



GOVERNMENT OF BARBADOS

# ECONOMIC AND FINANCIAL POLICIES

OF  
THE GOVERNMENT OF BARBADOS

PRESENTED BY

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MINISTER OF FINANCE

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## I. INTRODUCTION

It is my honour to present to the House of Assembly the Economic and Financial Policies of the Government of Barbados.

At the very outset, I feel the need to once again emphasise that the matters which I bring before Parliament today are not budgetary proposals, intended to raise revenue or to bear specifically on the public finances.

Rather they represent the principal economic and financial measures the Government proposes to deploy to steer the course of our economy and to further stimulate national development over the foreseeable future.

In that capacity, they must be seen as constituting the most recent but, nonetheless, an integral part of the 100% Bajan programme of economic adjustment which has been brought into play since 1998 to enable us to cope successfully with the dramatic changes in the economic forces that now bear upon the functioning of our society.

For the purpose of establishing a proper context, it is useful that we should remind ourselves of the nature and the dynamics of those economic forces to which I have referred.

The effort, which began in earnest in 1998, to implement Barbados' trade obligations under the Uruguay Round, as agreed in April 1994, ushered in an entirely new economic era in this country.

Simply put, it exposed our most fragile and hitherto protected sectors – agriculture and manufacturing – to the requirement, for the first time, of having to face international competition in and for their domestic market.

The consequences have been considerable, severe and still very much with us.

The completion, at that same time, of the final phase of the Caricom Common External Tariff which saw the top rate of duty on extra-regional imports reduced to 20%, also sharply increased the competition which our local producers now face from extra-regional imports.

Beginning too in 1998 our economic policy outlook had to be recast to treat to a new and unexpected challenge. During the previous two decades, the development of an international business and financial industry had been vigorously pursued as the most exciting and rewarding post Independence prospect for Barbados. It certainly emerged as our second largest and fastest area of economic growth. The scope for its further rapid development was abruptly constrained by the threat of the OECD Harmful Tax Competition Initiative, and thereafter by a series of initiatives, in the international arena, to stem the outsourcing of economic activity from the developed to the developing world.

We have, in the period since 1998, also have had to begin to make the adjustments to accommodate the coming into existence of the Caribbean Single Market and Economy and to anticipate our participation in the FTAA.

We have had also to come to terms, since 1998, with the reality of being graduated from borrowing on concessional terms from a traditionally important lending agency, and having to source much of our financing for development on the commercial, international market – and all that goes with it.

In addition, new and quite imposing risks and uncertainties arising from the effects and the fight against terrorism have now, as never before, to be taken into account in our policies and programmes to spur the development of our tourism and hospitality industry.

And amidst all of this, we have been put to the test of finding a new competitive position in an evolving global economy which is predominantly being shaped by extraordinary changes in information and communication technology. In response, we have had to make radical changes to our education and training policies and programmes, in the way in which we facilitate the conduct of business and indeed to our very conception as to what constitutes business and work in today's world.

The coming together, at virtually the same time of all of these intensely challenging new economic circumstances, all of which make sharply more competitive the environment within which our national economy and its enterprises function, has imposed on us the obligation to conceive and to satisfactorily implement the largest and most far reaching programme of economic adjustment ever required of us in Barbados.

You must allow me to set out the main dimensions of this adjustment as simply as possible.

Trade liberalization, on the scale with which we have to grapple, involves the removal and/or reduction of duties on regional and extra-regional imports. It therefore required that we reduce our dependence on taxation on trade and substitute it with taxes on consumption. Much of that adjustment has been achieved by the reform of our indirect taxation system and the introduction of a VAT.

Secondly, operating in a liberalized world brings with it the obligation to carry out a massive restructuring of the country's production system in two respects.

First, the removal of licences, quotas and other instruments of protecting domestic industries means that such industries have either to restructure themselves to meet regional and international competition or face the prospect of being driven out of business.

Secondly, the new move internationally towards reciprocal rather than preferential trade arrangements means that industries in agriculture and manufacturing whose

place in international markets was secured by such preferential trade arrangements have to make a massive adjustment in order to survive.

I wish that this was only economic theory! The facts, however, are that our sugar industry which depended heavily on preferential terms of engagement in the European Market, now functions in an environment in which that market protocol is being challenged in the WTO by Brazil and Australia. To make matters worse, the European Union, in response to WTO obligations to reform its own agricultural support policy, now proposes to cut the price it pays for our sugar by 37% over the next two years.

The third major adjustment has to do with Corporate restructuring. The combination of having to be part of the CSME and to operate in a world where WTO rates apply, means that our enterprises, most of which are small, undercapitalized and technologically underdeveloped, have to compete in the same economic space, with few forms of protection, with some of the largest and most technologically dynamic and properly capitalized firms in the world. To do so, they must continually reform their operations, and engage in new techniques of corporate consolidation and restructuring on a scale never before contemplated.

Further, in the age of liberalization, the State itself has had to undertake major reform of how it does its business, and how it facilitates the conduct of business in the wider society.

In our own case, it has involved the dismantling of price controls, reform of State monopolies, new initiatives by the State to create a virtual market place through the establishment of the Fair Trading Commission, telecommunications reform, new competition policy, new policy regimes pertaining to insolvency to enable businesses, facing challenging times, to restructure themselves. It has required us to institute new arrangements for setting and enforcing standards.

The State has also had to institute new supervisory and regulatory arrangements, particularly in the sphere of the regulation of the financial sector, in the fight against money laundering, in the effort to contribute to the international fight against terrorism, and against crime and violence that test its financial capabilities and stretch its human resources.

In today's liberalised world, the State is therefore increasingly being drawn into functions that are more complex, very expensive and which test to the hilt its institutional, human and other capabilities.

Finally, there is a new, massive cultural adjustment with which we have constantly to contend at a considerable social and economic cost.

Globalisation has essentially involved the universal spread of certain variants of western civilization. The world is being made safe for the domination of McDonalds, Mickey Mouse and Michael Jordan as its principal icons.

International brands in respect of products and production systems are rapidly gaining ascendancy, greatly influencing how people live, what they eat, how they dress and the forms in which they enjoy leisure. Exposure to such new cultural norms and icons is pre-disposing countries to replace indigenous forms of production and consumption with a preference for things foreign, and with it a predilection to live above their means.

Mr. Speaker, managing fundamental change across such a wide spectrum of economic, social and cultural spheres is unprecedented for us.

The hallmarks of managing a small economy are that the scope for adjustment is small, the range of options is limited, but the potential for catastrophic failure is vast.

It bears reflection that everything we have sought to develop, over the past 50 years, could have been effaced in one day had Ivan struck Barbados rather than Grenada.

The scope of economic adjustment which we have to undertake has altered our agenda for economic management and development in two material respects.

In the first, it has caused us to transform the means and policies by which we seek to achieve sustained and sustainable development. It is still our judgement that with our population growing at less than 1% per year, a sustained growth rate of real GDP of approximately 3% per year will enable us to meet the existing needs of our society, improve the standard of living, and mount a substantial assault on the scourge of poverty and unemployment. The means by which a 3% real growth in the economy is achieved, however, has constantly to be adjusted in the light of changing circumstances.

The second material consideration is that the Barbados economy has to be put now permanently in a reform mode. It has to be able to respond immediately as new risks and uncertainties arise in the global economy, as new obligations arise from

regional, hemispheric or global trade and economic negotiations, and as technology changes. This is what is referred to as Economic Repositioning.

Since 1998, we have sought each year to introduce new means by which to support sustained and sustainable growth and development while repositioning the Barbados economy.

At the core of this has been the implementation of a programme of trade, economic and financial liberalization. The practice of liberalization can make economies such as ours far more competitive. It can also make them more vulnerable and prone to instability.

We are now in a position to evaluate the effects such liberalization can and has had on our economy, and to make such timely adjustments as are warranted to make our future successful.

This constitutes the principal focus of today's presentation. It is to this that I now turn in evaluating our most recent economic, financial and fiscal performance, the options with which we have to deal and the preferred course we should follow.

## II. ECONOMIC REVIEW AND OBJECTIVES

Despite the enormity of the challenges with which it has had to grapple, the economy has recently, on balance, exhibited a relatively solid performance.

The real economic growth, which resumed in the latter half of 2002 continued in 2003 where a growth rate of 2% was realized. For 2004, it was originally projected that growth in the order of 2.5% would follow. However, for the 9 months of 2004 it is estimated that real GDP in Barbados expanded by 2.9%; somewhat faster than the original projection, and in keeping with the sustainable rate of growth at which we would wish the economy to expand. It is now also projected that in the next year our economy will continue to grow at about 3%. The evidence therefore points to the fact that we have succeeded in putting our economy back on its path of sustainable growth.

The resurgence in real economic growth over this period was due in large measure to the very strong performance of the tourism industry, as was reflected in the 8.8% increase in long stay visitors, and a 25% increase in cruise ship passengers.

The Distribution Sector and the other Services Sectors which grew by around 4% in 2003, continued their expansion, rising by an estimated 3.7% and 3% respectively in 2004.

A resurgence in activity was also reflected in the performance of the international business and financial sector where, in both 2003 and for the first 9 months of 2004, the number of new licences granted were approximately 10% more than in 2002 and the comparable period in 2003.

The manufacturing and agricultural sectors, where the full force of trade liberalization has been felt, however exhibited a less encouraging performance. Overall, manufacturing output fell marginally in 2003 and was virtually flat in the first 9 months of 2004. The performance of the agricultural sector was mixed with sub sectors such as livestock and poultry production reflecting a strong buoyancy and an encouraging capacity to respond to incentives and to local demand. Sugar production in particular continued its downward trend.

The general improvement in economic activity was predominantly reflected in the labour market. The rate of unemployment for the second and third quarters of 2004 returned to below 10% of the labour force, a reduction of almost two

percentage points below the rates for the corresponding period in 2003. It is especially satisfying that the rate of unemployment for women has been falling at a faster rate than has historically been the case.

In addition, overall retail price inflation remained relatively low throughout 2003 and in the first seven months of 2004. For 2003, retail price inflation was estimated at 1.6%, owing largely to higher food and fuel prices. The rate has since stabilized at around 1% over the 12 month period ending July 2004.

Mr. Speaker, in accordance with Section 12 of the Financial Administration and Audit Act, the Report of the Accountant General containing the Financial Statement for the fiscal year ending March 31<sup>st</sup>, 2004 has already been laid in Parliament.

I am pleased to report that, commensurate with the general improvement in the economy has come a considerable improvement in the state of our public finances.

The House will recall that for the fiscal year 2002-2003 an overall fiscal deficit equivalent to 5.4% of GDP was recorded. Such a deficit was incurred as part of the general policy to bring the economy out of recession at the earliest opportunity.

