

# **Budget Address For Fiscal Year 2005/2006** **'Towards Growth and Social Protection'**

By

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Prime Minister and Minister for Finance, Planning  
National Security and Overseas Nationals

## **Introduction**

Madam Speaker, Cabinet Colleagues, Members of this Honourable House, Fellow Dominicans.

Last year, in this House, in my Budget Address delivered on 29<sup>th</sup> June 2004, I pleaded with the Nation to consolidate the gains that our country had made during 2003/04. Contrary to the fiscal and economic outcome of the previous year, our country had witnessed a stabilising of the fiscal situation. The year 2003 had also witnessed a reversal of the declines in economic growth that had been registered in 2001/02, and the fiscal situation had begun to show signs of improvement.

However, Government was aware that these were early days yet, and while there was a basis for satisfaction and relief considering our performance in 2002/03, the gains that we had made could easily be frittered away, if we did not consolidate those gains by continuing to demonstrate prudent and disciplined management of the national economy.

As I will indicate shortly, Government has continued to do what is right by the economy. Fiscal year 2004/05 shows an improved performance over the previous year. We have satisfactorily consolidated our gains, and must continue to move on, placing greater emphasis on the generation of sustained economic growth.

May I say that the most important step that the people of this country have taken to consolidate those gains has been to return this Government to office.

Our people have recognised the tremendous gains our country made under the stewardship of this Government, taking into account the difficult inheritance that had been bestowed on us, and have decided to give us an opportunity to continue the good work. I extend gratitude and congratulations to the people of this country for your vote of confidence. I do so particularly on behalf of the late Hon. Pierre Charles of blessed memory, whose role in taking the courageous decision to embark on our programme of economic stabilisation and adjustment, must never be allowed to be forgotten.

The challenge during this fiscal year can be summarised as: continuing to improve the macroeconomic environment as a necessary precondition to increased economic growth, and otherwise facilitating private investment. We will achieve this objective by:

- Building on the gains we have made through continuing fiscal adjustment and prudent management;

- Providing space for the private sector to grow, by various means, including reducing the size of Government;
- Reforming the tax system;
- Improving the climate for the generation of additional private investment;
- Proactive engagement by Government in providing the necessary infrastructural investment in support of economic growth; and
- Ensuring that appropriate and adequate actions are taken towards social protection and poverty reduction.

I will elaborate on these strategies in the course of this Budget Address.

### **Recent Economic Performance**

For the second year running, I am proud to report to this House that past sacrifices have not been in vain. Indeed I am in a position to report an improved economic performance over last year. During last year's Budget Address I reported that our country had turned the corner. I said further, "As we predicted, confidence in our country had returned. Dominica had acquired the image of one willing to help itself. Donors have been sympathetic to our cause. The economic situation had begun to improve."

Our country registered growth of 3.57% in 2004 as compared with a growth performance of 0.1% the previous year. The growth in 2004 was broad-based, with tourism and transportation being the larger contributors to this overall performance. Agriculture, communications, construction and services sector were also important contributors.

Indications for the first half of this calendar year remain encouraging – our country is on track to sustain the growth performance of 2004 into 2005 – indeed subject to weather patterns and other external factors, Dominica is on track to exceed last year's growth performance.

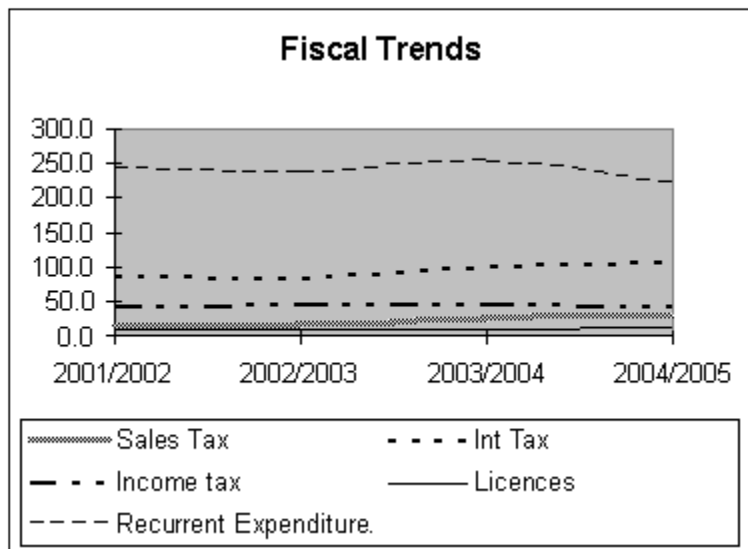
The public finances have continued the upward trend that I reported in last year's Budget Address. Revenues increased from \$234.9 million in 2003/04 to an estimated \$242.9 million in 2004/05. As shown in Chart 1, our revenue lines reflect a continuous upward movement, while recurrent expenditure reflects an initial tendency to increase, but with a subsequent decline since 2003/04, reflective of our improving fiscal performance. Both the sales tax and taxes on international trade show continuous upward movement since 2002/03, an especially encouraging development given that these two are useful proxies for the level of economic activity in our country.

In sum, the current account balance has improved steadily from negative \$39.4 million in 2001/02 to a surplus of \$30.8 million in 2004/05.

As regards capital expenditure, \$62.2 million was spent on implementing the public sector investment programme, as compared with a budgeted \$88.7 million. This shortfall in capital spending was due mainly to issues of capacity in the ministries concerned, and also the rate of disbursement of donor funds to support major capital projects, notably the Dominica Social Investment Fund. The satisfactory growth performance recorded to date would have been even higher if these limitations had not inhibited the rate of implementation of the capital programme.

Regarding the issue of capacity, and based on the outcome of the recent Donors Meeting on Dominica, Government will be following up with formal approaches to agencies and friendly Caribbean countries for technical support with a view to more efficient implementation of the public sector investment programme.

Chart 1



As I indicated last year, the 'primary balance' is the critical fiscal indicator under the ongoing arrangement with the International Monetary Fund. (It is defined as total revenues minus total expenditures net of interest payments). Government is in a position to report successful attainment of the 3% (of GDP) primary surplus target in fiscal 2004/05. This compares with a primary deficit of 1.6% of GDP in 2002/03 and a primary surplus of close to 1.7% in 2003/04. In fact the primary surplus in 2004/05 was close to 4%.

This improvement in our fiscal position is a significant achievement. It represents the outcome of a process of disciplined economic management, characterized by prudence and fiscal responsibility, and careful attention to the public debt. It should not have escaped the attention of members of this House and the public at large, that the improvement in the country's growth performance has more or less coincided with the improvement in the country's public finances. We had promised the country that the stabilisation programme was intended to put our fiscal situation in order, as a basis for achieving economic growth. I am pleased to report that the programme has been vindicated. What is left for us to do is continue the fiscal vigilance, even as we press on with programmes and policies that will sustain the growth.

### Macro-economic Framework

So that this Budget reflects continuation of the fiscal imperative that good economic management requires.

The major planks of the fiscal framework going forward continue to be the public debt, the wage bill and the critical fiscal target, the primary surplus. Consistent with this macro-economic framework, the public investment programme for 2005/06 will be kept at

an upper limit of 10.5% of GDP, and the share of the Public Sector Investment Programme (PSIP) to be financed through borrowing to a limit of 14.5% of the capital programme for the fiscal year. These are the prudential parameters that frame this year's Budget. Observance of these parameters will see our country safely through the next year, in terms of fiscal performance, economic growth and debt restraint.

Government is committed to maintaining a responsible fiscal stance into the medium term. The policy is to target a minimum primary surplus of 3% of GDP and to continue on the path of debt and fiscal sustainability. In so doing we will be creating the conditions for sustaining the growth performance at a minimum of 3% into the medium term.

### **The Primary Surplus**

As I indicated earlier, the centerpiece of our macro-economic framework into the medium term is the 'primary surplus' target, which we have set at 3% of GDP over the medium term. This target is the minimum that is required to attain eventual debt sustainability. Notwithstanding, the country still has a very high level of debt, and debt servicing continues to be burdensome in terms of the country's revenue generation capacity. Government must therefore continue to limit its debt, and make adequate provision for debt servicing and arrears reduction.

### **Size of Government**

We have heeded the warnings of expert observers that the wage bill continues to be a source of concern in our forward movement. At \$106.5 million or 13.7% of GDP, Dominica's wage bill is very high by any standards, and Government will continue to work to reduce it further as a percentage of GDP.

The intention is to make the public service more efficient, and less involved in the provision of services that the private sector can provide. The objective is for our country, over time, to have a relatively smaller, more efficient and better paid public service, as well as an expanding private sector.

Reduction in the size of Government will be achieved through streamlining of Government offices and outsourcing of Government services. The actions that will be taken in the course of fiscal 2005/06 with a view to these objectives will consist of the following:

- Outsourcing the provision of security services of certain Government Buildings -- this will affect 52 employees from 1<sup>st</sup> January 2006;
- Phased outsourcing of the provision of janitorial services within the Roseau area. These services are generally provided on a part-time basis. This will affect 37 such employees from 1<sup>st</sup> January 2006, 21 more from 1<sup>st</sup> March 2006, and 18 more from 1<sup>st</sup> June 2006;
- Reducing the size of the Electrical Division as a consequence of the impending establishment of the Independent Regulatory Commission in January 2006; and

- Merging the Management of the airports with the Port, thus making for a Dominica Air and Sea Ports Authority, with effect from 1<sup>st</sup> January 2006.

In the pursuit of these actions, Government has already begun to ensure the fullest possible sensitisation of those persons to be affected, as well as the provision of technical support to the process, with a view to a smooth transition to the new arrangements. This will, of necessity, include dialogue with the relevant unions. Preliminary discussions with groups of workers to be affected by this decision, suggest that they are not averse to the proposals for outsourcing, and Government is gratified by the generally positive response that they have provided.

Government is optimistic that those services to be outsourced will be provided by new companies that are started by the affected employees, or by companies from which Government will seek undertakings to employ the affected workers. Government will lend every possible support to the affected employees in the establishment of private companies, or in such other ways as may be appropriate. Government will assist in the following areas: training, preparation of business plans, book-keeping and business counselling. Our objective is that no deserving worker will remain unemployed as a consequence of outsourcing.

In addition, to the foregoing specific measures, Government will keep under review the scope for streamlining, commercialising or privatising other services.

Finally, the ongoing work coordinated by the Establishment, Personnel and Training Division on public sector reform will continue, with a view to streamlining the structure and functioning of Government ministries and departments.

Redundancy costs arising from the decision to outsource services previously provided by Government will be met through budgetary support resources to be provided under the E.U.'s Framework for Mutual Obligations (FMO). This FMO could be signed as early as the end of this month, with the funds becoming available by this September.

## **Public Debt**

Government's prudent management of the public debt has contributed in no small measure to the manifest improvement in the country's growth performance. We reported to the Nation in June 2003 that after accounting for debt servicing and personal emoluments, (including retirement benefits), there was only eight cents left in the dollar to pay for goods and services and contribute to the counterpart financing necessary to implement the public investment programme. Last June, I reported that Government's fiscal measures would increase this figure to 15 cents in the dollar. The budget for 2005/2006 will further improve this figure to 29 cents in the dollar, yet another index of the improved fiscal and economic health of our blessed land.

These improvements are possible because we have both reduced the Government's wage bill and reduced the debt burden. It bears repeating that this Government has been careful in incurring debt and such debt as it has incurred since 2000, has been on terms that are concessional and consistent with agreed fiscal parameters. It must be stated that some increase in debt was inevitable, given the parlous state of Government finances following the earlier period of imprudent management. We have been very open about the debt that has been incurred since February 2000 when we took office. The total new external debt contracted was \$278.1 million. It may be worth noting that this total amount has not yet been fully disbursed. As is evident in the Appendix, most of these debts were incurred on concessional terms, and most of them were necessarily incurred in support of the programme of economic stabilisation and

adjustment. It is therefore these very debts that have contributed to rescuing the economy of Dominica from the economic crisis that was the inheritance of this Government.

