



ECONOMIC AND FINANCIAL POLICIES
OF
THE GOVERNMENT OF BARBADOS

PRESENTED BY
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MINISTER OF FINANCE

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ECONOMIC PERSPECTIVE AND OBJECTIVES

It is important that the review of our economic circumstances, and the scope and intent of the economic and financial policies which will be presented today should be set within the context of the strategic objectives which have been established for our nation.

Parliament has, within the past year, received and approved “The National Strategic Plan of Barbados 2006-2025.

Our National Strategic Plan commits us to the goal of becoming, by 2025, a fully developed society that is prosperous, socially just and globally competitive.

It envisions a society driven primarily by a services economy, fuelled by a steady rate of export growth, with a state of the art information and communications infrastructure, a high savings rate, widespread material prosperity, full employment, an equitable distribution of income and wealth and an enhanced quality of life.

It conceives of our economy as a premier world tourism destination and a centre for the performance of high quality financial, information and

other services augmented by re-invigorated agricultural and manufacturing sectors.

It conceives of Barbados as a society that co-exists in harmony with a beautiful, clear, safe, healthy and sustainable environment. It recognizes that it is both an absolute necessity and would be a wonderful legacy that we should build a Green Economy in Barbados.

The National Strategic Plan of Barbados also recognizes that these strategic goals are to be accomplished in a world engulfed in change. It is a world in which old arrangements are breaking down; new ones are emerging that have the potential for either tearing apart the social fabric of nations or for expanding wealth and creating new levels of prosperity.

Our National Strategic Plan therefore prescribes that in such a world, it is not possible for Barbados to go forward simply by varying our path of development. Rather, it mandates that we engage in a great transformation of our society that continues to place people at the centre of our development, and calls even more deeply upon the great gifts of adaptability and resilience which are the hallmarks of the Barbados way of life.

It would be appropriate, once again to indicate that the great economic transformation required of us because of the nature of the new global conditions began in earnest in 1998, and have been the subject of my annual presentations of Economic Policies to Parliament ever since then.

Beginning in that year, Barbados had to start to adjust its economy to face challenges to its traditional sectors, manufacturing and agriculture, from the application of new rules of trade and agreements entered into in April 1994, that stripped those sectors of the protection they have historically enjoyed.

We had also to come to terms with the challenges posed to our international business and financial industries by the OECD; to adjust our tourism strategies to survive and grow in a post 9/11 world.

Since 1998 we have had to institute new policies to fit our domestic economy into a new regional economic space that is the emerging CSME.

Since 1998 we have also had to adjust our circumstances and the management of our economy to accommodate the reality of being graduated from access to concessional financing, and to meet the rigours

of having to raise the external financing for our development on the international capital market.

We have had to deal head on with the challenges of preparing our people to live in a world of incredible technological change; to deal with the problems of an aging society in which the pandemic of HIV/AIDS has taken its heaviest toll on those in their most productive years.

Our policy response has been sustained and creative.

We have reformed our indirect tax system to reduce our dependence on taxes on trade to be able to function successfully in a liberalized world.

We have also reformed our personal and corporation tax systems to move Barbados in the direction of being a low tax jurisdiction.

We have also reduced taxes on property, and taxes on energy products to below 1994 levels to create a more congenial and enabling economic environments for our households and enterprises.

We have introduced major new incentives and supports to shore up all of our productive sectors, and introduced modern legislation to encourage the development of our small businesses.

Through a myriad of new financial institutions and arrangements managed by Fund Access and The Enterprise Growth Fund, the Government has provided the development finance to facilitate the re-development of our productive system.

We have reformed the telecommunications sector, our laws on Insolvency called the Fair Trading Commission into existence, and introduced arrangements to facilitate E commerce and E government – all with a view to building a more competitive, modern, market-driven economy.

We have reformed our education system and our community development programme to train our people to live in today's technological and information age.

All of this is merely the first phase of the Great Transformation which must be sustained to enable us to realize the goals we have set ourselves in our National Strategic Plan.

Our evaluation of our recent economic performance should not therefore be the usual stock-taking exercise. After virtually 10 years of adjustment, we can now form better judgements as to the resilience and the sustainability of the transformations that have been made, and to determine the nature of any new strategic directions that are now required.

The record points to a very highly commendable economic performance on virtually every front.

In 2006 our economy recorded its fifth consecutive year of growth, expanding by 3.5%. The growth was contributed to by virtually every sector. It was also driven by an unprecedented bout of investment in new tourism capacity which itself will help to sustain growth and foreign exchange generation well into the future. The immediate prospect is that the growth this year is likely to be the greatest that Barbados has recorded in over twenty years.

The strong growth in our economy has been principally reflected in an impressive employment record; with unemployment falling to 7.6% - the lowest rate in our recent history.

It has also been reflected in the soundness of Government's financial position.

In the past few years, a far-reaching programme of fiscal reform has been carried out that has seen 26,000 persons taken off the tax roll, the first 25,000 dollars of personal income exempted from tax, the top personal income tax rates brought down from 40% to 35% and the basic from 25% to 20%. It has also seen the corporation tax rate reduced from 40% to 25%. The reform of the property tax system has also been carried out on a comprehensive and unprecedented scale, relieving persons with homes valued at under \$125,000 from the payment of land tax entirely. All other homeowners have benefited by the exemption of the first \$125,000 of their properties from tax, and the reduction of the rates. Four years ago, Barbadians paid \$500 in land taxes on a property worth \$250,000. Today they are paying only \$125 in tax on property of a similar value.

Despite this massive programme of tax relief Government's fiscal position has remained strong and indeed has improved with the fiscal deficit this year projected to be 1.9% of GDP, well within the target and about 2.7 percentage points lower than that for 2005.

Our foreign exchange reserves have remained in a very sturdy condition.

Mr. Speaker, it has not all been clear sailing. The general improvement in the state of the economy has led to an escalation in property values which has sharpened the urgency with which issues related to affordable housing and access to land must be addressed.

Higher oil prices, and some of the measures employed to protect our external position have, in large measure, led to a rate of inflation of over 7% - a matter that requires corrective action.

Like all other nations, Barbados has had to borrow to support our development programme. We continue to service our debts on time and will continue to do so for the foreseeable future.

But the growth in our national debt requires that we make early corrective adjustments to some of our macro economic policies to avert the debilitating debt problem that has overtaken some countries.

There is also evidence that the strength of our social capital and the functioning of some areas of the social sector, especially the health sector need to be improved and to be provided with greater resources.

I cannot promise Barbadians that we will live in a country that is free of any economic or social challenges.

What I can promise is that whenever these challenges arise, we will face them with candour.

And we will fix them.

For I am confident that there is hardly a challenge that we cannot creatively address, given the increasing recent evidence of a deepening of the resilience and adaptability for which Barbados has always been renowned.

The great qualitative change in the economy that speaks most highly of its adaptability and the soundness of the policies being practised had to do with those in our balance of payments.

It is generally recognized that the sternest test of economic management in small, open and developing economies pertain to the manner in which the countries' external balance of payments is dealt with.

Indeed, the economic landscape of the developing world is strewn with the wreckage of a large number of countries which are under the control of the IMF, and whose development prospects have been undermined by their inability properly to manage their payment transactions with the rest of the world.

In Barbados' case, the severity of the pressure on our external reserves on three occasions caused our country to seek recourse to stabilization programmes of the IMF.

Recent developments have increasingly created the conditions under which our economy could experience unsustainable balance of payments pressures. Domestic spending, fuelled by a large expansion in the creation of credit has over the past three years created too large a demand for imports, which surged to over \$3billion. The situation was aggravated by the steep rise in the price of energy and the slow growth of our domestic exports.

I have, in recent economic statements to Parliament cited the deterioration in our external position, as reflected in a current account deficit of over 12% of GDP, as being the most urgent matter that had to be addressed.

In consequence, measures were instituted to stem the growth of credit, to make imports more expensive and to expand our earnings from the sale of goods and services abroad.

The outturn has proven in every respect to be a vindication of the policies employed to deal with the matter.

First, the restrictive monetary stance adopted by the Central Bank, beginning in 2005, to slow the growth in commercial bank credit and protect our international reserves appears to have had the derived impact.

The rate of expansion in credit abated from 23% (\$730 million) in 2005 to 13.6% (\$520 million) in 2006.

Reflecting the tighter monetary policy and the effect of the CESS, retained imports to Barbados fell by 0.5% in 2006, in contrast to an average growth rate of 13.5% over the previous three years.

The composition of our imports also changed for the better. In 2006 imports of consumer goods fell by 12.6% while imports of capital goods needed for investment rose by 19%.

While our imports have fallen, the value of our merchandise exports climbed by 23.3% - the third consecutive year of growth and the largest expansion since 1996.

Net receipts from the export of our services also rose by 5.3%, the fourth straight year of expansion.

As a consequence of these developments our external trade deficit last year fell by 28.1% or by \$196.7 million, and amounted to 8% of GDP as compared to over 12% in the previous year.

In addition, backed primarily by a significant pick up in net private capital inflows, the capital account of our balance of payments registered an estimated surplus of \$717.4 million in 2006, roughly \$134 million more than in 2005 and the largest surplus on record.

As I earlier indicated, the hardest task in managing an economy such as Barbados has to do with our successfully executing policies to manage imports and exports, since much of what happens to these can be influenced by factors beyond our control.

The performance of our balance of payments therefore has been extraordinary, and the turn around underscores the soundness of the policies we have used to manage demand, curb imports and to stimulate exports.

It has been free of IMF dictation.

It indicates the soundness of the policies we have deployed to attract private capital flows to Barbados.

The extraordinary improvement also signals strongly that, in its most critical area, the Barbadian economy is highly responsive to policy changes, can adapt as required to changing circumstances, is resilient and is finding its way in the global economy as an increasingly competitive economy.

These are the indices that Moody's and Standard and Poor's refer to when they improve Barbados credit ratings. These are the kind of realities that have led the Global Economic Forum to rank Barbados as the 31st most competitive economy in the world, ahead of Italy, India, China, Kuwait, Greece and any country in the developing world.

As we prepare to host the 2007 Cricket World Cup final, the performance of our economy assures that, no matter how stern may be the challenge, Barbados is ready to take its rightful place on the global stage.

I would wish to share a perspective with Parliament on this theme which will pervade my presentation today.

Over the course of the past ten years, in virtually every speech, I have sought to alert the country that the age of our dependence on preferences was coming to an end.

I have urged that we accelerate the programme to build a post-colonial economy that can function without depending on the old familiar trade and financial props which carried our economy through the immediate post Independence period.

I have consistently urged that the nature of the adjustment that is required to enable Barbados to function in the evolving global economy is too much for the society and the economy to accommodate in one fell swoop, and it has to be properly sequenced.

Hence, in each year since 1999, new policies have been introduced to reposition the economy.

Because the process has been phased and carefully measured to take account of our financial and foreign exchange resources, the full magnitude of the transformation we have made is sometimes taken for granted.

But the full import of what we have achieved will become immediately apparent if we were to take stock of what countries with circumstances similar to ours are now required to do because they did not respond to a challenge, similar to that which faced Barbados, with a similar foresight and creativity.

I use the case of Mauritius.

This is a country that recently, like Barbados, was highly regarded as a successful middle income developing small state, with levels of per capita income, employment and a general level of development that approximate that of Barbados.

We recognized as early as 1998 that the old economic cycle was coming to an end and that we had to make the adjustment.

Speaking in the Mauritius Parliament on the presentation of that country's 2006 Budget, its Minister of Finance spoke in these terms:

“Mr. Speaker, Sir we have reached the end of an economic cycle. A cycle based on trade preferences that has allowed our country to make significant progress since independence. We have used these trade preferences and also overseas development assistance well. However, the world has changed and we have not adapted. The preferences are now being swept away but we have not reacted. We have been naïve in believing that these preferences would endure and that we could continue to obtain concessionary finance to sustain our now outdated socio-economic model.