But it was twice as large as the deficit, 2.5% of GDP, which the Government judges to be sustainable.

The fiscal outturn for the year ending March 2004 reflected an increase in current revenue of 8.7% while total expenditure increased by only 3.6% giving rise to an overall fiscal deficit of 2.5% of GDP. In the same manner that we have returned to a more sustainable path for the general economy, we have returned to a sustainable posture in our public finances. This is borne out in the fiscal outturn for this fiscal year as well.

The 2004/2005 Estimates of Revenue and Expenditure were approved by Parliament in March 2004 and were formulated to achieve a fiscal deficit of 2.9% of GDP at market prices.

The Estimates projected current revenue of \$1,940.7 million, current expenditure excluding amortization of \$1,839.6 million and capital expenditure of \$263.4 million giving a fiscal deficit of \$162.3 million.

Current revenue for the first half of fiscal year 2004/2005 was \$824.6 million, an increase of 4.1% over the amount collected for the same period last year.

Current expenditure less amortization was \$868.0 million, an amount of \$22.2 million or 2.6% above that recorded for the corresponding period last year. On the other hand, capital expenditure was \$72.8 million, \$24.9 million or 25.5% less than for the corresponding period of 2003/2004.

It is expected that the fiscal performance for the second half of the year will be on par with the first half of the year. It is therefore projected that current revenue collected for the current fiscal year will be in line with the amount approved in the Estimates in March of this year.

Current expenditure is however projected to be \$1,831.4 million during 2004/2005. This is 0.3% less than the amount approved for the year while capital expenditure is expected to be 7.5% less than approved for the year.

Based on these projections, it is expected that the fiscal deficit for 2004/2005 will be 2.6% of GDP, comparing favourably with the fiscal deficit of 2.5% recorded for 2003/2004 and in keeping with the target we have set.

Because we have raised no new local nor foreign loans to support Government's operations, we experienced some difficulties managing Government's cash flow position in recent months. Arrangements have however now been put in place to enable the Government to tap the excess local liquidity to meet our deficit and to enable us to carry forward all aspects of our public finances in good order.

The aspect of the functioning of the economy to which I especially wish to focus attention, insofar as it has inspired much of the new policies which will be announced today, pertain to our external trade and international reserves position.

As mentioned earlier, over the past 5 years, a strategy of accelerated trade and financial liberalization has been embarked upon in Barbados, in part out of compliance with our commitments under the WTO, and in large measure in preparation for our participation in the liberalized regional and international environment.

The House is aware that the major forms this process of liberalization has assumed have been the removal of most non-tariff barriers, the reduction in import duties under the CET, the phased liberalization of exchange controls, all supported by

deliberate actions to accelerate the process of tax reduction in order to increase the disposable incomes of consumers, and to encourage private sector activity but above all to make Barbados more competitive as a location for production on the regional stage.

This strategy of liberalization, though necessary in today's world, has not been without its costs.

The figures, gathered over a long enough period to signify a structural trend, now indicate that Barbados is consuming imports at a faster rate than we can generate earnings of exports from travel, and merchandise exports of manufactured products, sugar and other agriculture.

As a result, over the 5 year period ended in 2003, Barbados' current account on the balance of payments averaged approximately 5.8% of GDP, compared to an average of around 1.8% during the previous five years when we were engaged in a less intense process of liberalization.

An external current account deficit of such a magnitude is similar in scale to that recorded by the USA. The USA can however pay for its imports by the use of its

own currency. We cannot. Hence, as a general rule of thumb, external account deficits above the 5% level are considered to be unsustainable in our type of economy.

In addition, in the first 9 months of this year, the deficit on the trade account increased to \$256.6 million. This was \$69.1 million above the figure for the corresponding period a year ago; as a significant expansion in retained imports outweighed increased earnings from tourism, and moderate improvements in receipts from merchandise exports. To be precise, the value of retained imports surged by 13.3%, while the growth rate of domestic merchandise exports was around 3.3%.

Such a trade performance came to be reflected in the country's foreign exchange reserves position. For the first nine months the country's net international reserves, including the reserves of the Central Bank and those of the banking system moved from \$2.29 billion to \$2.009 billion.

It is important to grasp the significance for policy purposes that our net foreign exchange reserves held by the Central Bank and the Banking system continue to be

in the vicinity of \$2 Billion – almost twice the amount regarded as being required as a safety net.

For the sake of comparison, and to give true significance to the statistic, in November 1991 at the height of a previous period of balance of payments turbulence, the country's net international reserves stood at - \$2.6 million, with that of the Central Bank amounting to - \$38.1 million.

Our present situation therefore signifies that in absolute and relative terms there is no crisis in our foreign exchange reserves. It is clear however that trade and financial liberalization is having an adverse impact on the Barbados economy, and we must move to significantly address this development.

Indeed, in much the same way that the fiscal deficit of 5% of GDP was regarded as being unsustainable for Barbados, so too is a deficit in our external trade balance of over 5% of GDP.

The immediate task on which we must be engaged is to correct the instability in our external trade position.

And it is here that judgments have to be exercised as regards the best and most practical way forward.

Given the strong and healthy state of our foreign exchange reserves, it is our judgement that there is no need to reduce the growth of our economy or compress demand, by reducing disposable incomes, nor to ban imports nor to reverse the tax reduction programme which is to be implemented by 2007. Our international and regional treaty obligations also do not afford us any scope to reverse the process of liberalization that has been set in train since 1998.

It is therefore our judgment that the most feasible and productive approach is to pursue a process of selective stimulation of the economy to further diversify our export base, and to enlarge domestic production of some of the consumer goods that Barbados is now importing in abundance.

On the latter matter, while we do not envision that the agricultural or manufacturing sectors can immediately add significantly to the earning of foreign exchange, it is clear that activity in these sectors can be better tailored to replace some of the commodities we are now importing for consumption.

As regards our export thrust, it is critical that we do not overextend our dependence on the fortunes of our tourism industry. We need therefore to stimulate the development of new spheres of export service activities, especially in areas where we have the institutional and human resource capacity to do so. We need especially to broaden the scope of our international business and services sector to support the emergence of new lines of non-financial services as the main growth areas for the future.

In this regard, we need therefore to engender a new culture of service excellence in Barbados. We need to rapidly advance the enabling environment that supports new business activity which is designed to expand production aimed at reducing imports and increasing exports. We especially need to accelerate the national effort to build new productive capacity and to carry out institutional reform to foster a stronger export culture in Barbados. Since we cannot indefinitely live above our means, to support the improvement in the standard of living which we want for all Barbadians, we now have to engage in the most creative ways of ensuring that our means are continually being expanded.

The policies which I am about to announce address themselves to these imperatives.

### III MAJOR INSTITUTIONAL AND MACRO- ECONOMIC ADJUSTMENTS

Government proposes to meet the principal challenge facing the economy, and to bring about further economic and national development by introducing new measures principally to bring about institutional change, to build productive capacity, and to create a vastly improved enabling business environment.

These new measures now to be announced should be regarded as being complimentary to those announced in a previous presentation and conceived then as being part of a medium-term programme to be implemented over a number of years.

Critical in this respect is the programme of tax reform to make our tax rates among the most competitive in the Caribbean by 2006. That programme remains in place.

So too does the programme to reform the social security system by 2007.

The five year programme to develop cultural industries and the creative economy, and to rehabilitate the Scotland District as a major producer of non-traditional output also remains in place.

In a previous presentation I outlined the main elements of our trade policy, including safeguard mechanisms to provide protection to our manufacturing and agricultural sectors. Those measures, too, will be continued. So too will the measures to strengthen our standards setting and enforcement institutions.

1. **National Initiative for Service Excellence**

The principal new measure through which we propose to induce far reaching reform of the Barbados economy is the implementation of NISE. Barbados has little choice but to embrace liberalization and the rapid technological changes that are fundamentally reshaping the global landscape. One of the implications of such an engagement is beyond dispute. It is that competitiveness which will constitute the only basis on which we will be able to secure a comfortable and consistent niche in the globalizing market.

In that global market, product and service differentiations are being quickly eroded and, consequently, the ability to meet and exceed customer expectations is assuming a critical dimension in setting an organization, and indeed a country, apart from the others.

Service delivery has therefore assumed very significant proportions in the efforts of countries to achieve and maintain a competitive margin in the global business environment.

The National Initiative for Service Excellence has therefore been conceived and embarked upon by the social partners to move Barbados towards world class excellence in the delivery of service. But it is an effort that will require the engagement and support of the entire population.

The Initiative, as currently developed, consists of a number of core components which, collectively, will provide the foundation that will support our efforts to reach the best international standard of service excellence.

These core components embrace research, the development of service excellence standards and mechanisms for measuring service delivery, training and public education and awareness.

I will now provide a more detailed picture of the content and orientation of these core elements of the Initiative.

### **Research**

Currently, there is only anecdotal evidence on the quality of service delivery in Barbados. The Initiative will rectify this situation through the gathering of empirical information on the nature, causes and effects of the perceived customer service delivery deficiencies. The research work will produce customer satisfaction surveys and analyses, identify and update the views on service delivery and undertake assessments of marketing programmes.

### **The Development and Measurement of Service Excellence Standards**

The second component of the programme will develop the range of standards that must be in place for Barbados to attain the status of being a world class provider of

service. This will be undertaken through the development and implementation of customer satisfaction strategies and the design of service excellence drivers for all organizations and groups. Under this component, the measurement of the progress towards world class delivery of service will be undertaken.

## **Training**

The implementation of service quality training across all major sectors of the economy is a vital component of this Initiative. This will be undertaken through the development of a cadre of **Customer Service Excellence Trainers** who will conduct training across the country, promoting service excellence ethics.

Teachers, Unions, Private Sector and Civil Society Organisations, the Churches and the University of the West Indies will be crucial players in mounting and sustaining of this training element.

## **Public Education and Awareness**

Since the development of world class service delivery is the business of every Barbadian, it is vital to build awareness, generate interest and inspire action relative to service excellence within the entire population. Public education and

awareness – undertaken through organized public discussions, the sponsorship of annual weeks of excellence, the dissemination of information through the print and electronic media and the internet – will be a significant component of the Initiative.

### **Benefits of the National Initiative for Service Excellence**

Moving towards a culture of service excellence will bring substantial benefits to customers, employers, employees and the nation as a whole.

**Customers** can expect improved service, better quality goods and services, lower prices, improved value for money, greater customer satisfaction and an improved quality of life.

**Employers** will be able to generate more repeat business, benefit from premium prices, achieve greater productivity and profitability and realize sustainable business.

**Employees** will derive greater security of employment, greater income, particularly performance-related income, improved self-esteem and better working conditions.