Total Central Government debt now stands at \$632.6, \$438.9 million (or 69.4%) of this external, and \$193.6 million (or 30.4%) domestic. The ratio of debt to GDP (excluding guarantees in favour of statutory corporations) stands at 81.1%, which is still high by accepted standards. However thanks to the Government's debt restructuring programme, the ratio of debt service to recurrent revenue has been reduced from 22.1% at the end of June 2003 to 15.4% at end June 2005.

Improvement in the Government's fiscal and debt position is also reflected in the state of arrears, as recorded in unpaid cheques. These declined from \$58.4 million to \$34.4 million or by 58.9% over the past two years. Unpaid cheques to Dominica Social Security have declined from \$35.8 million in June 2003 to \$28.3 million in June 2005. This amount will be further reduced to about \$10.0 million on finalisation of the debt restructuring with DSS. Another indicator of our improved financial condition is the Government's overdraft balance. As at June 2005 the balance on the overdraft had been reduced to zero (\$0), compared with a balance of \$59.9 million in June 2003.

Before leaving this subject, I wish to thank all those creditors who have participated in Dominica's debt restructuring programme. They have been true partners in development. To those creditors that are still holding out, you have the assurance of Government's continued willingness to engage you. We continue to service your debt by making payments into an escrow account at the Eastern Caribbean Central Bank, pending completion of our negotiations.

### **Budget 2005/06**

Enough for the time being about the results of the stewardship of this Government over the past five years. Suffice it to say that the record is clear; and that all the indicators are pointing in the right direction.

The Budget for 2005/06 is consistent with the fiscal parameters that I identified earlier. As will be seen at Table 1 of the printed text of my Address, Government is projecting recurrent revenue at \$234.3 million and budgeting for recurrent expenditure [\[1\]](#) at \$214.2 million, thus making for a projected current account surplus of \$20.1 million during this fiscal year.

Table 1. Budget Summary, 2005/06 (\$m)

Items	Estimates 2005/2006	Approved Estimates 2004/2005	Prelim. Actual 2004/2005
Current Revenue	234.3	216.1	242.7
Recurrent Exp. (excl. debt amort'n)	214.2	208.4	211.9
Current Account Surplus	20.1	7.7	30.8
Debt amortisation	12.6	4.8	8.8

Capital Revenue	76.8	88.4	31.2
Local	1.5	3.0	1.9
Grants	63.5	64.6	8.0
Loans	11.8	20.9	21.2
Capital Expenditure	82.0	88.8	62.3
Local	6.7	3.3	6.4
Grants	63.4	64.6	38.6
Loans	11.8	2.0.9	17.2
Overall Balance (Deficit)	2.3	2.6	(9.1)

### Recurrent Expenditure

The recurrent expenditure projection for 2005/06 is \$214.2 million. This compares with preliminary actual expenditure during 2004/05 of \$211.9 million. The wage bill is budgeted at \$106.5 million, a figure reflects both the reinstatement of the salaries reduction effected in July 2003, and at the same time Government's commitment to keep the wage bill in check.

An amount of \$20.3 million has been provided to meet interest payments. This represents \$9.4 million less than that budgeted for 2004/05. It takes into account the benefits from the debt restructuring, and also includes amounts paid into the escrow account at the Central Bank to meet interest payments of creditors with whom negotiations are continuing.

Government transfers are budgeted at \$43.9 million, and include \$20.8 million for grants and contributions to local, regional and international institutions, \$3.4million for public assistance and \$19.7 million for pensions and gratuities. The budgeted amount for transfers represents \$7.3 million more than the amount budgeted for 2004/05, due in part to provision for a large number of retirees whose files are at various stages of processing. The amount for transfers also includes \$2.3 million as a result of the transfer of State College teachers from the Government's payroll to that of the College, and an increased allocation for contributions to regional and international institutions.

Table 2. Budgeted Recurrent Expenditure by Economic Classification 2005/06.(\$m)

Classification	2005/2006	%	2004/2005	%
Personal emoluments	94.7	41.8	92.6	0.43
Wages	7.7	3.4	7.0	3.3
Salaried allowances	4.9	2.2	4.0	1.9
Non-salaried allowances	6.3	2.8	5.6	2.6
Interest	20.2	8.9	29.7	13.9
Retiring benefits	19.7	8.7	16.2	7.6
Grants & Contributions	20.8	9.2	16.7	7.8
Subsidies (Public assistance)	3.4	1.5	3.6	1.7
Refunds	1.5	0.7	1.5	0.7
Goods & Services	34.9	15.4	31.4	14.7

Loan repayments	12.6	5.6	4.8	2.3
Total	<u>226.8</u>	100	<u>213.2</u>	100

The summary of recurrent expenditure by economic classification plus debt amortisation, as shown in Table 2, reveals that personal emoluments, wages, salaried and non-salaried allowances together add up to \$113.6 million or 50.1% of the total, and debt repayment (interest and amortisation) \$32.8 million or 14.5%. We have however been able to factor in an increased allocation to goods and services over last year -- \$34.5 million compared with \$31.3 million.

### Recurrent Revenue

Revenue collection in some areas was above projections. This applies to corporate income tax, property taxes and the sales tax. However, Government's revenue projections for 2005/06 are conservative, given the need for caution regarding the sustainability of some of these collections. Current revenue for 2005/06 is projected to be \$234.2 million, compared with \$216.1 million budgeted for 2004/05.

Table 3. Breakdown of Budgeted Recurrent Revenue (\$m)

Item	05/06	%	04/05	%
Personal Income Tax	29.9	12.8	26.8	12.4
Corporate Tax	9.5	4.1	6.9	3.2
Int'l Trade Taxes	93.7	40.0	102.5	47.4
Sales Tax	26.4	11.3	30.0	13.9
VAT	22.6	9.6	-	-
Other Domestic Taxes	29.7	12.7	25.8	12.0
Non-tax Revenue	22.5	9.6	24.1	11.1
Total	234.3	100	216.1	100

The main sources of revenue are projected to be: personal income tax, \$29.9 million, corporate income tax, \$9.5 million, international trade taxes, \$93.7 million, and the sales tax, \$26.4 million. A more detailed breakdown of these estimates is, of course, available from the Draft Estimates that have been circulated to all members of this House. A summary is also presented at Table.

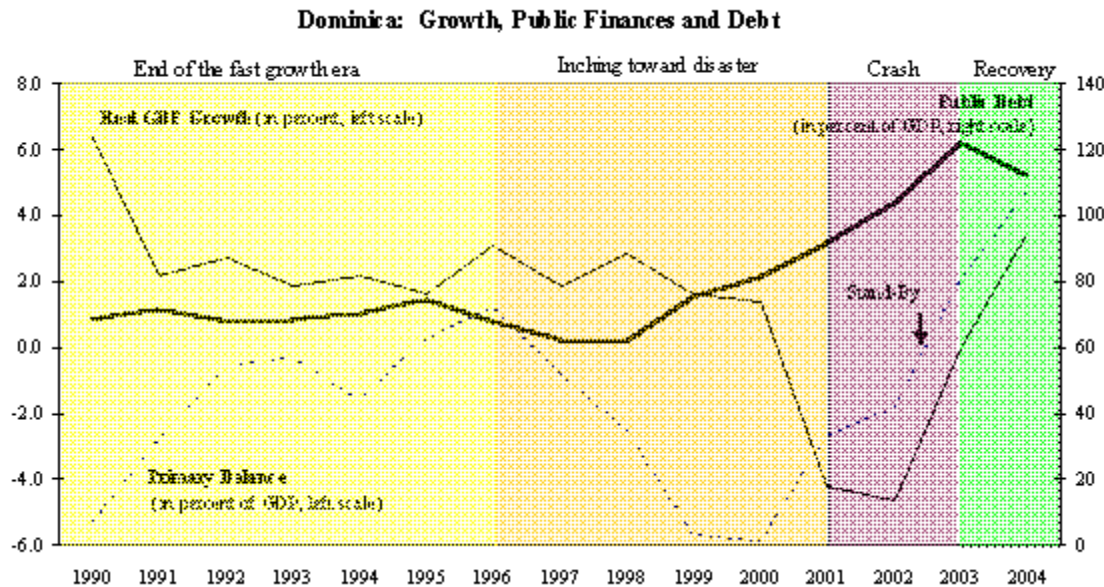
In summary the current revenue projection for fiscal 2005/06 is \$234.2 million, against a current expenditure projection of \$214.2 million, making for a current account surplus of \$20.1 million. Indeed, taking recurrent and capital estimates into account, as indicated in the Budget Summary at Table 1, we are projecting an overall surplus of \$2.3 million. This picture confirms the claims of this Government that our economy is continuing on an upward course – a conclusion that is reflected in both the fiscal numbers and the growth performance. It is also a reflection of the careful husbanding of the resources of our country, and this Government's responsible approach to controlling expenditure, and incurring of debt.

Members of the House will view with interest Chart 2. It shows the interplay between debt, growth and the primary fiscal target, (the primary surplus) for the years between 1991 and fiscal 2004/05. The Chart shows that there is a clear negative correlation between the level and trajectory of debt on the one hand, and the fiscal and growth performance on the other. The test of good economic



management is in the balance that is struck between these three variables, and I am pleased to indicate again that on all the evidence, this Government is doing something right!

Chart 2



### Towards Economic Growth and Job Creation

The generation of economic activity, economic growth and ensuring social protection of the less fortunate, have always been the priorities of this Government, as we articulated that in last years budget. This statement continues to capture the objectives of this Government. We have also been saying over the past three years that “... the purpose of embarking on a programme of economic stabilisation was precisely in order to give our country a better chance of economic recovery”. The evidence is clear: we continue to witness a return to economic growth, even as our country’s fiscal position has stabilised.

Government is now in a position to give greater impetus to the growth process in our country. We will do this within the broad vision enunciated in last year’s Budget Address, and in a manner consistent with the pledge contained in the 2005 manifesto of the Dominica Labour Party. This Government embraces:

“A vision for our country as a place characterized by a people empowered to contribute to their own well –being and that of our country, through policies of Government geared to facilitating an environment within which private enterprise can flourish to the benefit of our people.”

This Government is fully committed to pursuing this vision for our country, as indeed we are committed to pursuing over the next five years, the goals and pledges set out in the Labour Party’s Manifesto. We have in the pipeline a set of public investment projects that will

take us, year by year, towards the goals we have set out for our country; and we will be giving necessary emphasis to improving the business environment, even as we work diligently to bring down levels of poverty all over our country.

### **Growth and Social Protection Strategy**

- It had been announced previously that Government had embarked on putting together a medium-term Growth and Social Protection Strategy (GSPS) document. This document provides the over-arching framework for economic development and poverty reduction in our country over the next five years. It is the framework that informs the medium-term public investment programme, the medium-term macro-economic framework, and indeed the budget that I have the honour to present today.

In other words the GSPS provides an articulated sense of direction and purpose for our country and Government, to the end of this decade. It is Government's intention to update the Strategy on an annual basis so that the document will be in the nature of a 'rolling' plan that takes account of changing circumstances and therefore will be of continuing relevance.

Let there be no doubt that poverty reduction is a major concern of this Government.

In the absence of an up-to-date poverty assessment, there is no basis for recent assertions that poverty levels in Dominica have increased as a result of the economic stabilisation programme. Government is aware however, that poverty reduction needs to be the direct focus of economic and social policy. The GSPS takes the position that the surest way to tackle poverty is through attainment of high levels of economic growth that is as far as possible widely distributed across the country.

