determined is discriminatory in that OECS producers are exempted from the charge. Accordingly, in the upcoming year the Government will be reviewing this matter in order to remove this discrimination.

We will also be reviewing the import licences applied on various goods of community origin which the Caricom Secretariat has determined to be unauthorized. Further, implementation of the revised structure of the CET based on the 2002 Harmonized System is scheduled for January 2005. This new HS system would allow St. Vincent and the Grenadines to update its tariff classification to meet international standards and this would result in minor changes in the tariff on a few commodities.

While initiatives are taken at the public sector level to address issues relating to our preparedness for a single economic space by January 01, 2006, further efforts must be exerted to ensure that the private sector is prepared to exploit the opportunities and face the challenges of a single market and economy. It must be recognized that this integration process covers a broader and ever widening sphere that goes beyond border measures such as import tariff and non-tariff measures on goods. It embraces trade in services, environment, electronic commerce, trade facilitation, movement of capital, and rights of establishment. Decisions in these areas call for a constant assessment of the adequacy of the Trade Policy Framework to deal with these issues.

During this year, the Trade Policy Review Committee was established to monitor and give policy guidance on all trade and trade-related issues. This Committee is complemented at the technical level by the Inter-ministerial Committee which co-ordinates the implementation of trade issues at the level of the ministries and acts as a nexus for consensus-building and draft policy formulation at the public sector level. To complement these activities, workshops and consultations have been held with the private and public sectors, civil society and community organizations to sensitise the public on issues of trade and the process of regional
integration. These national consultations were followed up with target groups meetings and consultations at the private sector level.

In addition, special attention was paid to restructuring and strengthening the Department of Trade in the Ministry of Foreign Affairs, Commerce and Trade. Earlier this year, the International Trade Department was set up; and a Monitoring, Information and Research Unit would be established in 2005. This Unit will address CSME issues while monitoring the implementation of all trade-related initiatives.

MONEY AND CREDIT CONDITIONS

Money and credit conditions in St. Vincent and the Grenadines during 2003 and 2004 have been characterized by weak loan demand in the private sector, high level of liquidity, declining interest rates and rapid expansion in the money supply.

During 2003, total monetary liabilities (M2) increased by 1.9 percent to $722.4 million in December 2003 from $709.26 in December 2002. The growth in M2 reflected a 6.3% increase in narrow money (M1). The growth in quasi--money was subdued partly because of the lower interest rates on deposits which caused a contraction in time deposits during the year.

Domestic Credit during 2003 contracted by 5.4%, mainly on account of a 6.8% decline in credit to the private sector. There was also a significant reduction in net credit to the Government as the Central Government used funds raised on the external markets to repay a portion of its indebtedness to the domestic banking sector.

Reflecting growth in the local economy there was continued growth in the money supply during the first nine months of 2004 as M2 increased by 8.0% during this period. At the same time domestic credit expanded by an impressive 13.9%, driven by a 44.7% increase in net credit to the Central Government. There was a further reduction in credit to businesses which seems to be related to the fact that some of the larger business firms have taken advantage of lower interest rates in overseas markets and have raised funds abroad.

Government is taking action to improve the safety and soundness of financial institutions in the State. In this regard the government has received a draft bill for an updated Banking Act and is now discussing this matter with the Banking Sector. The aim of this proposed new legislation is to strengthen prudential regulations, enhance the enforcement authority of the banking supervisor, bolster infrastructure to effect consolidated supervision, strengthen accounting standards and give more prominence to financial sector governance.
Money and Capital Markets Development

The Eastern Caribbean Securities Exchange (ECSE), which was launched in October 2001, has had successes in its first three years of operations. There has been a significant increase in listings on both the Eastern Caribbean Securities Market (ECSM) and the Regional Government Securities Market (RGSM) with seven companies now listed on the ECSM. The ECSE has however not achieved the depth and breadth which we had anticipated in the beginning.

Accordingly, the ECSE in collaboration with the Central Bank has moved to introduce modifications in order to expand across CARICOM and have drafted the necessary amendments to the legislation for consideration by member Governments. In October, the amendments to the Security Act was passed in this Honourable House. Similar amendments have been passed in other member countries which have cleared the way for the further development and expansion of the ECSE.

In terms of the RGSM, Government has since October 2002 been issuing all its Treasury Bills on this market and in the process has achieved significant cost savings. In May of this year we issued our first 10-year Bond on this platform which was fully subscribed at an interest rate of 7% per annum. Of the four Governments which have issued securities on the RGSM, the Government of St. Vincent and the Grenadines is the only one that has regular issues of Treasury Bills which is an indication of our commitment to the RGSM and the whole process of money and capital markets development within the sub-region.

The decision of the Monetary Council of the Eastern Caribbean Central Bank to liberalise exchange controls will give further impetus to the process of money and capital market development. I am therefore pleased to announce that the statutory orders have been issued, which will suspend all exchange control, regardless of the size of the transaction. This means that funds may be freely transferred to and from St. Vincent and the Grenadines without the need for an EC Form from the Ministry of Finance.

During the upcoming year Government will be supporting the efforts of the ECCB to establish an Eastern Caribbean Unit Trust (ECUT) as part of the money and capital market development programme. The ECUT will be a collective investment venture which will allow our Small and Micro Enterprises in particular to acquire an interest in a larger pod of investment funds which they would otherwise find hard to access.

National Insurance Services

The National Insurance Services continues to be a major avenue for the achievement of Government’s strategic objective of providing social security to the population. In this regard, the NIS has embarked on several initiatives aimed at expanding its coverage and enhancing its services.
The NIS is intensifying its efforts to increase coverage to the self-employed and the informal sector. Specific strategies targeting market vendors, owners, drivers and conductors of omnibuses, fishermen and arrowroot farmers have been instituted. These efforts have already begun to bear fruits and as at December 31, 2003, 1,155 persons were registered under the self-employment programs, which represents a twenty-five percent (25%) increase over the December 2002 figure.

One of the most important aspects of the National Insurance Services’ programmes is its support for the student loan programme. During this year, the organization contributed an additional $5 million to the Student Loan Programme for the academic years 2004 to 2006. The Government has agreed to use twenty percent (20%) of this contribution to fund the component for persons who are economically disadvantaged and who have the qualification and desire to pursue studies overseas.

The first of two Golden Years Activity Centres funded by the NIS has been officially opened at Cane Grove. The other Centre at Black Point is now completed and will be officially opened in January 2005. Total expenditure on these Centres is approximately $750,000 which is a reasonable price to pay for the benefits which we envisage our senior citizens will derive from the facilities. The Centres will be managed by the Activity Centre Trust and both the National Insurance Services and the Central Government have provided funds in their respective budgets to finance the cost of staffing and daily operations.

In order to sustain its social security initiatives, it is important that the NIS obtain a fair rate of return on its investments and that employees pay their contributions on time. Accordingly, the National Insurance Services has developed an Investment Policy which has been designed to optimize the organization’s investment returns taking into account the country’s vulnerability to tropical storms and other natural disasters. The Investment Policy will assist the National Insurance Services in meeting its objectives of:

1. Obtaining a minimum rate of return as stipulated by the actuarial review, which is currently 6% per annum.

2. Promoting capital preservation and capital appreciation as the primary investment focus, and income generation as a secondary objective.

3. Ensuring that the scheme is solvent at all times and maintaining a fully funded, and preferably, a surplus funded status.

4. Ensuring there is a sufficient cash flow to satisfy the

5. Obligations as they become due, without principal invasion.
INTERNATIONAL FINANCIAL SERVICES SECTOR

The Government’s effort towards developing a sound financial system also encompasses the International Financial Services sub-sector. Indeed measures to enhance the image of the International Financial Services sector are proceeding apace in order to ensure that St. Vincent and the Grenadines becomes synonymous with a top quality financial jurisdiction and professionalism.