Mr. Speaker, Sir, none of this has happened.

The danger signs are already here. While the rest of the world and even our region are registering solid growth, our economy has descended to a lower growth path.

Unemployment is at its highest level in twenty years while there is a mismatch of skills that prevents expansion of

several sectors. There are serious imbalances in our external trade.

We simply cannot continue on the same path. It is the surest way to economic disaster and social upheaval. And those who will suffer most are the very people we want to protect: the poor, the vulnerable, the unemployed.

We must charter a new course.”

He then went on to outline a 40 point programme of wrenching change to be carried out over 2 – 3 years.

We have, in large measure, carried out the first phase of the great transformation required of us to move to full development. It is the same transformation that Mauritius is now attempting to set in train.

We must now use the solid foundations of recent achievement as the platform from which to launch Barbados to the next level of economic and social achievement.

The second generation of reform and transformation must now be set in train.

I respectfully suggest that the following constitute the essential matters on which our efforts to continue to transform Barbados for the better must be concentrated.

1. We must expand the effort to build a genuine export culture in Barbados.
2. We must institute new measures to take all of our productive sectors to a new higher level of performance and competitiveness.
3. We must significantly raise the level of savings, both as the means to protect the balance of payments, and to raise the resources to finance investment in an expanding economy.
4. We must institutionalize and secure the gains which wage earners and enterprises have realized from tax reform and put in place a dynamic programme of tax reform to meet the needs of the working poor.
5. True to the provisions of our National Strategic Plan we must institute measures to make Barbados truly a model of a Green, Environmentally sound Economy.
6. We must aggressively implement measures to significantly reduce the rate of inflation and the general level of prices.

7. We must aggressively and positively address problems relating to affordable housing, access to land and land prices.
8. We must expand the scope of our programme to eradicate poverty.
9. We must open new areas of special development that can enhance our capacity to generate jobs, foreign exchange and income.
10. Finally we must boldly liberalize our financial sector and change our approach to the use of exchange controls to enable Barbados to realize its potential to be the leading financial centre in the region, and an important location for the performance of international business of all sorts.

MACRO ECONOMIC POLICIES

It is vital that the ambitious development programme we are seeking to carry out should not only be supported by the practice of sound fiscal and other economic policies, but indeed by the sharpening of such policies, as required by circumstances, to make them even more effective.

Fiscal Policy

Prudence in the management of the Public Finances has been a crucial aspect of the stable and sustainable growth and development environment Barbados has enjoyed.

Central to this has been the policy to contain the overall fiscal deficit to less than 2.5% of GDP each year.

Since 1991, except for three occasions, the deficit has been contained to less than 2.5% of GDP. Indeed, it has averaged 2.1% of GDP over the 16 year period.

Moreover, the primary balance (the fiscal balance excluding interest payments) has recorded surplus averaging 3.1% of GDP over the period 1991-2006.

For the fiscal year about to end in March 2007, we anticipate an overall fiscal deficit of \$130 million – equivalent to 1.9% of GDP.

This outturn is therefore somewhat better than the original target of a deficit of 2.9% of GDP.

At March 31, 2007, the Central Government Debt is expected to be \$4.9 billion.

The domestic debt is projected to grow by 10%, while the foreign debt is projected to remain at the same level as it was at March 31, 2006.

Significantly, the overall national debt at the end of the fiscal year is estimated to be 71% of GDP as compared to 77% at the end of the previous year.

Unlike some other countries, some of which are benefiting from debt-relief programmes provided by the International community, Barbados has, and will continue to pay its debts as they fall due, and can account for and fully justify the purposes to which all of our loans have been put.

The new Hilton Hotel, the major expansion of our Airport and Seaport, the impressive upgrading of our roads, our capital city and our general infrastructure, the transformation of our educational system, the building of new institutions to provide development finance to our productive sectors, the investment to protect and

improve our coastal areas are all graphic evidence of borrowed funds well and truly spent.

Notwithstanding, we propose to institute measures to reduce the ratio of the Public Debt to GDP to under 60% by 2012.

Next fiscal year's expenditure will still reflect funding of World Cup related activities and the projected deficit for the next fiscal year is estimated to be the same ratio of GDP as this year (1.9%).

However, in pursuit of the debt management programme I have just described, we propose to amend our fiscal stance, and once the World Cup related expenditures have been taken off our books, to set a new target for the overall fiscal deficit of 1% of GDP per year, and primary fiscal surpluses in the region of over 4% as compared to the 3% over the past 16 years.

As a result of recent tax adjustments, Barbadians enjoy among the most favourable tax regime in the Caribbean. The range and quality of the social services and entitlements enjoyed by the general population stand out among all developing countries and in some areas exceed those of some first world countries.

To live within our fiscal and debt management means, we have now to be circumspect in creating more social entitlements, save and except in favour of the truly needy, and reform some of our entitlement programmes to eliminate expenditure wastage.

In addition, investment activities that have historically been treated as requiring spending by the State will be designed to be carried out as private investments, following standards and guidelines set by the State.

Achieving the targeted reduction in the debt to GDP ratio requires that the Government not engage in net additional external borrowing over the period 2007 to 2012.

Financial sector

We need to institute new measures to accelerate the reform of our financial and capital market IN ORDER FOR Barbados to become the financial gateway for the Caribbean, and an important financial centre for the global economy.

Barbados has already removed selective credit controls but has not yet liberalized interest rates

We have particularly followed a phased approach to the liberalization of both the financial system and our management of exchange controls in the interest of maintaining economic stability.

It is however my judgement that Barbados cannot fulfill its national economic development objectives if we continue to cling to exchange controls. Indeed the arrival of the CSME presents the right time for Barbados to move to the next level with its exchange control arrangements. This will in turn require changes in the manner in which monetary policy is carried out.

Adjustments in interest rate and exchange control policies are now warranted.

At present the main vehicles which the Central Bank uses to conduct monetary policy are the minimum deposit rate, reserve requirements and moral suasion. Since 2001, the total reserve requirement has been reduced from 25% to 17% and as part of the liberalization process, the Government intends to reduce the

securities element of this requirement by a further 6 percentage points.

Currently changes in the minimum deposit rate require approval from the Minister of Finance. As part of the Government's commitment to fully liberalize domestic interest rates, it intends to cede authority to the Central Bank to make changes to the minimum deposit rate without recourse to the Minister of Finance.

It is the policy of the Minister of Finance that Barbados should now enter a new phase where interest rates are now driven by market factors. In addition, given the move towards the removal of exchange controls, one of the considerations in setting interest rates should be to create conditions such that interest rates attract capital to Barbados and are set at a level to prevent speculative outflows.

EXCHANGE CONTROL LIBERALIZATION

In recent years the Central Bank, with the approval of the Minister of Finance, has steadily liberalized the exchange control regime. Further liberalization is necessary to facilitate Government's commitment to rights of establishment under the CARICOM Treaty and to meet government's commitment to fully open the capital account with respect

to CARICOM by January 1, 2008. The areas left to be liberalized are: the holding of foreign currency accounts, purchase and sale of real estate involving other CARICOM residents, cross-border borrowing and lending within CARICOM.

It is now proposed that by year end all remaining exchange controls with respect to CARICOM will be liberalized.

We propose also that substantially all of the remaining restrictions with respect to non CARICOM transactions be removed as soon as practicable thereafter.

At the 2006 National Consultation on the Economy, a Tripartite Committee was established to advise as to the best process by which the full liberalization of Exchange Controls in Barbados should be managed.

Its Report will be acted upon as soon as it is received.

I fully appreciate that some may judge that there are great risks in attempting to go this far, this quickly.

It is my judgement that exchange controls may be impairing the balance of payments rather than protecting it .

The fear, justified or not, that investors will not be able to retrieve capital in a short predictable and transparent manner leads investors to keep capital offshore.

It is one important reason why international purchasers of Barbadian property do so through offshore companies.

I strongly support the view that a credible removal of exchange controls, alongside recent tax reform and other reforms to be announced can lead to a net inflow of capital held abroad that would boost our international reserves.

Despite the risks, we need to go in this direction to take our economy to the next higher level of performance.

SECTORAL POLICIES

As I indicated earlier, during the course of the past 10 years, a comprehensive set of policies have been introduced to provide all of our

productive sectors with concessions, technical assistance to support their restructuring, support to help them penetrate niche markets, access to development finance through Fund Access and Enterprise Growth Fund, and new institutional arrangements to improve the environment within which business takes place and to reduce the cost of doing business.

These measures have led to a demonstrable improvement in the growth conditions facing Barbadian producers, but most especially to those in the manufacturing and agricultural sectors where the brunt of the adverse conditions ushered in by trade liberalization was initially experienced.

There is, however, much that needs to be done to improve the conditions for future growth of our sectors. We now also have to refine some of the policies we have been deploying to take advantage of emerging or untapped opportunities, or to mitigate the impact of risks and constraints our enterprises face in the market place.

No major policy initiatives have been proposed in respect of our Tourism Industry which has been the beneficiary of the most far-reaching financial, marketing and institutional supports in recent time.

AGRICULTURE

Mr. Speaker, in recent years, many of Government's policies were focused on the repositioning of the agricultural sector in order to facilitate its re-emergence as a strong contributor to the national economy.

We have identified three major areas around which new initiatives will be employed. These initiatives are the attainment of Food Security, the full use of modern technology and research within the agricultural sector and the creation of an environment which encourages agro-processing to add value to our primary agricultural commodities.

I wish especially to stress the significance of efforts to generate greater food security.

During 2006, the strategies pursued by the Ministry of Agriculture and Rural Development were geared to increase output in sixteen commodities for which stakeholders in the sector had indicated that Barbados can achieve self-sufficiency. For the year 2006, this country spent \$10,744,522 on the importation of these commodities. This has in fact been a 21 percent decline from the \$13,603,798 spent on these commodities for the previous year. This is a true testament to the marked increase in the overall output of the agricultural sector for 2006, and also

buttresses the notion of the ability of the sector to aim for food security as an attainable goal.

Developments in the Sugar Industry

To take our agricultural sector to the next level we must accelerate the programme to reform the sugar cane industry.

Mr. Speaker, in April 2006, Barbados submitted to the EU its 2006-2014 Sugar Adaptation Strategy, indicating how it will adjust to the substantial price reductions over the period 2006 – 2013. Barbados and other ACP member states will have access to grant funds in the amount of 40 million Euros for 2006. Barbados' share will be Euro 2.3 million of which \$1.2 million will accrue to the agricultural sector.

It has been proposed that these funds will be directed towards the financing of the restructuring of the BAMC, as well as the institutional reform of the Barbados Sugar Industries Ltd as identified within the aforementioned Sugar Adaptation Strategy.

Initiatives for the transformation of the sugar industry are progressing smoothly. Plans are already well underway for the establishment of a multi-purpose facility for the production of ethanol, refined and specialty

sugars, high grade molasses, as well as for the generation of electricity. In addition, there is the intention to turn the old Bulkeley Factory into a living sugar museum.

The government has agreed to support the BAMC's application to the Caribbean Development Bank for a loan of US \$160 million to facilitate the financing of activities under the Cane Industry Restructuring Project.

The re-structuring process of the industry has started already with the sale of Barbados sugar abroad as a branded product rather than as a primary commodity as has been the case for over 300 years. During 2005 the BAMC launched the brand known as "Muscovado Gold" on the domestic market and last year during November, the brand known as "Plantation Reserve" was launched in the United Kingdom". Mr Speaker, both brands are doing well but the "Plantation Reserve" has already made a major penetration in the top supermarkets and hotel chains. Plans are now being developed to spread our market presence to Germany, Ireland and Canada.

