

# The BUDGET ADDRESS

2009-2010

*"Securing a Brighter Future In the Face of Global Crisis"*

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## **BUDGET ADDRESS** **2009-2010**

*“Securing a Brighter Future In the Face of Global Crisis”*

### **Introduction**

Madam Speaker, Members of this House, my fellow Dominicans.

It is with a sense of humility but with gratitude to God for being here today, that I stand to deliver this budget address for the fiscal year 2009/2010 to all our citizens wherever they may be, and to all the friends, benefactors and well wishers of this beautiful and beloved land of ours, the Commonwealth of Dominica.

Madam Speaker, the budget address that I am presenting here today can be regarded as an attempt to capture one episode in a journey which the Dominican people contracted the Dominica Labour Party to make with them for five years, initially, on a renewable basis.

Having courageously and successfully steered the country from near economic collapse during the difficult period of 2002-2004, the budget of fiscal year 2005/2006 sought to “continue to improve the macroeconomic environment as a necessary precondition to increased economic growth”.

With the fiscal situation reasonably stabilised, the budget for 2006/07 sought to tackle issues relating to economic growth, with a focus on enhancing the climate for business in our country.

The 2007/08 budget, focused on “Improving the Quality of Life”. That budget contained unprecedented and historic allocations for social spending. In particular, and for the first time, the squatters were regularised, bringing relief to many families, and making affordable housing available to low income earners.

Madam Speaker, in 2008 we had to address the adverse effects on economic performance caused by the destruction to our agriculture, roads and infrastructure as a result of the passage of Hurricane Dean. In that year, we saw alarming increases in the prices of food and petroleum products. The budget for the fiscal year 2008/09 carried the theme, “Confronting Today’s Challenges while Seizing Tomorrow’s Opportunities”. That budget sought to lessen the burden of the increasing prices with which our citizens had to contend. This was to be achieved through a variety of fiscal and other measures, while we maintained our programme of social protection.

Madam Speaker, we have made impressive gains over the last four years notwithstanding having to contend with the destructive forces of nature in the forms of hurricanes and earthquakes. In spite of adversity, we did not reduce expenditure on the social sector. We have achieved and maintained an average economic growth of 3.0 percent, even surpassing that target in 2006 when growth was 4%, then the highest in two decades. We have remained loyal to our strategy to alleviate poverty through increased economic growth. Our increased and continuing capital expenditure programmes, evident for all to see, have been reducing unemployment and contributing to the building of a platform for future growth and economic stability.

Our new foreign policy initiatives, coupled with the increasing confidence of our traditional donors in the economic management of the country, have increased the pool of development partners from whom we can draw support in building a more secure future for ourselves. These new foreign policy initiatives have spared Dominicans the burden of increased taxation in order to meet the cost of the continuing development of our country as well as Government's programmes of social protection and poverty reduction.

Madam Speaker, every Dominican has made numerous sacrifices and we have all worked very hard in preparing ourselves for that more prosperous future. As fate would have it, the world economy is now in crisis. This crisis has affected developed and developing countries alike. The International Monetary Fund has described this crisis as the worst that the global economy has faced in sixty years.

In his economic review for 2008, Sir Dwight Venner, Governor of the Eastern Caribbean Central Bank, reminded us that we have small, open and vulnerable economies which are largely dependent on what happens in the rest of the world.

This is the context, Madam Speaker, in which I have chosen as the theme for this year's budget address: **"Securing a Brighter Future in the Face of Global Crisis"**. It is a theme that challenges us to hold on to, and not abandon or gamble with, the prudent fiscal policies and sound economic management that have worked so successfully. We should, and we will, let prudence be our guide and not take unnecessary chances with the unknown and the untested.

Madam Speaker, I am conscious of the fact that this is quite possibly the last such presentation before the people of this country will be called on to give their verdict on the management of the economy, and the stewardship of this Government in general, over the period since May 2005. On this side of the House we look forward to the next general elections with confidence.

Madam Speaker, I take assurance from the parable of the Talents as recorded in the Gospel of Matthew. This parable establishes the promise that the reward for work well done is greater work to do, and there is work to be done that is even greater than the impressive work done over the last four years to significantly improve the quality of life of all Dominicans.

We are confident that the next general elections will be a time of renewal; renewal of the mandate that the electorate so wisely gave to the Dominica Labour Party the last time around.

This confidence is based on the Government's effective and successful handling of the economy, while at the same time paying attention to the needs of the less fortunate persons amongst us. This confidence is based on the experience that the Government's team possesses, experience in the competent management of the economy and the competent and compassionate manner in which we have dealt with our people. Our confidence is based on the obvious superiority of the Government's economic and social strategies, as demonstrated during the current term in office, over any plan, programme or proposal that is yet to emerge from any of the other contenders for public office. However, now is not the time to dwell on this specific matter, as the time for this will surely come.

Madam Speaker, we all know that times are difficult and that the world economy is in crisis. We are still in the middle of absolutely the worst economic recession the world has experienced since the Great Depression of the 1930s. The year 2008 into 2009 saw a crisis that had its origins in the United States, spread to Europe, Asia and indeed the entire world, via a contagion effect that has prospered on the vine of global inter-connectedness.

### **The International Economic Outlook**

A consequence of the financial meltdown that began in the USA and spread to the rest of the world is that in the USA itself GDP growth fell from 2.03 percent in 2007 to 1.11 percent in 2008, (according to data from the IMF). It is projected to fall to minus 2.75 percent in 2009. Unemployment in the USA increased from 4.63 percent in 2007 to 5.81 percent in 2008, and is projected to increase further to 8.67 percent in 2009 and 10.11 percent in 2010. Madam Speaker, this is not good news for the USA and it is certainly not good news for us in the Caribbean, given the well-known linkages between the USA and the Caribbean, and the Caribbean's dependence on inflows of tourist expenditure, remittances to families and inflows of foreign direct investment for hotel and other development.

Madam Speaker, the situation in the USA is mirrored across many other countries with which Dominica and the rest of the Caribbean have similar linkages, for example, the United Kingdom and Canada.

And there is no way of knowing for sure how long the USA and the rest of the world will remain in recession. Projections vary. The OECD says, "The global economy is poised for its worst year since World War II as the major economies have fallen into severe recession. "Economic activity is expected to plummet by an average 4.3 percent in the OECD area in 2009 while by the end of 2010 unemployment rates in many countries will reach double figures for the first time since the early 1990s...." Indeed the global recession will worsen this year as the world sinks further into what the OECD describes as "the deepest and most widespread recession for more than 50 years".

If its stimulus packages work, Madam Speaker, we are told that the United States could begin to pull out of the recession in early 2010. Yet the same report warns that "the risks of an even gloomier scenario outweigh the possibility of a quicker recovery". Perhaps all we can hope for is the very quotable observation from one reviewer that some indicators appear to point to "an easing pace of deterioration" in most of the OECD countries.

Madam Speaker, all of this does not bode well for the countries of the Caribbean, including our own Dominica.

### **Regional Economic Outlook**

All Caribbean countries have been reeling from the effects of the recession. Countries already under pressure to meet the challenges of development and uplifting their people's living standards, found themselves having to take on the huge, additional challenge of responding to, and coping with, the unprecedented global financial meltdown.

The effects are being felt most obviously in:

- A reduction in the remittances that non-resident Dominicans and other West Indians would normally send to their families back home;
- A reduction in tourist expenditure as fewer persons in the source countries are able to afford vacations and those who do, end up spending less than they normally would;
- A reduction in the foreign direct investment needed to increase the capacity of the country's productive sectors and generate employment;

- A reduction in government revenues as a result of a likely reduction in imports through reduced spending power; and
- Some reduction in exports as buyers in affected countries have reduced access to credit.