Since the removal of our name from the FATF blacklist there has been a substantial increase in business written by the International Financial Service Authority (ISFA). For the first nine months of this year, the number of registrations and renewals of IBCs amounted to 6,203, which represents an increase of 47.2% on the figure for the corresponding period of 2003. Fees earned by the Central Government during the first nine months of 2004 amounted to $2.79 million, 45.4% more than for the corresponding period in 2003.

Earlier this year Government carried out an extensive review of the fee structure in collaboration with interested parties. A new fee structure has been developed which we propose to introduce with immediate effect. The objectives of this new fee schedule are to simplify the structure and to ensure that St. Vincent and the Grenadines remains a competitive jurisdiction for international finance businesses. For 2005 we expect fees from the International Financial Services Sector to amount to a record high of $4.5 million.

FINANCIAL INTELLIGENCE UNIT

The Financial Intelligence Unit, which celebrated its second Anniversary in May of this year, has made significant progress in a number of major areas and now constitutes an essential plank in Government’s Anti-money Laundering Programme. Its scope of activity has grown steadily, particularly in the sphere of the suppression of financing of terrorism. Indeed, the Government is currently reviewing the recommendations of the Financial Action Task Force (FATF) to amend the Financial Intelligence Unit Act in order to reflect the organization’s function as the agency with responsibility for the collection, analysis and dissemination of all matters relating to the financing of terrorism.

The Financial Intelligence Unit will continue in the upcoming year to collaborate with its stakeholders and strategic partners, both locally and internationally, to ensure greater progress on ongoing investigations and prosecutions. The Financial Intelligence Unit remains steadfastly committed to its goal of putting criminals out of business by draining their resources.

The National Anti-Money Laundering Committee has also been very active in the fight against money laundering and other financial crimes. The Committee is spear-heading a programme to ensure that all financial institutions in the State institute the appropriate systems to identify money laundering and that their staff members are adequately trained to full-fill their roles in this regard.
It is well known throughout this country that the strategic objective of this Government is to attain high levels of sustainable growth and development, while at the same time reducing the levels of poverty, raising social consciousness and increasing the level of employment. One of the most important vehicles for achieving this objective is a sound education. That is why we have embarked on a crusade to ensure that all the people of this country, particularly our youths, have opportunities to pursue quality education. By so doing, we aim to equip our people with the values, attitudes, knowledge and skills necessary for creating and maintaining a productive, innovative and harmonious society; in short, education for living and production.

The education revolution has as its central plank, free universal access to primary and secondary education. To achieve this, we will continue to modernize existing school plants and construct new and replacement schools in areas where they are necessary and desirable. While we have a very high enrolment rate at the primary level of almost 100 percent, this administration is taking steps to improve the attendance rate on an on-going basis.

From September 2005, all pupils who would have completed seven years of primary education would be transferred seamlessly, to secondary schools. The Common Entrance Examination will still exist, but it will be used as the assessment mechanism upon which to determine a student’s choice for placement at the secondary level.

When we took office in 2001, we promised that we would achieve universal secondary education. In less than five years we would have achieved this: In 2005, every child of secondary school age will be guaranteed a place in a secondary school. We would have done this without one cent in grants or loans from overseas.

To facilitate our goal of universal secondary education, we have embarked on a school expansion programme which ensures that all the physical facilities are in place in the secondary school system. The 2005 Estimates make provision for an additional $3.4 m to provide even more facilities to make this programme a resounding success. In 2005, ninety additional teaching positions have been established.

Additionally, the government has secured over US$56 million or EC $157 million dollars in loans and grants from the CDB, EU, and the World Bank to finance the Education Sector Development Programme. These funds will be used, among other things, to build primary schools at Fairhall, Edinboro, Peruvian Vale (already under construction) and Bequia; and secondary schools at Belair, Barrouallie and Union Island. Thus from next year onwards, we will be consolidating and deepening the education revolution in its quantitative and qualitative aspects. The ULP government is the surest guarantee that this education revolution would
not be reversed by those afflicted by a debilitating caution or learned helplessness.

While we have been improving the physical infrastructure we have not neglected the qualitative improvement. Indeed, the pass rate at the General Proficiency level of the CXC Examinations has improved, and for the first time, a Vincentian student, of the St.Vincent Grammar School, was adjudged the most outstanding student overall in the region, in the June 2004 exams.

With respect to post secondary and tertiary education the Government, continues to work towards the establishment of an Integrated Community College, bringing together the School of Nursing, Technical College Teachers College and the ‘A’ level college. A very distinguished national educator has already been appointed as Director of the Integrated Community College.

Each of the institutions in the Community College continues to increase enrolment. This year the enrolment at the Division of Arts Science and Humanities, known popularly as the ‘A’ Level College, reached record levels of over 1100 students and the number is expected to increase in 2005, as the government adopts a new policy which seeks to provide access to all persons who qualify for entry to the programme. The Technical College is undergoing reform through the STATVET project financed by the European Union. A new Automotive Centre has been constructed to accommodate a larger number of students and an improved learning environment.

In 2004, hundreds of Vincentian nationals have been pursuing tertiary education through scholarships and grants offered by the Governments of St. Vincent and the Grenadines, the Republic of Cuba, Mexico, the Republic of China on Taiwan and the European Union.

The National Insurance Services provided in 2004, $5 million in loan financing for the National Student Loan Programme with 20% allocated for Economically Disadvantaged Students. To date, 159 persons have been recommended for loans. The Government also increased the number of National Awards from four to six persons. An additional seven persons received National Scholarships in commemoration of our 25th Anniversary of independence.

The implementation of the policy of universal access to secondary schools has a number of implications for continued improvement in the quality of education at all levels. These challenges are being addressed through the establishment of remedial programmes, curriculum reviews and ensuring that the demand for trained teachers is met.

With the assistance of the UK Department for International Development, the Ministry provided training in 2004 in school management/supervision and successfully piloted school development planning and teacher appraisal systems, which will strengthen resource management and accountability at the level of the learning institution. The Government of St. Vincent and the
Grenadines is far advanced in its plans to offer a programme leading to a Bachelors in Education (Administration) to thirty three (33) principals of primary schools through the Teachers’ College in collaboration with the University of the West Indies.

The completion of a state-of-the-art Learning Resource Centre at the Community College and the building of new Learning Resource Centers in every constituency will contribute significantly to learning support services throughout the State for every citizen in the formal and non-formal systems. These developments will be complemented with the soon to be constructed Modern National Public Library and Lecture Theatre at Murray’s Road.

At the pre-primary level the government will continue to support those private pre-schools, which are registered with the Ministry of Education and have met the basic standards for operation. These schools currently benefit from a subvention to assist in their operations. Still, approximately three-quarters of pre-school-age children, particularly those in the rural areas and from disadvantaged families do not attend early childhood education programmes, for various reasons. It is the aim of the Government to address this problem by establishing pre-school classes in some primary institutions. All new primary schools will have facilities for pre-primary education. Moreover, some of the excess space in primary schools resulting from the decline in the school population and the phasing out of senior primary schools (Grades 7&8) in all-aged primary schools will be used to expand access to Early Childhood Education.

SPORTS AND CULTURE

This Government regards sports, culture and arts as vital to individuals and national development. The Government is deeply committed to the advance of sports and sportsmen/women, of culture and cultural activities, of arts and writers on programmes of works of the creative imagination. This Government has had an excellent record, the best of any hitherto, in the areas of sports and culture. In 2005, there will be further significant advances in physical infrastructure and facilities and innovative public policies as are detailed in the Estimates, in the financial allocations and the result indicators.

HEALTH

The vision of the Government is to have “a healthy population living in environmentally sound communities, empowered with a holistic knowledge of health, developmental and environmental issues”. The aim of this administration therefore is to provide universal, equitable, sustainable, comprehensive health care services to all – citizens and visitors.