It targets a sustained 3% rate of growth over the medium term, based on increased levels of activity in all sectors, and in particular in tourism, agriculture, fisheries, energy and water. It is in this sense that the GSPS provides a comprehensive and integrated framework for policy formulation over the medium term.

The GSPS recognises that even with high levels of economic growth, there will be the need for targeted measures of social protection. In fact expert findings are that Dominica's social protection measures are generally adequate, but that there is the need for better targeting of these measures. Government has already begun to give attention to this matter and to review its social protection measures, with a view to targeting them more efficiently to deserved groups of persons. In fact, Government has approached the UNDP with a view to carrying out a survey of living conditions in Dominica, to provide better information on levels of poverty in our country, and its regional and social distribution. This survey will take place before the end of this calendar year and its results will inform the nature and shape of social policy going forward.

The Growth and Social Protection Strategy has benefited from a number of stakeholder consultations, and is to be discussed at a final national consultation before being presented to the Cabinet for formal adoption. After this it will be published and made available to the public as part of a transparent process of national governance.

### **The Public Sector Investment Programme**

The public investment programme is cast within the frame of the medium term framework to which I spoke earlier. The PSIP for 2005/06 will be capped at \$82.0 million (or 10.5% of GDP), and is to be financed by a combination of loans (14.4%), grants (77.3%) and domestic financing (8.2%).

Looking ahead to the next three years, our calculations point to a projected level of capital expenditure, though the PSIP, of just under \$300 million over the next three years.

During the last fiscal year (2004/05), delays in disbursement of some funds impacted negatively on the implementation of projects such as the Dominica Social Investment Fund (DSIF) and the Petite Soufriere/Rosalie Road among others. The Petite Soufriere Road project was a casualty of a decision by the donor agency, the EU, and Government, to include this project within a wider initiative to improve the road network in Dominica as a whole. This larger project will now include enhancement of the technical capacity of the Public Works Garage to maintain Dominica's road network, as well as construction of the Petite Soufriere/Rosalie Road. The financing agreement for this project could be signed before the end of this calendar year.

May I recall some of the major projects completed or commenced in fiscal year 2004/05.

- ü The Marigot Fisheries Improvement Project was completed at a cost of EC\$33,869,962.00. This Project is expected to make a major contribution to the local availability of fish in this country, and to contribute to increased national output and export earnings.
- ü During the year we witnessed the expansion of the Portsmouth Secondary School at a total cost of \$439,646.00; the expansion of the Isaiah Thomas Secondary School at a cost of \$150,000.00; and the rehabilitation of the Marigot Secondary School at a cost of \$250,575.00.
- ü Work on the first phase of the Dominica Grammar School Project was nearing completion. \$1.5 million was spent on this project during fiscal 2004/05.
- ü An amount of \$500,000.00 was expended on the Youth Empowerment Employment Programme.
- ü Sea defense work was completed at Guelle Lion and Anse Cola at a cost of \$15.4 million;
- ü The Pottersville to Deep Water Harbour Road Reinstatement Project was completed at a cost of EC\$3.4 million;
- ü Dominicans were pleased and relieved to see work on the Windsor Park Stadium commence. During the last fiscal year, design work on the Windsor Park Stadium was completed at a cost of \$2.5 million;
- ü Finally, Dominicans would also have been pleased to see work started on the upgrade and expansion of the Melville Hall Airport. During the past fiscal year, expenditure on this project was \$2.1 million.

The rate of implementation of the capital programme is crucial to our country's ability to sustain and improve on its growth performance. Government will be seeking to speed up the rate of implementation of its capital programme, especially as this relates to major projects, by establishing a Project Implementation Coordination Unit in the Office of the Prime Minister. This Unit will be funded

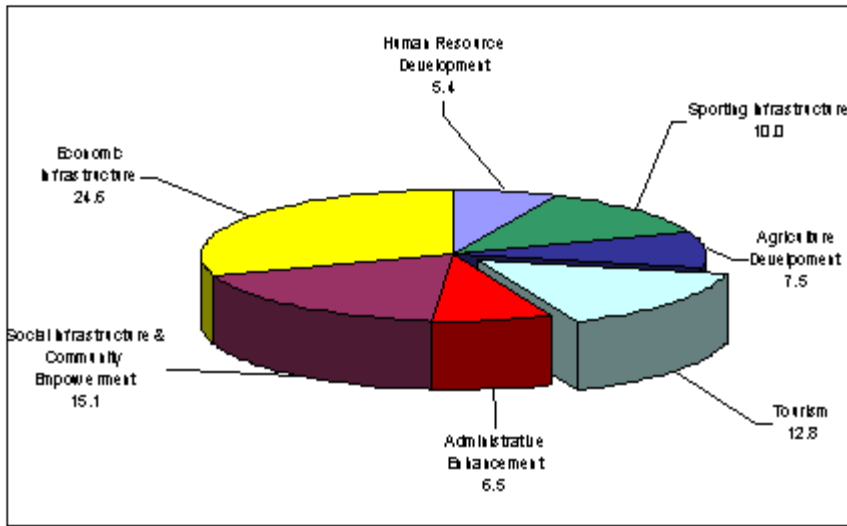
by the E.U. and is indicative of Government's determined approach to project implementation, and to the generation of growth and employment in our country. This new Unit will become operational by the end of this calendar year.

This Budget Address contains tabular summaries of the PSIP for 2005/06 by Government Ministries and by major projects, at Tables 4 and 5, and Chart 3 contains the breakdown by economic classification.

Table 4. PSIP for 2005/2006 by Ministry (\$ m)

Ministry	2005/2006
Legal Affairs	0.6
Establishment Department	3.9
Prime Minister's Office	0.7
Finance and Planning	1.9
Agriculture, Fisheries & Env.	7.4
Education, HRD, Sports & Youth Affairs	15.6
Housing, Lands, Telecoms, Energy & Ports	16.3
Public Works & Public Utilities	10.6
Info., Comm. Dev. Culture & Gender Affairs	3.2
Health and Social Security	9.0
Tourism, Industry & Priv. Sec. Relations	12.8
<b>TOTAL</b>	<b>82.0</b>

Chart 3. Budgeted PSIP by Economic Classification



### **Economic and Social Infrastructure**

Under Economic and Social Infrastructure, work on the Air Access Improvement Project will continue apace. This year will witness an acceleration of work on that project, involving expenditure of \$14 million. The first phase of the Air Access Improvement Programme, namely, the expansion of the car park, will be completed by the end of August of this year. Immediately following this we will move to extend and upgrade the terminal building to make it International Civil Aviation Organisation (ICAO) compliant, and to satisfy security requirements that have been established following September 2001. Concurrently, extension and lighting of the Runway at Melville Hall, the execution of sea defense works and the introduction of night landing facilities and navigational aids and communication equipment, will take place. The scheduled projected completion date for this project is December 2007.

Government continues to work closely with the Dominica Hotel and Tourism Association and the Society for Historical Architectural Preservation and Enhancement (SHAPE), in developing their institutional capacities for managing the benefits that will accrue to the private sector from these significant government investments.

In order to ensure that we have the trained manpower for employment within our growing tourism sector, Government has established a scholarship fund under the European Union supported Eco-Tourism Development Programme. Under this programme opportunities exist for training at all levels in the hospitality industry up to the degree level. In this connection, it is to be noted that \$600,000.00 is budgeted for work on the expansion of the Hospitality Institute at the State College.

There is no question of the importance of this air access improvement project to our country. It will make a much-needed difference to the capacity of our country to accommodate an increased number of flights, through the night landing facilities to be installed, and will thus contribute to realising the capacity of the tourism sector to grow, and contribute to growth and employment generation in Dominica. Need I add, that this major contribution to our country's development prospects is being funded, not through loans, not through commercial borrowing, but through grant funding, with important supplemental support from the Venezuelan Government. It

will therefore not involve any addition to the debt stock and not impose a debt burden on ourselves, our children, nor future generations to come.

The second major project that will be undertaken during this fiscal year is the Roseau to Melville Hall Road Upgrade. This project will see the widening and general upgrade of this major road that will make for a much easier ride to the Melville Hall Airport and other points in the North East and North of our country. It will shorten the distance from Roseau to the Airport, and will include roadside parkways, for purposes of viewing of scenic points along the way. The cost of this project is estimated at \$54 million.

The combination of these two projects, the Melville Hall Road upgrade and the airport enhancement, will make a massive contribution to our country's growth prospects, not to mention the increased employment that they will generate both in their construction and operational phases. Work on the airport road will commence in the second quarter of 2006. Here again, it is worth noting that the funds for this road project were secured from the French Government on very soft terms, i.e. a rate of interest based on the six-month Euribor rate minus 2% per annum, with a floor of 0.25%; a grace period of seven years and a maturity of 20 years. This rate was possible as a result of the Government's debt restructuring programme, which was itself only possible in the context of the implementation of the stabilisation programme.

The people of Roseau and of the entire country can look forward to the Roseau Road Re-instatement Project that will provide for a better flow of traffic within the city of Roseau. It will also provide for more efficient use of the limited space in the City, and improve on overall functionality of drains, sidewalks, parking etc.

This project should have commenced upon completion of the Roseau Water and Sewerage Project with financing from the Kuwaiti Fund. However, there were delays in the commencement of the design phase. The design phase costing \$1.9 million is now completed. Based on these designs the project is expected to cost in the region of \$104 million, some \$17.0 million of which will go towards land acquisition. Government has determined that it will implement this project in a phased manner.

The first phase will comprise the construction of the Bath Road Bridge to Goodwill and the Goodwill Link Road. It will therefore relieve the congestion in the City as it will open up alternative roadway communication to Goodwill and Bath Estate. This phase of the project is expected to cost \$15.5 million. Government has approached the Kuwaiti Government with a view to their funding the entire cost of Phase 1 of this project.

As the people of this country are aware, work on the long-awaited Windsor Park Stadium began during the last fiscal year. I am confident, given that this Government has been able to secure grant funding for this project, to the tune of approximately \$33 million that it was well worth the wait. The Stadium will not be built by increasing the debt burden, and our country will be getting a stadium that is more truly of international standards than one previously proposed. The Government and people of this country are truly grateful to the Government and people of the People's Republic of China for bestowing this gift on the people of Dominica.

During this fiscal year a total of about \$10 million is expected to be spent on this project, which is expected to be completed in the second half of 2006. We all look forward to the completion of this project, to the restoration of national pride in its eventual completion, and to the enjoyment and cultural upliftment that its completion will bring to our people.

Continuing in the area of economic and social infrastructure the Budget for this fiscal year 2005/06, also makes provision for the Road Improvement and Maintenance Programme (RIMP). The total cost of this project will be \$20.5 million, with an allocation of \$1.8 million in this fiscal year. This programme is vital to the continuing growth prospects of the tourism sector, which is the sector that in large measure bears the hope and prospect for sustaining high levels of growth in our country. Through the RIMP Project, particular emphasis will be placed on the upgrade of the Roseau Valley roads because of their importance to the tourism sector. The project will result in improvements to the Laudat Road, the Trafalgar Road, the Trafalgar-Wotten Waven Link Road and the Wotten Waven Road. It is clear that this RIMP project will not only be a significant addition to the quality of our country's road network, but will conduce to further growth in the tourism sector and thus to economic growth and job creation.

The Bay Front Ferry Terminal will be expanded at a cost of approximately \$750,000.00. This will allow for rapid processing of travellers who have been coming into Dominica in increased numbers by ferry. The cost of this project is included under the allocation for the Eco-tourism Development Programme.