**The nation** as a whole will receive immeasurable benefits from this Initiative.

There will be improved national growth and stability; Barbados will be branded as a place of international excellence; export competitiveness will be enhanced; more jobs will be created for Barbadians and there will be a very positive shift in the social profile of our country.

Because of the wide reach of its potential benefits, the National Initiative for Service Excellence has attracted the tripartite embrace of the Government, the Private Sector and Labour. These social partners, philosophically committed to the need to move Barbados to the forefront of countries providing excellent service, have worked together to conceptualise and design the Initiative.

Our hands will remain firmly joined to ensure a successful implementation. We will be joined by non-governmental organizations, churches, schools, the University of the West Indies and other institutions of learning, and, indeed, the entire population, to give a truly national dimension to this all important programme.

The Government is fully committed to this Initiative and has joined with the other two social partners in signing the Declaration of the National Initiative for Service Excellence. And it has committed BDS\$1.5 million to assist in its implementation and operation of the Initiative over the next three years.

Let me repeat. In order to achieve a competitive edge in this global village we must educate, train, rally and persuade the citizens to provide excellent service. This must be every Barbadian's business and duty.

Today, I wish to invite the Leader of the Opposition to join me as the National Co-Champion for NISE, and encourage all members of Parliament to become Champions of the Initiative.

ii      **Export Barbados Inc.**

Barbados is one of the few countries in the world which faces a foreign exchange constraint to its national development, but which does not have a specialized institution to conceive of export promotion and development policies and programmes and to oversee the implementation of initiatives to constantly seek and exploit new export market opportunities.

There was formerly an Export Promotion Corporation. Ironically, that Corporation was closed by the DLP administration in the early 1990's as part of its IMF inspired response to the Balance of Payments crisis of the day.

The export development function has subsequently been subsumed in the work of the Barbados Investment Development Corporation.

It is our judgment that this was a major strategic and institutional error insofar as it has caused the function of export development and promotion to be marginalized.

It is difficult to dissociate the relatively indifferent export performance from this strategic mistake . We therefore now propose to correct it.

It is therefore now proposed that a new institution, Export Barbados Inc. be created to spearhead our initiatives to develop and to promote our exports.

The institution will have the capacity to formulate export promotion and development policies, to carry out market research, to prescribe appropriate incentives and other stimuli for export development, and to work with producers

mainly in the agricultural manufacturing and small business sector to find and exploit niche markets for Barbadian products. It will also be so structured to be able to work with the Barbadian community abroad to meet its demand for local products and to generally oversee the development of an export culture in our nation and the building of new distribution networks for Barbadian products abroad.

Resources will be provided immediately to support the studies and other planning requirements to bring Export Barbados Inc. into operation at the earliest possible opportunity.

iii **Telecommunications Liberalisation**

The liberalization of the telecommunication industry is as urgent today as when the programme was first announced in 1998.

The provision of the most modern and technologically sophisticated facilities in their sphere at internationally competitive prices, underpin our effort to develop all of our international business, financial and services sectors. It will make an enormous difference to the viability of the tourism industry. Indeed, every

economic agent in Barbados stands to benefit. Thousands of new jobs, and the largest proportion of our capacity to generate foreign exchange hang on the successful completion of this process of liberalisation.

The House is aware that the process of liberalisation is presided over by the Fair Trading Commission. The Ministry's concerned role is restricted to the specification of general policy, especially to ensure the implementation of Government's best endeavour and commitments as specified in the Memorandum of Understanding with Cable and Wireless, under which that Company's exclusive monopoly privileges are being brought to an end 7 years in advance of schedule.

The liberation was intended to be undertaken in 3 phases.

We are now at Phase II and are reaping benefits from the progress achieved so far. There are tangible employment gains in the area of Customer Premises Equipment.

Barbadians are also gaining significant technological skills and awareness through the use of state-of-the art equipment employed across the world.

Barbados is also poised to take advantage of the benefits deriving from the newer technologies, including the high bandwidth services that are emerging.

Approval by Cabinet was recently given for the landing of submarine cables into Barbados as well as licences for fixed wireless networks.

We had intended to liberalise the international market under Phase III on August 1<sup>st</sup>, 2004. Under Phase III, Cable and Wireless should surrender the international licences. This is on the condition that a cost-oriented pricing approach towards the setting of domestic rates is accepted as a pre-condition – the principles of which are to be set by the Fair Trading Commission.

It is envisaged that any further delays in the liberalization of the international market will have substantial negative impact on the potential growth of the economy over the next few years.

It is now proposed that Phase III is to be started from a date following the current review of Cable & Wireless (Barbados) Limited domestic rates being undertaken

by the Fair Trading Commission. The date for the start of Phase III is now forecast to be January 15<sup>th</sup>, 2005 but not later than January 31<sup>st</sup>, 2005.

We expect the full cooperation of the Fair Trading Commission and Cable and Wireless in meeting this new and final deadline.

Failing that, the Government of Barbados proposes to take such action as is in the country's best interest to have the issue of international licences begin not later than January 31<sup>st</sup>, 2005.

iv **E-Government and Business Facilitation**

It is a legitimate criticism that the bureaucratic processes which obtain in much of the public sector are slow, unwieldy and impose a burden on entities which depend on actions by the State to carry out their own business.

We can therefore significantly improve the climate surrounding the conduct of business in Barbados by fundamentally changing the way in which the Government does its own business and the speed at which it makes decisions affecting private entities.

Already Government has undertaken a number of projects, utilizing information and communications technology geared at improving its operations and the delivery of its services to its customers.

Some of these initiatives include – **Smartstream**, **EEPS** (The Enabling Environment for Private Sector Investment) and **ASYCUDA** (Automated Systems for Customs Data).

**Smartstream** is the computerization of Government's financial and human resource management system. It has resulted in better management of Government's financial procurement and payment processes and greater control in the recruitment and personnel development functions.

**EEPSI** is a project geared at improving Government's performance in promoting and facilitating private sector investment by linking approximately 15 ministries and departments to make it easier to collaborate and share common information.

Through the **ASYCUD** project, the Customs Department is now in a position to facilitate full electronic document processing. The impact on the cost and ease of doing business in Barbados will be significant.

We need to accelerate our e-government programme with a view to streamlining of processes, increase employee productivity, and permit greater interaction with the public and the provision of services 24 hours a day.

One such critical, new initiative will be the Barbados Integrated Portal Project, an initiative by the Data Processing Department to provide an electronic gateway to the services, information and knowledge contained in the public sector. The Government portal, which is one of the key pillars of electronic government, will now be implemented in phases. A pilot phase has been implemented primarily to demonstrate the concept, value benefits and functionality of a portal.

On completion, the portal will enhance Government's operations making it more effective and efficient while providing the public easier access to its services 24 hours a day.

One of the first services that will be provided on-line to the public will be the renewal of driver licences. It is the intension of the Data Processing Department to have this facility in place in early 2005

### **Further Initiatives**

To drive the e-government programme, Government will establish a new entity entitled the Central Information Management Agency which will incorporate the Data Processing Department, and will be responsible for the development of ICT strategies, policies and programmes geared at delivering governmental services through the use of information and communication technology.

The new Programme will make possible:

- The development of a high-speed wide-area-network linking all major government offices to speed up the flow of information between government agencies.

- The outfitting of our Post Offices to accommodate bill payments, including drivers licences, land taxes etc.
- All courts will be connected electronically.
- User forms like passport applications; liquor licence applications; income tax forms and all other user forms will be accessible on-line.
- Legal fraternity will be able to conduct searches in the land registry database to speed up the time taken to have searches completed.
- Government economic reports and other information will be made accessible on-line.

In addition, following the introduction of machine readable passports, the Immigration Department will be moving by 2007 to have real-time entry of information at the ports of entry. This will allow the Police to have real time access to those entry ports to better manage the security challenges consequential to CSME and the World Cup in 2007.

## **Facilitation**

Mr. Speaker, tax administrations around the world have introduced on-line systems to facilitate tax filing and payments by taxpayers.

There are several areas where increased automation and the introduction of current tax administration “Best Practices” would significantly improve the efficiency and effectiveness of the Inland Revenue Department to the benefit of those who have to use its facilities.

Sir, against this background it is the intention of the Government to introduce a system that utilises the new technology to facilitate more timely processing of payments and returns by the Inland Revenue Department. This system which utilizes web based technology, will consist of four main components:

- ◇ **An Electronic Filing System**
- ◇ **An On line Transaction Processing system**
- ◇ **A Document and Workflow Management System; and**
- ◇ **A Decision Support System**

Citizens and businesses will be able to file and pay taxes electronically thus saving much time and the cost of travelling to that agency, while the Department will save on the cost of paper and the time taken to process transactions.

In addition, the new system will allow the Department to act as a collection agency for other Government tax agencies thus facilitating one stop shopping and saving time.

Mr. Speaker it is estimated that the investment in the automated system will cost the Government approximately Bds\$5.1M over an 18 month period.

With the implementation of this system, Barbados will have one of the most modern tax administrations in the English speaking Caribbean.

## **Land Registry**

Mr. Speaker, since 1988, sporadic attempts have been made nationally to register land. It is now imperative that we modernise the Land Registry Department and re-double our efforts to complete national land registration in a timely manner.

My Government firmly believes that transaction costs associated with land ownership must be further reduced. Steps have already been taken to reform Property Transfer Taxes

My Government is, therefore, committed to making resources available to ensure that the Land Registration Project is brought to a satisfactory conclusion by the end of the first decade of the twenty-first century. To this end, officials from the UK Land Registry will be visiting Barbados within the first quarter of next year to review our operations and make recommendations on the appropriate staffing, training and information technology requirements necessary for a modern, efficient, fully computerised Land Registry in this country. The cost of this initial component will be \$100,000 and will be required before the end of the financial year. This is key to ensuring that all land in Barbados is registered by 2010.

It is important to note that once these critical investments have been made and this objective achieved, the fees paid by purchasers and vendors will automatically be reduced by two thirds and one thirds respectively. Members of the public and investors could expect to benefit from a reduction in commitment fees, while financial institutions should be able to make more efficient use of their funds as a result of a more efficient process.

The task of increasing efficiency and reducing the transactional costs to land is critical to our economy being as competitive as possible as we meet the increased competition within the CSME.

### **Title Deeds**

My Government will also be making the necessary legislative changes to ensure that persons who find themselves without title deeds to land for bona fide reasons will no longer be disadvantaged. These changes will apply equally to persons whose land may have been passed from one generation to another without deeds, (that is seed to seed), persons who have lost their title deeds or those who have acquired the rights of adverse possession. It is the Government's intention to introduce a simplified process through which the title to the land may be vested in

them. No longer will people be held hostage to the vagaries of a legal fiction which may be vulnerable to fraud. Early in the New Year, we will introduce the proposed legislative changes based on consultations between the Office of the Attorney General, the Barbados Bar Association and the Judicial Council..