And there are the additional challenges involving the Stanford Group and C.L. Financial / CLICO, to which Dominica, and its OECS partners have had to respond. In the case of the former, Dominica, along with other members of the ECCU, responded through a consortium of OECS indigenous banks. In the case of the latter we continue to exercise our collective minds towards coming up with an ideal solution, taking all relevant factors into account.

It is expected that growth in the Caribbean Region will fall by at least 0.2 percent in 2009 with a possibility of a recovery of 1.5 percent projected for 2010. In most of the Caribbean countries the growth outlook for 2009 is down. Nonetheless, it is expected that most of these countries should see some recovery by the end of 2010.

Madam Speaker, grappling with the situation in the Caribbean has taken various forms: revenue raising measures, reductions in / deferment of capital expenditure, additional borrowing, cash incentives to encourage employment retention, tightening up recurrent spending and so on. With very few exceptions, Caribbean countries are not in a position to borrow or print huge sums of money, thus burdening future generations, in order to provide some kind of "stimulus" to their economies. We simply are not in such a position. Stimulus money, Madam Speaker, does not come from thin air.

### **Effects of the Crisis on the Economy of Dominica**

Madam Speaker, I am indeed very pleased to be in a position to report to this House and to the people of this country that the economy of Dominica has fared more than satisfactorily, given the difficult global climate. Our ship has stayed steady amidst the raging winds that have buffeted the economies of other countries. No praise, no commendation, is too much for the Government and people of this country whose focus, determination to do the right thing, and willingness to make short-term sacrifices for long-term progress, are responsible for the relatively sound position in which we find ourselves.

But first, Madam Speaker, let us briefly recount the facts as they relate to our country's economic performance.

Dominica has been adversely affected by the global downturn and turmoil in international financial markets, compounding the economic difficulties that

resulted from two hurricane strikes in the last two years. Preliminary data suggest that there has been a steep decline in tourism receipts during the first four months of 2009 and stayover tourist arrivals are projected to decline by 15 percent in 2009 compared with the same period last year. In addition, discounting of hotel room rates and lower spending by visitors could increase the loss in tourism receipts to about US\$18 million (3.6 percent of GDP).

Family remittances have also declined sharply with the downturn in the United States and neighbouring Caribbean countries where Dominicans have migrated, and major private sector projects have been put on hold, reducing inflows of foreign direct investment by about one half. As a result, real output growth is projected at about 1 percent this year despite ongoing post-hurricane reconstruction. The external current account deficit will likely remain very high despite the fall in international fuel prices, as tourism receipts fall and reconstruction imports continue to increase.

At 3.2 percent, Dominica registered the second highest rate of growth among the independent member countries of the OECS in 2008, and this comes on the heels of 2.3 percent in 2007, a performance that would have been better but for the effects of Hurricane Dean. This overall growth performance was driven mainly by agriculture, construction and the hotels and restaurants sector. The agricultural sector grew by an estimated 5.4 percent, construction by 15.0 percent and hotels and restaurants by 2.1 percent.

Also contributing to our country's growth performance in 2008 was Government's success in accelerating implementation of the Public Sector Investment Programme, the Government's quick response in the aftermath of Hurricanes Dean and Omar, and the significant investments we have made in agriculture and fishing, and the positive impact of the hosting of Reunion 2008.

Inflation was a serious concern and we all remember the period during 2008 when there were large increases in the prices of goods, particularly petroleum products and basic food items - rice, flour, milk, etc. These price increases, peaked at 7.5 percent in September 2008, but receded to around 2 percent by end-2008 making for an average annual inflation rate for 2008 of about 6 percent. Continued volatility of commodity prices makes it difficult to anticipate the prospects for 2009.

The external current account deficit widened to 32 percent of GDP in 2008. The increased cost associated with the import of food and fuel, reflecting the higher international prices during the first half of the year was the main contributor to that increase. The deficit was also determined by higher reconstruction-related imports and lower exports due to the full-year impact of the scaling back in the production capacity of Colgate-Palmolive.

Consistent with the growth of the economy, the growth of banking sector credit picked up in 2008. Domestic interest rates were virtually unchanged as no change was suggested by the Monetary Council of the Eastern Caribbean Central Bank. We recognize this as an issue to which we may have to pay closer attention as we seek ways to address the current challenges.

Based on available data, the global economic crisis has not adversely affected the banking sector thus far. We have identified some areas of weakness in the non-bank financial sector, which, if not addressed urgently, could pose a serious risk to the entire financial system. I refer in particular to the ongoing uncertainties in the insurance sector particularly in regard to the collapse of the CL Financial Group.

Recurrent expenditure for the year just ended is estimated at \$286 million which is \$19.1 million over the budget. This increase is reflected mostly in additional expenditure on road maintenance, utilities, educational assistance and retroactive payments made to public officers. The wage bill target was met. Current expenditure plus debt amortisation to June 2009 is projected to be \$305.1 million compared with the budgeted amount of \$289.7 million and actual expenditure for 2007/08 of \$301.7 million. Government was able to accommodate the increase in recurrent expenditure because of the better than projected performance of current revenue.

In spite of the strong performance of revenue, the stability of the fiscal account experienced some stress during the fiscal year mainly as a result of continued increases in the cost of goods and services and differences in timing of revenue collection and expenditure. As a result, measures were taken to restrict discretionary spending, institute a reduction in government-financed travel and achieve a 20 percent reduction overall in planned expenditure on goods and services for the last two months of the fiscal year.

Capital expenditure is estimated at \$157.8 million, an increase of \$14.7 million over the original budgeted figure of \$143.1 million. As a consequence of supplementary approvals, the total authorized amount for the Public Sector Investment Programme was \$200,691,883. The larger than originally budgeted capital expenditure, is evidenced in the improved pace of implementation of the public sector investment programme. Madam Speaker, last year, a higher than usual, 80 percent rate of implementation of the public sector investment programme is estimated to have been achieved. This fact is satisfying, not only because of the obvious economic and social benefits deriving from heightened economic activity, but also because it reflects increased efficiency on the part of the government system as well as improvement in aspects of national economic management.



In fiscal 2008/09 current revenues are estimated to have outperformed projections by \$26.0 million or 8 percent. The main areas of more than satisfactory performance were withholding tax, the value-added tax, taxes on international trade and transactions and fees on sale and transfer of property.

The take from the value added tax is estimated at \$120 million. This outcome is \$12 million more than projected reflecting in part the large expenditure on the capital programme and the fact that Government pays the VAT on its purchases. Notwithstanding the implementation of another phase of Government's income tax reform, (involving income tax reductions across the board), PAYE is expected to exceed projections by \$9 million. This I am advised is partly as a result of increased employment and wage levels in the country. Import duty and withholding tax are also estimated to have exceeded projections by \$4.0 million each.

Grant receipts are estimated at \$136 million to end June 2009. This is \$36 million over what was programmed for the year. Of this amount, approximately \$111 million came from the Government of Venezuela while about \$20 million was received from the European Union.

Local capital revenue is estimated to be in line with the budgetary estimate of \$3 million.