The earthquake that visited our country in November 2004 has left in its wake significant damage to our country's already fragile physical infrastructure. We are faced with the unavoidable need to provide for road and other physical infrastructure rehabilitation in this year's budget. An allocation of \$1.0 million has been made for basic remedial works, and Government will continue to seek financing to effect the needed structural rehabilitation of these roads.

Turning now to education infrastructure, completion of the Northern Education Project has become ensnared in difficulties experienced with the main contractor on the project. I am confident that this unfortunate development will be rectified very early in this fiscal year, through the hiring of a new contractor, and that we will finally see this project through to completion, to the benefit of the students and people in the school's intended catchment area. An allocation of \$0.9 million is included in this year's estimates for completion of this project.

Work on the relocation of the Dominica Grammar School will continue into this fiscal year, with an allocation of \$2.4 million being made for this fiscal year. The work has been proceeding satisfactorily and 13 classrooms are expected to be ready for use by September 2005.

The Roosevelt Douglas Primary School which was damaged by the earthquake of November 2004 originally housed 300 students, who have been accommodated at the Portsmouth Secondary School pending completion of a new facility. Government will construct a facility to accommodate the students and staff. It is expected that upon completion of the facility, the Portsmouth Secondary School will be returned to full use. In this year's budget an allocation of \$500,000.00 has been made available for this purpose.

The Salybia Primary School was also damaged by the earthquake of November 2004. The Government will construct a new school which will accommodate 155 students. This facility will include 10 classrooms, a library, computer rooms and a kitchen for a school feeding programme. The Government is very keen on this project, given its commitment to improving the well-being of the people of the Carib Territory. An allocation of \$500,000.00 has been made in this year's Budget for this project.

By way of contributing to the improvement of our country's social infrastructure, an allocation of \$0.6 million has been made towards construction of the Castle Bruce Health Centre, thus keeping a promise by this Government to the people of the Castle Bruce Constituency, and making an important contribution to the social infrastructure of this country.

In the last Budget Address mention was made of the establishment of a 'Dominica Social Investment Fund'. This long-awaited Fund is expected to make a major contribution to social protection and poverty reduction in Dominica, and is an important part of Government's poverty reduction and people empowerment thrust. It is designed to provide support and relief to indigent and poor groups, women and children who are victims of domestic violence, youth and the unemployed, HIV victims and the Carib People.

Changes in the financial regulations of the European Union (who are providing the financial resources of EC\$13.2 million for the Fund), have delayed its implementation. Government has decided to provide bridging financing of \$0.5 million during this fiscal year, for establishment of the Social Investment Fund, which will become operational during this calendar year.

I will deal separately with Agriculture, Tourism and Housing, three growth areas in our economy, going forward, but first I should mention some other projects in this year's PSIP. We make provision of \$1 million towards our country's Social Protection programme, \$0.7 million towards the HIV/AIDS programme and \$1.6 million towards various projects under the BNTF V programme, \$3.0 million towards the ongoing Public Sector Reform Programme, \$0.4 million as Government's contribution to development in the Information and Communications Technology Sector, and \$0.4 million towards the Installation of Machine-readable Passports for the Immigration Department of the Police Force. Regarding this last mentioned project, with the recent increase in security requirements at airports post September 11 2001, all countries are required to move towards machine-readable passports that meet international civil aviation standards for passport photographs. It is therefore important that Dominica obtain the requisite equipment and passports to ensure that machine readable passports are available to all Dominica nationals. This initiative is consistent with what is being undertaken by the other CARICOM member states. The equipment will be installed and commissioned by December 2005.

One other project worth mentioning at this time is the Business Gateway.

Government has negotiated with the European Union the establishment of a Business Gateway. This Gateway will provide services to our talented individuals with good business ideas but who do not have the resources to get a business established. It will facilitate the establishment of business incubators, providing housing and all necessary secretarial, legal, accounting, management and other services, needed to establish a successful business.

\$3.2 million has been allocated from available E.U. / Stabex resources for funding to a non-Government agency for establishment and operational costs of the Business Gateway, which will get started during the course of this fiscal year.

## Agriculture

As we embark on our medium-term growth strategy for this country, we have to continue to pay attention to the agricultural sector, as it will continue to feature prominently in our country's economic landscape. In spite of the many challenges facing the agriculture sector, it will continue to be one of the growth pillars of the economy.

Government will seek to enhance the enabling environment to facilitate growth in the agricultural sector. There will be continued investments during the 2005/06 fiscal year in the review and updating of legislation related to sanitary and phyto-sanitary procedures, animal health and food safety, quarantine, forestry and wildlife, national parks, and fisheries. Public awareness and stakeholders' education will receive special attention.



Government, through the Banana Industry Trust is seeking to improve the environment to facilitate improved banana production, both in terms of volume and quality. In February 2005 work on the Castle Bruce irrigation project was started and is nearing completion. The cost of the main contract is \$3.4 million, including related drainage works, is estimated at \$760,000.00.

The completion of the Irrigation and Drainage Programme will be a boost to agricultural activity in our island. Commencement of an Irrigation and Drainage Programme in the Caye en Bouc area of Melville Hall, will follow the opening and testing of the Castle Bruce system. Government will be moving to make financial resources available, through the EU-funded Enterprise Development Programme, to Credit Unions in Castle Bruce, Marigot and Woodford Hill to support farmers who want to bring water onto their farms and therefore have to make investments in irrigation equipment.

The Division of Agriculture will be undertaking an extensive programme of training in order to provide farmers with the skills for more effective management of their investments.

Bids for the construction of a Tissue Culture Facility at Londonderry have been evaluated, and a contract will be issued shortly.

Tenders for the design and supervision of construction of two Inland Reception Distribution Centres, one at Marigot and the other at Portsmouth will be launched during the first quarter of this fiscal year. The total estimated cost of the contract is \$5.0 million. These centers will function as farmer service training centers, thus contributing to the improved quality of agricultural produce headed for the market place.

The programme of Feeder Roads construction will continue under the Agricultural Diversification programme.

In spite of the many challenges faced by the industry, our banana farmers and stakeholders continue to have faith in the industry. This is evidenced in the fact that banana production increased from 10,563 tonnes in 2003 to 13,161 tonnes in 2004, reflecting an increase of 2,598 tonnes or 19.7%. Average productivity per acre also increased from 3.73 tonnes per acre in 2003 to approximately 5 tonnes per acre in 2004.

The Dominica Banana Producers Ltd. will embark on a Banana Development Programme soon, and this should help to maintain the increased production trends. The irrigation projects currently being implemented should also contribute to a boost in production within the next year.

Since the last Budget Address we have witnessed the completion and official opening of the \$34 million dollar Marigot Fisheries Project that was funded by the Japanese Government. This facility has positively transformed the Marigot Bay area and provided excellent mooring, fish storage, boat and engine repair services, and a protected landing site for the fishermen in the Salybia/Woodford Hill catchment area. Government continues to engage the Japanese authorities in discussions on the construction of a third Fisheries complex in Portsmouth. It is our hope that a concrete proposal will be finalised in the near future.

Our fishermen seem to be getting better at their trade. The last 18 months has been a period in our history when our fishermen have landed the biggest catches. The introduction of fish aggregating devices has contributed significantly to the increased catches. In 2004, for example, 1927 tonnes of fish with an estimated value of \$5.3 million were landed. Seven hundred and seventy tonnes of fish have

been landed during the first half of this year. These improved catches are very encouraging and help to justify public investment in the fisheries sector.

Earlier this year Government signed a Technical Cooperation Agreement with the Chinese Government. A focus of that Agreement will be on the development of aquaculture, in particular prawn farming. An aquaculture specialist is scheduled to arrive on the island later this month for an extended assignment. The Chinese Technical Mission is also expected to assist Dominica in vegetable, flower and fruit production.

Work on the on the establishment of a new Central Livestock Farm at Londonderry is continuing. Under the D-REP Project, a total of \$471,178.00 has been spent on that Project. An amount of \$120,000.00 has been allocated to this project in this fiscal year.

External funding has been secured for a number of initiatives, some of which recently started, with others scheduled to begin soon. These include an FAO grant of US\$160,000.00 for emergency support for farmers and fishermen affected by the heavy rains and earthquake of last year, an FAO grant of US\$75,000.00 under the Regional Special Programme for Food Security, and an FAO grant of EC\$48,000.00 to support phase II of the Agricultural Extension project.

Several of our agricultural diversification initiatives are being financed under the EU- funded Agricultural Diversification Project. For the period July 2004 to June 2005 a total of 12 farm access roads, covering some eight kilometers, were rehabilitated island wide. Over 400 farmers benefited from these road improvements. The total associated cost was approximately \$560,000.00.

The following is a summary of works to be undertaken during the 2005/06 financial year:

- ü Work will be undertaken on a minimum of 10 additional farm access roads island wide at an estimated cost of \$2 million;
- ü Construction of Certified Multi-Packinghouses at Roseau and Portsmouth to improve the quality of fresh produce exported from Dominica - at an estimated cost of EC\$1.1 million;
- ü Completion of designs for the construction of the National Centre of Testing Excellence at Stock farm, at an estimated cost of \$30,000.00;
- ü Implementation of the Agricultural Information Management System at an estimated cost of over EC\$400,000.00;
- ü Implementation of the Young Farmer Programme at an estimated cost of EC\$423,000.00; and
- ü Completion of Land Use Studies, at an estimated cost of EC\$450,000.00.

All of these above-mentioned projects will be undertaken under the three agricultural diversification programmes funded by the E.U.

A Strategic Policy and Management Framework for Agriculture Development in Dominica is currently being developed with the assistance of IICA and promised support of the FAO.

Agriculture will obviously continue to have an important role to play in the realisation of our country's growth prospects, and Government is determined to be an enabler in this process. The hope is that the public investments identified will demonstrate Government's confidence in the sector and serve to conduce to, and facilitate, increased levels of private investment.

### **The Tourism Sector**

I have already indicated to this House the economic infrastructure projects that are geared to contributing to realising the tourism and economic growth potential of this country.

This Government has committed itself to doing everything within its means to provide continued support to the tourism sector. This sector has continued to demonstrate its growth and employment potential and to contribute to our country's economic growth performance. The year 2004 witnessed the following improvements in the performance of the sector:

- ü Cruise ship passengers increased to 380,608 in 2004, registering a record 114.7% increase from 2003.
- ü Cruise ship calls rose to 287 from 206 in 2003, an increase of 39.32%.
- ü Tourist arrivals increased to 466,907, an increase of 84.48%.
- ü Total Visitor Expenditure was \$162.37million; and
- ü Overall, there was a 10.95% increase in real output, largely influenced by a 9% growth in stay-over visitors.

Government will continue to place emphasis on increasing foreign exchange earnings, improving the quality of products and services, establishing new tourism sites and attractions and enhancing existing ones; and improving the environment for competitive new and existing enterprises. Let there be no doubt as to Government's recognition of the importance of this sector to realising our country's growth potential, a level of importance that has increased tremendously in recent years.

With technical support from the Caribbean Project on Economic Competitiveness (CPEC), Government now has an updated tourism policy document that will shortly be adopted by the Cabinet. This document benefitted from extensive consultations with stakeholders. It contains specific policy actions in the following areas: tourism standards, improving product quality, giving priority to the stay-over market, improving the island's attractiveness to cruise visitors, enhancing our tourism attractions, development of niche marketing techniques, enhancing the attractiveness of our capital city, and giving a new emphasis to community tourism. It also makes recommendations for the development of domestic tourism, the strengthening of tourism infrastructure and implications for environmental policy.

Government is committed to providing active support to the private sector in the development of the industry, and the tourism policy document provides a basis for dialogue and action in partnership with the private sector.