During 2004, the primary health care programme focussed on the provision of Maternal and Child Health care and the immunization programme; School health services were extended to embrace all primary schools, and preventative
dental health services are now offered at Calliaqua and Canouan health centres bringing to nine (9) the available dental health Centres in the State. The refurbishment of twenty one (21) health centres and nurses’ quarters and the installation of air-condition units necessary for the storage of drugs in several health districts, have also improved our Primary Health Care infrastructure.

In terms of secondary health care, our efforts were concentrated on the completion of the Milton Cato Memorial Hospital Phase III project; arrangements for the improvement of the Hospital Governance for Milton Cato Memorial Hospital, and enhancement of the equipment at the lab and improvement in pharmaceutical supply to the people.

Twenty-one new posts have been added to the Health sector in the 2005 Estimates. Some of these positions are for staff nurses at the MCMH, five for interns, and another physiotherapist. At long last, the people north of the Dry River will get their own resident Doctor. This is the fulfilment of a campaign promise.

The Nursing Service continues to lose experienced and specialist trained staff through migration and retirement. The Government has sought to address this problem through the recruitment and training of Vincentian nurses. Our student Body now boasts 280 young persons preparing to become Registered Nurses and Nursing Assistants. This year, $1.66 million was budgeted for the Nursing School; next year, 2005, $3.66 million is budgeted. Never in our history have so many nurses been trained. When last did the popular press or the public complain about “a nursing crisis” as they did up to and including 2001?

**HIV/AIDS**

The Government of St. Vincent and the Grenadines is firmly committed to a national programme that aims to prevent and control the spread of HIV/AIDS and to alleviate the socio-economic impact of the diseases on the population. Excellent work has been done by the Ministry of Health so far, but much more remains to be done. During 2005, we will intensify that programme, and with the funding already approved by the World Bank, of some US$7 million, we will undertake the following activities among others: the development of a health information system; the beefing up of the care and treatment system; a massive programme to educate the population about the dangers of this disease; a programme to encourage behaviour change and modification; and research and surveillance enhancement. We are also taking step to strengthen the institutional capacity, and in this regard we are adding more counsellors to the HIV/AIDS Unit.

We fully expect that private sector organizations, NGO’s and civil society will work together with the government, to change the course and effects of this disease on Vincentians. It must be remembered that HIV/AIDS is a lifestyle disease.
WATER AND SOLID WASTE

This administration ensures that the citizens of St. Vincent and the Grenadines continue to receive adequate amount of potable water at reasonable costs. The capacity of the Central Water and Sewerage Authority (CWSA) continues to increase with the present system capacity or total water production now at 2.1 billion gallons annually. Currently, there are 26,000 active customer connections in the island.

To further enhance the quality and reliability of the water supply in St. Vincent and the Grenadines work on the Windward Water Supply Project continued during this year. As I indicated in the 2004 Budget Address, progress on the pipeline installation was quite satisfactory. When it is completed in 2006, the quality and reliability of water would be greatly improved to the Windward Coast and the South Eastern part of St. Vincent from Byera to Diamond.

During the 2005, work will commence on construction on the first phase of a new treatment plant at the Majorca water source. This project will significantly improve the quality of water supplied to the consumers on this system. It is well known that over the past twenty (20) years these consumers have had to endure uneven water delivery in quantity and quality. This new plant will also improve the overall quality of water now being supplied to the areas of Dorsetshire Hill, Queen's Drive, Amos Vale, Belmont, Fairbaine Pasture, Fountain, Belair and Rockies. It is also designed to cater for demand beyond 2020.

In addition, we will install a Storage Tank at Kelbourne; build a 400ft pipeline at Layou to improve the water supply and continue the meter replacement programme island wide.

Now that the Belle Isle Landfill is operational we will embark on a series of new initiatives aimed at reducing the current load accepted and buried at the landfill while at the same time allowing for some cost recovery.

With respect to solid waste management in the Grenadines, the tender was awarded in November 2004 for the design and consultancy services of the Grenadines Solid Waste Management Project. Implementation of this project, financed by the EU has already commenced, and work will be completed within the second half of 2005.

DISASTER MANAGEMENT

The recent experience with Hurricane Ivan is the latest among the natural hazards that have impacted adversely on the socio-economic lives of our people. Several houses here in St. Vincent and the Grenadines were destroyed, and many more sustained severe damage. Our coastline, particularly on the north eastern shoreline between Argyle and Langley Park was ravaged. This highlights the urgent need for a comprehensive coastal protection and
management system. Some 200 houses would have to be relocated also. The sum of $3million is budget for 2005 to assist with this relocation process.

It is clear that given our vulnerability to natural hazards, we must fast track our disaster management efforts and build upon our advances thus far. While we acknowledge that natural disasters cannot be avoided, they need not be disastrous. Lives need not be lost; the loss of property, infrastructure and crops could be minimized and life need not be disrupted for months or years. The strategy therefore mandates proactive management which includes prevention and mitigation of the likely impact of disasters especially hurricanes; preparedness and response before and during the event; and recovery and restoration.

Our strategy places great emphasis on the benefits of investing in disaster mitigation – e.g. Constructing roads, drainage systems, buildings, electrical and water lines in ways that make them as storm resistant as possible, and empowering communities and institutions to manage risks. Undoubtedly, this requires the collaborative efforts of both private and public sectors including all segments of civil society and the general population.

To date a National Emergency Response Plan has been completed with plans for contingencies related not only to hurricanes/storms but importantly also, volcanic eruptions and flooding. Work on the Mitigation plans will soon be completed. Importantly also is the ongoing implementation of the Emergency Recovery and Disaster Management Project. The Emergency Operations Centre (EOC) is nearing completion, while preparatory work on the retrofitting of emergency shelters is well advanced. Under this sub-component, five health centres, sixteen primary schools and four community centres would be retrofitted for use as emergency shelters. The designs have been completed for the health centres and construction is scheduled to begin in January 2005.

It is anticipated that during 2005 work would intensify under the Disaster Management project. The major activities would include:

- Construction of a seawall at Layou designed to provide protection for the people of Layou from wave action and potential damage to life and property;

- Continuation of the retrofitting of emergency shelters;

- The construction of gabion walls at Hopewell, Colonorie and Langley Park rivers;

- An Integrated Coastal Zone Management Study to determine an investment programme for coastal protection works;

- A Flood Risk Assessment to assess risk, develop hazard mapping and identify critical river crossings requiring protection.
To complement all these activities, it is anticipated that AM Broadcasting would be reintroduced by mid 2005 to ensure 100 percent national radio coverage. Importantly also is the drafting of the Disaster Management Act which is expected to be enacted in 2005. The legislation is intended to foster a more comprehensive approach to disaster management.

**HOUSING**

This Government reaffirms its commitment to facilitating the provision of adequate housing to the people of St. Vincent and the Grenadines. Developments in the housing stock have been achieved mainly as a result of targeted government interventions, and lower interest rates.

Access to adequate shelter is one of the basic human needs, and we recognise that due to their economic circumstances, the poor face the greatest hardship in securing adequate and affordable housing. Accordingly, this Government has moved to assist lower income-earners in acquiring their own homes; and implementing proper land-titling and suitable land-use policies for the further development of the housing sector.

In 2002, we embarked on a Housing Development Project to construct approximately one thousand low-income houses. Construction started in 2003. We are pleased to report that the first phase of this project has been successfully completed. Two hundred and eight houses have been constructed at an estimated cost of EC $16.1 m (inclusive of infrastructural costs) and in this year, so far, houses have been handed-over to their owners: In Brighton, forty one (41), Ottley Hall (15), Green Hill (56), Peters Hope (57), and Petit Bordel (8).