The primary surplus, Government's main fiscal indicator, is estimated at \$21.9 million, which is fairly close to the \$21.3 million or 2 percent of GDP that was projected.<sup>1</sup> The overall surplus is projected to be \$12.6 million compared to the \$11 million which was estimated.<sup>2</sup>

## Public Debt

Over the years we have emphasised that debt sustainability remains an important plank of Government's economic management strategy. If we are to learn any lessons from the experience of developing countries all over the world, one of these lessons would be that the debt situation must not be allowed to get out of control, and must be carefully managed and monitored. Unless we heed this advice, we will one day find that debt will prove to be a binding constraint on our ability to borrow and our ability to grow.

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<sup>1</sup> The *primary balance* is defined as [**total revenue** (not including grants)] minus [**total expenditure** (not including debt service and grant-related expenditure)]. It is a widely used indicator of fiscal stance in highly indebted countries. Grants and grant-related expenditure are left out of the calculation because of their possible volatility and unpredictability.

<sup>2</sup> Total revenue minus total expenditure.

We have heeded this advice, Madam Speaker, and over the years since the economic stabilisation programme, we have seen the country's debt profile improve.

Our own central bank, the ECCB, as well as the European Central Bank have set a prudential debt limit of 60 percent of GDP, a target which this Government is on track to achieve by 2017. The public debt-to-GDP ratio now stands at 81 percent, a tremendous movement away from the despairing 131 percent of some years ago. This success was not attained by chance but by deliberate and diligent efforts at raising grants for funding PSIP projects, contracting loans only on concessionary terms, restructuring the current debt portfolio, managing expenditure so that all payments are made and there is no accumulation of arrears, aided by government's efforts at ensuring the economy continues to grow in real terms.

During the fiscal year 2008/09, Government contracted three new loans to the tune of \$13.8 million. This amount comprises \$8.4 million from the CDB for the Road Improvement and Maintenance Project; \$4.0 million from the World Bank for the OECS E-Government Project; and \$1.4 from the CDB for Natural Disaster Management. In addition to the above, Government has also negotiated two loans with the CDB. One is in the amount of \$24.6 million for construction of the Pointe Michel Sea Defence and the other, in the amount of \$10.8 million in respect of the National Curriculum Implementation Project. Disbursements have not yet been made in respect to the last two mentioned.

The Road Improvement and Maintenance Project loan is an additional loan for the completion of work being undertaken on the Valley Road. The OECS E-Government Project is a joint effort by the OECS countries for the delivery of regionally integrated e-government applications that takes advantage of economies of scale. This project seeks to promote the efficiency, quality and transparency of public services. The Natural Disaster Management loan was contracted after the passage of Hurricane Omar, for the purposes of clearing and cleaning of affected areas, as well as the emergency restoration of services. The National Curriculum project loan aims to provide quality conditions for the development of human resources within Dominica by 2015 and ensure that by this time, all students have access to quality primary and secondary education.

Total Central Government Disbursed Outstanding Debt now stands at \$665.9 million. External debt accounts for \$454.8 million or 68 percent of the total debt, while Domestic debt accounts for \$211.1 million or 32 percent. This represents a reduction by 2.3 percentage points over the position one year ago, which stood at \$687.9 million comprising external debt \$473.3 million or 69 percent, and Domestic debt of \$214.6 million or 31 percent.

Yet another reflection of the improved health of the public finances is that the ratio of debt service to recurrent revenue has continued to improve and now stands at 11.5 percent.

### OUR RECORD OF ACHIEVEMENT

Madam Speaker, this Government has served our country very well these past four years. This Government has been true to its ideals and its history of people-centred development and paying attention to the needs of the working class and the less fortunate. There is more detail in the Economic and Social Review that was laid in this House earlier today, but allow me to make quick reference to some of this Government's proud achievements over the past four years; achievements that are commendable and irrefutable.

#### Support for Children and Young Persons

This Government has, in the course of its period in office, demonstrated its concern for the children and young persons of this Nation. Witness construction of:

- o* The new Roosevelt Douglas Primary School;
- o* The new Salybia Primary School;
- o* The new San Sauveur Primary School;
- o* The new Administrative Block at the Portsmouth Secondary School;
- o* Phase I and II of the Dominica Grammar School.

In addition, we may wish to be reminded of the following:

- o* Implementation of the schools transfer grant for children moving from primary to secondary school and doubling the amount after one year from \$250.00 to \$500.00;
- o* The grant of 487 new computers to all secondary schools and five primary schools -- part of a programme that is ongoing;
- o* Opening up of new opportunities for our young persons through the Dominica State College;
- o* Introduction of a comprehensive school bus programme so far involving provision of ten school buses serving villages across the country, benefitting 811 school children;
- o* The increasing focus on granting scholarships and financial support to pursue studies at tertiary institutions. Last year alone a total of \$7.5

million was spent to facilitate persons pursuing higher education, an increase by \$2.1 million over the previous year.

- o Children in a number of communities, most notably Petite Soufriere, Boetica, Carib Territory, Dublanc and Woodford Hill continued to benefit from resources from the Dominica Social Investment Fund and the Basic Needs Trust Fund.
- o Hospital fees were eliminated for all persons under eighteen.

### Support for the Elderly

Madam Speaker, Government's attention to those less able to look after themselves has involved considerable attention to the elderly, as exemplified in the following:

- ✓ The recently launched *Yes We Care* Programme, a major social initiative that will bring help and relief to the most vulnerable among us. Madam Speaker, it is said that the true mettle of a society lies in the way it treats or cares for its senior citizens. The *Yes We Care* Programme supplements existing programmes for the elderly.
- ✓ Hospital fees were eliminated for all persons over sixty-five years of age.
- ✓ Approved pensions were made free of income tax.
- ✓ A \$200 minimum pension was instituted for persons in the public service.
- ✓ The increases in the amounts paid by way of public assistance, many of the beneficiaries being the elderly.
- ✓ Government has continued to contribute to meeting the operating costs of the Council on Aging, Dominica Infirmary, Grange Home for the Aged and the Grotto Home for the Homeless.
- ✓ Providing every centenarian with a monthly allowance of \$500.

### Support for the Consumer

This Government has taken action to ease the pressure on the consumer. We have:

- o Increased the minimum wage rates for the first time since 1989.

- a* Eliminated tariffs on more than fifty items, thus directly benefiting consumers when world commodity prices skyrocketed.
- a* Removed the customs service charge on petroleum products at the time when prices were at their highest.
- a* Removed the excise tax on LPG.
- a* Removed the Import duty on equipment to be used in the generation of electricity from renewable resources and on energy saving equipment, devices and fixtures such as light bulbs.
- a* Extended the period over which goods may remain on the port from three to five days before storage charges are applied.
- a* Subsidised the prices of sugar and rice during the period when prices of these goods increased globally.
- a* Madam Speaker, Dominicans will remember with pride, the efforts of this Government to bring immediate relief to persons affected by hurricanes. We have had to deal with the aftermaths of Dean and Omar, and responded fully and well, bringing quick relief to households, farmers, fishermen, market vendors, hoteliers and the national community.
- a* Madam Speaker, we have implemented two phases of a three-phase income tax reform programme intended to reduce income taxes payable by 5 percent across all tax bands and to increase the annual tax-free allowance by \$5,000.00. This move alone has put more money in the pockets of an estimated 8,331 taxpayers in this country.