Government's active support to the private sector extends to the yachting industry. In fact consistent with a pledge contained in my last Budget Address, the Cabinet has taken a decision to provide for a single clearance procedure upon arrival, for yachtsmen, which would

facilitate arriving yachtsmen who intend to stay for a short period of less than two weeks. The Cabinet has also approved other immigration and customs facilitation for visiting yachtsmen. Through such support Government will be not only facilitating visiting yachtsmen, but also contributing to the growth of our yachting industry.

Dominica has been rated among the top Dive Centres in the world. Government will be contributing to enhancing our image as an international Dive Centre by installing a Hyperbaric Chamber at the Princess Margaret Hospital. This will provide added safety and security to divers who could experience difficulties while diving, and is included under the allocation to the Eco-tourism Development Programme.

The Eco-tourism Development Programme will continue into this fiscal year and into the medium term. This programme is progressing satisfactorily, and during this fiscal year an amount of \$5.8 million will be spent under this programme. Most of this allocation will go towards destination marketing, the community tourism development programme and improvement of eco-tourism sites. Under the community tourism development programme, a \$1.0 million fund has been established to provide financial support to community organisations for community based tourism projects, tourism related small infrastructural projects and site enhancement.

Work will be completed under the Caribbean Development Bank-funded Tourism Site Upgrade Project during this fiscal year. Under this, the third phase of this project, the Ministry was able to provide access to, and construct reception facilities at five tourism sites, namely, the Carib Model Village, Syndicate/Morne Diablotin, Soufriere Sulphur Springs, Middleham Falls and Fresh Water Lake.

These included the construction of 13 miles of road, construction and refurbishment of five modern reception centers fully equipped with interpretation, vending areas, toilets, and parking. New trails, seating, and picnic areas along the routes, have also been constructed. During this fiscal year \$1.0 million will go towards completing construction works on these sites. These 'new look' sites will be opened in time for the next tourism season.

We have embarked on production of a Tourism Master Plan. This is being funded by the Caribbean Development Bank and will be executed in three phases. Phase one will consist of a comprehensive diagnostic study of the tourism sector and identification of the strengths, weaknesses, opportunities and challenges for tourism development in Dominica. Phase two will focus on the formulation of strategic options and phase three will see the development of an action plan. This project will obviously continue into the medium term and during this fiscal year \$0.4 million is projected to be spent on this project.

The Budget for this fiscal year contains an allocation of \$2.5 million towards Tourism Marketing and Promotion, with a view to ensuring an adequate presence in the tourism market place, and adequate returns to our country by way of stay-over visitors. Government will utilise grant resources for that purpose.

A specific thrust of Government during this fiscal year will be to assist hoteliers to improve the quality of their product, and thus increase export-ready room capacity. Studies have shown that of Dominica's 800 hotel rooms, only 200 of them can be considered 'export ready'. We are aware that unless the remaining 600, or a large proportion of them, are converted to being export-ready, we will not realise the potential from the ongoing investments in the Airport Project and in destination marketing.

Government is also aware that a number of these hotels are in financial distress, a fact that is evident from an examination of the non-performing loans of the AID Bank. Government has heeded the cries of the sector for help, and has begun to consider possible initiatives

in response. Various approaches are being considered for working with the hoteliers concerned, as well as relevant institutions to facilitate the necessary room upgrades. While it is too early to make a definitive announcement, since any such initiative would need time to be fully fleshed out, we are hopeful of being able to speak definitively to this matter within the next few months.

The Indian River has a strong historical background. It also served as a major site for tourism development in the North as well as a main hurricane shelter for the many seamen from all over Dominica. The Groin at the river has been destroyed and needs urgent replacement. The bridge over the river also suffered major damage during the earthquake. We cannot afford to have the link between Portsmouth and the rest of Dominica broken. The Government will be placing the works at the Indian River on its high priority list for 2005/2006.

Finally, in the Tourism Sector, I wish to conclude with two bits of welcome news. First, work on the Waitikubuli Trail is expected to commence during this fiscal year. An amount of \$3.2 million is to be invested in the Trail, which will be 184 kilometres long and will traverse the island from North to South. It will provide opportunities for tour guiding, investments in accommodation and change facilities, and encourage new services and enterprises in agro-tourism, culture and heritage tourism. It is to be funded under a special EU mechanism that will provide the funding to an NGO for management of the implementation of this project. While it is not an element of the public sector investment programme, Government has been giving every support to its establishment. Cabinet is soon to consider a proposal to merge the Steering Committees for the Waitikubuli Trail and the Eco-tourism Development Programme. I expect that the country will be hearing about this project at an appropriate time, from the Joint Committee.

Secondly, Government is actively seeking to facilitate private sector development of two hotel resorts in the North East of the island. Government is negotiating to purchase the land in question through an arrangement with a private company. This would place Government in a position to contribute the land as equity in the projects, thus facilitating development of the resorts. Additional information on this project will become available shortly.

The total allocation to the tourism sector in this year's PSIP is \$12.8 million, which accounts for 15.6% of total capital expenditure.

### **Strategy in Support of Housing Development**

In our recent Manifesto, the Labour Party promised to give focus to the issue of housing. I wish to repeat Government's commitment to work towards enhanced access to adequate shelter by all segments of our population. This is an essential ingredient of Government's obligation to foster increased social and economic development in our beloved country.

The strategy includes the Shelter Project as well as the other housing projects to which I will make reference later in my presentation.

Our medium-term plans for the housing sector call for the following housing development projects:

- ü The Union Estate Housing Development;
- ü Jimmit Phase III Housing Development, Phases III and IV;
- ü Hillsborough Housing development;
- ü Geneva Housing Extension;
- ü Chance Housing Development;

- ü New Chance Housing Development;
- ü Charlotte Valley Housing Development;
- ü Canefield East Extension Phases I and II;
- ü Plat Mapier Housing Development;
- ü Bellevue Chopin Village Extension;
- ü Wesley Housing Development Project;
- ü Cotton Hill Housing Development;
- ü Bath Estate Housing Project; and
- ü Fond Thomas Development at Pointe Mulatre.

I wish to assure this House, that the Physical Planning Division has already begun the necessary preparatory work -- including design, allocation of lots, etc. -- in respect of most of these housing developments. Details of these various housing development projects will be revealed in the course of time, although anyone wishing additional information on them is welcome to make contact with the Ministry of Housing.

Three of these projects, at Bath Estate, Charlotte Valley and Hillsborough Gardens will get going during this fiscal year as I will elaborate on later in my Address.

Conscious of the need for a special facility for low-income earners, Government is developing a National Shelter Policy as the mechanism that will foster development of the housing sector and contribute to the country's development and poverty reduction goals. This Shelter Development Project will also include provision of financial resources for housing, credit, training for financial institutions in micro-credit methodologies for housing, training in efficient house design, retrofitting techniques and safe construction practices. This Project will bring affordable mortgage financing to low-income households and enhance Government's ability to make a sustained impact on improving the physical and social conditions of human settlements in our country.

The allocation in this year's Budget for the Shelter Development Project is \$0.8 million, part of which is intended to procure technical assistance for the preparation of the Shelter Policy.

#### Multi-pronged Housing Initiative

I wish to announce the following four-pronged approach to our assault on the housing problem, which will be implemented during this fiscal year.

First, Government through the Housing Division and the Physical Planning Department has conceptualised and will implement a cooperative strategy to increase the provision of affordable housing to the low- and very low income earners in our country. This approach will build on the *coup de main* traditions of our country, and involve civic groups in our society, to construct housing shelters for this target group of Dominicans. The approach will be further elaborated within the next few weeks, but Government expects that 50 units per year will be made available through this mechanism, making for a total of 250 such units over the next five years.

Secondly, Government is embarking on public-private sector partnerships for purposes of three housing projects that will begin during this fiscal year. These will involve the construction of 240 units at Hillsborough Gardens and 92 apartments at Bath Estate, in addition

to a community-type housing development at Charlotte Valley that will target lower income earning groups. Government's role will be to make the land for these projects available to the private developers by way of an equity contribution to the projects. In this way, Government will be contributing to keeping down the cost of the units and increasing their affordability. The land for these developments has been identified, and in the case of Hillsborough Gardens has already been passed to the developers. The Charlotte Gardens development envisages a community concept to include a shopping mall, a basket ball court, and other social amenities.

Thirdly, Government will be taking action to solve the problem regarding unregistered land and land ownership without title as it affects certain needy persons in this country. There are presumptive 'land owners' in this country who have inherited or otherwise 'own' land, but are unable to put these lands to work for them, because they cannot afford the fees for land surveying and transfer. Government will make the services of its Lands and Surveys Division available to assist such persons to get their lands surveyed. Government will go further and enlist the services of the Legal Aid Clinic to effect the necessary title transfers for them. Through this arrangement, these persons would be relieved of having to pay the applicable transfer fees.

The only obvious condition would be that such persons have to be appropriately certified by the Welfare Division. Persons interested in utilising this opportunity are invited to contact the Ministry of Housing and Lands which will make the necessary arrangements for them to secure certificate of titles for their properties. We expect that this decision by Government will increase the number of certificate-of-title holders in this country, will bring relief to those so affected, and will contribute to our country's development.

These initiatives are in addition to the ongoing Special Low-mortgage Programme being administered by the AID Bank. To date, approvals amounting to \$3.7 million and disbursements of \$1.8 million have been granted under this arrangement. It caters to persons earning less than \$1000 per month, or households earning less than \$1500 per month. It is targeted to persons or households who have land available for construction, but who tend not to be supported by commercial banking or other similar institutions. Approaches have been made by the AID Bank to the financiers, (the Caribbean Development Bank), with a view to increasing the upper income limit that governs eligibility under the scheme. This would expand the net of persons who could benefit under the scheme, given its very low rate of interest of 4.75%, if arrangements are made directly through the AID Bank, or 6% through participating Credit Unions.

We have also given attention to the institutional arrangements for overseeing and facilitating development in the housing sector. The intention is to ensure that there is in place the necessary institutional machinery for driving Government's facilitation of development of the housing sector. The Development Planning Corporation (minus its planning function) will be merged with the Housing Division by 1<sup>st</sup> January 2006. This will combine the financial and technical resources of the two entities, give the merged entity greater legal authority and a better chance at long-term financial self-sustainability. This should make for greater efficiency in the provision and administration of housing developments for all income groups of the population.

Allow me to make reference to another initiative that will be implemented by the Physical Planning Division. We are all aware that obtaining planning approval sometimes takes a long time, often due to the fact that designs are returned for adjustments to satisfy planning requirements. The Physical Planning Division will increase the number and variety of house designs that it produces, and will make these plans available to the public, with bills of quantities, at a cost of \$150.00, essentially the cost of reproducing the plans. This is a fraction of the usual cost of obtaining house plans. These plans will be 'pre-approved', thus shortening significantly the time normally taken to obtain building approval.

Roseau Development Plan

- As a complement to the various housing initiatives that I have announced, Government will want to play its part in supporting the efforts of the Advisory Committee for Architectural Heritage Preservation, and NGO's such as SHAPE, (the Society for Historical Architectural Preservation and Enhancement). The Roseau Architectural Heritage Preservation is one element of a larger, more comprehensive Roseau Development Plan, Strategy and Action Plan 2020, intended to make a quantum leap in the redevelopment of our country's capital city. A more complete description of the scope and elements of this project will be formally announced at an appropriate launching, but I wish to inform this Nation that Government has great plans for our capital city, Roseau.

The Roseau Redevelopment Project is part of the previously announced \$16 million EU-funded Eco-Tourism Development Programme, and it envisages significant redevelopment in the Roseau area, including the communities of Central Roseau, Pottersville, Goodwill/St. Aroment, Stockfarm, Fond Cole, Bath Estate/Elmsall/Louisville, Kings Hill/Morne Bruce, New Town/Citronnier, Fortune/Beau Bois and Castle Comfort.