The intention is to move from producing 400 tonnes to 10,000 tonnes in the years ahead. The branded sugar is being sold at \$17 per lb as compared to \$1 per lb for bulk sugar, and will enable our sugar industry

and its producers to envision a future of financial viability.

We are now ready to take the industry to the next level and call on all involved to lend their full support.

In order to ensure that the transition into a sugar cane industry remains a smooth one, the Government proposes:

- A further capital injection of \$3,000,000 to enable the BAMC to continue the necessary pre-investment activities during the transitional period in which the industry will be restructured.
- The provision of \$250,000.00 to conduct a feasibility study for the establishment of the living sugar museum.

Strengthening Of the Poultry Industry

Mr. Speaker, last year I highlighted the fact that there are sixteen commodities for which stakeholders in the sector identified that this country has the ability to attain self-sufficiency. One industry, which has nearly achieved this objective, is the poultry industry, which now supplies the country with approximately 80% of its requirements. The government is therefore committed to strengthening its partnership with

this industry to ensure that it achieves its objective of supplying 100% of this country's poultry needs.

In order to facilitate this process therefore and to ensure the further development of the Industry, it is being proposed that a Poultry Board be established.

The government will therefore provide resources to the tune of \$200 000 to assist in off-setting the costs associated with developing the requisite institutional framework for the establishment of this Poultry Board.

The poultry producers are well aware of the vulnerability of the sub-sector and have therefore decided that they should put in place an insurance policy separate from any coverage which may be provided by the Government to help affected farmers get back into business quickly in the event of a disaster.

This industry now has investments in excess of \$160million and will require even more if it is to move to the next level where it can provide 100% of the poultry products which we consume. Therefore, the government fully supports this initiative on the part of the poultry industry, and stands prepared to contribute towards the capitalization of

this insurance scheme, if deemed necessary by the industry.

Pig Artificial Insemination Programme

Since 2002, pork production has increased by some 87%, moving from a production level of 1.4 million kgs. in 2002 to 2.64 million kgs. in 2006. This industry is now producing some 60% of local demand for fresh pork. However, this industry still has some way to go in achieving its objectives of self-sufficiency and of increasing its supply to the processing industry from 13% to at least 50% of requirements.

To reach these targets, the capacity of the industry to produce stock must be improved.

The Ministry of Agriculture and Rural Development, in collaboration with the Pig Producers Cooperative Society and the Barbados Agricultural Society, will therefore be establishing a Pig Development Centre at the Greenland Livestock Station for the collection of fresh semen from the genetically improved boars acquired through this pig improvement exercise.

- The Government will therefore provide the sum of \$ 300 000 to assist with the development of this Pig Artificial Insemination

Programme

Support to the Development of the Dairy Industry

During 2006, this industry produced some 4.5 million kgs of milk, which represents approximately 75% of local demand for fresh milk. It is the intention of the industry however to increase production of fresh milk to 6 million kgs in the very near future, with the longer term production target being 9 million kgs of fresh milk. To assist in increasing the supply of milk locally, the Industry sees the need to import some 400 heifers in-calf.

To assist those farmers without access to financing and who are desirous of importing cows in order to add to their stock, it is therefore the intention of the government to provide financing via, the Agricultural Development Fund (ADF) for this purpose.

The government will also support the Industry by creating a New Dairy Board to better administer its affairs.

Water Harvesting Facilities for the Livestock Sector

The issue of the availability of water for the agricultural sector remains a concern to stakeholders in the sector.

To assist the sector in reducing its dependence on the potable water system, the Government has already provided incentives to facilitate the harvesting of water for crop production. These incentives have helped that sub-sector tremendously and I now propose to extend them to the livestock sub-sector.

- A 50% rebate on the cost of the establishment of water harvesting facilities will be provided to registered farmers engaged in livestock production.

Arboriculture Development in the Scotland District

The Agricultural Development Plan for the Scotland District envisages the establishment of fruit and forestry trees since most of that area is not suitable for other agricultural development.

Last year, we introduced an amended Orchard Development Subsidy to promote the afforestation of the District, as well as the production of approved fruit trees.

- To further assist investors in the Scotland District with meeting the cost of establishing orchards, forests and agro-forestry projects, we therefore now propose to offer to registered farmers, a 50% discount for the purchase of a minimum of 300 trees of approved species as distinct from the \$5 rebate as proposed last year. These

trees must be managed in accordance with Good Agricultural Practices (GAPs) to be developed by the MAR.

- A rebate will also be made available to registered farmers of 50% on the costs of the management of these trees in accordance with guidelines to be provided by the MAR.

Promoting Youth in Agriculture

The agricultural sector is faced with the problem of having an aging agricultural population. A programme has been devised to turn this around.

Chief among these is the establishment of model farms to facilitate the undertaking of research and production activities, as well as training in agricultural practices, within a structured programme for young people.

Last year, I announced plans for the establishment of a Pilot Project for the youth at the Home Agricultural Station in St. Philip. Activities associated with this Project are now well advanced with technical assistance being provided by Israel.

Plans are now being made for a similar project to be undertaken as part of

the Bath Plantation in St. John by the Ministry of Agriculture and Rural Development, in conjunction with the Food and Agriculture Organisation (FAO

- An initial capitalization amount of \$ 2 million will be provided for the youth programme at Bath through the Agricultural Development Fund.

National Agricultural Health and Food Control Authority

The agricultural sector must be able to respond not only to the demands of local markets, but also to regional and global demands, especially in terms of quality standards.

Barbados has especially experienced great difficulty with regards to penetrating the lucrative markets of the European Union (EU). This has been due to the emphasis placed by the EU on high levels of standards, which in their eyes Barbados is yet to attain. With Barbados, as part of the CARIFORUM group, soon to be entering a Regional Economic Partnership Agreement with the EU, the enhancement of the current Agricultural Health and Food Safety System will have to be addressed if the country is to exploit any opportunities to export indigenous agricultural products, which this Agreement will present.

It is imperative then that Barbados proceed quickly with the establishment of its National Agricultural Food Control Authority (NAHFCA) and with the upgrading of the various laboratories so that they can effectively carry out their tasks under the new Authority. In this regard, I propose that:

- An initial amount of \$20 million be made available to the Ministry of Agriculture for the upgrading of the eight laboratories within that Ministry. The IADB has been approached as the source of funding for this.

Vending and Wholesale Operations

In the past the agricultural sector was a leader among those industries promoting micro-enterprises within Barbados. It is the intention of the Government to ensure the re-emergence of this economic activity across the country.

Various locations throughout the island have been identified which will be designated for farmers' wholesale markets and for transient vending operations. These locations are shown at Appendix I.

With respect to vending generally the policy of the Government will be to

give priority to granting licences to those persons who are involved in the “welfare to work” programme of the Ministry of Social Transformation and other poverty alleviation programmes. Government will also make loan facilities available under the aegis of the Rural and Urban Development Commission to provide such persons with seed Capital.

Agricultural Payment Guarantee Fund

Currently, there exists a fund which was created to facilitate the export of agricultural products.

It is now proposed that the Export Development Fund, established in 2002, be extended in its scope to take into consideration the marketing of agricultural produce at the domestic level. This Fund will now be re-named the Agricultural Payment Guarantee Fund, and will be a revolving fund, the resources for which will be capitalised at an initial \$500,000 through the Agricultural Development Fund. In addition to supporting agricultural exports therefore, the Fund will also allow for the disbursement of credit to farmers desirous of supplying their agricultural commodities to the hospitality sector.

Replenishment of the ADF and REF

The Agricultural Development Fund (ADF) and the Rural Enterprise

Fund (REF) were created as a means of providing dedicated sources of financing to the agricultural sector. Traditionally the Agricultural Development Fund (ADF) and the Rural Enterprise Fund (RDF) have been financed from a portion of the revenues generated from the imposition of Barbados' bound rates and the sale of assets by the Barbados Agricultural Credit Trust Limited (BACT).

Due to Barbados' WTO commitments, the bound rates will realise less and less in the future and the BACT has indicated that it has no more assets available for sale. This will make it necessary for Government to make injections into the ADF and REF from other sources. To date only one borrower from the ADF has defaulted on his repayment.

- I have therefore decided that the Agricultural Development Fund and the Rural Enterprise Fund should be re-financed through the issuing of a bond in the amount of \$40 million to adequately meet the current demands of the agricultural sector.

Aquaculture

It is the vision of the Ministry of Agriculture for Barbados to have a Fishing Industry where the fisheries organisations become not only the producers of quality fish and fish products, but also the owners of

commercial enterprises which will be involved in the processing and marketing of these products. In this regard:

- The Government will therefore provide a 15 year tax holiday to Organisations interested in this commercial endeavour as a vertically integrated enterprise.

Adoption of New Technologies

As part of its competitiveness enhancement programme, the Ministry of Agriculture and Rural Development has continued to promote the use of technology as a means of reducing cost, increasing output, and quality and generally enhancing efficiencies within the sector. Already the sector has been successfully adopting greenhouse and various other technologies but there is need to accelerate the rate of the use of new technologies among the farming community. To facilitate this:

- Government will introduce a fifteen year tax holiday for those Organisations investing in high end technology.

Cross Border Investment

The implementation of the CARICOM Single Market and Economy (CSME) has presented a platform whereby local agricultural investors can seek to exploit this regional initiative to utilise those member states with larger land masses, adequate water resources lower labour and input

costs.

It is the vision of the MAR that Barbados should be a leader in the sphere of agriculture within the CSME initiative. The Ministry of Agriculture will therefore seek to encourage persons within the agricultural sector of Barbados to apply their knowledge and intellectual expertise to take advantage of agricultural investment opportunities offered under the CSME.

As a first step towards assisting the sector in this endeavour, the Government will therefore provide \$250,000 to support the conduct of feasibility studies for cross-border investments by local agricultural Organisations. These feasibility studies will include the development of investment profiles as well as the appropriate market studies for identified agricultural output. A fiscal package will be developed at a later stage to facilitate the implementation of any project identified through this process.

Restructuring of WISICA

West Indian Sea Island Cotton continues to be one of the higher quality raw materials produced in the Caribbean region. It is the vision of this government that, just as is now occurring within the sugar industry, this

industry be moved from being the supplier of a primary raw material, and be transformed into a high-value, vertically integrated industry, providing top of the line fine garments and other Sea Island Cotton products.

WISICA is direly in need of being transformed from an outdated institution which has maintained its institutional infrastructure since its incorporation in 1945, into a contemporary organisation. This will enhance its ability to protect the intellectual property associated with West Indies Sea Island Cotton.

- The Government will therefore provide \$400,000.00 to assist WISICA in its restructuring efforts.

MANUFACTURING

Over the past ten years the Manufacturing sector has contributed an average of 8% of GDP, and provided employment for approximately 10,000 persons on an annual basis. Government is determined to transform the industrial sector in order that its contribution to GDP may exceed 12% within the next ten (10) years. Equally we will work towards the goal of \$1 billion in our domestic exports by 2012.

In each of the last 3 years, we have recorded double digit increases in our domestic exports with 2006 reaching a record 23.4% expansion over 2005. We need now to do it for the next 5 years.

The experiences of developing countries worldwide demonstrate that the success of Industrial Development programmes in small open economies continues to be quite a complex exercise. Industries in small countries such as ours, now find themselves facing a rising tide of competition as protective shields are being removed. The movement towards free trade, rapid technological advance and the concomitant integration of international economic and other systems, have added to the complexity.

A new thrust in our Industrial policy is therefore required to further transform the sector.

Major initiatives of the industrial policy

The main aspect of our new industrial thrust will take the form of an eight point programme that is designed to span the next three to five years at a proposed cost of BDS\$79.5Million. Following are some of the major initiatives:

Create An Enabling Business Environment

Some of the current problems in this area are insufficient funding, high energy costs, sporadic levels of productivity, transportation, storage and services rates, and the need to improve administrative responses to the needs of the sector.