### **Judicial Sector**

It is estimated that the judicial sector's activities affect as much as 15% of the GDP in any year. Cognisant of the critical importance of a well functioning justice sector, in the next year, new Rules of the Supreme Court will be introduced to allow for greater efficiency in case management by the Court. This should result in speedier trials, reducing costs, not only to the Crown, but also to the public, particularly the poor who often bear a disproportionate share of these costs. A more efficient Court system will also increase access to justice for all, including investors who invariably consider if a jurisdiction has a stable, predictable and efficient justice sector before making their decision to invest. The training for both members of the Bench and the Bar will be expanded in 2005.

Barbados' competitive advantage lies in the Services Sector, both in the ability to attract high end service providers to our shores and in the export of our services

regionally and internationally. It is incumbent on us, therefore, to continue to upgrade the legislative framework to ensure the continued growth and development of all elements of this sector. To this end, my Government intends to reform the Legal Profession Act in the next year so that the legislative framework is more appropriate to the practice of law in the early twenty-first century both domestically and regionally.

In addition, my Government proposes to introduce a Limited Liability Partnerships Bill which will be of significant benefit to members of the legal profession as well as accountants. This will allow partnerships to be insulated from the liability of one partner such that the enterprise will not fail. I will expand on this matter further when I present proposals relative to the development of international business.

These measures are both deemed necessary to treat to repositioning some of the professions which may benefit from our entry into the Caribbean Single Market and Economy.

Mr. Speaker, the management of Public Sector Reform as a tool of economic change is constrained by the fact that the standards and requirements that must be

met to ensure accountability, transparency and propriety in the conduct of public affairs are accompanied by full records, the honouring of obligations in respect of the terms and conditions of the State's employees and processes that have to be followed in relation to matters such as discipline, promotion and appointments.

At long last, a new Public Services Bill is ready to bring our practices in these spheres into the modern world.

The Government proposes to go as far as possible, as fast as possible in creating a more efficient and productive public sector, and a more enabling environment for the conduct of economic activity.

The rest of the world is open for business 24 hours a day. We will fall behind if we do not do likewise.

There are still substantial parts of our economy - the BWA, sections of the Airport, the Distributive Sector and our service agencies - where there is now a need for a change in the culture to accommodate more flexible working conditions.

It is proposed that a Special Consultation should be convened on this, with a view to having a programme ready for implementation by April 1, 2005.

v     **Overcoming Gridlock**

It would be a form of folly to suggest that the congestion on our highways is not a major social and economic irritant and is not contributing to a loss of productivity.

Various reasons have been advanced to account for the problem. The facts are Mr. Speaker, that in 1970 there were 15,800 registered vehicles in Barbados. By 1995, some 25 years, later these had increased by 39,870 to 55,670, but less than 10 years later by November 2004 there were 106,335 registered vehicles in this country, some 50,665 more than there were in 1995.

In arriving at the resolution of our traffic problem it became quite apparent that a country, which is already among the top ten countries with regard to roadways per square mile, cannot simply build itself out of the congestion it is experiencing.

We, however, can make the existing networks more efficient by implementing a variety of traffic management measures to clear major routes quickly.

We have determined that there must be a major investment, immediately, in expanding our highway capacity. It is therefore proposed that we create this additional capacity to the existing road network by way of new overpasses at 7 to 9 junctions along the ABC Highway. Cabinet has agreed to the building of these overpasses, with the work to be undertaken under a BOLT arrangement and to be concluded by 2006 at a cost of US\$50 million.

We confidently expect, Mr. Speaker, that upgrading the existing signals to a central computer controlled system will also provide a dramatic improvement in traffic management in urban and suburban Barbados. Such a system can successfully deal with demand fluctuations more so than further urban road construction.

The system will, among other things, allow for the coordination of traffic signals; variation in their timings in response to changing traffic patterns and facilitate the passage of emergency vehicles.

Other issues still engaging our attention, Mr. Speaker, include measures to encourage the use of an improved public transport service. We have undertaken the responsibility to fund the fleet acquisition costs of the Board and since 1997 have provided it with 240 new buses.

Consideration is presently being given to representation from the Board for further additions to its fleet size in a phased manner. Such an increase, together with the return to service of those currently off the road, will allow the Transport Board to add to its revenue by re-establishing its short haul service, better cater to the school population and facilitate the park and ride plans for the 2007 World Cup.

To assist the Board with its plan, the Ministry of Finance already has provided it with access to an additional \$5 million in short term financing and is examining increasing its current subvention which presently stands at \$5 million annually. We fully expect its cost containment and other revenue raising measures along with the increased subsidy to put the Board in a position where its on road fleet will be delivering the kind of service of which its users are deserving.

Government also proposes to fully support the implementation of the Park and Ride option as an element of the solution to the traffic congestion problem. The concept was tried successfully during the recent English Cricket tour when patrons got to their destination on time with less frustration and with minimal travel disruption to other road users.

Our analyses suggest that the same concept can be utilized on a general basis on the outskirts of Bridgetown from the centres at –

Hothersal Pasture

The National Stadium car park

The Flour Mill site

The Garfield Sobers Sports Complex

It is accepted that a safe and reliable bus transportation system is fundamental to the success of this concept. Therefore, meetings will be held with the private sector and the Transport Board to determine the number of buses necessary to introduce the system and the other mechanics of its operations to bring it into existence as a public/private sector partnership.

## IV MAJOR SECTORAL INITIATIVES

I turn now to initiatives to further develop our productive sector.

### **i      Agriculture**

Recent experience has shown that significant increases in food crop and livestock production can be induced through the granting of appropriate incentives. There is

even greater requirement that the Government should sustain its recent efforts to support the large scale reform that this sector has to undertake to cope with trade liberalisation.

The recent incentives provided to the sector and those to be presented today are contained in an appendix for easy reference. I will spell out only those that involve major sums.

The additional incentives that we intend to bring to bear are to enable it to:

1. Through increased domestic production, meet a greater portion of domestic demand for selected commodities, where demand has been growing but output has been falling.
2. Enable the sector to upgrade its technology and attract new investment especially in non traditional areas of production.
3. Allow the sector to continue export diversification and reform of the traditional export sector

## **Beef and Dairy**

Within the recent past, the number of beef and dairy animals in Barbados has declined. This is particularly so for beef. Mr. Speaker, it is our understanding that there is an emerging market for beef in the hotel and supermarket sectors, estimated at one thousand (1 000) heads of cattle per year.

Mr. Speaker, dairy production in 2003 declined by approximately one million kg. If we are to meet the demand for milk in the school system, as well as the emerging market for milk in other Caribbean states being developed by the Pine Hill Dairy, it will be necessary to expand production. It is estimated that the industry will need to increase production to about two thousand (2 000) animals in order to meet demand.

**We propose that a rebate of 50% of the cost of approved embryos, up to a maximum of \$5,000 per farmer and \$20,000 per farmers' organisation, per year, be provided for beef and dairy farmers who undertake embryo transfers.**

**We also propose that a rebate of 30%, up to a maximum of \$100,000 be provided to cooperatives or partnerships of dairy farmers that establish a common milk parlour. For the purposes of accessing this incentive, a partnership must comprise a minimum of eleven (11) persons.**

**As an expansion of the 100% Bajan Initiative, and based on the success of the pilot of local fresh milk into 13 schools in St. Michael, Government will work with the pine Hill dairy and the milk producers to expand the programme to all primary schools across Barbados.**

**The Use of Greenhouses or Hydroponics Systems by  
Cooperatives or Partnerships**

It appears that the use of Greenhouses or Hydroponic systems is an important means by which a country that is land scarce can maximize production. In 2001, I made provision for a rebate of 40%, up to a maximum of \$30,000, for farmers adopting greenhouses and hydroponics systems for crop or horticultural production. A number of farmers have adopted this technology and have realised increases in productivity, improvement in quality of produce and reduced costs of

production. As a consequence we are witnessing an increased demand for this technology.

**We therefore now propose that, for cooperatives or partnerships investing in greenhouses or hydroponics systems for collective use, a rebate of 25% of the costs of the components of greenhouses and hydroponics systems for crops or horticultural production, up to a maximum of \$250,000 per cooperative/partnership, be provided. For the purposes of accessing this incentive, a partnership must comprise a minimum of eleven (11) persons.**

### **Expanded Technical Assistance Programme**

My Government is in the process of finalizing arrangements for accessing technical assistance from countries such as Brazil, China and Israel which possess world class technology that can be of assistance to Barbados. One such area is the development of water resources where Israel is a world leader in the use of brackish water for irrigation.

**I therefore propose to designate an amount of \$2,000,000 as counterpart funding to enable Barbados to make use of this valuable technical assistance.**

### **Sugarcane Industry**

The program for the reform of the sugar industry especially focusing on product diversification and the initiative to produce new high fibre varieties as a source of fuel is well advanced.

Discussions between the BAMC and the Barbados Light and Power Company to examine the potential for electricity generation from fuel cane are progressing satisfactorily. The BAMC is now in the process of soliciting technical assistance for examining this and other options, such as the production of ethanol for the domestic market. In this regard, the Government of Brazil has indicated its willingness to offer assistance.

**In the context of this new spirit of reform the Government will continue its technical and fiscal assistance in order to effect the transformation of the industry. This support will include \$4.7 million for deficiency payments to independent growers and support for the Cane Replanting Incentive Scheme. Additionally, support will continue to be provided to the BAMC as well the independent growers for the wages bill.**

**There is renewed interest in investing in agriculture in Barbados. However, one of the criteria used in accessing the duty free vehicle under the incentive scheme is that the person must have been in farming for 3 years. New ventures will therefore not qualify.**

I therefore propose that duty free concessions on farm vehicles will be provided to new ventures subject to conditions that will ensure that this privilege will not be abused.

### **Disaster Relief Revolving Fund for the Agricultural Sector**

Mr. Speaker, the increasing number of natural disasters affecting the region this year has served to further highlight the extremely vulnerable nature of agriculture as a commercial undertaking. While Ivan missed us the floods did not and the ensuing losses have been considerable.

**To assist the agricultural community in rebounding as quickly as possible after the occurrence of a disaster event therefore, we propose to establish a Disaster Relief Revolving Fund. This Fund will provide affected producers**

**with access to a revolving loan facility that offers lenient repayment terms, to assist in restoring the operation to its pre-disaster status. The Ministry of Agriculture and Rural Development, in conjunction with the relevant stakeholders, will be responsible for developing the programme, its policy and operational guidelines.**

**The Disaster Relief Revolving Fund will be administered under the Agricultural Development Fund and will be capitalised, in the first instance, at \$2,000,000.**

### **New Venture Promotion – Development of the Cotton Industry**

The development of an integrated cotton industry is one area already identified as having the potential for accruing significant benefits to Barbados through the sale of value-added products, targeted at the high-end of the market.