## Health

In the area of Health, Government has clearly lived up to its promise of "Health for All", as evidenced in:

- a* The improvements made to the service and facilities at the Princess Margaret Hospital;
- a* The additional diagnostic facilities now available at the Reginald Amour Hospital in Portsmouth;
- a* The establishment of an Intensive Care Unit at the Princess Margaret Hospital;

- a* The installation of a hyperbaric chamber at the Princess Margaret Hospital;
- a* The improvements to the services and facilities of health centres all over the island;
- a* The elimination of user fees at the Princess Margaret Hospital for the aged and the young;
- a* Our considerable and successful efforts to provide nursing education to a larger number of persons in an effort to deal with the nursing shortage;
- a* In collaboration with the Cuban Government, the Miracle Eye Care programme continues to benefit many Dominicans;
- a* Our successful negotiation with the Government of the People's Republic of China for full rehabilitation of the Princess Margaret Hospital.
- a* Removal of hundreds of derelict vehicles and other white goods at the Jimmit site and at Long House/Glanvillia thus eliminating any potential public health hazard.

### Housing

Our efforts in housing have been much heralded and appreciated by many, and find their rightful place among the significant achievements of this Government over the past 3-4 years. Let us be reminded, Madam Speaker, that the Housing Revolution represents the most comprehensive assault on the problem of housing and shelter in this country. Time does not permit me to speak in detail about all the elements of this programme, except to highlight some of the achievements, namely:

- a* The National Housing Repair and Sanitation component under which more than 650 houses have been repaired in practically every community in Dominica in 2008/09 and more than 1000 in the last two fiscal years.
- a* A special housing facility at the AID Bank in the amount of \$5.0 million, and another in the amount of \$7.0 million administered by the Government Housing Loans Board for special low interest loans to certain categories of private and public sector employees. Since these latter amounts have been fully used up, Government has rolled over these facilities so that as repayments are made, additional persons can benefit.

- a* A special facility in the amount of \$1.5 million that will be made available to public officers of the Carib Territory.
- a* Government has guaranteed a loan of \$16.8 million from the DSS to the GHLB which will be used to consolidate existing debt as well as to provide new funds, so that the GHLB is able to drop the interest rates of its regular mortgage facility.
- a* Government will seek Parliament's approval for a guarantee of \$12.0 million from the DSS to the AID bank. These funds are to be used for general development projects including mortgages.
- a* Work is almost completed on thirty houses now under construction at Hillsborough Gardens in St. Joseph.
- a* Work is advanced on the construction of forty-one houses in the Carib Territory.
- a* Work is almost completed on the construction of eleven houses at Bellevue Chopin.
- a* Regularisation of squatters to give security of tenure to those persons who occupy such lands, thus benefitting 297 households.
- a* Developing infrastructure in new housing areas including Chance, Jimmit, Tarreau, Pointe Michel, Lily Valley in Trafalgar, Lagoon (Portsmouth) and Canefield East.

Truly, Madam Speaker, there has been nothing short of a revolution in the provision of housing and shelter for the people of this country.

Madam Speaker, Government's investment in social protection and poverty reduction programmes are historic and unmatched.

However, they constitute only one of the twin pillars of our development strategy going forward, convinced as we are that in order to sustain the increasing welfare of our people, we have to foster economic growth. I will be speaking later in this Address on the subject of fostering economic growth in our country, but we can note the following at this time:

## Agriculture

In agriculture, over the years:

- a* We have been actively implementing our agricultural diversification programme, including construction of multi-purpose packing houses at Roseau and Portsmouth, rehabilitation of twenty-four farm access roads and construction of a National Centre of Testing Excellence at Stock Farm.
- a* We invested heavily in fishing, in horticulture and in livestock and have also targeted increased production of exotic flowers, essential oils, root crops, fruits and vegetables.
- a* Government has facilitated irrigation projects spearheaded by the Banana Industry Trust in a number of communities.
- a* We have completed the introduction of the Agricultural Information Management System (AIMS).
- a* And critically, Madam Speaker, we have established an Agricultural Investment Unit in the Ministry of Agriculture and are pursuing the Agricultural Investment Plan prepared with the cooperation of IICA. To date \$2 million has been committed to implement that Plan.
- a* Under our watch the Marigot Fisheries Complex was completed and successfully operationalised; and
- a* We have concluded a grant agreement with the Government of Japan for the construction of the Portsmouth Fisheries Complex costing US\$7.5 million.
- a* We have been discussing various options for improving transportation of agricultural produce. To date we have received commitment from the Government of China for assistance to purchase a modern vessel to facilitate inter-regional trade.
- a* Government has also provided support through quasi-Government and private sector organisations such as the Banana Industry trust, DBPL and Fair Trade by subsidising the price of fertilisers and providing tax relief on inputs.

Madam Speaker, our efforts in agriculture have paid off, as is evident from the growth of the sector. This was a welcome response to Government's efforts -- \$4 million was invested in the fishing sector following the passage of Hurricane Omar in October 2008. Our horticulture programme has been making a difference to the output of ground provisions, peppers, pineapples, and vegetables.



Indeed the funds received from the IMF in the aftermath of hurricane Dean were allocated entirely to agriculture.

Our Central Livestock Farm at Londonderry has been making its mark as an institution for the training of students and farmers on various aspects of animal husbandry. Construction of the new milking parlour/Dairy Unit has been completed and is soon to be commissioned, and work has started on the Pork Development Project, including construction of the Sow Breeding Unit.

Over the years, \$9.6 million was injected into the agricultural sector in support of a wide range of agricultural diversification activities and the ongoing consultancy to review and revise land tenure arrangements.

### Tourism

We have much to report in the area of Tourism, Madam Speaker. Tourism development has helped to improve the quality of life and raise the living standards of our people. Over the past four-to-five years the achievement has been solid:

- o The Tourism Master Plan lays the foundation for pursuing a development agenda that will allow us to continue the drive to build tourism in a more coordinated and effective manner. It provides us with a template for developing a range of products and services critical to advancing the sector over the next 10 to 15 years.
- o Various agencies, including the AID Bank, got together to advance implementation of a range of programmes to facilitate new areas of growth in the sector.
- o A re-branding exercise was undertaken to create a greater awareness of Dominica's tourism product offerings: "Defy the Every Day - The Nature Island - Dominica".
- o The new *DiscoverDominica* Authority was created, as the body charged with the responsibility to undertake destination marketing and product development.
- o Destination marketing continues to focus on our competitive niches of Diving, Whale and Dolphin Watching, Hiking, Soft Adventure and also Weddings and Honeymoon, Health and Wellness and Yachting.

- a* Under the three-year Eco-tourism Development Programme, Government's three-year tourism development programme was responsible for the restoration of various sites and facilities throughout the island.
- a* The E.U. is currently supporting Government's Tourism Sector Development Programme and is also financing activities in destination marketing and rural tourism, all of which will benefit community projects in Wotten Waven, Bellevue Chopin, Portsmouth, Layou, Mero and La Plaine.
- a* Government has begun implementation of the Waitukubili National Trail Project, and progress continues satisfactorily with this most important project.
- a* Regarding tourism investment, Dominica has seen the development of several new accommodation facilities, including Red Rock Haven, Flambuoyant Hotel, Rosalie Beach Resort and Hotel Deschamps.
- a* Tourism's contribution has grown over these past years, with more than 2,500 persons currently directly employed by the tourism sector and an additional 3,000 indirectly employed. Government's contribution to destination marketing has increased from \$1.9 million in 2005 to \$5.1million in 2008, and visitor arrivals from 380,769 in 2005 to 460,475 in 2008.

Generally, Madam Speaker, much has been done by Government towards repositioning the economy away from its over-dependence on primary agricultural production. The efforts by Government over these past five years have gone a long way to lay a solid foundation for building a more vibrant and sustainable tourism industry in Dominica.

### Geothermal Energy

Madam Speaker, the performance of the economy in the medium- to long-term hinges heavily on the eventual outcome of the ongoing work on geothermal energy development.