The next phase of the project has already commenced and will continue in 2005. This phase would provide opportunities for affordable housing to persons earning between $400 and $750 per month. To date, site works are ongoing in Colonarie (22), San Souci (28) and Diamond (40). Next year a further 350 houses will be built.

You will recall that part of the housing strategy is also designed to assist landowners in constructing their own home, and a critical prerequisite for the effectiveness of this approach is the issue of land titling. To this end, we have secured funding from the European Union for a land titling and registration project aimed at converting “dead property” into “live property” and simultaneously provide opportunities for upgrading living conditions within those areas by inserting low income houses on vacant lots, and replacing existing substandard ones with low-income houses in accordance with effective demand. In November 2004, the House of Assembly passed the historic Possessory Titles Act which will revolutionise land titling and secure titles for persons who have been in adverse possession of lands for at least 12 years.
While we recognise the benefits of this strategic approach to housing development, we cannot overlook the importance of ensuring the development of quality housing stock and orderly housing development. In this regard, we have established the first National Building Code for St. Vincent and the Grenadines. The Code seeks to improve the quality and robustness of our housing stock thereby reducing vulnerability to natural hazards. The final draft of this document has gone through all of its consultative processes and will in early 2005 be approved formally as Regulations within the framework of the recently amended Town and Country Planning Act which itself will shortly be proclaimed.

ROADS

Over the last several months, and particularly during the month of November, the road network in St. Vincent and the Grenadines has suffered tremendous damage, first by action of the sea during the passage of hurricane Ivan and more recently by the heavy rains and landslides. This administration has moved speedily to respond to these damages and in November, we allocated a sum of $7 million for emergency road repairs and rehabilitation. This is in addition to the allocations in the 2004 Estimates.

We have completed work on the Langley Park to Brownstown section of the Windward Highway Rehabilitation Project. Ongoing work on the Brownstown to Sans Souci section is proceeding slower than anticipated. The Ministry of Transport, Works and Housing and the Consultants on the project have been in discussions with the Contractors in a quest for greater expedition. We however anticipate that work will be completed in early 2005.

Design work on the section from Sans Souci to Diamond has commenced, with construction scheduled for early 2005. Funds for this portion have already been secured through a $20 million loan from the CDB. Design work is also ongoing on the Fancy to Rabacca and Diamond to Kingstown phases. These phases are on schedule and construction will commence in the first quarter of 2005. All together, it is estimated that works on the Windward Highway will exceed EC sixty million dollars ($60,000,000).

The people north of the Dry River can rest assured that we have commenced the technical work which will lead to the construction of a bridge over the Dry River.

Construction work on Phase 1 of the Cross Country Road from Troumaca to Rose Hall will continue in 2005. A contract for the construction of this phase of the road was signed on 14th September 2004 between the Government of St. Vincent and the Grenadines and the Overseas and Construction Company Limited (OECC). The contract sum is two million five hundred and thirty seven thousand United States dollars (US$2,537,000.00). Design work on the second phase is on-going and we expect to commence construction early in 2005. Also in 2005, work will continue on the design of the phase that will connect both ends, including the completion of the necessary environmental and other studies. I assure the public
that the government, in keeping with its electoral mandate, will build the Cross Country Road and protect the environment in the process.

**CRIME AND NATIONAL SECURITY**

The ULP administration continues to be tough on crime and tough on the causes of crime. The government’s socio-economic policies are designed, in part, to address root causes of crime but the many-sided nature of crime demands attention and corrective action, too, in the family, the schools, the churches, the media, the community and civil society generally. The policing of crime, and criminals, is, however, a central responsibility of the State.

Although the incidence of crime as a whole has fallen in St. Vincent and the Grenadines, violent crimes have increased in 2004 compared to 2003. Since 1996, the statistics show that there has been a biennial pattern of murders numbering in the early 20s and alternating with declines in the numbers to the early teens. The alternation between years has assumed a major focus in 2004 because an unusually high number of murders – six – were committed in October, causing the number to rise to 25 for the year up to the end of November. But in the first half, there were seven murders. The acceleration has been in the second half of the year,. Last year, 2003, there were 13 murders.

Economic growth, a healthy democracy, and a free and civilized nation, are dependent to a considerable degree on law and order, effective policing, peace and political stability, and a society with minimal crime, and particularly minimal crime of a violent sort.

Last year February, this Honourable House debated and endorsed the government’s 14-point strategy on fighting crime, which continues to be the framework within which it addresses crimes and criminals. An important vehicle in fighting crime is the broad – based, permanent National Commission on Crime Prevention (NCCP) which was set up as a fully functioning entity in 2004, headed by its Director, a former Police Superintendent. Two months ago, Cabinet endorsed the NCCP’s Work Plan on Fighting Crime.

Since 2001, this government has been strengthening the Police Force in many ways. More police personnel have been trained and hired; in the process the size of the Police Force has increased; a Serious Crimes Squad has been set up; the Rapid Response Unit (RRU) has been established with branches at prospect and Layou to better police crimes; the police stations at Ovia and Rose Hall have been re-built; and the construction of police stations at Biabou and Canouan have started; in 2005 the Questelles Police Station will be re-built, and those at Union Island, Old Montrose, Sandy Bay and Georgetown will be rebuilt or rehabilitated. Never in the history of St. Vincent and the Grenadines (SVG) has so much attention been placed upon improving the physical plant of the police stations.
In 2005, two mobile police stations will be purchased and put into operation; a new Coast Guard Vessel will also be purchased and the overhaul of the existing vessels will be effected, in addition to the enhancement of the Coast Guard Base. And in 2005, the Forensic Laboratory will be set up. The Police Force needs to be reformed and modernized. To this end a review of the Police Force is currently being conducted. This report is due shortly and the recommendations studied for prompt action.

Intelligence - gathering and analysis is being beefed up in the Police Force in conjunction with the Regional Security Service (RSS) and other international agencies and governments.

In November 2004, this Honourable House amended the Firearms Act to increase the maximum penalty for the possession of illegal firearms from one year to seven years. This government, I assure the nation, will give the criminals no space. And a larger, more secure prison with a modern prison regime is being built at Belle-Isle for those who are adjudged by the law courts to deserve incarceration.

The Magistracy is being strengthened to respond to the crime situation. Accordingly, a Serious Offences Court has been established; so, too, has been a Night Court for traffic offences, which eases the caseload for the other magistrates to deal more swiftly with the alleged criminal offences before them. A Magistrates Court has also been set up in Canouan. And generally, the Magistracy has been modernizing. At the High Court level, the government is keen on having the Assizes system scrapped and replaced by a permanent criminal division of the High Court functioning all – year round to deal expeditiously with those charged with indictable offences.

I assure this nation that this government takes its responsibilities on national security and law and order most seriously!

**CONSTITUTIONAL REFORM**

The overall aim of constitutional reform is improved governance in every material respect. Better governance structures and a more efficient public administration are bound to impact positively on the nation's economy and society. Constitutional reform is not only a political exercise: it is an economic issue of the first order.

The Constitutional Review Commission (CRC) continues the fulfilment of its mandate during the current fiscal year. In February 2004 the CRC submitted to this House its First Interim Report in two volumes, providing a detailed account of its stewardship from the date of its formal launch on 10th February 2003 up to February 2004.

During 2004 the CRC had set as one of its goals the production and publication of a Booklet which is intended to provide a definitive analysis of the Constitution of Saint Vincent and the Grenadines and to map some of the possible choices
for constitutional revision. After several months of intensive preparation, the Booklet entitled “Looking at Our Constitution: Choices For Change” was launched on 6th October 2004. Saint Vincent and the Grenadines is the only country in CARICOM to have approached the whole question of constitutional reform in so systematic and thorough a manner. We have been doing it better than anyone else.