1. We believe that part of the solution lies in the establishment of an Export/Import facility, which will serve to provide funding in a way that would mitigate the risk for companies going into new markets. Government will seek to complement the role currently being played by existing financial institutions through the establishment of this new development finance facility, capitalized to the extent of BDS\$3M. per year. It is anticipated that this facility will be made available to two hundred and fifty (250) exporters, but in the short term significant benefits will accrue to the top thirty (30) exporters who account for just over 60% of exports. This facility, along with several other initiatives could increase export earnings by as much as 15% annually. The facility will be managed by the Enterprise Growth Fund.

2. VAT Reform

A recent survey confirmed that persistent and chronic delays in receiving VAT refunds is the most significant issue standing in the way of efforts to promote exports.

We therefore propose that qualifying registered exporters should not be required to pay VAT at the time of importation of their inputs, that is raw materials, packaging and equipment. The qualifying criteria will be set in such a way as to ensure that the exposure of the VAT Division is no more than it would be with a non-exporting company. Current research suggests that this qualifying criteria will require companies to earn at least 40% of their gross annual revenue through exports.

3 Technical Assistance

Further, the Special Technical Assistance Program will be expanded to provide assistance for groups of manufacturing and manufacturing related enterprises to set up productivity based incentive schemes, to boost both sectoral and national productivity.

In addition, the Tourism Energy Efficiency Audit and Retrofit Fund will be expanded to include energy audits for the same group

of enterprises. We believe that implementing the recommendations of the energy audits could result in a reduction of energy cost by about 20%.

Introduce New Promotion and Marketing Initiatives

Given that Barbados' traditional export markets have been under pressure for some time, it is critical that new markets be identified and old markets be resuscitated and efforts made to expand current marketing programmes. We believe, as I have previously indicated, that this can be achieved with the establishment of a dedicated Export Promotion Agency, and we have made considerable progress toward the creation of such an Agency as a public/private Sector entity. It is anticipated that the dedicated Export Agency, Export Barbados Inc., will be operational by September 2007 as a public/private sector agency.

Introduce Programmes and Incentives to Stimulate Investment

In order to stimulate increased growth in the economy continuous investment must be made by individual firms and businesses.

We will therefore modify the current Fiscal Incentives regime to achieve increased investment in the manufacturing sector. To this end the level of new capital invested in the last three years will now be used to qualify

companies for an extension of their incentives for another 5 years. In addition, we shall amend the legislation to permit new products within broad existing generic classifications which may have previously benefited from Fiscal Incentives, to be the subject of a new application. The burden of proving that it is a new product lies with the Applicant.

Develop Physical Infrastructure

The development of the appropriate infrastructure is necessary if we are to adequately address the needs of enterprises. A programme to outsource the management of industrial estates, while embarking on a regime to sell the long leasehold for factory units and use the income to fund new developments will be undertaken.

Additionally, manufacturers will be able to obtain equity in these properties through the purchase of the long leasehold, and will now have the ability to execute maintenance in a more responsive way to the needs of their enterprises.

This programme is proposed to be implemented over a three year period. The sale of the leasehold of these properties is conservatively estimated to earn \$25M. in the first year, and with prudent tax planning, can provide manufacturers with a further \$10M. for investment in the sector.

New Sector Development

For Barbados to boost its exports efforts must be made to introduce new products and services.

In this regard we must develop the necessary blueprints, including standards and certification, legislative framework and policies, for the establishment of a Botanicals industry. It has been reported that the Botanical products in international trade generate more than BDS\$40 billion dollars annually, and supply important medicine, personal care and cosmetic, and food and beverage ingredients and products.

Government is also committed to supporting a higher level of value added in the Informatics Sector. To this end, we will soon establish a Medical Transcription Services training centre aimed at the development of this new high end industry sector in Barbados. This will involve the creation of a 36 month educational programme designed to produce 500 graduates. The project has an estimated cost of BDS\$8 million. An analysis of the estimated financial benefits indicates that the country, within three years of operation, will earn over \$29 million in foreign exchange.

Maximising Human Resource Development

Our industrial sector is currently faced with the issue of low productivity, insufficient relevant training programmes and an absence of a company based training culture. For Barbados to improve its competitiveness and bring about notable transformation in the performance of the Industrial Sector, the relevant training, retraining and skills-upgrading across the broad spectrum of the Sector must be provided. A major component will be the provision of continuous business training for small enterprises in particular.

To immediately address this issue we will appoint a National Industry Training Coordinator to devise training strategies to meet current and future skills requirements through appropriate training solutions.

Transform the Basic Industries

Barbados' furniture, apparel, food and beverages and craft sub-sectors, now called basic industries, have for several years been significant contributors to economic development. But these sub-sectors, notably furniture and apparel have not reached their potential due to their inability to complete their transformation.

The condiments sector is primarily comprised of small to micro operators. There are approximately fifteen (15) organized commercial entities, eight (8) of which are exporters, mainly to the USA, UK and Canadian markets.

For the condiments sector we propose to establish a Government-funded, private sector managed, state-of-the-art Central Processing Facility. The facility will seek to address the challenges cited, with a positive impact on working capital availability, operating costs, sourcing of inputs and the export price of the final product. Considerable additional energy will also be channelled to export marketing activities in this sector.

It is envisaged that this could lead to an increase in exports from approximately \$340,000 to \$10million and the addition of at least another ten (10) new companies to the export market in the foreseeable future.

The Fashion Industry comprises approximately twenty (20) trained and talented designers of fashion and accessories. The critical issues facing the industry will be addressed through the expanded Basic Industries Programme.

Several of the top designers have built up a reputation in the region and with international visitors to the island, and are ready to take the next step- the international market. Our goal is to launch ten (10) designers internationally by 2012 who would have the capacity to generate approximately \$10 million in foreign exchange earnings.

Within the Furniture sector we plan to launch the Barbadian Vernacular Furniture Initiative. Elements of this initiative will include a central facility, consolidation of procurement, and the rationalization of arrangements for promotion, marketing and distribution.

In order to solidify the transformation of the Basic Industries, there will be an initiative which establishes a Covenant with the local Tourism and distributive sectors to purchase locally produced items, subject to our producers meeting the requirements for quality, consistency of supply and competitive pricing.

INTERNATIONAL BUSINESS

Barbados continues to be a destination of choice among investors who want to invest in a jurisdiction that has a good infrastructure, sound regulatory environment, appropriate tax and other concessions, a growing

tax treaty network stable political framework and a sound reputation in the international community.

The international business and financial services sector maintained its pattern of growth in 2006 measured in terms of overall company formation. Overall, new entities licensed at the end of 2006 were 575 as compared to 414 for the previous year (2005) marking a 38.8 % increase for new entities licensed.

We now have to take this sector to a new higher level of performance.

To this end Government has prepared, in conjunction with the private sector in both the domestic and international business sector, including traditional and non-traditional actors, a 10 year Strategic Plan for the International Business and Financial Services Industry.

I wish now to highlight some key aspects of this plan which see some immediate changes to the framework for the conduct of international business from our shores.

Let me begin by articulating some key themes that continue to inform and guide my Government's development of the industry.

First, regulation must be appropriate to risk. Government will not support the giving of legislative expression to 'regulation for the sake of regulation only'. Equally, we will not engage in a permissive environment that ignores the domestic and international risks that need to be managed.

Equally important is Government's determination to shift the burden of proof in relation to issues of disclosure attendant to the licensing of international business entities. This shifting of the burden will find specific expression in new on-line declaration forms and penalties for non-disclosure.

This shift, which will be reflected through legislative amendments, that are possible at this time because of the legacy of the enhanced security infrastructure that Barbados now has access to, as a direct result of this region's hosting of ICC Cricket World Cup. A plethora of international databases will now be available to our law enforcement agencies including those charged with intercepting money-launderers and terrorists' financiers.

We have established INVEST BARBADOS, a dedicated agency designed to market, promote and sell Barbados as a mature international business and financial services domicile.

We need now to give clear and certain definition to the Barbados brand. Its success ultimately will rest on the reality of our brand.

International Business Charter

As regards new measures, the Government will sign an International Business Charter which details Barbados' commitment to the international business sector. As such, it will directly address the operations of key departments whose work includes the attraction of foreign investment to Barbados.

This Charter will re-cast the operations, systems and procedures of the Immigration Department, the Corporate Affairs and Intellectual Property office and the International Business and Financial Services Unit as they relate to the attraction, retention and growth of the international business and financial services community. Given the nature of Barbados' international business product which admits for the full participation of local and CARICOM ownership, this Charter will also benefit Barbadian entrepreneurs seeking to build our exports.

This Charter will address three areas of concern that, if left unchecked threaten the continued competitiveness of our country as an international business domicile of choice.

First, the Charter will commit to a reduction in the processing time for work permits. A single set of forms will be introduced for the granting of the work permit, student visa and spousal visas. This new system will enable the single processing of ‘family units’ relocating to Barbados where applicable.

In order to facilitate this, Government will establish a new position of Senior Immigration Officer with specific responsibility for work permits and other applications in respect of persons and ‘family units’ relocating to Barbados to work in the international business and financial services industry.

Secondly, at a cost of \$566, 876 per annum Government will create thirteen new posts in the department of Corporate Affairs and Intellectual Property. Government recognises that the Corporate Affairs Department is the central “hub” around which the licensing and re-licensing of international business enterprises must necessarily revolve. In addition,

money has already been allocated to complete the final phase of the complete computerization of CAIPO to ensure the on-line delivery of its services. This will be implemented at a cost of \$157,690.00 during the first quarter of the new financial year.

It is expected that once completed this system will significantly reduce the time necessary to process applications and registrations from CAIPO's customers.

Thirdly, Government will make arrangements that will provide for the simultaneous establishment of residency and licensing of entities under legislation governing the sector. This will result in a substantial reduction in the processing times for the licensing of International Business Companies, International Societies with Restricted Liability and International Trusts.

I expect that early in the first quarter of this coming financial year, the Charter will be established.

Financial Services Authority

I have previously announced the establishment of a Barbados Financial Services Authority to regulate the non-banking financial sector. It is

intended that the regulatory functions of the international business sector in the Ministry will be transferred to this new Authority when it is established later this year.

Asset Management Industry

These two initiatives, the Charter and the Financial Services Authority will allow Government to realise its firm ambition to have Barbados recognized as a premier asset management domicile as quickly as possible. This area represents tremendous opportunities for the amplification of Barbados' international business and financial services product.

The development of Barbados as a premier asset management location can only be realised by forging an enabling environment for this type of business. It was with this in mind that in my last Economic Statement I revamped the 35% concession to make a job in this sector in Barbados a most attractive and practical option for this set of highly skilled professionals.

We have identified Family Offices, Treasury Management and Private Equity as constituting the core of an Asset Management Industry for Barbados.

To encourage their location in Barbados Government has moved towards the creation of the single regulatory agency, and will support the creation of a new International Institute of Financial Risk and Regulation, to which I will refer shortly.

Moreover, Government recognises that anomalies in our legislation relating to terms such as ‘residence’ and ‘domicile when it comes to assessing tax liabilities should be removed.

Legislation in this regard will be shortly brought to Parliament.

It is estimated that the development of Barbados as an Asset Management Centre will over five years create employment for approximately a thousand Barbadian professionals.

International Arbitration Services

Barbados’ external infrastructure for the attraction of international business and financial services includes a competitive network of bilateral investment treaties.

In recent years, arbitration has emerged as a preferred method of resolving international commercial disputes. Established centres of

arbitration like London, New York, Paris, and Geneva now face increasing competition from newer entrants into the market.

Government intends to establish in Barbados an International Arbitration Centre.