Briefly:

- ✓ It has been established that we do have geothermal resources in significant quantity in the Wotten Waven and Soufriere areas and work is proceeding steadily towards realising this potential. Given the importance of this project to Dominica's economic future and the huge investment sums involved, Government deliberated carefully on the way forward for this industry. We did this having regard to all of the concerns and in the best interest of the nation. Government will therefore continue to collaborate with the Regional Councils of Martinique and Guadeloupe, the European Union, the European Investment Bank, the French Government and other French agencies to advance the development of the Wotten Waven Geothermal reservoir.
- ✓ Simultaneously, Government will move ahead with implementation of the agreement with West Indies Power Dominica Limited to explore and exploit the country's geothermal resource in the Soufriere/Scotts Head area.
- ✓ Work is well advanced towards formulation of a National Energy Policy and Sustainable Energy Plan for Dominica through a programme supported by the E.U. and the OAS.

### The ICT Sector

Developments in the ICT sector continue to send the right signals to potential investors. In support of ICT development, Government is supporting the expansion of the Clear Harbour Call Centre so that it will increase its employment from 280 to approximately 400. A national draft policy paper has been prepared and is now being discussed; and six legislative bills are being prepared to support effective business and financial services regulation, including the ICT sector.

### Physical Infrastructure

Madam Speaker, adequate physical infrastructure is of critical importance to an economy in terms of the business climate, productivity and competitiveness and economic growth and living standards. In that area this Government has excelled. Suffice it to mention here again residents all over Dominica can vouch for the unstinting efforts of this Government to improve the country's physical infrastructure, to the point where, Madam Speaker, those with nothing else to say by way of criticism, have wondered why Government is spending so much money on infrastructure.

Madam Speaker, allow me to list a few of the infrastructural projects that have been undertaken recently or are ongoing. There is a more complete listing in the

Economic and Social Review, and the Minister responsible will also have the opportunity to speak to those in more detail. I will say however that:

- a* Persons in Pointe Michel, Soufriere-Scotts Head, Roseau, Bath Estate, Roseau Valley, Goodwill/St. Aroment, TaneTane, Blenheim, Thibaud, Gomier, Au Parc (Vieille Case), Fond St. Jean, Warner/Sultan, Portsmouth, and other areas are the beneficiaries of roads, bridges and sea and river defences constructed over the past four years; and
- a* The foregoing does not include work on the two major arteries of the road network; the Canefield-Melville Hall Road and the West Coast Road Roadway. Actual construction has begun on the former. Design work has been completed on the latter, with actual construction expected to begin later this year.

Government has been mindful of the importance of a proper road infrastructure to economic growth, and it is difficult for anyone to miss the fact that we have been responding fully to this imperative. Everywhere on this island there is the evidence of this Government's commitment to rehabilitating and reconstructing the island's road infrastructure.

Madam Speaker, it is interesting that a significant chunk of the U.S. Administration's stimulus package consists of spending on physical infrastructure. Madam Speaker, our stimulus plan was in the making before the global crisis actually began. It is a tribute to Government's planning and resource mobilisation, and execution competences that we have been able to get our programme going, and keep it going, in the midst of the global turmoil and uncertainty. This is one important way in which Government has been able to stand by its commitment to keep economic activity going, despite the circumstances, and thus continue to honour our commitment to economic growth, employment creation and poverty reduction.

Madam Speaker, I have not yet made reference to the new Windsor Park Stadium, completed on schedule and without major cost-overruns, and standing tall and proud as a landmark achievement of this Government. It is an important symbolic statement of this Government's thrust in infrastructure, in all sectors of the economy: human resource development, sports facilities, roads and bridges. That our country has for the first time been able to host international cricket at the Windsor Park Stadium is a tribute to the patience of our people over the years and to efforts of a Government that took the position that we should use our foreign policy in a proactive manner, to the benefit of our people. I know that the people of this country would want me, once again, to express our sincerest appreciation to the Government and people of the People's Republic of China for helping to make that historic occasion possible.

Madam Speaker, as it is with the United States, so it is with Dominica -- there is great value in an infrastructure-oriented fiscal stimulus. This is so because of the "accelerator/multiplier" effects of such spending - "a dollar invested will generate much greater future output than a dollar of transfer payments or consumption-stimulating tax cuts. Infrastructure investment raises productivity and increases both job growth and output over time".

#### Air Access Improvement Programme

Now, Madam Speaker, on to our Air Access Improvement Programme which has constituted a major pillar of our country's public investment programme over the past few years.

I am happy to report that this project is nearing completion and we are on track to complete the final "package" of activities before the end of this calendar year, 2009. This package includes runway surfacing, drainage, fencing and installation of navigational equipment and lights. The value of this phase is EC\$36 million and is financed with the support of the European Union.

Madam Speaker, as you know, the entire country awaits completion of this major project, estimated to cost approximately \$110 million, and in particular the night-landing phase of the project. We have done well to get to this stage, after the many setbacks that we have experienced, most of which were beyond our control locally. This is perhaps the largest project ever undertaken in this country and the many donors and contractors involved in executing the project, presented challenges of an organisational and coordinating nature. These various challenges notwithstanding, we have managed to deliver the project more or less on schedule. The new Melville Hall Airport is expected to make a major contribution to the growth of this economy and to a reduction of poverty. It will also contribute to the sustenance of the welfare of our people into the medium- to long-term.

But Madam Speaker, we have never seen completion of the Melville Hall Airport as the end-all of our airport aspirations. What we said, was given the country's fiscal, debt and economic situation, this was no time to be speaking of international airport construction. There were those whose only response to the question of the strategy to develop this country, was to repeat their international airport mantra. These persons were neither then, nor are they able now, to give the country a clue as to how they would finance the entire international airport project.

We, for our part, have been prudent and realistic. As I have publicly announced, we have a Task Force looking into all aspects of the possible construction of an international airport.

With the new Melville Hall Airport nearing completion, the task force will be looking at all options for construction, including the financing arrangements that are necessary, in a sober and deliberate manner. What we can say thus far is that a new international airport will cost close to EC\$1 billion.

Very preliminary calculations of the economic implications of constructing an international airport, costing approximately EC\$1 billion, borrowed today, with a 30-year term and a grace period of three years, at say, 5 percent interest, and with a first disbursement in November 2009, suggest that central Government debt-to-GDP ratio would be close about 118 percent of GDP at full disbursement.

These projections are extremely conservative in that they assume that there will be no other borrowings by Government over the 30-year term of the loan, for any other purpose - economic, social or disaster-related.

Recognising the cost to future generations if loan funds are used for financing construction of an international airport, we have in fact begun discussions and negotiations with some of bilateral partners and friendly countries to determine ways in which we can be assisted in meeting this goal.

#### Prudential Management of the Economy

Madam Speaker, this Government has done a competent job of managing the economy and in particular the public finances of this country. Surely it is unnecessary to remind the members of this House of the very courageous and determined efforts of this Government, started by the late Prime Minister Pierre Charles, to restore sanity to the public finances of this country. And it is also surely unnecessary to remind you of the sacrifices made by the people of this country in support of the efforts of a determined Government, and in recognition of the fiscal imperative that we were pursuing.

We were successful, Madam Speaker, to the point where a few years later, Government was in a position to reduce personal income taxes across the board. Two years ago we announced a phased reduction of income taxes once circumstances permitted; and we have so far been able to implement two of the three phases. We have also been successful in bringing down the national debt, as I have discussed earlier. Let it never be forgotten, Madam Speaker, the achievement of this Government in the management of the public finances of this country.