The idea is for various enhancements to the attractiveness and ambience of our capital city to be implemented within an overall development strategy for Roseau. We will be seeking to capitalise on the unique attractions and resources of our capital city, Roseau, as a basis for the expansion, development and strengthening of the historic and cultural assets of our capital city.

As this project unfolds, Government will be consulting further with stakeholders as to the desired thrust and elements of the project.

#### Architectural Heritage Preservation

- In anticipation of the realisation of the Roseau Development Strategy, Government is responding favourably to the pleas that have arisen from interested parties as regards preservation of the architectural heritage of our capital city, Roseau. This particular project is being pursued by the Physical Planning Division through the Advisory Committee for Architectural Heritage Preservation.

It will involve the adoption of an official list of buildings for preservation, as provided for under the Physical Planning Act No. 5 of 2002. The intention is to adopt regulations to ensure the preservation or rehabilitation of select buildings and to guide construction along historic lines. Our capital city has been recognised as having a significant architectural resource base that has the potential to produce development spin-offs from increased construction activity.

Government is committed to supporting this Roseau Architectural Heritage Project and is open to dialogue with interested parties as to what feasible forms this support might take.

#### The Energy Sector

- On the basis of all the information available to Government, we expect the energy sector, and in particular, geo-thermal energy to be a major plank of economic growth in this country. If anything, rising world oil prices have served to increase the economic feasibility of this potential. Confidence in this potential has led a number of companies to express interest in becoming players in the development of this resource, and in distribution of the lower cost electricity that will result. In fact, Government is actively pursuing the commissioning of a 5 megawatt geothermal plant by December 2008.



Apart from its contribution to enhancement of the enabling environment for business and to economic growth, consumers of electricity would be looking forward to the availability of geothermal energy, as it will mean a significant reduction in the cost of energy to business persons and as well as the consuming public.

A draft Geothermal Bill has been produced in collaboration with the OAS. Inputs from key stakeholders including DOMLEC and the Bar Association have been obtained for inclusion in the final draft. This Bill is expected to be taken to Parliament by the end of this calendar year.

Deriving from the technical studies of potential geothermal development sites, Wotten Waven has emerged as the prospective site for geothermal exploration. The exploration phase is expected to commence towards the end of 2005. Preliminary studies have also been undertaken by a French company to determine the economic feasibility of laying submarine cables from Dominica to the two neighbouring French islands for the transmission of electricity. These studies have so far shown that the exportation of power to the French islands of Guadeloupe and Martinique is economically viable, once the availability of the geothermal resource is confirmed.

Government has facilitated DSEC with feasibility studies for the development of a wind farm, with funding from the OAS. This could result in the development of a wind farm at a site to be determined. If things go according to plan, it is anticipated that the wind-farm will be commissioned by December 2007.

The fact is, however, that these alternative sources of energy will not become available for use in a time frame that is shorter than three to four years. Yet Government is well aware of the burden that consumers face at this time, given the spiraling of international oil prices, which is the major reason for the high domestic electricity bills. Government will continue to engage the local electricity provider with a view to discussing ways and means by which relief can be granted to the consumer.

It should be noted in this context that Government will soon be introducing far-reaching amendments to the Electricity Supply Act, that will de-monopolize the energy sector, and put in place a new tariff structure that will be more reflective of production costs, and will also provide an incentive for cost efficiencies by electricity providers. The legislation will also establish an Independent Regulatory Commission for electricity and energy that will provide much-needed oversight of the operations of energy providers. In this initiative, Government is receiving the support of the World Bank.

Members of this House would also be aware of this Government's involvement in a regional initiative to procure oil from the Government of Venezuela, at prices that will be significantly below world prices.

Table 5. Main PSIP Projects for 2005/06

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SELECTIVE LISTING OF PROJECTS IN PSIP 2005/2006

SELECTIVE LISTING OF PROJECTS IN PSIP 2005/2006	GoCD	Loan	Grant	Total
Installation of Machine Readable Passports			427,200	427,200
Rehabilitation of Prison Facilities			137,718	137,718
Dominica Social Investment Fund			514,280	514,280

Emergency Support to (flood-affected) Farmers and fisher-folk			434,704	434,704
Agricultural Diversification			2,224,827	2,224,827
Dominica Rural Enterprise Project	6,157	1,537,050		1,543,207
Agricultural Diversification			724,827	724,827
New Salybia Primary School			500,000	500,000
New Roosevelt Douglas Primary School			500,000	500,000
Northern Education Development Project			900,000	900,000
Reconstruction of Dominica Grammar School			2,377,000	2,377,000
Dominica State College – Training in Hospitality Services			600,000	600,000
Windsor Park Stadium			10,000,000	10,000,000
Shelter Development Project	231,000	600,000		831,000
Air Access Improvement – Construction			14,000,000	14,000,000
Road Improvement Maintenance Programme	270,000	1,500,000		1,770,000
Roseau/Melville Hall Road Upgrade – Final Design	300,000	1,800,000		2,100,000
Rehabilitation of Infrastructure Damaged by Earthquakes	1,000,000			1,000,000
Roseau Road Reinstatement Final Design		1,920,881		1,920,881
Rehabilitation of Vieille Case/Penville Main Road			850,000	850,000
Rehabilitation of Guilette/Penville Main Road	400,000			400,000
Social Protection Programme			1,094,008	1,094,008
Basic Needs Trust Fund Phase V	543,975		1,116,864	1,660,839
HIV/AIDS Programme	217,352		552,315	769,667
Rehabilitation of Psychiatric Unit			940,578	940,578
Construction of Castle Bruce Health Centre			600,000	600,000
Solid Waste Management Programme	157,365	2,300,000	4,000,000	6,457,365
Preparation of Tourism Master Plan 2005 – 2015			407,535	407,535
Ecotourism Development Programme	9,675		5,772,522	5,782,197
Tourism Marketing			5,351,880	5,351,880
Agriculture and Tourism: Site upgrading		1,000,000		1,000,000
Sub-Total	3135524	10657931	50,449,551	67,819,713
Sub-Totals-Other Projects				14,158,074
TOTALS				81,977,787

The Petro-Caribe initiative signed in Caracas in June 2005 will build on the Caracas Accord signed in 2001. The aim of that Accord was to deliver cheaper fuel to Caribbean countries. The lack of adequate storage capacity prevented Dominica and other countries in the Region from benefiting from the Accord.

Venezuelan President, Mr. Hugo Chavez announced that his Government would be providing an expanded fleet of tankers to deliver fuel directly to the countries, thus by-passing intermediaries, and reducing the cost of the fuel. Dominica has been identified as the regional hub for distribution of the fuel to other islands in the Eastern Caribbean.

We are hopeful that this arrangement can become operational within a few months and that as a result, Dominicans will soon be paying less for fuel and electricity.

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The main projects for which specific allocations have been made during the fiscal year 2005/06, are summarized at Table 5. The PSIP contains a mix of projects that in combination, will contribute to sustaining our targeted growth levels, will provide needed job creation, will make for increased per capita income in our country, and also reduce poverty.

Of course the PSIP presented here is for the one-year period fiscal 2005/06. Thus, the allocations announced for the major projects, such as the Airport Expansion and the Windsor Park Stadium, reflect only the amounts that Government reasonably expects to be spent on these projects during this 12-month period. They do not reflect the total costs of these or other projects. For example, the proposed major West Coast Road project is not included in this year's PSIP, because there will be no expenditure on this particular project during this fiscal year. Work on this project will commence after completion of the Windsor Park Stadium. Further, as I indicated earlier, the total PSIP for 2005/06 has had to be kept to a limit of \$82 million for the reason that I gave. And as I also indicated earlier, Government anticipates capital spending, within the PSIP, of close to \$300 million over the next three years.

## **Structural Reforms**

I will deal now, with certain structural reforms that Government is putting in place as a necessary complement to its ongoing focus on sound fiscal management and the generation of economic growth through its PSIP and other policies.

### Strengthening Public Finance Accountability

I said in the course of my last Budget Address that Government intended to strengthen existing legislation relating to fiscal responsibility. I am in a position at this time to say more about this important matter.

First, I might report that arrangements are in place to strengthen financial management and control. Consultants have been working closely with the Ministry of Finance and in particular, with the Office of the Accountant General, to ensure the production of accurate, timely and comprehensive financial accounts. The work carried out by the Consultants has revealed certain shortcomings in the systems and their application. Many of the adjustments required to this year's accounts arise as a result of the failure to process entries stretching back over the last 20 years.

It is this Government's intention to bring these adjustments to account once and for all, so that we will have a set of balances that are accurate and capable of independent verification – all part of this Government's determination to improve the internal machinery of Government.

- More fundamentally, Government will be taking an important step towards enshrining a higher level of fiscal responsibility and accountability in the management of our country, and thus making for better governance in the affairs of State. We plan to introduce 'The Public Finance and Accountability Act', (which will replace the Finance Administration Act), to regulate the financial management of Government, prescribe the responsibilities of persons entrusted with financial management in Government, and regulate the borrowing of money by the Government.

This Act will set out medium-term fiscal benchmarks, and thus serve to improve the credibility of fiscal policy and anchor public expectations regarding the public finances over the medium term. We expect to table these amendments in Parliament in 2006. With the adoption of this Act, Dominica will have taken an important step to improving transparency and accountability in the management of the country's public finances.

#### Economic Citizenship Programme

- Government's economic citizenship programme has been working fairly satisfactorily and can be said to have been largely 'cleaned up', which had been the stated policy of this Government as announced in June 2002.

The required levels of investment that were revised in 2002 have not resulted in a drying up of the sector as some persons had sought to suggest. On the contrary, Dominica continues to boast of an economic citizenship that is clean and well regulated, attracting a smaller number, but better quality of applicants.

The Budget Address of 2002 had also announced an agency fee of US\$2,000. Although this was intended to be paid annually, this was apparently not made clear in the policy as stated then. Henceforth this agent's fee will be collected annually and fall due on 1<sup>st</sup> January of every year. All other fees will remain the same.

The Economic Citizenship Programme was intended to demonstrate strong support to the private sector, but the arrangement clearly needs to be revisited. I wish to emphasise however, Government's willingness to engage private sector persons and to work with them to determine how best the programme could be used to facilitate private investment in the tourism sector.

#### The Offshore Financial Services Sector

Government has successfully established a Financial Services Unit (FSU) in the Ministry of Finance. This was intended to be the supervisory and regulatory framework for offshore banks, credit unions, international business companies, insurance companies and money transfer agencies, operating with strong support from our Central Bank. In fact the FSU is to be given legislative authority to supervise insurance companies and regulate non-bank financial institutions.

Recently, however, the Monetary Council of the ECCB has decided that it will no longer be in a position to assist member countries in supervising and regulating offshore banks. This decision poses quite a challenge to Dominica, as it places more demands on an already

stretched FSU. Government will have to decide the extent to which it will need to strengthen its capacity for supervision, regulation and monitoring of all the areas within its sphere, and in so doing take decisions regarding future directions for the offshore sector. The offshore financial services sector has declined considerably in most countries.

The increased cost of supervision and regulation puts into question the net benefits to be derived from the sector. These developments as well as trends within international financial markets themselves, need to be carefully considered in determining the future direction for the sector. CARTAC will be assisting Government in carrying out a comprehensive review of all the issues concerned in this matter.

### Other Structural Reforms

- Growth efforts have to be supported by other reforms, which if not implemented, will thwart or compromise growth efforts elsewhere in the country.