To this end, Government has decided to adopt the United Nations Commission on International Trade Law (UNCITRAL) Model Law on International Commercial Arbitration as a matter of priority. We have commenced discussions with the London Court of International Arbitration (LCIA) with a view to establishing this year in Barbados centre under the LCIA's auspices. It is estimated that the establishment of this centre will cost Government in the region of Bds\$2.6 million during the initial three-year start-up phase with \$1 million allocated to the first year. While it will begin to earn its keep during the first three years the goal is to attain profitability quickly thereafter.

International Institute of Securities and Financial Regulation

To carry Barbados to another level in the international business sphere, Government will provide financial support for the creation of an Institute of International Securities and Financial Regulation.

The Institute will focus on the training and re-training of professionals in the public and private sectors by providing specialised, relevant and continuing training opportunities in the financial services sector the Institute will in turn generate greater and better employment opportunities for Barbadians.

Global concern over issues of money laundering, tax evasion, and regulatory scaling and arbitrage has led to pressure for higher standards in CARICOM financial centres.

To this end the Institute will act as a regional hub for the provision of this type of training.

The European Union has already agreed to provide \$4 million Euros to help finance the establishment of this new Institute.

Enhanced regime for Barbados Holding Companies

It is Government's wish that Barbados should become a premier location specifically for Holding Companies.

The present rate and structure of the Withholding Tax is a major constraint on such a development. To create an environment in which

Barbados can become the Headquarters for regional and International Companies, the following changes are now proposed:

Taxation of Foreign Dividends

With effect from income year 2007 dividends derived by Barbadian resident companies including companies licensed to operate in the international business sector will be exempt from tax in Barbados on dividends from an overseas company where the Barbados resident is a shareholder representing at least 10% of the capital of the overseas company. A further condition to be satisfied is that the shareholding in the foreign company should not be held as a mere portfolio investment.

Exemption from withholding tax on dividends paid

out of foreign earnings

To supplement the above-mentioned proposal and in furtherance of my Government's objective in enhancing the attractiveness of Barbados as a holding company jurisdiction I will introduce an exemption from withholding tax in respect of dividends paid by a resident company to non-resident shareholders out of foreign source income earned by the company.

HOUSING

Mr Speaker the issue of land has been the topic of intense debate in recent times. That debate, has been necessary and healthy and warrants a strong policy response, based objectively on the facts of the situation.

Mr Speaker, what are the facts?

There can be no doubt that there has been a sharp escalation in the price of land. Prices have moved from an average level of \$3-5 per square foot for developments in St. Phillip and Christ Church in 1987 to an average of \$15-18 in those same areas. There are also some developments in which prices of \$25 per square foot are being obtained. The price at which land is sold today is not based on the cost of building out the development but more on what the market can pay. The earliest example of this was in 1992 with the development at Fort George Heights. The development at Fort George offered 87 lots in the first phase and attracted over 200 buyers, some of whom overnighted at the site in order to be one of the early bidders. This was done at a time when land was sold in developments for less than \$10 per square foot. The development at Crystal Heights followed this price lead and the market from that time has pushed prices further upward as well as making the developments more upscale. This Mr. Speaker is a clear case of demand driving price.

At the same time Mr. Speaker there has been a huge increase in the demand for land. This situation has two causes.

First, there is the reality that growth in housing demand is a direct consequence of the robust economic growth of the last decade. The strong housing demand we currently face is indicative of the strength of the economy, the high levels of employment and high degree of confidence in the future. The number of persons with jobs has increased by 33,000 since 1994 and workers have benefited from a cumulative 36% increase in their wages over the same period.

Greater access to financial resources has added to the demand for land and houses. The value of residential mortgages has grown from \$591.3mil in 1994 to \$1,381.3mil at the end of 2005, a growth of over 100%. In addition the reforms introduced by this administration in 1998 have allowed many more persons to access mortgages. The reforms included, 100% mortgages, lower interest rates and other special conditions for first time home owners.

In addition to those economic factors there is the social reality of the smaller household sizes resulting from the shift away from the multi-generation extended family household towards the single-generation or

nuclear family household. These factors have all driven demand for houses and land in Barbados.

Second, there is the perception of the shortage of land, which has led to panic buying and hoarding of land. The people of Barbados have expressed concern that we are running out of land.

However before we look towards the future, let us take stock of where we are and present the facts.

The subdivision of land has been used over the last forty years to make land available for housing development. What has been the outcome from this policy?

To answer these questions the Town Planning Department conducted extensive research and has published the Discussion Paper on the Subdivision of Residential Land in Barbados, which must be made widely available for the information of Members of this House and the wider public.

Mr. Speaker, over the years, the impact of the subdivision of land has been very dramatic. As reported by the Land Registry, there are 130,000

separate plots of land in Barbados. This figure has increased substantially from approximately 42,000 in 1970.

We must all be greatly concerned about the fact that notwithstanding the huge number of subdivisions approved, there are still a large number of vacant lots in Barbados. The Environmental Management and Land Use Project has identified approximately 20,000 vacant lots in the urban corridor alone. Across Barbados it is estimated by the Land Tax Department that there are some 42,605 vacant parcels of land.

In addition the sample survey of sixty-three residential subdivisions approved between 1971 and 2002, and each containing fifty (50) or more lots has indicated that a total of 8,125 individual house lots approved, 34% (2,749) remain vacant today.

This large number of vacant lots that have been approved for housing, is one of the chief factors putting pressure on the price of land. It has resulted from the tendency of Barbadians to buy to and hold land for their children and grand children and for relatives overseas. Whilst this aspect of the Barbadian culture is an admirable feature, it has the unintended consequence of creating scarcity with the resulting impact on the price of land itself.

An analysis of the lots sizes in the same survey by the Town Planning Department indicates that the lowest vacancy rate 11% was found in the less than 400 square metre lots, representing low-income developments.

A further study of the sixty-three sample developments shows that for those developments approved as house and land packages, there were no vacant lots and in fact, all lots were occupied within two to five years after permission was granted, whilst for land-only sub-divisions, 39% of the lots remain vacant.

It is therefore desirable that more developers be encouraged to participate fully in the property development market, that is, the subdivision of land together with the construction of houses with a particular focus on affordable housing.

Over the last decade there has been an average of 1,000 houses constructed annually by private individuals, by property developers and by Government. Census reports for the year 2000 indicate the existence of 91,406 dwelling units (houses and apartments) up from 82,204 in 1990.

There are at present before the Town Planning Department applications for almost 4,000 house spots and houses spread across the entire island.

Mr. Speaker, Government proposes to address the housing and land challenge through a combination of policies and programmes:

- (a) new measures to facilitate access to land at affordable prices;
- (b) a dramatic increase in the provision of housing to low and lower middle income persons:
- (c) new measures to address security of tenure:
- (d) the championing of new partnership arrangements with the private sector to provide housing for other sectors of the population.

Access to Land

At the very foundation of the Physical Development Plan 2003 is its stated goal:

“Provide adequate amounts of land in suitable locations to meet the demand for new housing and to provide opportunities to develop a broad range of housing types, prices and tenures to meet the needs of residents, thereby enhancing the opportunities for adequate housing as well as opportunities for home ownership.”

The Government's strategy will be to continue to approve subdivision of land for housing; and to create new planning conditions so as to influence the market by providing significant quantities of land at low prices, thereby putting pressure on private developers to keep their prices down.

In addition to Government lands the private sector will be encouraged to put more land into the provision of housing for low and middle income Barbadians.

Private sector housing developments continue to make a strong contribution to the national housing output. However, the private sector has historically provided houses for middle and upper income families. It is essential that incentives be provided to encourage a greater percentage of the private investment in housing development to be directed towards low and lower middle income housing.

The following proposals address the issue of land access.

Proposals

The Town and Country Planning Act, Cap. 240 will be amended in order to empower the planning system to make provision for

affordable housing through planning policy. This policy will be in the form of amended legislation which allows the Minister or the Chief Town Planner to enter into planning obligations. A planning obligation is an agreement, usually negotiated in the context of a planning application, between a planning agency and persons with an interest in the land.

This new policy is similar to the Section 106 Agreements used in the United Kingdom and among other things, will set out a requirement for the provision of an element of affordable housing in residential developments or mixed-use developments which have a residential component. It is proposed that developers who provide “turn key” solutions will be required to ensure that a minimum of 25 percent of all completed units are dedicated to affordable housing. Those developers who provide “land only” will also be required to allocate a minimum of 25 percent of the total lots for affordable housing. Affordable housing will be land size of 400 square metres and under, and a combined house and land value of \$150,000 or less.

In the United Kingdom this policy has been very successful and in some regions satisfies up 90% of the affordable housing requirements.

This approach will mandate developers, especially those providing upscale and luxury housing, to invest in the provision of low cost – affordable housing – as a condition for the grant of planning approval. This measure will aid significantly in meeting the high demand for low income housing.

2. The Government will increase the allocation of land for residential purposes consistent with the provisions of the amended Physical Development Plan 2003. The plan also includes policies for the more intensive use of land, including:

- a. promoting the re-use of vacant residential lots and vacant residences through the Derelict Housing Programme, which will be managed by the National Housing Corporation and the Urban Development Commission;

b. constructing and promoting the construction of terraced, semi-detached high rises and other forms of housing, which are designed to produce increased densities on existing vacant and under-utilized lands;

3. The Government will permit land subdivisions in sufficient quantities and in the most suitable locations to meet the level of demand thus ensuring that land scarcity does not push the price up.

The National Housing Corporation has access to 535 acres of land in fifty-one (51) locations across Barbados which will be developed to yield approximately 4,000 housing solutions.

Further, the non-arable parts of plantation land will be subdivided and developed for housing, starting with Government owned plantations of the BADMC. The BADMC owns properties at Sedge Pond, St Peter, River

Plantation in St Philip, as well as Spring Hall, St. Lucy. An arrangement between the BADMC and the National Housing Corporation will be pursued in which the BADMC will contribute land to the venture while the NHC will undertake the development of sites and services. The proceeds from this arrangement will be shared based on the inputs of both entities;

4. As a price signal to the market the Government is committed to using a pricing formula for its land to keep prices down. Land sold by the NHC in its affordable housing programmes, for example the Primary Homes Programme, will be sold for \$2.50 plus the development cost, for example if in a particular development the infrastructure costs \$5.25 per sq. ft., then the selling price would be \$7.75;
5. Tenancies Freehold Purchase Act has been a major tool of empowerment for poor Barbadians by giving them the right to purchase the tenantry lands on which they resided 10 cents per square foot. The amendment of the legislation to include private urban and rural tenants with the right of purchase at the subsidized rate of \$2.50 per square foot has brought the number of beneficiaries to almost 13,000.

One unintended consequence is that the access to rented land no longer exists. There are poor Barbadians who are willing to use self help approaches in building a house if they have access to land.

Accordingly land will be made available on a long lease basis to Barbadians earning less than \$25,000 per year, so that they will have access to fully serviced lots on which to construct their own homes;

6. The transaction cost and the time involved in Transfer of title to land represent both a nuisance and a major constraint to doing business in Barbados. It is clear that the Land Registration project has not achieved the expected results. The reviews of the project undertaken by the UK Land Registry, and distinguished Barbadian Attorney-At-Law Mr. Alfred “Freddie” Clarke are now complete.

Fundamental changes will therefore be made to this project to bring it back on track.

The Land Registration Act and Land Adjudication Act will be amended to:

- Allow the automatic registration of land in approved residential subdivisions. There has been an estimated 60,000 such lots approved in the last three decades. Land in these developments would have been the subject of detailed surveys, town planning approvals, and detailed title searches at the time of sale. These factors make these lands prime candidates for speedy registration.
- Expedite registration of lands acquired by the Crown for housing purposes and large tracts of undeveloped land prior to subdivision.
- Permit Registration Officers to declare titles rather than restricting this to Commissioners of Title as is the case at present. This amendment would immediately and with the existing staff

complement allow an additional five (5)
Attorneys –At-Law to declare titles.