Our economy has indeed been adversely affected by the global crisis. Fortunately for us, we have been very well served by the policies that this Government has been pursuing. We have been better positioned than some other countries in the Caribbean, in coping with the ongoing crisis.

The measures courageously put in place during our difficult period of 2002-2004 have served us well, then and now. The difficult fiscal measures that other countries have to put in place now, we have already taken. Indeed, our increased and continuing capital expenditure programmes are evident for all to see, all over the country.

As a consequence, the massive unemployment that has resulted from the crisis in other countries is not a factor in this country. In fact we have been reducing unemployment in recent times as a result of our continuing programmes in physical infrastructure and housing. We asked our people back then, to give us a chance to build a platform for future growth and economic stability, and together we did.

Madam Speaker, our effort to ensure prudent management of the economy hinges in part on the strength of the legislation. We recognise that the Financial Regulations and the Financial (Stores) Regulations are dated and do not sufficiently provide for some of the new trends in procurement, such as online purchases and the fact that since Independence we are no longer required to make overseas purchases through the Crown Agents. Although the 1994 Finance Administration Act is more recent, the same limitations apply. As such, Government has requested a full review of the Finance Administration Act, the Financial Regulations and the Financial (Stores) Regulations. The review will be aimed at bringing these legal instruments in line with current best practice and to make them more relevant to today's circumstances.

Our success is the reason that we must continue to be prudent and careful in the economic management of the country. This will be critical as we continue our efforts at ensuring that we will be spared the full brunt of the crisis.

#### ALBA and Petro Caribe

I conclude this recap of our second term in office to date, with a brief reference to Alba and Petro Caribe. These two hallmarks of this Government's foreign policy thrust have already served the people of our country very well indeed. The Waitukubuli Fuel Storage and Distribution Facility in Jimmit is a concrete manifestation of the contribution of Petro Caribe to the progress this country has been making. The Petro Caribe initiative has contributed to reduction in the cost of electricity in this country through its reduced-cost sales of diesel fuel to DOMLEC. Petro Caribe has also begun to benefit this country in other ways, namely:

- a* The construction of mooring facilities at Jimmit;
- a* The installation of a state-of-the-art fuel storage and distribution plant at Jimmit, valued at over US\$35 million;

- o Employment of 11 full-time and 4 part-time workers;
- o Supply of free LPG to centenarians and disadvantaged persons.

Madam Speaker, Dominica's participation in Petro Caribe has come in for criticism recently from certain quarters, criticism that have been characterised by uninformed and deliberate misinformation, to the point where Government has had to secure media space to repeat the information already provided to the public. Given this Government's record on debt management, it would take an audacious or mischievous person to accuse this Government of irresponsibly increasing the national debt through Petro Caribe. I hope that our recent statements in the media on the matter have satisfactorily clarified any misgivings persons may have had on this matter.

Far from irresponsibly increasing the national debt through Petro Caribe, Government's use of the Petro Caribe arrangement has been exemplary. Any amounts still owing under Petro Caribe do not constitute debt, or even arrears, but what the technocrats call "technical arrears", since the arrangement allows for deferred payment. In fact balances remaining to be settled for shipments made to the Dominica National Petroleum Company Ltd. are residing in an account at the National Bank and are available either for final settlement of amounts due to Venezuela through PDVSA, or for the social development projects provided for under the arrangement. As at end June 2009 the balance on this account at the NBD was \$22.7 million.

I hope that this matter is now sufficiently clear to the Dominican people, and that they will be careful whom they listen to.

The ALBA arrangement is more wide-ranging. As I have said before to the people of this country, ALBA is not a single agreement or treaty, but a constellation of agreements among its membership, which now includes the OECS States of Antigua and Barbuda, and St Vincent and the Grenadines. To date, the benefits from our country's participation in ALBA include accessing of finance for housing and other development purposes, and technical support in agriculture, and other areas.

More benefits will follow, Madam Speaker. Through Alba, Dominica will gain access to the ALBA Bank through which development finance will be raised for important projects in agriculture, manufacturing and other areas. Indeed we envisage a profitable, functional partnership between the AID Bank and the ALBA Bank.



## Preventing the Financial Crisis from Turning into a Human One

Madam Speaker, even as Government has invested heavily in growth sectors such as agriculture and infrastructure, we have sought all along to ensure that the global financial crisis does not turn into a human crisis for the people of our dear land. The World Bank has cautioned policy makers that "Like previous crises, this one will hit the poorest people the hardest."

This Government has always believed that social safety net programmes are a smart investment for both today and the future. This is clearly articulated in the Government's Growth and Social protection Strategy, and is clearly evident in the Government's recurrent and investment spending, where our strong concern for the poor, the elderly, the young and the less able among us, is manifest.

The Government's social protection programmes have not been cut back as a consequence of the crisis. In fact, they have increased. The Economic and Social Review outlines Government's considerable efforts in education and human resource development, including the provision of financial safety nets for children, and teacher training and youth and enterprise development. It speaks to our efforts in health care, including the expansion of water supply into villages such as the Carib Territory and Bense. It also addresses our community development activities, including our new *Yes We Care* programme targeted at the elderly, and our efforts at protecting our children.

Government shares the view, Madam Speaker, that a comprehensive safety net programme requires a combination of two things -- targeted conditional cash (or food) transfers for those who cannot work or should not be taken out of other activities like school, and guaranteed low-wage relief work on community-initiated projects. These have formed a part of Dominica's social protection and poverty reduction thrusts and will continue to do so. We undertake to keep these programmes under review with a view to increasing the efficiency of their delivery.

In this context I need to make mention of one programme that has been making a tremendous contribution to social protection and poverty reduction in poor communities and among vulnerable groups all over the country. The Dominica Social Investment Fund (DSIF) has been targeting vulnerable groups that include women, youth and children at risk, the Carib community, older persons, and persons with mental and physical disabilities.

As at end June 2009, DSIF had disbursed close to \$6.5 million on social development projects. The Fund's financing commitment to date is more than \$10 million, all of which will be disbursed during the last quarter of this, the final year of this EU supported project. Twelve of DSIF's projects have so far been completed, with the remaining 24 to be completed later this year.

DSIF's impact has complemented that of the BNTF which has and continues to make a significant difference to the quality of life of our rural communities.

Madam Speaker, while the official figures are not yet available on the country's poverty and unemployment situation, we are very confident, on the basis of reasonableness and logic, that there would have been a significant downward movement in both poverty and unemployment. This is clear from the continuing increase in economic activity and growth, despite the global crisis, and in the number of projects being executed all over the island.

The last official living conditions survey, carried out in 2002 and published in 2003, produced poverty levels of 39 percent at the individual level and 29 percent at the household level. As I speak, work is proceeding on a new survey of living conditions being carried out with the support of the CDB. The results of this survey should be available by October of this year. We are confident that the survey results will bear us out -- that the policies, programmes and projects of this Government have had a positive impact on the poor and on the unemployment situation.

In the meantime, Madam Speaker, we estimate that the unemployment level is currently at about 11 percent compared with over 20 percent in 2002, and the number of poor persons and households has been reduced to at least 26 percent and 19 percent respectively. These estimates are based on the rule-of-thumb that a 1 percent increase in economic growth brings about a concomitant 2 percent increase in employment. But the official estimates will be available soon enough.