The development of a vertically integrated cotton industry however requires some capital injection, particularly its infancy stage if the full potential of this crop is to be realised. In 2004, a private sector company – Exclusive Cottons of the Caribbean Inc. (ECCI) – was formed, with the ultimate objective of producing

finished goods that are 100% West Indian Sea Island Cotton (WISIC) and creating backward and forward linkages in the region. As a result of the progress made in the cotton sector, 2004 is the first year, in quite some time, that the local cotton lint was not sold as a primary product, but is being earmarked to create value added 100% WISIC products.

Provisional estimates indicate that, at a targeted output of 4.8 million pounds of seed cotton, (approximately 1.6 million pounds of lint) from 4,000 acres, it will cost approximately \$75 million over a five year period to engage in activities related to purchasing raw cotton, transforming it into value added finished goods and marketing as well as distribution across the world. ECCI anticipates that it requires \$8.0 million to finance the pilot phase.

**We will therefore be providing a venture capital window of \$10 million, within the existing Agricultural Development Fund (ADF), to assist with the development of new agriculture related enterprises. With cotton having exhibited significant potential and the ground work having already been initiated, it is being proposed that cotton be earmarked as the first among the new enterprises to benefit from venture capital assistance under the above**

**proposed facility. It is estimated that the cotton industry will require \$4.0 million in the first year.**

## **ii International Business**

The International Business and financial sector has recorded moderate success during the period following the OECD Harmful Tax Initiative. It is necessary if we are to reduce our dependence on Tourism as a generator of foreign exchange that this sector be restored to its buoyancy. To do so a program of diversification of the base of the sector to enlarge it beyond its present concentration on financial services is necessary. The domestic value added from the sector has to be significantly stimulated by the putting in place of programs to encourage more substantive business to be done in Barbados and the development of linkages between the international business sector and the domestic economy and between entities in the International Business Sector itself.

### **Strategic Focus**

The overall objective is that of fashioning Barbados into a centre for international business and financial services and a regional hub for CARICOM commercial enterprise. The transition from an economy supportive of an international business sector to a domicile, which generates economic activity of the foreign exchange earning variety across the entire commercial landscape, will allow us to meet the three objectives of which I have spoken.

**To stimulate the further development of this sector I now propose the following measures:**

***Pioneer Businesses***

At present certain activities do not benefit from the provisions of the international business legislation which is highly favourable to the conduct of business. Such activities include but are not be limited to Film and Media production, educational and health services, shared services serving the CSME, exploitation of indigenous intellectual property (principally in the areas of art, dance and culture) and research and development activities in emergent technologies. We now propose to designate such activities as pioneering activities in the belief that such activities will mirror those areas in which Barbados believes it can develop a real competitive advantage and reinforce it as the premier ‘hubbing’ location for pan-Caribbean companies keen to exploit the enlarged economic space of the CSME.

Domestic companies engaged in ‘pioneering’ activities will therefore be accorded the benefits of international business entities for a period up to 15 years. This is specifically designed to support the building of non-traditional service capacity within the domestic economy.

***Expansion of the Foreign Exchange Credit Scheme***

*At present domestic companies selling services to the international business sector cannot claim a foreign exchange credit. To deepen the linkages between the domestic and the international business sectors, and increase opportunities for the export of services, my Government will expand the Foreign Exchange Credit*

Scheme. In circumstances where domestic companies are the beneficiaries of the outsourcing of services by entities operating in the international business sector, these domestic companies will be permitted to claim the income earned as a foreign currency credit.

### ***Dividend – Tax Credit***

Under the Barbados Income Tax Act a company may benefit from a tax credit in respect of taxes paid on foreign income pursuant to a double taxation agreement, on a reciprocal basis, where the person has paid or is liable to pay income tax in a Commonwealth country and where an international business company, international society with restricted liability or a company licensed under the international financial services act, pays foreign tax on income earned outside of Barbados. Income from an entity other than in the circumstances mentioned above currently will not qualify for the credit. I have heard the representation from the private sector and this matter will be dealt with later in my presentation on taxation.

### ***Removal of Stamp Duty on the Alienation of IBC Shares***

A matter that continues to be of concern to our international business community is the attachment of stamp duty on the charging or pledging of shares in an international business company or quotas held in international societies with restricted liability as security for the performance of an obligation outside of Barbados by the foreign share or quota holder.

To facilitate the expansion of securitization transactions in Barbados' international business infrastructure the Government wishes to make it clear that there will be no stamp duty or other impost payable on the amount secured by a charge or pledge of IBC shares or ISRL quotas.

***Support for the export of professional services***

The growth and increasing sophistication of Barbados' professional services has been inextricably linked to the expansion of Barbados' international business sector. To enable professionals to continue to support the development of Barbados as a centre for international business and financial services and to enable Barbados to realize the dividends of the implemented CSME, the Government proposes the following:

1. The enactment of legislation to introduce limited liability partnerships;
2. The amendment of Section 153 and 154 of the Companies Act to enable auditors to provide audit services to companies through the vehicle of a limited liability company; and
3. The systematic review and amendment of regulations to ensure that all professionals can take full advantage of these structures.

This initiative is of vital importance to the continued viability of Barbados' professionals especially in circumstances where such structures are currently available to other professionals operating from CARICOM countries.

Finally, as a necessary fillip to the continued integration of the local accountancy profession into the global market-place and the maintenance of international best

practices especially in the area of international audit functions, the Registration Act for Accountants will give the Institute of Chartered Accountants of Barbados the responsibility and authority to discipline its members.

***Removal of Bonded Warehouse fees for International Business Companies***

In the interest of facilitating the use of Barbados by international business companies as a ‘distribution hub’ in circumstances where such operations may involve the importation, storage and re-exportation of large inventories as part of their international business activities, the Government will remove the obligation to establish a bonded warehouse as provided for under the Customs Act. As a corollary to this step, these enterprises will be exempted from the payment of annual private warehouse registration fees and the establishment of bond security.

***Introduction of a Registered Agents Act***

In-line with the accepted practice found in many other international business centres and to maintain Barbados’ high standards of due diligence the Government will introduce Registered Agents Legislation. The law will further facilitate international business development by standardizing the level of service provided by local functionaries in the international business market. With many well-known and well-regulated service companies operating in Barbados the legislation will have the added benefit of ensuring the highest level of domestic regulation of this important traded service.

*Increased budget for the marketing and promotion of international business and financial services*

Recognising the substantial contribution that international business activities continue to make towards to Barbados' foreign reserves and cognisant of the fact that for too long the marketing and promotion of Barbados as an international business centre has been under-funded, my Government will increase the funding from \$2 million to BDS \$5million to support the promotion and marketing of Barbados as an international business centre. The money will be used to support public and private sector programmes specifically designed to re-brand Barbados as an international business and financial services centre. Plans will exploit the natural synergies between international business and tourism especially in the lead up to World Cup 2007.

**Barbados Coalition of Service Industries (BCSI)**

The Government continues to see the BCSI as a valued and effective private sector partner in furthering the country's export services agenda. Over the course of the 2003/2004 financial year the BCSI has embarked on a number of important initiatives. It has created a Secretariat, launched a Website and participated in a number of services trade expos. It is considered that it has laid the foundation to provide its members with ongoing education and sensitization about the issues related to the competitive export services. Over the course of the coming year, the BCSI plans to identify and participate in a larger number of trade expos to aggressively push the export of Barbados' services in the region to maximize the benefits of the CSME and further afield into the FTAA countries.

The Government will increase the allocation to the BCSI in the next financial year from \$500,000 to \$600,000 to assist in its expanded marketing programme.

### **iii Manufacturing**

The manufacturing sector is that part of the economy that is labouring the most under the weight of trade liberalization. The output of the sector has remained stagnant over the last two years despite the provision of resources for technical assistance to upgrade and modernise plant as well as an array of new incentives.

We have to allow these initiatives more time to take full effect, while pursuing new avenues to stimulate production in Barbados in areas where there is strong demand for consumer goods that can be produced at home.

We will therefore continue the special technical assistance programme that has been put in place to upgrade our enterprises to world standards – a programme that to date has benefited over 100 firms. We propose also to inject an additional \$1 million a year for at least 5 years to the BIDC Special Technical Assistance Programme.

The “Buy Local Campaign” will continue with support for a phase 5 to facilitate the promotion of Barbadian products in order to maintain the domestic market share of these products. The campaign will now have an outward thrust with the resurrection of “Bajan Expo” in conjunction with the Barbados High Commission in London.

A programme of selective production stimulation in agriculture has paid significant dividends where the stimulation has been in those areas of strong domestic demand such as pork and poultry. The meeting of the furniture requirements of the new Hilton Hotel indicates the capacity of the local industry to satisfy demand. Hence the BIDC will put in place a new support programme “Basic Industries of Barbados” to rebuild capacity in the areas that were traditionally the core of Barbadian manufacturing. The areas that will receive immediate benefit in this regard are furniture and fittings and the beverage industry. The “Basic Industries of Barbados” programme will have the first claim on the additional resources of the Special Technical Assistance Fund.

There is at least one area where Barbados has a leadership position in technology and where expansion can only come through the deliberate fostering of partnerships between Barbadian owners of technology and investors abroad. That area is Solar Water Heating. There is a firm proposal for a joint venture with a Nigerian company and we will support it. We will also seek joint venture arrangements with other Caribbean countries. The resources for this activity will be drawn from the Industrial Investment and Employment Fund.

#### **iv     **Tourism****

As indicated earlier, the tourism sector has performed admirably over the past two years.

I can also report good news for the coming winter season. Advance bookings for travel to Barbados by the largest North American tour operators, project increases for the period January to February 2005 of between 75 to 80 per cent over the levels for the equivalent periods in 2003 and 2004.

These robust numbers speak volumes for the ability of Barbados' tourism planners to seek, attract and generate ever higher levels of tourist arrivals to the country.

However, as the levels of arrivals approach a peak carrying capacity it will be necessary for us to increasingly focus upon the quantity and quality of tourism product on island that is required to house, feed and entertain the visitors that travel to Barbados.

The Barbados tourism sector has been the beneficiary of a major change in the legislative framework for tourism investment and development through the enactment of the Tourism Development Act of 2002. Under the Act a total of 11 new hotels accounting for 406 rooms were developed, representing an investment of \$73.6 million and generating an additional 179 jobs. Extensions and renovations to 10 other hotels, representing an investment of \$306.7 million, have resulted in an additional 483 rooms and 442 new jobs.