Following the release of “Choices For Change”, consultations were held in every constituency in the State and in every Secondary Educational Institution in Saint Vincent and the Grenadines. The CRC has also undertaken a second round of consultations in the Diaspora during November 2004, to complement the consultations held in August 2003 with our overseas-based nationals. During the recent phase, consultations have been held in Canada, the United States of America, the United Kingdom, Trinidad & Tobago, Barbados, the British Virgin Islands, Jamaica and Cuba.

The easy availability of the Booklet and other related constitutional documentation on the CRC web site has been of enormous assistance in facilitating the public understanding of, and participation in, the constitutional review exercise. Further consultations are planned with the CRC component organisations during December.

The CRC is due to submit its Final Report to this Honourable House at the end of January 2005, and there is no doubt that the initiative taken by this Honourable House to stimulate public discussion on constitution matters has met with widespread public appreciation. Vincentians are proud to have been given the opportunity to be active participants in the process. It has been an epoch making exercise.

PUBLIC FINANCES

The fiscal position of the Central Government for the year ended December 31, 2003, improved when compared with 2002. On the current account, revenue increased by 4.1 percent, while current spending remained virtually unchanged. As a result, Central Government savings increased to $42.14 million, up from $29.39 million realized in 2002. However, the overall fiscal deficit widened to $28.48 million in 2003, compared with $22.60 million in 2002, precipitated by a 20.3 percent increase in capital expenditure.

This improvement in the fiscal current account resulted from buoyancy in revenue sources as the external economy and domestic policies impacted positively in areas of the liberalization of the telecommunications sector, and increased domestic consumption.

Preliminary data up to the third quarter of the current year indicate that Central Government finances tightened. A current surplus of $9.73 million has been realized to date, when compared with surplus of $27.41 million in the corresponding period of 2003. The overall deficit for January to September 2004,
increased to $24.12 million in comparison with $10.06 million in the corresponding period in 2003.

The current instability regarding the international oil prices add to the existing pressure in maintaining fiscal revenues. The recent increase in the civil service wages and payment to pensioners, higher costs for goods and services have contributed to a current expenditure growth of 5 percent or $10 million. It is therefore essential that Government adopts measures to bolster revenue and more importantly continue to generate current savings. These domestic savings contribute towards the financing of the Public Sector Investment Programme (PSIP) either in whole or as counterpart funds, for employment generation, poverty alleviation and social and economic development.

In our efforts to bolster the public finances the Government has embarked on a comprehensive program of reform of the financial management and economic planning frameworks. This year, we passed the new Finance Administration Act which modernized the laws relating to financial administration. The accompanying financial regulations and tender procedures will be issued early in the New Year at which time the new Act will be brought into effect.

A fiscal consolidation plan has been developed by the Ministry of Finance in conjunction with CARTAC and the ECCB. The programme concentrates on fiscal stabilisation measures that set the stage for continued economic developments and further poverty reduction starting in 2005. The main objective of this programme in the medium-term is to improve public sector savings to facilitate investment, while maintaining debt within sustainable levels.

**Public Debt**

Total Public Debt which stood at $767.57 million as at December 31, 2003 is estimated to have increased by 5.72% to $811.45 million or 74.4% of GDP as at September 30, 2004. The increase is largely due to a new $30.0 million Bond, issued on the Regional Government Securities Market in May of 2004.

To ensure debt sustainability and still have a reasonable level of public sector investment, including the International Airport project, the Government has drafted a debt management strategy which provides information on the objectives and strategies for managing the public debt within the context of the external and internal economic environment. The main debt management objectives of the Government are to satisfy the financing needs of the public sector at minimum cost over the medium-to-long term, to limit interest and exchange rate risks, to promote the development of money and capital markets within the ECCU and to retain sufficient borrowing capacity to finance the international airport project.

To help achieve these objectives Government is currently pursuing the issue of debt reduction and debt rescheduling. In this regard, special attention is being paid to the Ottley Hall Loan, which is the single largest loan in the debt portfolio
and accounts for 30% of the External Debt. The Ottley Hall project has highlighted the importance of government conducting a proper Investment appraisal before embarking on major public sector projects. The lessons learnt from this project will be applied to future projects.

Some of these lessons are: all projects must be fully assessed in order to determine their potential to contribute to government’s objectives of promoting economic growth linking the country as an integrated whole, and for reducing poverty; Due diligence must be conducted on all private investors/financiers who are involved in partnership with the government on any project; Government will as far as practicable avoid any guarantee of private sector loans. Where such guarantees are deemed to be in the public interest, prior parliamentary approval would be sought; all borrowings must be first approved by Parliament, or authorized by an existing Act of Parliament.

Over the medium-to-long-term, Government aims to restrict the public debt to no more than 75% of GDP which is the level which we consider to be sustainable for St. Vincent and the Grenadines. In determining this debt level we considered several factors including cost of debt servicing and the ratio of revenue collection to GDP. In order to attain this target the following strategies will be adopted:-

(i) Establishing strict limits on the contraction of new debts and ensuring that the projects to be financed are feasible in terms of their contribution to economic development and poverty reduction, save and except in a very narrow band of special cases, where other national or social circumstances determine the project’s necessity and desirability.

(ii) Reducing operational losses of public enterprises. In this regard, Government has established a Monitoring Committee on Public Enterprises, headed by the Prime Minister, to monitor the performances of all public enterprises.

**Resource Requirements**

The total cost of the public services to be provided in 2005 is estimated at $587.09 million. This figure is $103.64 million or 21.4 percent above the 2004 approved estimates. The Estimates for 2005 comprise of recurrent expenditure, and Loan amortisation and sinking fund contributions of $379.25 million and capital expenditure of $207.84 m. Financing for the 2005 budget comes from current revenue of $342 million and capital receipts totalling $245.1 million.

On Wednesday December 1st, 2004, I provided a detailed analysis of the 2005 Estimates during the parliamentary debate and explained the fiscal and economic circumstances that impacted the budget going into the next fiscal year. In developing the economic policies and programmes for 2005, we have
taken cognizance of these circumstances and have devised strategies to respond to them.

The total estimated recurrent expenditure is 10.3 percent over the approved recurrent expenditure estimates for 2004 and is comprised as follows:

<table>
<thead>
<tr>
<th>Items of Expenditure</th>
<th>Approved Estimates 2005</th>
<th>Approved Estimates 2004</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages and Salaries</td>
<td>167.17</td>
<td>155.12</td>
<td>7.8</td>
</tr>
<tr>
<td>Retirement Benefits</td>
<td>20.36</td>
<td>18.80</td>
<td>8.3</td>
</tr>
<tr>
<td>Other Transfers</td>
<td>35.42</td>
<td>35.07</td>
<td>1.0</td>
</tr>
<tr>
<td>Interest Payments</td>
<td>39.57</td>
<td>31.18</td>
<td>26.9</td>
</tr>
<tr>
<td>Goods and Services</td>
<td>70.84</td>
<td>67.87</td>
<td>4.4</td>
</tr>
<tr>
<td><strong>Total Expenditure</strong></td>
<td><strong>333.36</strong></td>
<td><strong>308.04</strong></td>
<td><strong>8.2</strong></td>
</tr>
<tr>
<td>Add:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan Amortisation</td>
<td>34.06</td>
<td>29.64</td>
<td>14.9</td>
</tr>
<tr>
<td>Sinking Fund Contributions</td>
<td>11.83</td>
<td>6.00</td>
<td>97.2</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>379.25</strong></td>
<td><strong>343.68</strong></td>
<td><strong>10.3</strong></td>
</tr>
</tbody>
</table>

The 2005 investment programme, which is 48.7 percent over the capital estimates for 2004, is critical to the economic development strategy of the Government into the medium term. To this end, the development programme for the next fiscal year aims to achieve the following:

(i) to continue the improvement of the physical infrastructure that is critical to the modernization and development of St. Vincent and the Grenadines;

(ii) to stimulate growth in the main productive sectors of Agriculture and Tourism; and,