Additional financial, technical and human resources will be provided to the Land Registry, the Land Adjudication Unit, and the Lands and Surveys Department in order to complete the Land Registration Project so that Barbadians can reap the benefits of lower cost and fewer delays in land transactions.

7. Glebe Lands are part of the legacy of the Anglican Church and the positive role it has played in providing access to land for poor Barbadians. The ability of the Church to develop its remaining property, for the benefit of itself, its parishioners and the wider public has been constrained by financial and technical considerations.

The Government will work with the Church to develop a special Glebe Lands Development Project which will assist the Church and its parishioners to experience an economic benefit from their lands whilst performing an important social function.

Increased Access to Affordable Housing

Mr. Speaker, the need to increase the availability of affordable housing has been clearly established. Government implement a mix of policies to stimulate the production of new housing and enhanced maintenance of the existing housing stock.

1. Incentives similar to those in the Special Development Areas Act will be granted to developers with respect to projects of more than fifteen (15) houses with land to be sold at less than \$150,000 each to first time homeowners. This incentive is intended to encourage much more of the existing capacity in the construction sector to shift investments into the affordable housing market and to keep the production cost of the houses low.

2. The house rental market is a critical component in the Government's shelter strategy. The Income Tax Act has already been amended to provide tax incentives for both landlords and tenants to stimulate the rental sector. These measures will be enhanced by the introduction of minimum housing standards for rented accommodation which will ensure that accommodation is safe, has basic amenities, and

utilities and conforms to the national building code and the health services regulations.

3. The Housing and Neighbourhood Upgrading Project funded by the Inter-American Development Bank (IADB) includes BDS\$24 million to support affordable housing.
 - a. Acquisition and development of land for the Primary Homes programme accounts (BDS\$14 million)
 - b. Subsidies, to low income families earning \$7,800 to \$19,681 annually, for the purchase of a Primary Home or the construction of their own home amounting to \$10,000 per family.

Based on the success of this new project, Government will seek to replicate the features of this project for families with incomes up to \$25,000 from its own resource.

GREEN ECONOMY FISCAL AND ECONOMIC PROPOSALS

Mr. Speaker, it is important that a modern Barbadian society in pursuit of sustainable economic and social growth should develop a Green Economy.

The notion of a green economy must be underpinned by the philosophy of putting Barbados on a sustainable economic growth pattern that incorporates prudent environmental management principles.

What is now needed is for us to further integrate green principles into national economic planning, marrying economic growth with environmental management and preservation. These principles are:

1. “We should not exploit resources at a rate greater than we can assimilate the waste that is generated.” This is especially pertinent to Barbados, where we now generate approximately 2 kilograms of municipal waste per capita per day equivalent to the lifestyles of those residing in the most developed country in the world – the USA.
2. We should not exploit renewable resources at rates greater than they can be replenished. This principle is being applied to our groundwater resources.

3. Non-renewable resources should not be depleted at rates greater than they can be replaced by renewable resources. This principle is being applied to our energy sector.

The practice of green economics recognises that because everything on earth is connected, synergies and linkages can be created within and between sectors often with resulting substantial increases in efficiency and productivity. Examples of such approaches, by this government, include:

1. The Integrated Water Resources Management Programme that promotes wastewater reuse for irrigation of sugar cane crops to increase yields to produce more speciality sugars, ethanol or fibre to be converted into energy or wastewater reuse for irrigation of golf courses to promote tourism. Water is now linked to agriculture, energy and tourism.
2. The Integrated Solid Waste Management Programme that places emphasis on the recovery of the organic content of the solid waste stream with the intention of producing compost to return these organics to the soil, again to increase yields which through the CIRP is now linked to energy and ethanol production.

3. The Integrated Coastal Zone Management Programme that not only recognises the critical importance of our coastal assets but also the link between activities on land and what ends up in the sea.

In setting the framework for a Green Economy for Barbados, the immediate task must be:

- To promote the mainstreaming of green economic and sustainable development principles within both the public and private sectors. A task force will be established between the Ministries of Finance, Economic Affairs and the Development and Energy and the Environment, with the mandate to develop targets and indicators of Green Economics and of Sustainable Development to be published in the annual reports of the Central Bank and of the Ministry of Economic Affairs. The indicators must be internationally acceptable, objective and technically sound and will apply to the activities of every Barbadian enterprise private and public.
- Policy makers must determine at what point we stop promoting unbridled growth and promote the maintenance of a high quality of life for all citizens. In this regard, we will conduct a national

carrying capacity survey of the Barbados ecosystem to try to determine, amongst others things:

- i. How many people can reside in Barbados without impacting upon quality of life?
- ii. How many tourists can we physically accommodate on our beaches?
- iii. What is the carrying capacity of our roads?
- iv. What is the minimum amount of land, top soil and freshwater resources required to ensure food security?
- v. How much waste can be assimilated by our terrestrial and marine spaces?

Crosscutting Issues

The Green Economy can only be achieved if it reaches across all sectors. Energy, water and waste have been identified as green economic issues that cut across all sectors and efficiency in use and equity in distribution have been identified as crosscutting principles. Therefore, special emphasis must be placed on conservation, efficiency and building resilience in all sectors in relation to these three things.

For energy efficiency the benefits will include:

- A far less dependence on imported fossil fuels leading to significant foreign exchange savings.
- Lower emissions into the atmosphere and thus a contribution to the control over climate change and global warming.
- In the public sector alone government spends \$60,000,000 annually on energy use. Through conservation and efficiency efforts a reduction of only 5% will lead to an annual saving of \$3,000,000.
- A more efficient use of our natural resources and the promotion of renewable energy sources for which Barbados has a comparative advantage.

In the area of water efficiency the country must reduce the national energy bill due to water generation and at the same time provide an increase water supply and a more efficient use of this scarce resource. This is important given that Barbados has been cited as being one of the fifteen most water stressed countries in the world. Scarcity of water cannot be allowed to become a limiting factor to this country's development.

Improved waste management must lead to a reduction in the waste stream will result in the economic benefit of less waste to dispose of, a lower

environmental impact in the country and a lower national cost of disposal. There can also be a benefit from economic activity generated by recycling and reuse.

Green Economy practices must now be generated in every sector.

Agriculture

Green economics looks for synergies and actions that create leverage or have multiple benefits. Linking agriculture and tourism by promoting the use of Barbadian foods in hotels and the development of “Bajan haute cuisine” is therefore an example of green economics. A committee comprising officials of the Ministry of Agriculture and Rural Development and the Barbados Hotel and Tourism Authority will be established to achieve this objective to guarantee farmers a market for their produce and to broaden the export market for Barbadian food products.

I propose that these best practices in agriculture will be linked to access to the economic incentives for agriculture announced in this and recent Economic Policy Statements.

Investment Promotion

Those agencies within government responsible for promoting investment in the island will be mandated to actively pursue investment by green businesses. The Government will set an environmental benchmark for businesses seeking to provide products or services in Barbados. For example, we have already stipulated that companies seeking to partner with Barbados on hydrocarbon exploration must have sound environmental management principles. Similar standards for other investment activities will also be established. Environmental conditionalities will be developed for venture capital provided by Government (e.g. Enterprise Growth Fund).

Investment in renewable energy technology, energy conservation and efficiency will be promoted. Barbadians are very entrepreneurial, we now have large numbers of itinerant food vendors and an increasing number of food vending sites. Hotels and restaurants also generate large quantities of used oils. Therefore, the Government will encourage the separate storage and collection of used cooking oils and will give incentives to companies wishing to establish a bio-diesel plant.

Procurement Policies

The government will take the lead in the introduction of a green economy by using green principles and ethics in its procurement policies. To this

end, the Ministry of Energy and the Environment will be mandated to develop a Green Procurement Guide for the Central Purchasing Department. The Guide, which will be made available to the Private Sector upon request, will heighten sensitivity about purchasing practices. It is anticipated that the use of a Green Guide will reduce overall costs, reduce wastage and result in cleaner and safer products being used within the Public Service.

Environmental Certification Programmes

The Government will support recognised environmental certification programmes for the various sectors, especially in areas where the certification can provide a competitive edge to the company in the international market. For example,

- In the manufacturing sector, firms will be encouraged to become ISO 14000 certified.
- In tourism, the Green Globe programme or equivalent will be promoted.
- In the building industry, Leadership in Environmental and Energy Design (LEED) certification or equivalent will be encouraged.

It is proposed that the costs incurred by a company to achieve an internationally recognised environmental certification should be a tax write off at a rate of 150%. of the cost incurred.

It is anticipated that these measures will result in the systematic incorporation of sustainable development principles by the private sector in key areas of our economy. It is further anticipated that the achievement of internationally environmental certification will redound to the financial benefit of each firm that achieves this status as they position themselves in the global marketplace, which is becoming increasingly influenced by green issues.

Construction

I propose the following initiatives to promote green economics in the construction sector:

- Establish green building regulations and standards that stipulate the creation of a sustainable physical and environmental footprint for developments, while not compromising the income generating ability of the developer.

- Encourage the reuse of construction hoarding and demolition debris this will result in lowering the construction cost and the foreign exchange expenditure.
- Establish incentives that promote the development of Warrens, Six Roads and the new residential and business centre proposed for the Greater Orange Hill area as green business centres and as models for the future development of town centres in Barbados.

Incorporation of recycled wastes into building materials reduces capital costs of construction, diverts waste from the landfill, reduces foreign exchange requirements, creates employment for the recycling industry and potential advances in building technologies which can become intellectual property. Examples of waste incorporation include – plastics in roofing material, plastic lumber and wallboard, construction debris in road aggregate and building foundations.

The anticipated result of these measures will be stronger, safer, cleaner and cheaper buildings, with lower operating costs.

TRANSPORT

The overall goal of the green economic focus is to reduce the environmental and economic costs of transportation by promoting

efficient and competitive approaches in the sector. Government, through its energy policy, will promote the use of alternative fuels such as ethanol and bio-diesel, as well as promote and support technical assistance and training that facilitates economic driving and efficient use of fuels. Additionally, government will provide duty and excise tax exemptions for alternative fuels and vehicles that have emissions lower than the conventional diesel presently being used.

Retail Sector

The Government proposes to introduce, after further consultation, a new tax regime for the importation of “green products”, concentrating on those products that assist with the crosscutting issues earlier identified – energy and water conservation and waste minimisation. Green Products could include solar air conditioners, solar pumps and solar lights, household compost units, water-saving and storage devices.

Households

The key to the successful development of Green Economics is the support and participation of the household sector. We therefore present the following initiatives that will enhance the lifestyle of households while expanding green economic development.

1. Green Homes: The Ministry of Energy and Environment will establish a Green House checklist that is appropriate to small tropical islands like Barbados. This will include a number of greening, recycling and energy conservation features, e.g. low flow toilets, water storage, solar water heating, fluorescent lighting, passive ventilation and cooling, alternative energy use. Green House certification will be provided by the Town Planning Department as part of the development application process. The householder will be allowed to deduct BDS\$5,000 for Income Tax for the expenses incurred in greening his or her home.

2. Composting: Many house holders use fertilizer on their plants that can affect the ground water. In addition their organic garden and yard waste is left in bags for the SSA to collect. The high cost of managing our organic waste mitigates our effort to keep our solid waste from spreading to sites that can be used for other project. We therefore propose to review and after consultation to reduce the import duties on household compost units.

3. Recycling: One of the greatest incentives to recycling of plastics has been the deposits on the plastic bottles. This has created central collection points and made it easier for the local recycling companies to collect this waste. Based on this success, we will

request the Ministry of Energy and Environment to work together with the Ministry of Health to identify a broader list of products on which will be placed a small deposit fee to enhance their ability to be recycled.