As we go forward towards sustaining economic growth in this country, there are complementary reforms that we must put in place. We have said before that Government is determined to ensure that our public sector growth institutions, the AID Bank, the NDC and DEXIA are operating to their maximum potential, and are well placed to contribute to the country's growth potential. We will be undertaking strategic reviews of these institutions, with a view to enhancing their efficiency, streamlining their functions and improving accountability.

These structural measures will also include the Dominica Social Security. Recent reviews have pointed to the need to take action now to ensure that DSS is well placed to meet its future obligations to pensioners. Government is exploring actions that it may need to take to ensure this. Government is exploring options for an appropriate strategy for putting the finances of DSS on a sustainable footing through a combination of measures that may include the contribution rate, the number of years over which average earnings are calculated, and the retirement age. Government is committed to taking action in this most important area, and to doing this within the shortest possible time-frame.

Finally, a word about the ongoing reform process in the public service. Much of this work will have a positive impact on the enabling environment for business in Dominica. Over the past year or so, emphasis has been given, under the reform programme, to areas within the public sector that directly impact business. Support is being provided for reforms in the Registry and Magistrates' Courts in the computerisation of companies' and other records, and attention to the backlog of untried cases affecting the business community.

Reforms are also ongoing in the Customs Division geared towards greater trade facilitation and upgrading of the automated system for capturing Customs Data. This will make for the more efficient management and utilisation of data and improved service delivery. Work will extend to other areas that have a bearing on the enabling environment for business.

The implementation of other components of the reform programme will be taken forward, particularly modernisation of legislation and rationalisation of social services. Productivity enhancing measures including increased use of technology and improved performance management systems are being implemented, all in an effort to bring about desired changes in the culture and functioning of the public service.

The successful implementation of the plans and programmes of Government depend heavily on the willingness and capacity of the public service to take ownership of them and to take them forward. Government looks forward to the cooperation of all concerned, including the Public Service Union, in these efforts.

### Youth, Indigenous People and Social Protection

This Government is proud of its record of giving attention to the needs of our young people and our indigenous people, and the needs of the less fortunate of our people.

#### Empowering the Young

This Government has adopted the position that the surest way to assist our young people to prepare themselves to be responsible and empowered adults, is by empowering themselves through education, training and personal development. The various programmes of the Youth Division have continued to deliver in a manner consistent with this approach, and will seek to expand these programmes during this fiscal year.

The skills training programme is expected to train 338 young persons during this fiscal year in areas that will include use and maintenance of computers, electrical wiring, arc welding, plumbing and care of the elderly. The Youth Business Trust will continue its focussed efforts at equipping young persons for the world of business skills; the leadership programme will continue; and the Youth Environment Service Corps will continue to provide invaluable training in fields related to agriculture and the environment.

It is well known that Government has not failed to take every opportunity to secure scholarships for our young people, during our engagements with the leaders of the countries with which Dominica has relations. Our track record in this area is clear, but I will leave it to the Minister of Education, Youth and Sports to inform this House accordingly.

Government will want to continue to engage the youth in dialogue on matters affecting them and their future. We would want young persons to feel themselves as having a role and a place in the dialogue on policy formulation on matters of national interest.

#### **Indigenous People**

The Kalinago People have made significant strides over the last five years. Significantly, the area of education can be singled out, particularly so, given the impending construction of a new primary school for the Salybia catchment area.

The new school will be located in the St. Cyr and will have facilities for vocational and academic training of young persons of the Carib Territory. Approximately 25 Kalinago youth will benefit from scholarship opportunities in Venezuela and Libya this academic year to pursue studies in various fields, thereby strengthening the human resource capacity of the Territory. Assistance will be provided to Kalinago students to attend the Dominica State College and secondary schools by creating a special education trust fund for the Carib Territory. Government gives its firm commitment that at least twenty-five Kalinago students will be given opportunities, on an annual basis, to study abroad at no cost to their parents.

The question of improved health will also receive attention by this Government during this financial year. Policy will soon be enunciated for Carib Territory residents over the age of sixty to be exempted from paying medical fees at the Princess Margaret Hospital.

As a result of consultations involving the Cabinet, Carib Council and the Department of Carib Affairs earlier this year, a total of \$80,000.00 was allocated to the Carib Chief and Council to undertake the rehabilitation of community roads and to provide assistance to small farmers.

The Government has pledged the establishment of a special fund of \$3m at the AID Bank to facilitate access to financial assistance for undertaking housing and other enterprises for the Kalinago people, and discussions are ongoing to arrive at a long-term solution to the question of access to credit for our Indigenous People.

The Kalinago craft sector will be targeted for major development with the implementation of the recommendations of the recently concluded 'Dominica Carib Craft Development Plan', and to complement this development ongoing works at the Carib Model Village will be completed and become operational within a short space of time, thus providing economic opportunities for the total Kalinago community.

Recreational facilities for our Kalinago youths will be further enhanced with the construction of a playing field in the hamlet of Sineku, and improvement works at Jolly John Memorial Park.

As regards housing, I wish to announce that a grant of \$1 million is being sought from friendly Governments for the provision of housing to the Kalinago People. This fund will target vulnerable groups in the Carib territory as well as other areas. In the Carib Territory, at least two acres of land will be developed for the provision of housing to persons without the wherewithal to provide their own.

Further plans for the Carib Territory include, beginning in this fiscal year, electrification of all hamlets, as well as the provision of assistance to the farming community.

Let it not be forgotten that it is this Government that has given due recognition to the Indigenous Peoples since 2000, with the establishment of a Department of Carib Affairs, followed up more recently by the establishment of a Ministry of Carib Affairs, with the Parliamentary Representative for the area charged with this portfolio.

Our sense of official recognition for the office of Carib Chief is reflected in the granting of diplomatic status to the holder of this position. I can say to the Kalinago people with confidence that they will be receiving even greater attention during this new term in Office, and this will become clearer in the course of time.

## **- Social Protection**

More generally, this Government's concern with the needy and less fortunate among us, will continue to be in evidence. I have already mentioned the coming on stream of the Dominica Social Investment Fund that will significantly enhance the country's social protection

fabric. Investments in short-term employment programmes such as the Social Protection Programme and the Basic Needs Trust Fund continue to add to small and medium size community infrastructure.

These investments in addition to improving community services and the quality of life, created direct employment of approximately three hundred. This contributed to a reduction in unemployment to an estimated 16% compared to over 20% in the base year 2002. These two programmes will continue to provide access to funding for community groups, local authorities and non-government organisations for improvements in community services and the quality of life of our people.

Government is pursuing a number of strategies to ensure that children of parents, who have difficulty in meeting the cost of education, can remain in school. One concrete example is the increase in coverage by the Education Trust Fund to 195 students and an increase in the Fund's outlay by 65%. Government is continuing to expand that programme and ensure investments in the education of our children.

The public assistance programme is Government's main direct cash transfer mechanism to the elderly in Dominica. We will continue to improve the effectiveness of this programme through better targeting. A programme of housing assistance launched in 2004 and targeting needy persons, has already reached many of these senior citizens. To date approximately 200 hundred households have benefited and an amount of \$284,000.00 has been spent.

Government's approach to poverty reduction is multi-faceted occurring at various levels of the intervention ladder. Macro-economic stability is important for long term economic growth which is central to employment and poverty reduction, but we will never leave behind those among us who will continue to require social protection, especially the indigent.

Developments in the health sector are also worthy of note, and will be articulated by the Minister when his turn comes to address this House. Suffice it to say at this time that both our record of achievement and plans going forward include the areas of environmental health, solid waste management, HIV/AIDS and the Princess Margaret Hospital. As I indicated earlier, this year will see construction of the Castle Bruce Health Centre and rehabilitation of the Psychiatric Unit.

Government will continue to work with the Ross University to improve medical services in the country in general and the Portsmouth Health District in particular. As part of the evidence of collaboration an x-ray unit will be installed at the Portsmouth Hospital. This will ensure that the people of the North will no longer have to travel to Roseau to have x-rays done. A unit has already been identified, as well as the funding for same, and the District Medical Doctor has already undergone training to man this unit. Rehabilitation works at the RFA / Portsmouth Hospital has already commenced.

There are also important achievements and plans in policy making and administration that will contribute to ensuring an efficient health service for our population, and are reflective of the place of the health service in the totality of issues of social and economic development in our country.

### **Regional Issues -- Ushering in the CSME**

With our country and the rest of the CARICOM Region at the doorstep of the CARICOM Single Market and Economy, it behooves me to devote at least a few lines of my address to the issue of regional integration. This Government's position on this issue is clear: we



remain irrevocably committed to the concept and reality of Caribbean integration. If there harboured any doubt as to the imperative of Caribbean integration, our country's experience over the past few years has occasioned a stride from 'imperative' to 'compulsion'. Very small States like Dominica have a difficult time competing in this increasingly difficult global environment. Our vulnerabilities have become ever more exposed – not only to the natural disasters that visit our shores with relentless, if uninvited regularity; not only to the consumption and investment patterns of larger, more industrialized countries, as is reflected for example in the price of oil on the world markets; but also more generally to the vicissitudes of international commerce that leave our small countries battering against the tides of globalisation. That there is a compulsion to regionalisation should be as clear as is the sky on a beautiful day.

In our country's hour of need, it was our Caribbean brothers and sisters that rallied behind this Government's economic programme; and it was the international community, bilateral and multilateral, that came forward to bolster our own focussed domestic efforts at economic resuscitation. Just as globalisation is a fact of life, so too in our own neck of the woods, is Caribbean integration a compulsion that we must embrace. Our task is to make it work for us. This is the challenge of the hour, as the CSME beckons and is to come into effect on 1<sup>st</sup> January 2006.

Dominica reaffirms its commitment to the CARICOM project and intends to participate fully in the agreed arrangements. Along with the other OECS States, we urge that arrangements in the proposed CSME that are intended to take account of the interests and circumstances of the OECS countries, be given the fullest practical expression. I refer in particular to the provisions in the CARICOM Treaty for 'disadvantaged sectors, regions and sectors', and for 'Less Developed Countries'. We are in total agreement with the finding of a recent study by UN ECLAC that the first of these "... should be given a more precise definition of the terms guiding its principles, provisions and recommended actions"; and that "the regional fund" ... should tackle some of the fundamental constraints on the development of small island developing States ... ". Indeed Dominica would wish to give particular emphasis to the operationalising of a Regional Development Fund, that can be so structured as to compensate for the vulnerabilities of countries like Dominica, and which will also assist such countries to take advantage of the opportunities provided by the CSME.

All of which is in no way to diminish our commitment to the CARICOM project, but rather to seek to ensure the fullest capability on our part and those of the other OECS countries, to be enabled to make this CARICOM project a long-awaited reality. It is my hope that Dominicans, and in particular the private sector and the rest of civil society, will educate themselves fully to the implications and impending realities of the CSME and gear themselves to maximize the benefits that will beckon in its wake. The CSME will impact the livelihoods of almost every segment of our society – professionals in many fields, service providers, shipping agencies, insurance agencies, etc. The list is endless. The Ministry of Foreign Affairs and Trade will be busy over the next few months as it continues its campaign of information and education regarding the CSME, and ways in which it may impact our people, and in which our people could take advantage of its potential.

## **Fiscal Measures for 2005/06**

### **Implementing the Value Added Tax**

I now turn to fiscal measures for the new financial year, and I would wish to begin with the Value-Added Tax.

Government had previously signalled its intention to embark on a programme of tax reform. Such reform was seen to be necessary to de-emphasise income taxation in favour of transactions-based taxation and to place greater emphasis on the taxation of services. We

indicated that the Value-added Tax (VAT) would comprise an important element of this package of tax reform measures. I announced in last year's Budget Address that the VAT would be introduced in fiscal 2005/06. I am now in a position to inform this House and the general public that the VAT will be implemented with effect from 1<sup>st</sup> March 2006. Dominica has taken this very significant step forward to reforming its tax system, and come 1<sup>st</sup> March 2006, we will join 120 other countries the world over, in introducing the Value-added Tax.