Madam Speaker, Government has demonstrated its desire to ensure the well-being of older persons. I referred earlier to some of the specific measures we have taken in that regard. There is one other measure that this Government expects to make a decision on in due course, and that is the establishment of a non-contributory pension scheme or otherwise referred to as 'old-age pension'. We are aware, that notwithstanding the various measures that have been put in place, there are still some people who are in need but do not qualify for assistance under any of the existing programmes. These would include for example, people who have worked but may not have worked long enough to qualify for a pension but would not necessarily qualify for public assistance. I have requested that the necessary analysis be undertaken to guide Government in its consideration of this possible scheme.

## THE DEVELOPMENT IMPERATIVE / STRATEGY FOR GROWTH

Madam Speaker, it has not been easy to get the package of growth policies right, as our islands continue to be caught in the activities of the international economic order, and in the context of our grave dependence on the conditions beyond our shores.

However, challenges require responses; and these responses must be proactive and pre-emptive. Thanks to the policies of this Government over the course of the last six years or so, our fiscal position is sound. However we know that we have to be continuously alert to the diagnostics of growth and the dynamics of the development that we seek. Madam Speaker, this Government will be more focussed on these issues in the next year and in our next term in office.

In summary, our country's comprehensive development agenda going forward has to include a combination of the following:

- Tourism -- site development; destination marketing; hotel development; improving air access;
- Agriculture - a national strategy, with clear goals and objectives, and appropriate incentives;
- Energy - continue to press on hard with geothermal, while not ignoring other renewables;
- Water - ensure development of reliable water systems for all communities and encourage investment in bulk and bottled water exports;
- Public Investment - continue to improve the physical infrastructure;
- Private Investment - clear, focussed investment attraction strategy;
- Business climate issues - accelerate implementation and design of an efficient policy on incentives; and
- Small business development -- ensuring a strengthened strategy and supporting incentives.

Madam Speaker, the development strategy must be complemented and supported by the following:

- Continuing fiscal discipline;
- Rationalising and energising our country's growth institutions;
- Implementing a national productivity enhancement initiative to address productivity and competitiveness issues;
- Working to ensure a high-quality public service;
- Investigating the full scope for environmentally friendly policies that are economically sustainable; and
- Continuing to pursue a foreign policy that is proactive, and exploited efficiently and productively.

All of the foregoing policy imperatives are already being pursued by this Government, in varying degrees of intensity or comprehensiveness and with a satisfactory level of success to date. The Government's broad strategy is clearly articulated in the Growth and Social Protection Strategy. The new year and our renewal in office, when that time comes, will see renewed focus on ensuring that the package of policy imperatives I have outlined is more comprehensive and even more focussed.

My listing of imperatives is not necessarily complete. Developing countries have many kinds of constraints on their development, and all manner of policy imperatives that they need to pursue. None of these countries can pursue them all at the same time. What is needed from the point of view of what is critical and practical, is to identify the country's most critical or binding constraint. Our country's binding constraint, all things considered, is the insufficiency of the direct investment, domestic and foreign, that is needed to be addressed in the creation of economic growth and job opportunities.

Allow me, Madam Speaker, to speak of Government's plans to provide direct support to two sectors of the economy -- agriculture and agro-business, and small and medium-size enterprises, before I touch on the issue of attracting investment and a more proactive role for Government.

### **Agriculture and Agri-Business**

The strategic objective for the agricultural sector is to make an improved contribution to economic growth by increasing and safeguarding foreign exchange earnings, strengthening farmer and agricultural support institutions, increasing rural incomes and employment opportunities and improving food security.

Madam Speaker, Government will seek to accomplish these objectives through:

1. Direct support to farmer based organizations for production of their commodities.
2. The conduct of market studies to inform farmers of the best opportunities for investing.
3. Expansion of propagation of selected planting material.
4. The provision of training for farmer based organizations and rural credit unions.
5. Retrofitting of agro - processing centres.
6. Establishment of a grant fund for small farmers.
7. The provision of credit under repayment terms based on the crop cycle.
8. The financing of technical assistance.

Madam Speaker, the Dominica Export / Import Agency ( DEXIA ), the operators of the recently constructed Inland Reception and Distribution Centres ( IRDCs ) and the Hucksters Association, will be expected to work closely with the Bureau of Standards to ensure that best practices are adopted in the handling, processing and packaging of all the agricultural commodities intended for export. Government will encourage DEXIA to work in close collaboration with WIBDECO in order to capitalize on the export potential of the commodities within regional and other markets.

Currently Madam Speaker, in addition to the AID Bank and the Credit Unions, there are other avenues available for the provision of agricultural credit and technical support to farmers, agri-businesses and other entrepreneurs. These include:

- The National Development Foundation;
- The Small Business Support Unit in the Ministry of Trade;
- The Youth Business Trust; and
- A new programme using funds amounting to 2.5 million Euros from the European Commission's Special Framework of Assistance for the year 2000.

Government has established the Agricultural Investment Unit to implement the agricultural investment plan that came out of the agricultural symposium that took place in late 2006. The Unit will provide concessionary financing to farmers, fishers and persons involved in livestock production.

Concurrently, DEXIA is working with a number of companies including agro-businesses to move them to the stage of export readiness.

In order that the best results may accrue to the agricultural sector from the use of these resources, Government is proposing the establishment of an Advisory and Review Committee comprising representatives of the above agencies. The Terms of Reference of this Committee would seek to eliminate the duplication of efforts and bring about synergies in their operations.

Further, Madam Speaker, Government will supply financial resources to the AID Bank for the establishment of a Fund to support Innovation in Agriculture and Agri-business. The intention here is to stimulate creativity and encourage the design of products and processes as well as the adoption of technologies that add value and contribute to export performance.

The Fund will be especially supportive of initiatives that make it unnecessary for the farmer to spend valuable time selling his/her products himself/herself, thus allowing him/her more time to spend on the farm.

## Small and Medium Enterprise

Available evidence indicates that over ninety percent of all business activity in Dominica is conducted by enterprises employing less than twenty persons. Overall, the sector is a significant source for the creation of sustainable jobs and an important contributor to economic activity.

There are expanding opportunities in niche markets ideally suited for operators in the SME sector.

However, the sector as a whole continues to be plagued by some challenges that have not been adequately and sustainably addressed, including:

- a* Lack of access to adequate financing, including venture capital for equity investments;
- a* Inability to access sources of critical information and vital inputs;
- a* Insufficient regard to the principles of good manufacturing and production techniques; and
- a* Inadequate infrastructure and administrative support.

The Small Business Support Unit, (SBSU), established in the Ministry of Trade and Industry, was set up to plug the identified gaps in the delivery of concessional financing and support services to SMEs. The unit has been set up to work in synergy with other agencies, including the e-Business Incubator. The underpinning philosophy behind the unit is that a good business idea that can put bread on the table for a family, or one requiring some important inputs that can make the difference between success and failure, should not be allowed to suffer because the proponents lack the types of security needed by the established financial institutions.

The Unit will provide the support that is needed so that the enterprise will be in a position to face any financial institution to negotiate its requirements in the future.

The SBSU has been established to target new micro, small, medium-size businesses, enterprises already in operation as well as the smaller "cottage" type industries.

Financial support will be in the form of direct cash grants and the use of the Special Lending Facility. This facility is a loan facility through which Government financing will be made available to established small businesses in the approved sectors through a reputable financial institution such as the AID Bank. These loans will carry a very low interest rate of 2 percent and highly favourable repayment terms.

As the enterprises benefitting from grants grow and expand, they will be steered toward the Special Lending Facility.

Support for Established Enterprises will take the form of:

1. Partial Grants : To cover 50 percent of the capital cost of a specific project and;
2. Special Lending Facility: This will be available to export ready businesses and will be channelled through the AID Bank.