4.

Environmental Levy

Mr. Speaker the cost of providing environmentally sound solutions in Barbados is one of the large areas of expenditure that will confront us going forward and the budgeted cost of environmental projects for the year 2007/2008 is \$114.3 million of which \$70.6 million is the local component. The Environmental Levy Act 1996-8 has been in operation since 1996 and from its inception until present and except for an increase in the rate for used motor vehicles, the rates have remained the same.

In an effort to assist with the financing of environmentally friendly solutions, I propose to increase the ad valorem rate of the Environmental Levy from 1% to 2% and to double the rates on specific items in the Schedule to the Act. This will become effective July 1, 2007 and should earn additional revenue of \$11.2 million over the nine month period.

Pricing Policies

In 2001, Government re-introduced a surcharge on a range of items.

The rationale for the imposition of this surcharge which was set at 60% of the value of the items, was that the local manufacturing sector needed reasonable time within which to adopt and implement a retooling and restructuring programme so as to be able to compete more effectively in the liberalized trading environment.

The surcharge was introduced on items falling under some 54 Tariff Headings, and covered items such as garments, bakery products, paints, food products, furniture and household items. There was the understanding that the surcharge would be phased out over time as the manufacturing sector became more competitive.

In 2005 Government undertook a review of the list of items which were subjected to the surcharge. It was decided that the surcharge should be removed from a selected range of garments and curtains

A review has again been undertaken of the items to which the surcharge applies. Following these consultations it has been determined that:

- (i) given the understanding that the surcharge on the remaining list of garments and curtains would be retained for an 18 month period, no additional items falling under this group should be removed from the application of the surcharge at this time and that the situation should be reviewed at the end of the 18-month period, i.e. September 30, 2007;
- (ii) in principle the surcharge should not be removed from products which are currently being produced locally;
- (iii) the surcharge should be removed from those products set out at Appendix I.

It is expected that removal of the surcharge from these selected products will enable consumers to benefit from lower prices.

Mr. Speaker there has been widespread concern about the rate at which prices were increasing in the domestic market during the period 2005 to mid-2006. There was particular concern with the rate of increase in food prices.

As a consequence of the concerns raised, the Ministry of Commerce, Consumer Affairs and Business Development undertook to mount a thorough investigation of the situation, with a view to determining the reasons for the escalation in prices.

A review of information from the Retail Price Index produced by the Government Statistical Services shows that increase in food prices was significantly greater than that for all items.

Given the concern for the steep increase realized for food prices, the Minister of Commerce and Consumer Affairs and Business Development requested the Fair Trading Commission to undertake a special inquiry into the local Food Distribution Industry.

The inquiry concluded that much of the price increases appeared to have been imported. It also noted that the imposition of the cess as well as an increase in transportation costs occasioned by increasing energy prices contributed to the increase in prices.

It is noted with some satisfaction that since the Department of Commerce and Consumer Affairs resumed its price monitoring

programme, the rate of increase of food prices has slowed significantly and that a sense of normalcy appears to have returned to the market.

Mr. Speaker, it is Government's intention to keep the rate of inflation within reasonable limits. In this connection it has already taken action to remove the cess which was imposed on a range of items in September 2005. Additionally, the 60% surcharge which was imposed on selected products in 2001 will be removed from products which are not produced locally. This action should help to reduce the prices of a range of products, to the benefit of consumers.

In addition, the general level of prices now stands to benefit from falling international energy prices. The Government will pass on in full any future decline in such prices, without attempting to recover any revenue loss from the fact that VAT receipts will fall as prices decline.

Other initiatives which should help to control prices include the following:

- (i) the establishment of a Consumer Protection Committee which will serve as a watchdog for consumers and which will help to lend support to consumer groups in order to

minimize or prevent abuse of consumers by unscrupulous suppliers of goods and services;

- (ii) implementation of a comprehensive price monitoring programme by the Department of Commerce and Consumer Affairs on a range of consumer items;
- (iii) publication of information on food prices obtained at different outlets in order to help consumers to make informed choices when purchasing food items; and
- (iv) mounting of educational programmes for the benefit of consumers.

Both the Department of Commerce and Consumer Affairs and the Fair Trading Commission will continue their investigation of the Food Pricing and Food Distribution System in order to ensure that there is no price gouging by suppliers and that there is no collusion or abuse of dominance on the part of the suppliers, especially major suppliers.

TAX RELIEF PROPOSALS

Mr. Speaker, within the last few years the Government of Barbados has reduced the burden of taxation for individuals and corporate entities.

This has been accomplished through the reduction in personal and corporate tax rates and through increases in allowances applicable to individual tax payers.

The Corporate tax rate has been reduced from 40% to 25%, making it among the lowest in CARRICOM.

The basic and marginal personal income tax rates have been reduced from 25% to 20% and 40% to 35% respectively. In addition, taxpayers have benefitted from an increase in the personal allowance from \$15,000 in income year 2004 to the current level of \$25,000 available from this income year.

The cost of these adjustments to the Treasury of personal income tax changes is \$128.1 million and over 26,000 deserving Barbadians have been taken off the tax roll.

It has quite simply been the most comprehensive programme of Income Tax reform ever undertaken in Barbados.

It has led to the situation where Barbadians now easily enjoy more favourable tax conditions than most of their counterparts in other CARICOM countries where income tax is payable and indeed in most other countries.

However, some individuals, because their incomes, do not qualify them to pay income tax, have not benefitted from these tax changes introduced in the last few years. Some of these may be termed the working poor. In an effort to ensure that all income earners and households benefit from the continued economic growth the island has been experiencing, I propose to provide additional relief for individuals at the lower end of the income scale.

Relief for Individuals with Annual Incomes of \$18,000 or Less

In 1997 Government introduced a set of relief measures among which were the provision of grants of \$500 to individuals earning less than \$13,000 per year. The grants are known as reverse tax credits.

Neither the grant nor the income threshold at which it becomes payable have been changed since then. I now therefore propose to increase the threshold and to expand the type and the size of the grants.

1. We will increase the income threshold from \$13,000 to \$18,000 for eligibility for the reverse tax credit over a three year period; from \$13,000 to \$15,000 in 2007, to \$16,500 in 2008 and \$18,000 in 2009.

The grant will now move from \$500 to \$800 in 2007, to \$1100 in 2008 and \$1300 in 2009.

The cost of these measures to the Treasury will be over \$40 million, and will benefit over 27,000 persons in the category of shop attendants, maids, gas station attendants and the like.

The situation of those in the \$18,000 to \$25,000 bracket will be reviewed in 2009.

Personal Income Tax – Inflation Indexation for the Individual Allowance

If a country's income tax structure is not indexed for inflation, increases in nominal income may give rise to an increase in tax liability resulting

from a greater portion of income being taxable in brackets with higher marginal rates. This is referred to as “bracket creep”.

In the last four years, Barbados has succeeded in changing its personal income tax structure so that all taxpayers are better off. The 66.67% increase in the individual allowance that would have been accomplished over the four years will be considerably greater than the corresponding inflation rate for same period, and the increase in the allowance together with the reduction in rates more or less serves to correct the tax structure for the deficiencies inherent in the system in the 1990’s.

It is the intention of the Government to protect and to secure the gains made by taxpayers as a result of the changes made to the personal income tax structure. I therefore propose that the individual allowance should be indexed in accordance with wage increases. For income year 2007 the individual allowance will be \$25,000, and thereafter this allowance will be adjusted every three years in accordance with the average wage increases over the preceding three year period.

Savings Initiatives

Mr. Speaker, the disposable incomes of individuals have increased significantly as a result of the changes made to the personal income tax

structure. In an effort to promote increased savings by those who have benefited from the increases in disposable income, I propose to increase the amount that can be claimed as a deduction for contributions to registered retirement plans and registered annuities. Under the current personal income tax provisions, the maximum amount that can be claimed for contributions to either plan is the lesser of \$4,000 or 15% of net income. Where contributions are paid to both plans, the maximum amount claimed cannot exceed the lesser of \$6,000 or 15% of net income.

However, with effect from income year 2007, I propose to increase the deduction that can be claimed for contributions to either an approved annuity or retirement savings plan or to both plans to \$10,000. This change will cost the treasury an additional \$2,000,000.00 annually.

Mr. Speaker, the allowance for home improvements; mortgage interest etc is currently at \$10,000.00 per annum. I am now proposing to increase this allowance to \$15,000.00 to take cognizance of expenditures related to the purchase or installation of green products that will help to preserve our environment. A list of such products will be provided by the Ministry of Energy and Environment. The cost of this is \$5,000,000.00.

Furthermore Mr. Speaker I had promised at the time of the introduction of the tax reform measures that I would provide for a consolidated savings allowance to take care of savings in credit unions or investments in mutual funds or new shares of public companies. Mr. Speaker I now propose that with effect from income year 2007 there will be a consolidated savings allowance of \$10,000.00 for investment with credit unions, new shares in public companies or mutual funds. This will replace the current \$3000 annual allowance for credit unions and the \$10,000.00 for mutual funds and new shares.

In addition since the allowance for credit unions will now be on par with that of mutual funds and new shares, the investment in shares of the credit union must be held for a minimum period of five years in order to be eligible for the deduction.

Special Development Areas; Small Business and Housing Tax Rates

Mr. Speaker I further propose to reduce the rate of tax payable by approved small businesses from 20 to 15% and that of businesses in special development areas from 30 to 15. In addition I also propose to introduce a special rate of tax at 15% for companies involved in the construction of houses for sale at a price not exceeding \$150,000.00 in an

effort to stimulate the availability of housing for lower middle and low income earners.

Property transfer tax

Mr. Speaker, I wish now to turn to the matter of property transfer tax. I have previously stated that it is my intention to bring our tax rates in line with the best rates now obtaining in Caricom and in April 2004, I reduced the property transfer tax from 10% to 7.5% Subsequently, representation has been made that this rate is still too high and that it contributes to persons establishing offshore structures in an effort to evade and avoid the incidence of tax. Accordingly, a Committee was set up of public and private sector persons to review the property Transfer Tax.. The Committee found that there were two main reasons why persons were setting up offshore corporate vehicle to own property in Barbados. One was the rate of property transfer tax and the other was the difficulty which investors perceived to be the case in repatriating profits once the property was sold. The Committee therefore recommended that the rate of tax be reduced from 7.5 to 2.5% and that there should be no restrictions on the repatriation of the proceeds of sale of a property owned by a non-resident, once the sale was to another non-resident and there was no net foreign exchange loss to the country. It was felt that these adjustments would stop the leakage of revenue that occurred when

transactions involving the sale of property were done offshore and at the same time reduce the cost of land and property transactions in general for Barbadians at home by reducing the rate. A reduction in the cost of land transactions could reduce the cost of acquisition of property.

I have accepted the recommendations of the Committee and with effect from income year 2007, the rate of property transfer tax will be 2.5%. In addition where the sale of property by a non resident is to another non-resident and there is no net foreign exchange loss to the country, the proceeds of sale can be repatriated without restrictions. This reduction in the Property Transfer Tax rate is expected to cost the Treasury \$39.2 million, based on the collection in 2005/2006, but it is expected that there will be additional transactions to offset this revenue loss.

The situation will be kept under review to ensure that it achieves its desired results.

Land Tax

Mr. Speaker the land tax regime has recently been reformed and is now categorised by the following features in respect of residential properties:

For values \$0-125,000 the rate is 0%. Indeed that first \$125,000 in value is exempted from tax for all properties

On the next \$225,000 in value the rate is 0.1%

On the next \$500,00 in value the rate is 0.45%; and

For properties in excess of \$850,000 the rate is 0.75%

The current valuation cycle will expire at the end of the current financial year, and, if recent experience is any guide, it is likely that property values will rise for the next triennium, beginning in 2008.