As members of this House are aware, I will be introducing bills for the introduction of the VAT and Excise tax during this sitting of the House, so that much more on these will be said at that time. In the context of my Budget Address however, I will make the point that VAT will simplify the tax system in our country; on balance, it will not have a negative impact on cost of living, and will significantly reduce the cost of doing business; it will make for more equitable treatment of tax payers; and is consistent with fiscal repercussions of international trade agreements that tend to result in a reduction in international trade taxes.

Government is pleased at the considerable amount of preparatory work that has been undertaken by the VAT Task Force towards our targeted implementation date, which we are well placed to achieve relatively comfortably. I wish to express Government's gratitude to Mr. Alick Lazare for the voluntary service that he rendered as Chairman of the VAT Task Force and to the rest of his team, for their commendable service to country. Allow me to report to this House as follows:

- ü The White Paper on the VAT was published and circulated in August 2004.
- ü Consultations on the White Paper with stakeholders took place between September and December 2004 through visits to various communities throughout the island.
- ü Adjustments to Inland Revenue's computer software are nearing completion. The Eastern Caribbean Economic Management Programme is assisting Government in that regard. It is expected to be ready for 1<sup>st</sup> October 2005 in order to allow for registration of taxpayers, training of staff and general interaction with the system.
- ü Cabinet has approved of the creation of a new sub-division to administer the VAT. That sub-division will be part of the Inland Revenue Division. It is expected that some officers will be transferred from the Customs Division and the Ministry of Finance and Planning's Policy and Formulation Unit as well as internal transfers from within the Inland Revenue Division to the new sub-division. Additional officers will be recruited in order to achieve the full complement of 21 officers.
- ü Space has been allocated to the new sub-division on the second floor of the Financial Centre.
- ü All the officers of the Customs and Inland Revenue Divisions as well as the two sub-treasuries, namely, Portsmouth and Marigot Sub-Treasuries have received training on the Value Added Tax.
- ü Over 300 potential registrants for the VAT (from the private sector) have been trained in the mechanics of the VAT including the manner in which it is to be calculated.
- ü Training sessions for the private sector are being conducted almost daily at the Ministry of Finance and Planning.

- ü VAT will replace the Consumption Tax (20% on most goods), the Sales Tax (7.5% on all goods), the Hotel Occupancy Tax (5%) and the Entertainment Tax.
- ü A system of excise taxes normally accompanies the VAT, since there are items that would normally bear higher rates of consumption tax. In our case these rates will be applied to vehicles, petroleum products, alcohol and tobacco. The rates will be approved by Parliament at a date prior to 1<sup>st</sup> March 2006.
- ü VAT will be imposed at a general rate of 15%, but a reduced rate of 10% will apply to hotel accommodation.
- ü And as I indicated above, the VAT will take effect on 1<sup>st</sup> March 2006.

The VAT is not a new imposition on the tax payers of this country. It is rather, a repackaging of indirect taxes, and the centre-piece of the reform of the system of taxation. The new system will not have the effect of increasing the tax burden on the population. As a matter of fact, after a period of about 12 months' experience with the VAT, when we will have acquired sufficient experience on the workings and on the yield of the VAT, Government may be in a position to reduce the personal income tax payable by Dominicans, and bring relief to them, in a way that will be felt directly in their pockets. If things go according to plan, Government could possibly be in a position to reduce the personal income tax within a period of two to three years. Perhaps I could be in a position to make this joyful announcement to the Nation in my Budget Address of June 2007.

### **Tax Measures**

This Budget contains no new tax measures. No new impositions on the people and tax payers of our country. In taking this decision, Government is demonstrating its confidence in the people of Dominica, that they will continue to show a sense of national responsibility, and high levels of productivity in their work pursuits. A no-tax Budget also assumes that Government and people will continue along the path of the past few years; and that the private sector will contribute in even larger measure to sustaining growth and reducing poverty.

### **Re-instatement of the Wage Cut**

Not only is Government presenting a no-tax Budget this year; we are also sticking to our commitment to re-instate the 5% reduction in salaries that was instituted two years ago.

In June 2003 Government announced that reduction in the wage bill was one of the critical imperatives that had to be confronted in that Budget. We said that the 5% reduction was necessary if Government was to close the then widening fiscal gap, and if we were to 'give ourselves a chance' of economic recovery. The reduction was applied to members of Parliament and public servants, with ministers of Government accepting a reduction of 7.5%. We asked the population to make this national sacrifice for the sake of future recovery.

We also said that the reduction would be for a period of two years.

As I indicated throughout this presentation, the sacrifices made then are already paying dividends. As a result of our collective efforts, there is light at the end of the economic tunnel. It is only fair, therefore, that public officers be among the first to benefit directly from

the improved economic environment in which we operate. Accordingly, and consistent with the record of this Government in keeping its promises, I wish on this occasion to follow where I left off last year, when the stabilisation levy was removed.

We imposed the Levy for a set period of time and we removed it, when we said we would.

Similarly, we called on public officers to sacrifice 5% of their salaries for a short period of time ..... and they did. It is now time for the Government to honour its commitment to the workers. It is with a sense of pride and accomplishment that I announce, on behalf of the Government, that the 5% reduction in salaries will be re-instated effective 1<sup>st</sup> July 2005.

This is within the exact two year period that it was promised.

This re-instatement will mean an increase of about \$5 million over last year's wage bill.

I wish to thank the people of Dominica for making this situation possible. It is your sacrifice that has contributed to the success of Dominica's economic stabilisation programme, and to our ability today to make this happy announcement.

### **Conclusion**

I must conclude by expressing my appreciation to the people of Dominica for sticking with this Government, in honest recognition of the steps that we took during our last term in office to place our country on a path to economic growth. As I extend appreciation, let me not fail to mention the public officers who have been working tirelessly in trying circumstances to enable our country to stay the course.

I have presented a budget that is the best possible under current circumstances. We have imposed no additional tax burden on the population. Indeed I have held out the hope for a reduction in income tax, subject to the outturn from the new VAT.

I have presented a public investment programme that promises to contribute to achieving our growth target for this fiscal year and beyond. I have indicated those projects that will come on stream that will contribute to sustaining our 3% growth target into the medium term. I have outlined those measures that will contribute to reducing poverty in our country. I have announced our draft medium-term Growth and Social Protection Strategy going forward – a strategic framework for Government's policies. Government's efforts alone will not be enough to achieve desired levels of economic growth. I urge the private sector to buy into the efforts of Government and become proactive partners in the development of our country. Private investment, both domestic and foreign, is essential to sustaining our growth performance.

Economic development in islands like Dominica is neither easy nor straightforward. Our limitations, our vulnerabilities are always in evidence. Sometimes it appears to be a case of one step forward, one step backward. The process is in the nature of a roller-coaster ride. Let no one fool you that the task is easy. Let no one fool you with promises that are empty, solutions that are painless, or rhetoric that is trite and irresponsible.

The pace and nature of development in our country depends on all of us. I urge Dominicans to continue to be rational and reasonable in their expectations. To continue to show the maturity that you have been displaying over the past few years. We can all contribute in

various ways – through a strong sense of responsibility where our work is concerned; and by having the right attitudes to work, to civic duty, and national responsibility. Dominica is ours to develop, and I urge each and every one of us to play our part. We have to take pride not only in our work but in our country. We have a lot going for us in this beautiful Nature Isle that is blessed with pristine beauty, and brims with promise of producing a bright future for its people. We have to join our hearts, hands, voices and energies, and “sound the call, in which everyone rejoices”.

And this call includes overseas nationals who continue to demonstrate their commitment to country in various ways. We have heard the suggestions from the Dominican Diaspora and are responding. We will be taking action to provide on the internet, the various kinds of information that they have requested, including information guidelines for returning residents. We will be seeking to make our overseas offices more sensitive to the needs of the Dominican Diaspora. The portfolio of Overseas Nationals will be seeking to identify persons in the Diaspora who can be engaged to attract investment to Dominica, and otherwise promote our island for tourism and other purposes. We are continuing to examine other suggestions made in the proposal submitted to Government for a policy towards the Diaspora, and we will give additional responses as soon as we can.

The Government intends to work with Dominicans in the Diaspora in the fields of energy, small business development, housing and information technology. We will want to ensure that information is available to them on opportunities that arise in these areas. We would also want to give them the opportunity to utilise their expertise in these and other areas, in their country of birth.

Dominicans should dissociate themselves completely from the attempt being made to categorise nationals who reside overseas as ‘foreigners’. We believe that all Dominicans, no matter in which country they reside, have a part to play in the development of their country. We will go out of our way to ensure that their contributions to the economy of Dominica will be met with just rewards.

I pray that the external environment will smile on our country and our people, and contribute to our staying the course, and bringing to our people the levels of economic growth and social welfare that they deserve. You have my assurance that this Government will be true to the mandate that the people of Dominica have recently given us, and with God’s help, do the best that is possible in our country’s circumstances, and in the context of the global environment.

I commend this Budget to this House.

May God bless our efforts! May God bless our people! I thank you.

Appendix to Budget Address, 2005/06

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External Debt Contracted from 2000 to Present

PURPOSE	Interest Rate	Amount in EC\$
Planning and Stantec	10.00%	70,972
Natural Disaster Management Project - CDB	2.00%	8,483,400
Natural Disaster Management Project - CDB	2.00%	17,139,600
Hurricane Lenny - CDB	2.00%	1,350,000
Construction of Financial Centre - Societe Generale	7.26%	30,230,153
Financial Assistance to DBMC - XMTVV	5.00%	6,480,000
Netball Stadium (in litigation)	14.30%	6,750,000
OECS Solid Waste Management Project - CDB	2.00%	1,080,000
OECS Solid Waste Management Project - CDB	2.00%	2,430,000
Standby Facility - IMF	2.50%	9,972,186
Government of Grenada	3.00%	2,700,000
Emergency Recovery Project - IBRD	2.50%	2,592,000
Emergency Recovery Project - IDA	0.75%	6,443,280
Feeder Roads - XMTVV	4.00%	6,750,000
Regional Tourism Emergency Programme - CDB	2.50%	303,750
Support to Stabilisation Programme - ECCB	2.00%	5,000,000
Government of St. Vincent	3.00%	1,350,000
Roseau Road Reinstatement Project - Kuwait	3.50%	13,389,750
Government of St Vincent & the Grenadines	3.00%	1,358,450
Government of Trinidad & Tobago	3.00%	10,000,001
Government of Barbados	2.00%	13,500,000
Natural Disaster Management Project - CDB	2.00%	621,000
Natural Disaster Management Project - CDB	2.00%	1,620,000
Hurricane Rehabilitation - CDB	2.00%	4,185,000
Government of Belize	3.00%	2,700,000
Support to IMF Programme - ECCB	2.00%	2,700,000
Economic Stabilisation Loan - CDB	2.50%	8,100,000
Caribbean Court of Justice - CDB	5.50%	5,940,000
T-Bill - Govt. of Bahamas	2.00%	3,992,188
Upgrading of Eco-tourism Sites - CDB	2.00%	4,706,100
Upgrading of Eco-tourism Sites - CDB	2.00%	3,620,700
Poverty Reduction & Growth Facility - IMF	0.50%	30,467,544
Economic Recovery Support - IDA	0.75%	8,452,290
Rehabilitation of Roseau to Melville Hall Road	0.25%	53,720,000
<b>Total</b>		<b>278,198,364</b>

[1] Excluding debt amortisation.