The extended focus of the new Tourism Development Act can be seen in the development of multi-purpose tourism accommodation projects representing an investment of \$372.0 million. These multi-purpose developments include 100 hotel rooms and 605 villa rooms and are expected to generate 506 jobs on completion of the projects.

In addition, a number of new projects in the ancillary sector, comprising attractions and sports and recreational facilities, will benefit from the Tourism Development Act at an investment cost of \$38.6 million and 182 new jobs when completed.

The food and beverage sector has not been left out, Mr. Speaker. Under the Act some 11 new restaurants have been assisted, at a total investment of \$15.1 million, and 168 new employment opportunities created.

Undoubtedly, with the coming into effect of the Tourism Development Act, Barbados has in place much of the institutional arrangement needed to support the growth of a modern tourism sector.

However, much more needs to be done to stimulate growth in product development if we are to adequately prepare for this country's hosting of the quarter final

matches and the final match of the Cricket World Cup in 2007. One of Barbados' major challenges in hosting the Cricket World Cup will be satisfying the accommodation needs of visitors. Currently, Barbados' room stock is estimated at 8,000 rooms. The total room requirement to accommodate Barbados' regular visitors as well as anticipated fans of the Cricket World Cup is approximately 12,000 rooms. The Town and Country Planning Development Office has reported that as of the end of November 2004, planning applications for yet to be started tourist-type accommodation totaled approximately 1,800 rooms. Assuming that all of the projects under application are realized, a deficit of 2,200 rooms remains to be provided.

The Government is of the view that a significant portion of room stock deficit can be provided through the development of Community-Based Accommodation; alternatively described as Bed and Breakfast (B&B) or Home Accommodation.

The Government considers further, that there is scope for Barbadians to rise to the challenge of satisfying the accommodation requirements for hosting the World Cup by opening up their homes to visitors. While the principal need for additional accommodation in Barbados will span just an estimated 21-day period of the Cricket World Cup competition, long term financial benefits can accrue to

investors in B&B/Home Accommodation, if such accommodation remains as a component of the stock of rooms available to the tourism sector.

The Ministry of Tourism and the Barbados Tourism Authority are currently collaborating to develop a framework for the development of B&B/Home Accommodation as a part of the tourism room stock. Standards for Home Accommodation are being developed with a view to their finalization early in 2005.

In an effort to give a jump-start to the development of Home Accommodation in Barbados, I propose to create a \$5.0 million Bed and Breakfast/Home Accommodation Loan Fund for developers to carry out refurbishments, renovations or new construction required to meet B&B/Home Accommodation standards. Investors accessing this loan fund will be required to pledge their developments to a B&B/Home Accommodation pool that will be centrally marketed and booked. Such investors will also be required to undergo training and awareness programmes conducted by the Ministry of Tourism and to be subject to a set of standards and guidelines for the operation of B&B/Home accommodation. The Ministry of Tourism will be required to monitor the developed room stock to ensure that the established standards are maintained.

There is still more that can be done, Mr. Speaker.

The Government not only recognizes the important contribution currently being made by the small hotel sector to Barbados' tourism product, but also the potentially larger contribution it could make to the sector in the years leading to the Cricket World Cup and beyond. Government has provided \$5.0 million to a fund with the hope that it would reach \$20.0 million through private sector investment. This has not been realized. We therefore propose to introduce significant new resources to support the upgrading of the capacity in the sector.

The sector is characterized by relatively low levels of debt, low room occupancies, significant seasonality in tourism activity, financial distress and low quality of product. Indeed, it is unfortunately the case that of the 700-odd rooms that make up the small hotel sector, approximately 500 of them are below acceptable market standards and have therefore been unable to fully participate in the upturn of the tourism sector over the last two years.

It is the Government's desire that these rooms should be brought up to a standard that would allow their full utilization by the tourism industry. In this regard, I

propose to create a \$30.0 million Small Hotels Group Refurbishing Scheme, by which concessionary debt financing would be made available to participating hotels operating under the Small Hotels of Barbados cooperative, at terms and conditions similar to those for the Small Hotels Investment Fund. Through this project, under which participants would retain full ownership of their hotels, a standard upgraded product would be created across the 500 rooms, thereby giving greater meaning to the revenue enhancing activities such as group marketing, bulk purchasing and joint procurement of services that are engaged by the cooperative to improve the financial performance of the sector.

The modalities for the implementation of the Scheme will be fully worked out after full discussion and consultation with stakeholders in the small hotel sector.

Financing for the Scheme will be made available from the \$150 million bond to be floated by the Barbados Tourism Investment Inc.

Mr. Speaker, we have seen in recent times a deepening of the linkages between the tourism, manufacturing and agricultural sectors. A number of hotels have entered into arrangements with local farmers which have proven beneficial to both sectors.

In manufacturing, we recently witnessed a local furniture manufacturer supplying furniture and fittings to the new Hilton Hotel.

Without in any way seeking to dampen these developments but rather to deepen and institutionalize the arrangements, my Government proposes to amend the Tourism Development Act to make provision to encourage tourism developments to openly and transparently seek to acquire goods and services from domestic sources. It is intended that beneficiaries of concessions under the Act be required to invite competitive bidding for goods, materials and services, thereby giving local manufacturers and for farmers equal opportunity to have the economic benefits which may accrue from new activity.

While the initiative is aimed at new applicants for concessions under the Tourism Development Act, existing beneficiaries are encouraged to join the effort which seeks to forge greater linkages among the three sectors - agriculture, tourism and manufacturing.

## **v World Cup Related Developments**

The opportunity to host the 2007 ICC World Cup Finals presents Barbados with the possibility of adding to the buoyancy of the economy through the activities to be undertaken leading up to the finals, and the creation of new, and the improvement of existing infrastructure, heritage and environmental assets.

It has also been estimated that this event will stimulate increased revenue opportunities from tourism and related activities during the event period of approximately Bds.\$240 million and a further \$120 million thereafter from what is termed “legacy spend”.

Already the Government of Barbados is committed as a Joint Venture Partner with the BCA to supporting all activities related to the redevelopment of Kensington Oval, and its immediate environment.

The Government also proposes to undertake a number of related activities involving the infrastructural development of Barbados, the development of our scenic and heritage sites and enhancing the quality of our environment to make our

sponsorship of this event a signature activity in branding Barbados as a well ordered, well developed society which can meet the most exacting world standards.

Central to this is the full implementation of proposals, long in planning, to redevelop and beautify our capital, Bridgetown.

The Planning and Priorities Committee, at a recent special meeting, considered and approved a list of activities that will constitute that programme to support the showcasing of Barbados. They also include the measures announced earlier to deal with gridlock.

The BTII, working in collaboration with the Port Authority, the NCC, the Ministry of Public Works and other Government agencies will constitute the implementation mechanism to ensure the successful undertaking of this work.

It is estimated that the cost of the infrastructural and other related activities will be in the vicinity of \$100 million.

The resources for this programme will be principally drawn from the new BTII bond issue of \$150 million, the Coastal Infrastructure Programme for which

funding has already been attracted from the IDB, and the relocation of resources of the Ministry of Public Works Highway Rehabilitation and Improvement Programme which now already amounts to almost \$50 million per year.

The Public Sector Co-ordinating Team, led by the Director of Finance and Economic Affairs has also started engagement with the Private Sector to facilitate the implementation of the major private sector investments which can add substantially to Barbados' capacity to provide the accommodation and the ancillary services required to successfully host this event.

In addition, the planning has begun to ensure that as many small businesses and other service providers as possible benefit from the spin off activities related to this major event.

A Secretariat has been created, and a process of decision making, involving the office of Prime Minister has been instituted to ensure that Barbados meets its obligations, the event is successfully sponsored and that major benefits accrue to our nation from this glorious opportunity.

## **DEDICATED RESOURCES FOR MARKETING AND PROMOTION**

The measures announced today reflect in the main, that emphasis will be placed on the increase in marketing and promotional activities in the Tourism and International Business, Financial and Services Sectors.

The Government proposes to introduce from April 1, 2005 a new funding mechanism by which financial resources, dedicated specifically to support the expanded marketing and promotion efforts of the agencies referenced can be raised.

It is possible that such a funding mechanism may take the form of a small cess on extra-regional imports. But there are other options being evaluated.

Full consultation will now ensue to have this new arrangement in place in time for the next fiscal year.

### **vi Small Business Support**

We propose every year to implement at least one new measure to support the development of small business in Barbados.

We are modifying the Small Business Development Act to make it fully effective.

We now provide and will continue an Annual Subvention to the SBA to cover the cost of its Secretariat and to enable it to carry out special projects.

The BDC now carries out a \$7 million technical assistance programme for activities relating to plant upgrading, product design and training for our manufacturing and services industry.

We now propose to provide \$250,000 to the SBA Technical Assistance Fund to enable it to begin to mount a similar programme of upgrading for its members.

In 1996 the Government provided the SBA with a sum of \$2 million to establish a facility to offer a source of venture capital for the small business sector.

This initiative was slow in coming on stream. Within recent times, interest in equity financing has picked up. Thus far the Small Business Venture Capital Inc. has invested in 10 companies to the tune of \$1.2 million. There are additional commitments of \$0.4 million.

To meet future demand, we now propose to provide additional resources in the amount of \$1 million for the Small Business Venture Capital Inc.

## **vii Taxation Related Measures**

### **Tax Matters**

Mr. Speaker, Parliament would have recently approved a program of reform of the Personal and Corporate taxes up to the year 2007 to ensure that our rates are competitive with the rates of our Caricom neighbours as we prepare for the advent of the CSME. That reform also sought to establish a platform from which, after 2007, convergence of our domestic and international corporate tax rates can be approached.

The programme in place will be fully implemented.

As such, with effect from January 2005, the personal tax free allowance will move from \$17,500 to \$20,000 and the marginal tax rate will be reduced from 40% to 37.5%.

The increase in the tax-free threshold will result in another 7000 persons being removed from the tax net in 2005. Some 26,000 persons will be removed from the

net over the period 2004 to 2007 as a consequence of the raising of the tax-free threshold.

As far as corporations are concerned, with effect from income year 2005 the tax will be 30% and in 2006 the tax will be 25%.

While this tax reform programme is being implemented, it is obviously not proposed that major changes be made to the tax system. However, our focus will be on fine-tuning the administration of our tax system to remove any hardships on the business community and general taxpayers, and to make our tax incentive regimes more impactful. To these matters I now turn.

**The foreign currency tax credit** is an incentive given to encourage export earnings from qualifying overseas construction projects and qualifying overseas professional services. This incentive is aimed at persons generating business outside of Caricom.