It is important that the recent gains realised by householders in respect of lower land taxes must be secured and consolidated.

Hence I propose to make the following adjustments to the land tax bands once the new valuations come into existence in income year 2008:

1. At present, the first \$125,000 of property value is exempt from tax. I propose to raise that to \$150,000
2. the rate of 0.1% will apply to the next \$250,000 as compared to the present \$225,000
3. the rate of 0.45% will apply to the next \$600,000, up from the present \$500,000; and
4. the rate of 0.75% will apply to properties in excess of \$1 million up from the present \$850,000.

POVERTY ERADICATION

Welfare Payments

Mr. Speaker I wish to turn to the matter of welfare payments. Last year I announced an increase in the welfare grants available to persons in the community who suffered from severe disabilities from \$33 and \$28 per week to \$63 per week. I indicated then that the intention was to equalise the payments with those of the disabled persons who receive the non-contributory pension in a two-phase approach. I am now proposing that the persons with severe disabilities currently on welfare stipends will receive an increase in stipend to bring their payments in line with those paid to deaf and blind persons who receive the non contributory pension, and increase of \$33 to \$96 per week. There are currently 1671 adults with severe disabilities on the welfare roll and this will cost the treasury an additional \$2,867,436.

Mr. Speaker, I do not believe that there can be any great investment in addressing poverty in Barbados than in creating opportunities for the boys on the block.

The talents of these young gentlemen represent Barbados' greatest under-utilised resources. Project Oasis has been designed to end this shameful condition by providing financial resources to enable participants to create their own enterprises, and to receive training appropriate to their needs.

The current level of funding of Project Oasis is \$2 million and the Estimates of Expenditure before Parliament raises that to \$2.5 million.

During the course of the next fiscal year, the amount will be increased to \$3 million on the presentation of the programme to take the project island wide.

In addition, under the supervision of the Director of Finance and Economic Affairs, a programme will be drawn up to enable enterprises created under Project Oasis to carry out works, under contract, on behalf of Government Ministries and Agencies in areas where they have demonstrated competence.

SPECIAL DEVELOPMENT INITIATIVES

Mr. Speaker, there are a few areas in which the development prospects of Barbados can be expanded by the provision of concessions similar to

those contained in the Special Development Areas or the Tourism Development Act.

Following this approach, Retirement Villages are now being constructed in St. Peter to make Barbados a location for the conduct of health related tourism.

We need to go further.

There are also a few domestic sectors which need special measures to bolster their viability. I now turn to these matters.

Health Sector

We believe that state of the art, full service hospitals are essential to the quality of life of Barbadians. In addition, these hospitals will create employment once fully operational and will in time generate foreign exchange earnings for Barbados.

We have before us proposals for investment in a private, state of the art hospital and I now propose to create a new regime to support these

investments. We need also to encourage further investment in the upgrade of existing physical plant of privately operated hospitals.

Over the last few months many prospective investors have called attention to the high costs associated with obtaining local materials for the construction and renovating of health-care facilities. To remove this hassle effective immediately, owners and operators of privately owned hospitals will be allowed, on application to the Minister of Finance, to either import or purchase locally materials free of Value Added Tax for the construction or extensive renovation of a new or existing hospital.

To further encourage the upgrade and modernisation of the island's existing hospital plant, I will allow special purpose furniture, once they cannot be manufactured locally, to be imported free of duties and taxes.

In addition to improving the island's health-care plant there is dire need to improve the island's response system an objective that can only be achieved if there is an expansion in the existing fleet of fully equipped ambulances. To this end legislation will be enacted to provide for the automatic granting of duty-free concessions on ambulances to owners and operators of private hospitals.

Mr. Speaker, I now wish to turn my attention to the Queen Elizabeth Hospital. The Queen Elizabeth Hospital has struggled in part because it has not always been provided with the full financing to meet its current and capital needs.

I therefore propose to provide the Hospital, in the coming Financial Year, with a transfer sufficient to cover its operating deficit and in addition to support its approaches to the capital market for its capital needs.

Therefore the subvention for the Financial Year 2007-2008 will be \$120 million, an increase from \$110 million of the previous year. The following year I propose to increase the subvention to \$125 million. Support will be given to the placing of a Special Bond by the Queen Elizabeth Hospital to carry out a complete recapitalisation programme.

Motor Sports

The motor sports industry is growing by leaps and bounds, both domestically and internationally. This was brought to the fore in a recently concluded study conducted by the Motor Sport Task Force which was established to review the existing arrangements for the governance, management and operations of motor sport in Barbados.

The Task Force was also mandated to make recommendations for the sustainable development of motor sport in the island. Based on the findings it has been found that there is need for the sport to be regulated; hence, we are now proposing that within the next year legislation will be enacted to provide a regulatory regime for motor sports at places designated as motor vehicle racing facilities.

The Task Force also concluded that in order for meaningful investment to be made in the development of motor sports facilities, it would be necessary for certain incentives to be granted to encourage the development of the sport. To this end the Tourism Development Act will be amended to allow motor sports facilities to be declared Approved Tourism Products.

In addition, the Customs Act will be amended to allow Import Duty and Excise Tax concessions in respect of vehicles, parts and safety equipment required for motor sport competitions. Over the next few months the staff of the Ministry of Finance will be meeting with representatives of the industry to develop the list of items that will benefit from the concessions.

I await the Report of the Task Force on the future of the Horse Racing Industry which will also benefit from the creation of a Special Regime in its favour.

Transport Sector

Mr. Speaker I am sure that you are aware of the critical role that commuter transport plays in the Barbadian economy. A review of the industry over the last decade has revealed that this sector has seen a constant series of challenges that has seriously affected the viability of these operations. Representations have been made for adjustments to be made to alleviate some of the financial hardships currently facing the industry given that fuel prices have been on the rise for the past three years.

Government recognises the importance of an efficient public transport system if we are to persuade persons to leave their cars at home and use public transport, a feat that can only be achieved if there is an increase in the island's ground transportation fleet.

To ensure that there is greater investment in the sector, the rate of Excise Tax payable on public transport type vehicles falling under Tariff Head 87.02 will from May 1st 2007 be 40% regardless of the vehicle's chargeable value. It presently stands at approximately 62% for vehicles

with a chargeable value of \$45,000 or less, and 80% for those with a value of over \$45,000.

It has estimated that the grant of concessions on the acquisition of at least 200 additional buses over the next four years would cost the Treasury approximately \$3.0 million in that period. At present public transport type vehicles with a chargeable value of \$45,000.00 or less are subject to levies totalling some 96% of the landed costs, whereas in the case of vehicles with a chargeable value in excess of \$45,000.00 the total duties payable are in the vicinity of 128%.

Special Development Initiative – St. Lucy

To take Barbados to the next level, we must ensure that no region is left behind.

St. Lucy cries out for development, and indeed members of its community at North Stars have pointed to its enormous potential.

It is now opportune that special measures are brought to bear to galvanise the transformation of this wonderful parish. Its development can greatly be assisted by the development of a cluster of services in the parish and the building of a town centre.

Nesfield was identified in the Physical Development Plan Amended 1986 as a centre for expansion. This designation was assigned due to its strategic location and the potential to adequately provide for residential and commercial development.

The Physical Development Plan Amended 2003 includes the western coastal areas of St. Lucy, e.g. Checker Hall, Half Moon Fort and Broomefield within the urban corridor. Nesfield, though outside of the corridor is sited along a major node which lends itself to development which can be easily integrated into the existing settlement.

The Small Business Association and Fairfield Investment Limited submitted an application to develop approximately 38 acres of land at Nesfield to the immediate south of the St. Lucy Secondary School. The proposal makes provision for 301 housing units ranging from single family homes, duplex units and multi-family units. Concomitant with the residential development the proposal also makes provision for the following commercial development:

- ◆ Supermarket
- ◆ Pharmacy
- ◆ Medical Office

- ◆ Hardware Outlet; and
- ◆ Offices

It is anticipated that the development of Nesfield as a Local Centre will act as a catalyst for future development in St. Lucy. The Physical Development Plan, amended 2003, defines a Local Centre as a place which provides shopping, business and professional services to local communities and neighbourhoods, it can also accommodate more intensive residential development.

I propose that the development at Nesfield be granted the concessions available under the Special Development Area Act.

I also now further propose that any investment to transform the North Stars Ground into a mini stadium for the benefit of the people of the North of Barbados should be free of all taxes on inputs for the construction and outfitting of the stadium.

CONCLUSION

Mr. Speaker, the measures contained in this Presentation have been designed to enable us to address the critical matters facing our society

whose resolution will give us the assurance of achieving greater equity and cohesiveness among our people.

The Government must never be disconnected from the people. Indeed the concerns expressed by the people must always find their way into the policies to be practised by their Government.

We have listened carefully to the people and appreciate and respect the concerns they have raised about prices and access to land and housing at affordable prices.

We believe that the initiatives contained in this presentation are realistic, creative and will make a substantial improvement where the people require an improvement.

The policies presented here have also been designed to ensure that the gains which , especially low and middle income wage earners have recently realised from income and property tax reform, are not only consolidated, but are expanded to enable them to derive even greater gains from an expanding economy.

We have also addressed the needs of the working poor, the physically challenged, the boys on the block; for Barbados must become not only a fully developed society, but a just and civilised society as well.

Mr. Speaker, the proposals contained in this presentation have been intended to give practical effect to the goals set out in our National Strategic Plan, which has been embraced by the people as their Plan. Barbados will have to go through various stages on its path to full development by 2025.

The economic proposals today will enable us to strike out in new directions where opportunity awaits. They also break new policy ground in relation to essential new areas, such as the Green Economy, where the effect will be felt as long as there is a Barbados.

The new approach to exchange controls and the setting of interest rates is not without its considerable risk.

But I strongly believe that these new measures will make all of the difference in our endeavour to take Barbados to a higher level of economic accomplishment as an international business centre.

I wish that we had the financial, foreign exchange and the natural resources of others, including some of our neighbours, to carry out our development at an even more rapid rate.

But we will get there. For what we lack in financial and physical resources, we more that make up for in Barbadian resourcefulness, adaptability and sturdiness of purpose.

In embracing our policies, Parliament will be greatly reassured by the fact that they are the product of 100% Bajan effort.

I thank all across all sections of the Public Sector, the Private Sector, the Labour Movement and Civil Society who have contributed to their articulation.

We now take these things for granted. For it was only a few years ago that there was an IMF representative was stationed on the premises of Government headquarters, providing dictation to the then Minister of Finance who was content to proclaim with pride, that he knew what the IMF wanted him to do, and when.

Happily, times have changed.

The proposals presented to Parliament today reflect a society which is confident in its ability to manage its affairs. They reflect also the spirit of a new lease on life which comes with the celebration of our 40th Anniversary as an independent nation.

Our National Strategic Plan captures the upbeat spirit of a confident nation which is ready to take its rightful place on the global stage. It was the source of inspiration for today's policies.

I commend that Plan and these policies to this Parliament, and to the present and future generations of Barbadians.

And I can think of no finer way to grace that commendation than to speak to today's and tomorrow's generation for whom the benefits of these policies are intended in the poetry of H.A. **Vaughn**:

To the unborn leader

You who may come a hundred years

After our troubled bones are dust

Farseeing statesman, born to lead,

And worthiest of people's trust,

Turn these few pages in that hour

*When by dark doubts you are assailed
Of what it boots to shape their power –
Read what we won and where we failed;
And barb the word with wisdom fit,
And build, O build, where we but dream
Expose, undo, repair, extend
As you, O master, best may deem,
But whatsoe'er of ours you keep,
Whatever fades or disappears,
Above all else we send you this –
The flaming faith of these first years.*

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