(iii) to improve the quality of life of the people by strategically investing in the areas of health, education, security and community services;

The distribution of the 2005 Capital Estimates by economic sector is as follows:
<table>
<thead>
<tr>
<th>Sector</th>
<th>2005</th>
<th>% share</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$m</td>
<td></td>
</tr>
<tr>
<td>Transport</td>
<td>59.74</td>
<td>28.7</td>
</tr>
<tr>
<td>Education</td>
<td>26.86</td>
<td>12.9</td>
</tr>
<tr>
<td>Community Services</td>
<td>11.12</td>
<td>5.4</td>
</tr>
<tr>
<td>Agriculture</td>
<td>11.83</td>
<td>5.7</td>
</tr>
<tr>
<td>Health and Environment</td>
<td>12.62</td>
<td>6.1</td>
</tr>
<tr>
<td>Tourism</td>
<td>2.70</td>
<td>1.3</td>
</tr>
<tr>
<td>Security</td>
<td>19.83</td>
<td>9.5</td>
</tr>
<tr>
<td>Other Economic</td>
<td>31.05</td>
<td>14.9</td>
</tr>
<tr>
<td>Other</td>
<td>32.09</td>
<td>15.4</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>207.84</td>
<td>100.0</td>
</tr>
</tbody>
</table>

**Capital Budget Financing**

Approximately 52 percent or $126.77 million of the financing for the 2005 investment programme comes from external sources while the remaining 48 percent or $118.4 million will be raised locally.

On the external front, Grants continue to be an important source of financing for our investment projects. Funds from this source account for 20.6 percent or $50.6 million of the capital financing requirement. External borrowings totalling $76.1 million will be raised from various sources, including the Caribbean Development Bank, the World Bank, and the governments of Libya and Kuwait.

The details of the sources of finance for the capital budget are as follows:

<table>
<thead>
<tr>
<th>Source of Funds</th>
<th>2005</th>
<th>% Share</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$m</td>
<td></td>
</tr>
<tr>
<td>Domestic Receipts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans</td>
<td>65.07</td>
<td>26.5%</td>
</tr>
<tr>
<td>Development Bonds</td>
<td>3.7</td>
<td>1.5%</td>
</tr>
<tr>
<td>Other Capital Receipts</td>
<td>49.67</td>
<td>20.3%</td>
</tr>
<tr>
<td><strong>External Receipts</strong></td>
<td>126.67</td>
<td>51.7%</td>
</tr>
<tr>
<td>Grants</td>
<td>50.59</td>
<td>20.6%</td>
</tr>
<tr>
<td>Loans</td>
<td>76.08</td>
<td>31.0%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>245.11</td>
<td>100.0%</td>
</tr>
</tbody>
</table>
A review of the entire budget will reveal that the 2005 budget yields a current surplus of $8.62 million and an overall deficit of $148.63 million.

<table>
<thead>
<tr>
<th>Item</th>
<th>$m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Revenue</td>
<td>341.98</td>
</tr>
<tr>
<td>Less: Current Expenditure</td>
<td>333.36</td>
</tr>
<tr>
<td><strong>Current Account Surplus</strong></td>
<td><strong>8.62</strong></td>
</tr>
<tr>
<td>Add: Grants</td>
<td>50.59</td>
</tr>
<tr>
<td>Funds available for Capital Budget</td>
<td>59.21</td>
</tr>
<tr>
<td>Less: Capital Expenditure</td>
<td>207.84</td>
</tr>
<tr>
<td><strong>Overall Deficit</strong></td>
<td><strong>148.63</strong></td>
</tr>
<tr>
<td>Financed By:</td>
<td></td>
</tr>
<tr>
<td>External Loans</td>
<td>76.08</td>
</tr>
<tr>
<td>Local Loans</td>
<td>65.07</td>
</tr>
<tr>
<td>Development Bonds</td>
<td>3.70</td>
</tr>
<tr>
<td>Other Capital Receipts</td>
<td>49.67</td>
</tr>
<tr>
<td>Less: Amortisation</td>
<td>-45.89</td>
</tr>
</tbody>
</table>

**Fiscal Measures**

For the fiscal year 2005, the focus of Government’s economic and fiscal policies would be a greater reliance on the private sector for generating economic growth and for poverty alleviation. Government’s role in this approach would be to create the necessary conditions for the productive sector activities, to concentrate its investment outlays on social and physical infrastructure and to promote macro-economic stability.

Government’s fiscal policies emphasize fiscal discipline and prudence, and must be consistent with and supportive of the monetary policy of the Eastern Caribbean Currency Union. Accordingly, Government must ensure that it raises the necessary revenue to finance its recurrent operations and to generate a surplus to support the Public Sector Investment Programme. In the medium term increased revenue will be achieved through economic growth, selective new revenue measures and tax reforms aimed at modernizing the tax system.

In order to promote the development of the private sector in particular small and micro enterprises, the Government will implement the following measures with effect from January 2005.
1. Introduce a business tax credit for qualifying small entrepreneurs, in the amount of twenty-five percent of the tax payable by the business. To qualify for this tax credit the business must:-

   (i) have annual sales of $300,000 or less;

   (ii) register with the Ministry of Trade and with the Commerce and Intellectual Property Office;

   (iii) have honoured all its statutory obligations including those to the National Insurance Services and the Inland Revenue Department.

   (iv) not be owned and or controlled by an enterprise which does not qualify for these benefits.

This in effect means that the rate of taxation on income earned from qualifying small businesses will be reduced by at least 25% from income year 2005. If that business is operating as a corporation, the effective tax rate will now be 30%.

2. Amend the Income Tax Act to allow individual pension plans to receive tax treatment similar to those granted to group pension plans.

   At present self-employed individuals and small-and medium-sized enterprises can establish pension plans for their employees, however the contributions to these pension plans do not qualify as a deduction for tax purposes.

3. Review the present policy regarding the prohibition in using business losses as a deduction against income accruing from employment. While we recognize that there is need for a relaxation of this policy as it relates to small entrepreneurs in the productive sector we will have to ensure that this concession does not become a tool for tax evasion by unscrupulous elements in the society.

4. **Increase in Standard Deduction**

   Even as the Government proposes measures targeted to the development of existing small and micro enterprises, we are aware that many of these enterprises receive their capital from the employment income of their owners. To this end, I propose to provide some additional income tax relief for the workers of St. Vincent and the Grenadines, by amending the Income Tax Act to
increase the Standard Deduction from $13,000 to $14,000 with effect from January 1, 2005.

5. **The Mustique Act**

I also propose to amend the Mustique Act to introduce a new charge of $300,000 per annum payable by the company in respect of its senior personnel who perform work partly in St. Vincent and the Grenadines and overseas on the company’s behalf. This charge is in respect of their overseas income and does not remove their liability to tax for work done here in St. Vincent and the Grenadines.

6. **Telecommunication Surcharge**

The existing International Communications Service Surcharge imposes a tax of ten per cent on all sums received in St. Vincent and the Grenadines in respect of international telephones, telegraph and telex operations. The yield from this tax has declined rapidly in recent years from $3.7 million in 1999 to $1.3 in 2003 a drop of 67%. This decline is mainly attributed to:-

1) A reduction in price of international telecommunication services and;

2) Changes in technology which means that consumers are using forms of communicating other than the traditional fixed line phone. One of the more popular alternate forms is the cellular phone which has proliferated in recent times. Although international calls made using cards are subjected to the tax, a mechanism for assessment and collection is not fully in place and there is much loss of revenue.