Presently there is a detailed list of qualifying services in the Second Schedule of the Income Tax Act Cap 73. Representation has been made to me that there is a need for the list of qualifying activities under the legislation to be expanded if we

are to further the development of non-traditional export services. In an effort to further stimulate the export of services, especially in the non-traditional sectors, I therefore intend to include the following areas as qualifying activities:

- **Information Services**
- **Education Services**
- **Investment Management Services**
- **E-Commerce Services.**

### **Land Tax**

Mr. Speaker, with effect from tax year 2003 2004, the Land Tax on improved properties used for residential purposes was adjusted to make the first \$125,000 of Improved Value **TAX FREE**. This provision applies **ONLY** in cases where both land and house are owned by the same person.

The number of properties which have so far qualified for tax free status under this provision total 20,018, almost 20 percent of the total tax roll of 102,157 parcels of land.

There seems to have been some legitimate concern as to how this provision would affect owners of chattel houses. To make the matter absolutely clear, persons who own chattel houses and the land on which the houses are located will now be taxed on the improved value and not site value, and hence will be eligible for the full benefit of the tax reduction.

The Land Tax Department has put in place a programme to identify those properties which are not yet getting the full benefit of this new provision, and I urge all persons affected to contact the Department to have their assessment reviewed.

I have my brother's permission, and I hope, the concurrence of the whole House in referring to this as "The Kelly Amendment".

## **VAT**

The expectation has been excited by statements of the Leader of the Opposition that the Value Added Tax is about to be increased.

The Leader of the Opposition has already confessed that when he was an adviser on the VAT to a DLP Minister of Finance his advice was not followed.

With such a record, I can therefore think of no good reason why his advice should now count with **this** Minister of Finance.

There will, hence, be no increase in the VAT.

Indeed, the stalling of the FTAA process has temporarily removed the necessity for the consideration of any further adjustments in our indirect taxes. However we will continue to improve the administration of the tax.

VAT is normally paid, without any assessment being made, on the submission of a return for a prescribed accounting period. However, subject to the time limit in section 83 of the VAT Act, it is the current practice that when a taxable period is assessed under section 82, interest is charged on the tax and the penalty assessed from the time that the return was filed or should have been filed by the registrant according to sections 45 and 46 of the Act.

On the other hand the Department only pays interest on the amount due to a registrant if it has been outstanding for more than 6 months. To correct this anomaly I propose to amend section 82 of the Value Added Tax Act to provide for the imposition of interest on the reassessment of output tax, only from the date of reassessment and not from the date of filing. This should assist businesses cash flow.

### **Dividends – Tax Credit**

Mr. Speaker, this year I will make one further change to the tax system and that relates to the taxation of dividends. The taxation of dividends received by local companies from trading and investment activities extra CARICOM in non-treaty countries attracts withholding tax at various rates. In an effort to encourage companies to earn foreign exchange from their trading and investment activities and repatriate the dividends to Barbados, I propose to give a tax credit in circumstances where dividends are paid to domestic companies or individuals from non-treaty sources outside of CARICOM.

**New Incentive**

Mr. Speaker I referred earlier to the encouragement of non-traditional export services. It is my intention to create an incentive regime to encourage the establishment of upscale medical facilities offering services that were previously available only externally to a clientele that is largely external as a means of earning foreign exchange. We see Barbados emerging as a regional centre of excellence in relation to Health care. We have received proposals from two entities one local and the other international and the Government is in the process of developing an incentive program to encourage such investment that bears a relationship to the concessions contained in our international business regime.

**Pensions**

As part of the programme to reform the Social Security System it was agreed that future increases in NIS pensions would be actuarially determined following a prescribed formula.

It was also decided that non-contributory pensions, whose increases are now met from the Consolidated Fund would be changed at the same time.

The Actuarial Review has now been undertaken, and based on the prescribed formula for increases, it is now proposed that the minimum NIS pensions be increased from \$105 to \$110 weekly, effective 10<sup>th</sup> January 2005, and the others will be increased by a similar percentage.

The non-contributory pension will be increased from \$86 to \$90 weekly, effective 10<sup>th</sup> January, 2005.

In accordance with the prescribed formula, the NIS insurable earnings will also be increased from a maximum of \$3,100 to \$3,190 per month with effect from January 1<sup>st</sup>, 2005.

The increase in the non-contributory pension will cost the Consolidated Fund \$2.1 million.

## **VI BUILDING THE SOCIAL CAPITAL**

### **i Universal Pre School Access**

Recent international, regional and local research indicates that there is a correlation between exposure to pre-primary education and later academic success. Since 1996, the White Paper on Education Reform has enunciated the Government's objective of expanding access to this level of education. Recent statistical data indicate that there are approximately 1600 children in the 3-5 age cohort who are not benefiting from a pre-primary education.

The stage has now been reached in Barbados where parents expect their toddlers to be part of the formal education system. The fact that the unemployment rate has fallen under 10% has also meant that more parents are being employed. Recent heavy demands from parents to have 3 year olds placed in schools has given rise to the need for more nursery education facilities to fulfill this demand.

Generally, in the public sector, constraints of space at both the nursery schools and at the infant section of the primary schools make it almost impossible to substantially increase the intake at these schools in their present condition.

In the private sector the major hurdle is the high cost of operations. The payment of staff and the provision of educational resources constitute the highest cost. In addition, the proprietors who rent property suffer financially during the vacation

periods and often have to resort to running camps to raise funds. In spite of this challenge, the proprietors appear to be highly focused administrators who are committed to the task of providing quality early childhood programmes for their pupils. It is considered therefore that with some assistance these persons could play a leading role in the fulfillment of government's goal of providing early childhood education for all three and four year old children.

We now set the goal of providing universal access to school places for all children between the ages of 3 –5 years.

It is clear that for universal access to be achieved the Ministry of Education has to facilitate the provision of accommodation for approximately 1600 students. This will be accomplished over a 3-year period starting with the academic year 2004-2005 through to 2006-2007 covering at least 550 persons at each stage.

In Phase 1, where feasible, existing public primary schools will be utilised.

Included in Phase 1 is the establishment of a new nursery school at the site of the former St. Boniface Primary School. This facility is expected to accommodate 105 students.

In Phase 2, schools that have been abandoned or returned to the Church will be considered, and in addition, if there is a private nursery capable of expanding their operations, then the Government will provide a grant to that institution to cover the deficit. In Phase 3 where there are areas of dense population consideration will be given to the establishment of new nurseries.

Phase I of the programme will cost \$1.5 million, and the additional phases \$1.2 million per annum.

## **ii      Expansion of Project Oasis**

Project Oasis is a multi-faceted initiative, started by the Ministry of Youth Affairs, that seeks to provide vocational training and life skills and investment opportunities to youth who live on “blocks” across Barbados. The programme which was started this Financial Year offers training opportunities in the areas of Aeromechanics, Bobcat Operations, Computer Repairs, Digital Media Film Operations, Horticulture/Landscaping, Small Business Development, Small Engine Repairs and Leather Craft. To date over three hundred individuals from the target group have registered, comprising 256 males and 60 females.

Project Oasis is providing the target groups with a second opportunity to acquire functional skills. It is envisaged that their newly acquired technical skills and refocused orientation will encourage them to engage in mainstream socio-economic activity. The preliminary evidence shows that the skills acquired are being used to create employment. For example, one of the graduates from the small business course has started a fruit vending business while several of those from the Digital Film Media Programme have either gained employment doing video editing and animation, while others have formed partnerships to produce film and make videos.

Project Oasis has raised the self-esteem of participants. Tutors have indicated a positive change in the behaviour of several individuals as a result of being involved in a structured programme. Participants in the project have been motivated to enroll in other areas of study. These individuals have also encouraged other members on the “blocks” to get involved in the project. It should be noted that persons who completed three months of training are requesting advanced modules.

### **New Directions**

It is clear that Project Oasis must constantly seek to re-invent itself and to respond simultaneously to the interests, needs and aspirations of young people as well as to the emerging opportunities for the exploitation of their potential and skills. In this regard, it is proposed that Project Oasis respond to the substantial demand among graduates of the initial training programmes at the Samuel Jackman Prescod Polytechnic by offering advanced modules to graduates. In addition to the quantitative expansion of those training modules it is further proposed that the following be considered as new areas of training or intervention in the financial year 2005/2006.

Training/Intervention Area	Venue/Location	Number of Participants
Culinary Arts/Service	Barbados Community College	60
Steelpan	Community Level	40
Electrical Installation	SJPP	20
Plumbing	SJPP	20
Bee-Keeping	Community Level	5

The areas of cooking, water-service operators and bartending have been recommended in response to the large numbers of young men who cook (ital food) at the community level, as well as create opportunities for employment in the formal tourism sector.

In addition, it is proposed that the “Block” Committee initiate a formal programme of engagement with Her Majesty’s Prisons and the Government Industrial School towards assisting with the reintegration of recently released young persons from those institutions.

The “Block” Committee also proposes to facilitate the construction of standardized mini-kiosks to facilitate vending, particularly of fruit and vegetables which is engaged in by a number of young men at the community level.

To support these initiatives, the financial provision for Project Oasis will be doubled to \$2 million in the next fiscal year.

### **iii Empowering of the Physically Challenged**

Mr. Speaker, a small but not insignificant number of Barbadians are physically and mentally challenged. Within the school system, the Ministry of Education has been seeking to identify those with learning difficulties and has joined with a North American University to train our teachers to better inform and educate this segment of our school population.

This Government has utilised resources from the Social Investment Fund to facilitate training in life skills for our challenged population at the Challenor Creative Arts and Training Centre as well as the Irving Wilson School.

We therefore have been treating our disabled as a resource with a view to increasing their own welfare while providing adequate facilities for these – our brothers and sisters to be productively engaged. To further their progress to this end, my Government will provide funding for the completion of the building to be the headquarters of the Barbados Council for the Disabled at the Garrison. We will also provide the resources to ensure that the new Headquarters not only can provide a Secretariat Service, but includes specialized equipment and facilities that will enable the users of the facility to engage in productive activity. We will also double the annual subvention of the Council to \$200,000 to assist with its recurrent activities as well as provide it with resources for productive use.

## IMPLEMENTATION

Mr. Speaker, a full Report, setting out the status of the measures that were announced in last year's presentation is set out as Appendix II, and form an integral part of the presentation itself.

The House of Assembly would also recently passed Omnibus legislation giving legal effect to those aspects of our recent economic policies which required implementation by legislative change. This practice will continue, though it is to be hoped and expected that the legal drafting capabilities available to us will allow us to have the legislation in Parliament with a greater briskness.

### **Housing**

On matters relating to implementation, I must today convey the entire support of the Government for the initiatives taken recently by the Ministry of Housing and the National Housing Corporation to satisfying the demand for shelter, especially among our low income citizens.