In an effort to secure some of the lost revenue I propose to amend the International Communication Surcharge Act in order to impose a tax on all calls made on cellular phones, including both domestic and international calls, at a rate of five per centum (5%) of the cost of each call. Additionally, we will ensure that all service providers of international telecommunication services are required to pay the tax. Internet providers will not be required to pay this tax. The name of the Act will be accordingly amended to the Telecommunications Service Surcharge Act. This new measure will take effect from January 1st, 2005, and is expect to yield approximately $2 million in annual revenue.
7. **Gaming**

I propose to tax the winnings from games of chance, including National Lottery winnings at a rate of 10% of winnings provided that such winnings are in excess of $500. The yield from this tax is estimated at $1.00 million annually. The funds realised will be utilised for the further development of sporting and cultural facilities. Specifically in 2005 to 2007 the fund will help to meet the debt servicing cost of the loans for the redevelopment of the Arnos Vale Sporting Complex.

8. **Entertainment Tax**

I propose to repeal the Entertainment Tax Act Cap 263 of the laws of St. Vincent and the Grenadines. For the most part this is a nuisance tax where the cost of collection is quite high compared with the revenue it yields annually.

Furthermore, this measure is designed to provide some tax relief to persons in the entertainment industry and thereby contribute to its further development and growth. The anticipated revenue loss from this measure is $80,000.00.

9. **Petroleum Prices**

I have already alluded to the situation in respect of the prices of petroleum products and the high cost of the subsidies for these products. Accordingly, I wish to announce a further increase in the retail price of petroleum products to take effect from January 1, 2005. The retail prices of gasoline will be increased by 50 cents per gallon, 75 cents per gallon for diesel and by $2.5 per gallon for Kerosene.

I am mindful of the impact which these price adjustments are likely to have on the operation of buses and taxis. Accordingly, I have mandated the Transport Board to hold discussions with the Taxi Men Association and the National Omnibus Association (NOBA) concerning the implementation of reasonable adjustment fares.

Government will continue to monitor the cost of these products and will make a downward adjustment as soon as there is any ease in the International prices for these commodities.
SUSTAINABLE ECONOMIC GROWTH, FISCAL PRUDENCE AND SOCIAL JUSTICE IN A PERIOD OF EXTERNAL SHOCKS

Mr Speaker, the essential theme of this Budget is the quest for sustainable economic growth, Fiscal prudence and Social Justice in a period of external shocks. The finely, nuanced budget which has been presented to this Honourable House and the nation has been fashioned out of contending, even contradictory forces, in a real and complex world of life, production and nature.

This budget is for a fiscal year, 2005, and for accounting purposes it is for a discrete 12 month period. But it has been constructed on the platform which this government and our people have laid since 2001 has been hammered out through an amazing creativity of efforts within the state administration in consultation with the people directly, sectoral groups, and organised civil society generally. This exercise has shown our civilisation at its collective best. The political leadership, the public servants, the people and organised civil society have not only inspired each other but in the process have drawn out of each other that which is magnificent; indeed have drawn out more than that which we even knew we possessed. It has been a remarkable journey to this final budgetary product for 2005.

Mr. Speaker, in 2001, when this government embarked upon a counter-cyclical fiscal policy to generate economic growth in a difficult economic period, many well meaning and dispassionate economists, including the Staff of the International Monetary Fund (IMF), expressed grave scepticism. By 2002, however, the IMF was concluding that it was the counter-cyclical fiscal stance of the government which had averted a recession in St. Vincent and the Grenadines and stemmed any rise in unemployment. By 2003, the IMF was further affirming that it was the correct policy response in the extant economic circumstances, but cautioned that it cannot be pursued beyond a particular point and in the absence of a stronger effort from the productive, private sector. In 2003, the Caribbean Development Bank (CDB), in its Annual Economic Review joined in the chorus of praises on the performance of the macro-economy of St. Vincent and the Grenadines and the management of it. In their October 2004 Concluding Statement, the Staff of the IMF, consequent upon their usual staff visit, confirmed their positive assessment of 2003 and restated their earlier caution.

Economics is not, and never was a pure science in the sense that its theoretical postulates can be tested for certainty and replicated in a sanitised laboratory of the physicist or chemist. In the economist’s socio-economic laboratory, on the other hand, the variables are too unruly and often imprecise; the tools of measurement, relatively undeveloped. The complexities, fluidity, unevenness and unpredictability in the economist’s world, call for, among other things a trained scientific mind capable of drawing the correct inferences from known facts and grasping whether a particular constellation of facts constitute a trend to be observed carefully and acted upon or to be treated as merely episodic in a larger divergent whole. One, therefore, has to be rooted in philosophy,
economic history, political economy, and possessed of an acute judgement. The journeyman’s view of economics as a series of technical functions leads to incorrect analysis, pseudo-science, wrong prescriptions, inertia at best, disaster at worse.

The judgement of this government is that the rebound of the economy of St. Vincent and the Grenadines and the three successive years (2002 – 2004 inclusive) of economic growth, from moderate to robust, are not yet sufficient reasons to abandon its counter-cyclical stance. A deeper, more enduring growth still requires the counter-cyclical push, even whilst the international economy strengthens. At the same time, the private sector is to be encouraged and facilitated to take advantage of the more favourable circumstances. Thus, the consequential proposals to aid the private sector further in this budget.

A counter cyclical fiscal policy does not mean an absence of fiscal prudence. Indeed, they are necessary riding partners. They are always to be harnessed in an integrated whole. It is for this central reason, among others, that the Ministry of Finance has been elaborating a Draft Fiscal Covenant. This document is now ready for further discussion with interest groups and organised civil society generally before being given its final imprimatur.

The seven central emphases of this Draft Fiscal Covenant are:

(i) Fiscal Consolidation;
(ii) Improvement in Public Revenue measures, including compliance and administration;
(iii) Sensible management of deficits and debts;
(iv) Improvement in the Productivity of Public Expenditure;
(v) Transparency of Public Expenditure;
(vi) Safeguarding social equity and social justice through fiscal measures; and
(vii) Strengthening the institutional framework for democratic controls, accountability and monitoring in fiscal matters.

This Fiscal Covenant is a companion document to the Social Contract between the Government and Civil Society. A Draft Social Contract now exists. It is wide-ranging, yet focussed on economic development, good governance, and poverty reduction. The civil society organisations and the state officials in the National Economic and Social Development Council (NESDEC) are to be commended for producing a splendid document. The Draft Social Contract and the Draft Fiscal Covenant will be subjected to further consultations with civil society and will be brought to the House of Assembly for approval towards the
end of the first quarter of 2005. These two documents will constitute pillars of national consensus on public policy over the entire range of matters touching and concerning the economy and society. Those who stand askance from this process are likely to remain irrelevant by choice.

The government has been guided in its poverty reduction efforts by the Interim Poverty Reduction Strategy Report (I-PRSP) which was drafted in 2002 and finalised in 2003. The I-PRSP is a child of NESDEC and will be instrumental in driving the work of the Social Investment Fund (SIF) which was established legislatively in 2003 and which is now being funded with a pool of $12 million from the European Union to facilitate strategic interventions in the fight against poverty.

The secretariat at NESDEC has recently drafted an impressive document entitled Poverty Reduction in St. Vincent and the Grenadines, April 2001 to November 2004 which will shortly be published. It contains the very significant and extensive accomplishments of the Government and people of St. Vincent and the Grenadines in their war against poverty.

During 2005, Government will also be introducing an Insurance Scheme to cover all students against injury in the Schools. While there is an existing arrangement whereby students are responsible for their own coverage we found that there are many students without the requisite coverage particularly in the primary schools. We will give further details on the programme early in the New Year.

Mr. Speaker, as I speak to this Honourable House and nation, there is more work on-going in St. Vincent and the Grenadines on state-financed capital projects and other special employment generation projects than ever before. These include the following:

(i) Over 50 major capital projects, on-going;
(ii) Dozens of smaller projects or works;
(iii) The Special $7 million road rehabilitation programme; and
(iv) The Special Christmas work programme of $1.5 million.