Only recently, the National Housing Corporation advertised, by tender, for the construction of houses under its primary home (HEART) Programme and thirty-

two (32) private sector contractors offered their services to construct houses at National Housing Corporation's prices.

The National Housing Corporation will continue to be innovative in the housing sector, so as to make housing available to persons earning minimum wages.

Among these initiatives are the Community Aided Self Help (CASH) Programme where through a process of sweat equity, either through family members, or community groups a home owner can obtain a property for less than \$50,000.00.

The National Housing Corporation is also promoting home ownership by divesting itself of its properties. The NHC is offering considerable concessions and discounts to its tenants who either purchase rental units or rental land.

Since all these properties are below the land tax threshold of \$125,000.00 these properties will not be subjected to land tax.

The NHC is also in the process of preparing a programme of urban **renewal that will put back into use some three thousand (3000) derelict houses throughout urban Barbados.**

**The NHC will continue its drive to keep the prices of properties down. In its Primary Homes Programme we are selling land between \$6.00 and \$7.00 per sq. ft. It will continue to bring new initiatives to make housing more affordable to the average Barbadian. In the future it will offer a ‘rent to purchase’ option to further reach the poorest of the poor in our community.**

**These measures constitute a vital exciting part of our effort to bring about national development, and are deserving of the full support and commendation of the public at large.**

## **CONCLUSION**

A Mr. William Allan White once observed:

*“Everyone expects to go further than his father went*

*Everyone expects to be better than he was born*

*And every generation has but one big impulse in its heart –*

*To exceed all the other generations of the past in all things*

*That make life worth living”.*

In a really elegant, but simple way, this captures the essence of what development means. It also captures the essence of what we managed to achieve in this country

since Independence, and what, through the measures I have just announced, we will seek to perpetuate.

But let us be in no doubt as to the enormity of the challenges that await us as we seek to maintain that which we have achieved, and indeed, seek to build upon it.

The political shadows are lengthening for me, and I suppose that I can be afforded the indulgence of being reflective, from the vantage point of the experiences gained from over 30 years as a professional economist.

Over the vale of years, I recall how in post graduate school our seminars sought to get us to come to terms with the implications for Caribbean economies of the de-linking of our currencies from the British pound, and the effects on our economies of Britain's membership of the European Common Market. Following this, our focus was centred on the economic effects of Nixon's decision to de-link the value of the US dollar from the value of gold, and with it the dismantling of the Bretton Woods System through which the evolution of the post-war economy had been guided.

These seem now to be single action economic developments, modest in their effects and entirely manageable in their policy dimensions.

And then throughout the 1970's and 1980's there followed a series of individual impactful but manageable economic shocks – the oil crisis of the 1970's being noteworthy.

I would have seen at first hand, the attempt in Jamaica at socialist transformation. I was part of the team that addressed the balance of payments problems of the Barbadian economy that was caused by excessive domestic credit creation. The effort to transform the Barbados economy through large scale tax reform in the late 1980's also comes to mind as a single event, meant to shape development from whose experience we can benefit.

Again, all of these were single events, whose effects were of manageable proportions.

Times have now changed.

The typical small economy such as Barbados, is now bombarded by a large number of powerful and sometimes conflicting forces, operating simultaneously, rather than in an orderly sequence, bringing wrenching and far-reaching shocks all within a highly compressed time period.

And in this post colonial era, there is no longer any disposition on the part of the international community to accept that it has a legitimate responsibility to assure the improvement of our national well being.

This generation must still try to exceed the other generations of the past in all things that make life worth living.

But it will have to wrench the harvest of growth and development from an increasingly difficult economic field.

It is my hope that future generations will look back on our efforts and have to concede that we understood our circumstances and what was expected of us, and tried to make things better.

The economic and financial policies I have unveiled today have been inspired by this simple objective of trying to make things better and life worth living for Barbados.

It is in that spirit that I commend them to this Honourable House of Assembly and beg to move the following Resolution.

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## SUMMARY

Support for the National Initiative for Service Excellence at a cost of \$1.5 million.

The creation of Export Barbados Inc. to promote export development.

With effect from January 2005 the personal tax free allowance will move from 17,500 to 20,000 and the marginal rate will be reduced from 40% to 37.5%.

With effect from January 2005 the rate of tax for Corporations will be 30% and in 2006 the tax will be 25%.

Section 12H of the Income Tax Act, Cap 73 will be amended to include the following as qualifying activities:

- **Information Services**
- **Education Services**
- **Investment Management Services**
- **E-Commerce Services.**

A tax credit will be available where dividends are paid to domestic companies or individuals from non-treaty sources outside of Caricom.

Section 82 of the Value Added Tax Act Cap 87, will be amended to provide for the imposition of interest on the reassessment of output tax only from the date of reassessment and not from the date of filing.

The injection of an additional 1 million per year for at least 5 years to the Special Technical Assistance Fund of the BIDC.

The Basic Industries Programme will have first claim at the additional resources of the Special Technical Assistance Fund.

The Industrial Investment Employment Fund will be the source of Funding for Joint Venture arrangements with Barbadian entrepreneurs and overseas investors.

The continuation of the “Buy Local Campaign” to facilitate the promotion of Barbadian products in order to maintain the domestic market share of these products including the extension of the fresh milk program in schools.

Domestic companies engaged in export oriented ‘pioneering’ activities will be accorded the benefits of international business entities for a period up to 15 years.

Expansion of the Foreign Exchange Credit Scheme to include domestic companies providing services to international business companies.

Removal of Stamp Duty on the pledging of IBC Share as security for an obligation outside of Barbados.

The Registration Act for Accountants will be amended to give the Institute of Chartered Accountants of Barbados the responsibility and authority to discipline its members.

Removal of Bonded Warehouse fees for International Business Companies.

Introduction of a Registered Agents Act.

Increased budget for the marketing and promotion of international business and financial services from \$2 million *to* \$5 million.

There will be dedicated funding for the Marketing and Promotion of Tourism and International Business.

The provision of \$250,000 to the Small Business Association Technical Assistance Fund.

An additional \$1 million will be provided to the Small Business Venture Capital Inc.

The modernization of Inland Revenue & Customs via use of information technology.

The provision of \$2.0 million to Project Oasis, the Boys on The Block Program.

The provision of \$1.5 million to increase the availability of pre-school education with an additional 550 places in 2005 and over a three-year period 1650 places.

The Government will continue the support of the Coalition of Service Providers and will provide an additional \$100,000 to support its activities.

An increase in the National Insurance & Non-Contributory Pensions in keeping with the agreed upon formula for increases to be effective January 10, 2005. An increase of the National Insurance insurable earnings from 3100 to 3190 per month in keeping with the agreed formula to be effective January 1, 2005.

The creation of a \$5.0 million Bed and Breakfast/Home Accommodation Loan Fund for developers to carry out refurbishments, renovations or new construction required to meet B&B/Home Accommodation standards. Investors accessing this loan fund would be required to pledge their developments to a B&B/Home Accommodation pool that would be centrally marketed and booked.

The creation of a \$30.0 million Small Hotels Group Refurbishing Scheme, by which concessionary debt financing would be made available to participating hotels operating under the Small Hotels of Barbados Cooperative, at terms and conditions similar to those for the Small Hotels Investment Fund. Financing for the Scheme will be made available from the \$150 million bond to be floated by the Barbados Tourism Investment Inc.

A rebate of 50% of the cost of approved embryos, up to a maximum of \$5,000 per farmer and \$20,000 per farmers' organisation, per year, will be provided for beef and dairy farmers who undertake embryo transfers.

A rebate of 30%, up to a maximum of \$100,000 will be provided to cooperatives or partnerships of dairy farmers that establish a common milk parlour. For the purposes of accessing this incentive, a partnership must comprise a minimum of eleven (11) persons.

Cooperatives or partnerships investing in greenhouses or hydroponics systems for collective use will get a rebate of 25% of the costs of the components of greenhouses and hydroponics systems for crops or horticultural production, up to a maximum of \$250,000 per cooperative/partnership. For the purposes of accessing this incentive, a partnership must comprise a minimum of eleven (11) persons.

An amount of \$2,000,000 will be provided as counterpart funding to enable Barbados to make use of technical assistance from certain countries particularly in relation to the management of water for irrigation.

The provision of \$4.7 million for deficiency payments to independent growers and support for the Cane Replanting Incentive Scheme.

The extension of the duty free concessions on farm vehicles to new ventures subject to conditions that will ensure that this privilege will not be abused.

The creation of a Disaster Relief Revolving Fund for the farming community to be administered under the Agricultural Development Fund and capitalised, in the first instance, at \$2,000,000.

The provision of a venture capital window of \$10 million, within the existing Agricultural Development Fund (ADF), to assist with the development of new agriculture related enterprises.

Amendment to the List of Items Eligible for Duty Free Treatment to include the following:

- (1) Wood shavings for use by registered farmers as poultry bedding, pending compliance with SPS requirements.

The removal of the storage charges for the keeping of bait at Fisheries Markets.

The provision of \$250,000 to support the conduct of a feasibility study, and the preparation of a business plan for the development of the medicinal and cosmetic plants sector. The Ministry of Agriculture will be responsible for developing the policy and operational guidelines to facilitate this initiative.

The provision of \$250,000 to undertake the necessary studies to facilitate the development of a Plan for the efficient management of water resources for irrigation purposes.

Government will revisit the John R Bovell and the 4H Scholarships with a view to having scholarships for agriculture for the benefit of young persons wishing to pursue studies in areas critical to the development of the agricultural sector in Barbados, such as agribusiness development.

Cooperatives or partnerships of small farmers investing in an approved Environmental Control System for poultry and livestock facilities will be eligible for a rebate of 25%, up to a maximum of \$100,000 per cooperative/partnership. For the purposes of accessing this incentive, a partnership must comprise a minimum of eleven (11) persons.

Upgrade of the Land Registry with the assistance of the UK Land Registry to bring the Land Registration Project to conclusion and ensure that by the year 2010 all land is registered.

Introduce legislation to make it easier for persons who for whatever reason find themselves without title to land to gain title.

Introduce new rules of the Supreme Court to speed up the court process and deliver more efficient justice.

The reform of the Legal Profession Act.

The introduction of a Limited Liability Partnerships Act.

Introduction of a new Public Service Act.

The implementation of a set of measures to deal with gridlock such as the construction of fly overs, synchronisation of traffic signals, widening of ABC highway and Park & Ride.

The refurbishing and outfitting of a facility to house the secretariat of the Council for The Disabled and an increase in the subvention.

The Government will spend in excess of \$100.0 million on infrastructure for the hosting of World Cup in 2007.