All told, these Capital projects and special works programme are employing some 6,500 persons. Meanwhile, the Government, for the fourth successive year has put in place the duty-free concession for family barrels. This measure is of great help to hundreds of Vincentians, including the poor. This concession costs the revenue $600,000.00. Indeed, the revenue loss from this measure has been increasing every year. The general public looks forward to it. As Minister of Finance I cannot be a mean scrooge and deny the people this act of generosity at Christmas. It helps us all to be happy, especially the children and the elderly.
Mr. Speaker, the children and the elderly of this country hold a very special position in my heart and in the government’s policies. Accordingly, as of January 1, 2005, I am increasing the sum paid in public assistance. Those who are 65 years of age and over who are on public assistance will have their monthly payment increased from $110 to $125; and those who are below 65 years of age and are on public assistance will have their monthly payment increased from $100 to $110.

Those who are on the non-contributory aged pension from the NIS would be required to await the outcome of the next Actuarial Review of the NIS towards the end of the first quarter of next year, before knowing whether the same or a similar increase would be granted to them also. You know where my heart and mind are on this matter but like you, I await the Actuarial Review.

Last year, I gave all those who are on public assistance an extra $50 for their December payment. I am doing so again this year. This extra $50 was extended, too, to those who are on the non-contributory age-pension programme at NIS. They, too, will also get the extra $50 in their payment for December 2004. All told, there are 7,500 beneficiaries to this extra $50 in December. This will cost the revenue $375,000.

The public servants, teachers, nurses, policemen/women are very special to this government and this Prime Minister. I will never forget for as long as I live their voluntary self-sacrifice in the difficult weeks and months following the terrorist events in the USA on September 11, 2001, which affected our country’s economy so terribly. Their decision to accept voluntarily, a partial wage freeze for one year bonded me and my government to them more than they would ever know. To be sure, from time to time, there will be hiccups in our relationship and difficulties may sometimes arise. But the bedrock foundation cannot be shaken. I know that their employment situation is not always easy but life has never been universally easy. Still, this government has tried to do its best by you, the public servants, and we appreciate your efforts.

The government’s record speaks for itself:

(i) The implementation of the 100 per cent mortgage programme for public servants, teachers, nurses, and policemen/women. Hundreds have benefited from this measure.

(ii) University education is offered to central government employees in unprecedented numbers.

(iii) In December 2002, the central government employees received a 4 percent non-cumulative salary increase (a bonus), tax-free, costing the Treasury $6 million.

(iv) In 2002, the Teachers’ Union signed a Collective Agreement, which gave them huge benefits.
In December 2003, the public service employees requested a $200 bonus per employee and received $250, tax-free.

From January 1, 2004, the central government employees received a 4 percent salary increase.

Various categories of non-established workers received increased wages, more benefits and bonuses over these past three years. What more is there for a grateful nation to grant to its public employees?

First, from January 1, 2005, central government employees will receive a salary increase of 3 percent. This will cost the revenue $4 million. Secondly, the policemen/women will, from January 1, 2005, receive increased allowances costing a further $600,000. Other categories of public employees will conclude their negotiations on allowances next year. Thirdly, the Government plans to commence in an orderly way, the implementation of the Reclassification Exercise in the Public and Teaching services. Fourthly, the Reform of the Police Force will be a focus in 2005, consequent upon the submission of the Review Report. And fifthly, even though the government revenues have tightened somewhat in 2004, for the reasons outlined in the Estimates Debate last Wednesday, and earlier in this presentation, I am satisfied that we can afford another tax free bonus for December 2004. Accordingly, a bonus of $200, tax free, across the board to central government employees is hereby granted for December 2004. I am urging all public enterprises and the private sector to follow suit appropriately, in accordance with the employers' circumstances.

Mr. Speaker, by the year 2020, the 40,666 persons in St. Vincent and the Grenadines (SVG) who are now between the ages of 10 and 29 years will be between 26 and 45 years of age. They are going to be the bedrock of the society in 16 years time. As a group they will be the most productive in the society; and the bulk of leaders from the society of year 2020 will be drawn from them. They are thus very special; and, without going into details, we must ensure that this special group is well trained and their concerns addressed in every respect. Our country's future depends on what we do with, and for them now. The year 2020 provides a calendar sign post which can be twined easily with the reality, and the symbol, of a perfect 2020 vision. So, this government calls them the 2020 generation.

An immediate task therefore is to build, as far as is humanly possible, a 2020 generation with intellect, skills, aptitudes, vision, cultural awareness, spiritual gifts, energy and health, will and commitment, for living and production in this specifically located seascape and landscape known as St. Vincent and the Grenadines, a component of our Caribbean Civilisation, in the evolving years of the ultra-modern twenty first century.

The Education Revolution and more must mould the 2020-Generation properly towards a bundle of focussed objectives and developmental goals. This is
strategically imperative since they can be easily side-tracked into facile generational groupings imposed upon us from outside: the Pepsi Generation because of their consumerist tastes; or Generation X because of their sexual mores; or the MTV generation because of their musical/dancing affinities; or some such other grouping based on some spurious grounds.

In 2005, I personally will spearhead an effort to pull all the relevant persons and civil society organisations or entities to map a clear, focused path upon which the 2020-Generation will trod in practical terms. This is not a mere episodic programme for young people; it is a major thrust. We cannot afford to fail in this Herculean effort.

It is not that other age cohorts, be they middle-aged, elderly, 2030 generation or Early Childhood Generation, do not have their emphases, too. But let us today praise and proclaim, the centrality of the 2020 Generation to our nation’s future. It is a magnificent rubric under which to galvanise them and the nation to strategic ends, consonant with their interest.

In laying the basis for young people’s future, one strategic end is the more profound deepening of regional integration. The on-going quest to fashion an economic union and confederal political apparatus within an altered framework for the member countries of the Organization of Eastern Caribbean States (OECS) is worth pursuing vigorously. So, too are the efforts to build the Caribbean Single Market and Economy (CSME) within the Caribbean Community (CARICOM) by January 1, 2006. On the agenda, also, is the idea, the concept, currently being canvassed between the Prime Ministers of the Grenada, Trinidad and Tobago and St. Vincent and the Grenadines on the necessity and desirability of some workable kind of political union between these three (3) neighbouring Caribbean Countries. The case for such political union is unanswerably strong and it can be fashioned without subverting the other concentric circles of integration, namely the OECS and CARICOM. Clearly, though, this is a matter, which has to be thoroughly discussed with the people in each of the three (3) countries. In the case of St. Vincent and the Grenadines, it would have to be put, in time, to the people for their approval.

Mr. Speaker, in the 3 ¾ years so far of my Government, remarkable strides of progress have been made on every single front. When we came to office, the Gross Domestic Product (GDP) of St. Vincent and the Grenadines stood at EC$935.2 million. By the end of 2003, it had grown to EC$101.5 billion. And at the end of 2004 the GDP of St. Vincent and the Grenadines is estimated to be EC$1,089 Billion. Our economy has done better than the average for the Eastern Caribbean Currency Union (ECCU) countries. We inherited a country at the bottom rung of the economic ladder in the ECCU countries measured in terms of GDP per head of population.

In 2000, GDP per head in St. Vincent and the Grenadines was EC$6,812; in 2003, it was EC$7,871. Indeed, St. Vincent and the Grenadines is narrowing the gap
sharply between itself and the other member-countries of the ECCU measured in these terms.

So, as our nation faces another year of economic challenges, we are in a much better situation than hitherto to face them and meet them successfully. There is no magic to this. Simply put, hard work and smart work, focused leadership, sensible policies and a strong collective effort from all, will ensure success. Let us, therefore, get on with the job of securing sustainable economic growth without volatility, maintaining and strengthening fiscal prudence, and making accelerated progress towards achieving social justice in this period of external shocks. Let us continue to do all of this, Together Now.

THANK YOU!