Small and medium-size enterprises will be able to access cash grants to cover the cost of, for example, a specific piece of equipment, and partial grants to cover 50 percent of the capital investment of a specific project.

Micro enterprises will benefit from Cash Grants.

We have found it necessary to establish individual units as a first step, to get the separate components of the small business initiatives going. However, we are mindful of the need to eliminate duplication of effort and bring about synergies in their operations. This we believe will ensure the best results from the allocation and use of the resources made available to small and medium-size businesses. Government is therefore preparing terms of reference for a proposed Advisory and Review Committee to examine the scope for consolidation of our various initiatives in support of the small business sector.

Madam Speaker, it needs to be made clear that all enterprises assisted through grants will be expected to meet the criteria and performance standards set and agreed. Should any of them fail to discharge their obligations, the grant will be converted to a loan which will have to be repaid.

### **Foreign Direct Investment**

Given the circumstances of our country, we will continue to have a heavy reliance on direct foreign investment to help propel us forward to higher levels of growth on a sustained basis. Dominica has not featured prominently among the countries that have been able to attract foreign direct investment in hotel and hotel

development and ancillary services. As such we have not benefitted to the extent that other countries have in realising the growth and employment benefits of foreign investment.

This state of affairs should soon change, Madam Speaker. Our two-pronged assault on this problem entails working to improve the climate for business in Dominica, and putting arrangements in place to more efficaciously attract direct foreign investment into Dominica.

In 2006 the theme of my Budget Address was 'Enhancing the Investment Climate' wherein I spoke to Government's approach to improving the climate for business and private investment in Dominica. I announced the reforms that were identified for implementation. Admittedly, Madam Speaker, this is a slow process, although we have received assistance from various sources, including the USAID and the World Bank.

However I am pleased with the progress to date. The work is well underway on the identified reforms, including the Registry, Customs, and Lands and Surveys. At Customs in particular, a Director of Reform has been in place over the past twelve months, the ASYCUDA team has commenced its work with UNCTAD and various stakeholders are becoming more familiar with the ASYCUDA World software through the consultations and public education sessions that have been held. All of these will make for increased efficiency, an enhanced environment for business and increased inflows of investment into Dominica.

Our ongoing efforts to improve the administration of justice will result, *inter alia*, in the speeding up delivery of administration of justice, which will also contribute to the enhancement of the climate for business in our country.

These efforts to enhance the climate for business are being complemented by efforts to do a better job of attracting direct investment. When Government established the new *InvestDominica*, it was with a view to adopting a more focussed and professional approach to the promotion of investment to Dominica. *InvestDominica* has just about completed its first year of operation and its work has already begun to be felt.

Madam Speaker, the new agency has had a productive year. It played a lead role in streamlining the incentives approval process so that so that incentives for investors who are investing up to a maximum of \$2.0 million are now approved by an Approval Committee, a subcommittee of Cabinet. This has resulted in the processing time being reduced from approximately six weeks to two-to-three weeks.



In the last fiscal year, 53 enterprises benefitted from fiscal incentives. Of these 14 are in the manufacturing sector, 22 in the services sector and 17 in the accommodations sector. This translates to potential employment being provided for 486 persons and total investments of \$239.4 million.

Discussions are quite advanced towards new hotel development on the west coast and in the south and north of the island. *InvestDominica* is optimistic that these investments will come to fruition by 2010.

*InvestDominica* is working with the Discover*Dominica* Authority to develop a Tourism Incentives Act. This Act will provide targeted incentives to the tourism industry, to serve the needs of new and emerging investments in a comprehensive manner.

It might be noted, Madam Speaker, that *InvestDominica* is structured both to attract new investment, domestic and foreign, and to service the needs of domestic investors, both current and prospective. It is structured in a manner to provide an approximation of a "one-stop shop" for investors. The agency expects to commence within the next three months a World Bank-sponsored consultancy that will assist it to better target potential investors and improve its collateral material.

Madam Speaker, our efforts in these inter-related areas that I identified, will cut across all sectors of the economy and are intended to increase the flow of investment in all areas. And we will of course be continuing, if not redoubling, our efforts in all of the strategic areas that I have already referred to.

### **Productivity and Competitiveness**

These efforts, Madam Speaker, must be underpinned by increased attention to two important ingredients of economic growth. Starting in the new fiscal year and continuing into the future, we will pay special attention to the issues of productivity and competitiveness. These are two soft but huge inter-related aspects of the new regional and global economic environment.

Much work was done in Dominica a few years ago, in collaboration with the International Labour Organisation and the Dominica Employers Federation on this matter. Government will be seeking the collaboration of the ILO and other agencies with a view to revisiting this effort. An increase in both labour productivity and total factor productivity has been shown to be one determinant of the extent and pace of economic growth in many countries across the world. Correspondingly, its absence has been shown to be a factor in a lack of global growth and consequently economic stagnation.

One important element in enhancing productivity growth is spending on infrastructure. Madam Speaker, infrastructure investment is not merely a matter of aesthetics or perpetrating a perception of development. Infrastructure spending raises national productivity.

Therefore there will be no lessening in the magnitude and scope of Government's ongoing public sector investment programme.

### **Proactive Role for Government**

Finally under this section, Madam Speaker, in terms of an active role for Government, our basic position is stated in the GSPS:

"Government is fully aware that it may have the responsibility to be rather more entrepreneurial than may be exactly consistent with its basic philosophy of eschewing direct investment and facilitating business development in various ways, including enhancing the enabling environment.

"On the basis of these considerations, Government will seek prudently to partner with private investors or otherwise be proactive in the development of certain projects, where there appears to be compelling national interest considerations."

Government will be more proactive in stimulating the economy through direct financial support to existing and start-up business ventures. We will be seeking to provide assistance to "businesses operating in the agricultural and tourism (hotels and guest houses) sectors, primarily in terms of debt relief and funding to rehabilitate their operations".

Government has facilitated the AID Bank in accessing inexpensive financing to be on-lent at equally concessional rates to interested hotel owners. The proposed rehabilitation and resuscitation works could be undertaken under the strict supervision of the AID Bank to ensure that funds are used for the purposes intended.

There are a number of projects identified for implementation that have been stuck in the investment pipeline for an extended period, owing primarily to the inability of the promoters to raise the required capital. The majority of these are in the tourism sector. Government has endorsed the plan of the AID Bank to embark on an active mission to raise funding for participation in the financing of these major development projects.

In fact, Madam Speaker, I am pleased to announce that Government has decided to contribute all of the US\$5.1 million that we have received under the IMF's Exogenous Shocks Facility towards investment in a hotel facility. We are hopeful that this contribution will succeed in leveraging additional financing from the private sector for a Government/private sector joint venture in this vital sector of our economy.

In addition to the specific initiatives relating to the hotel sector, Government is partnering with the AID Bank to raise other lines of credit to be used in the financing of other development projects. I can report that the partnership is bearing fruit. Government has recently approved a guarantee for the AID Bank to borrow some US\$10.0 million from the BANDES Bank of Venezuela. This will be for on-lending, at 6 percent interest, to small and medium-size businesses, large firms, housing and construction of critical infrastructure.

Madam Speaker, just to make the point again, in concluding on this subject, that Government will obviously be seeking to exploit and maximise the potential that exists in all sectors of the economy to contribute to economic growth, including the ICT sector and various ancillary industries. What I sought to do here was to isolate those constraints that appear to be the most binding constraints on our further development and to indicate Government's approach to dealing with them.

#### **ACCESSING THE IMF'S EXOGENOUS SHOCKS FACILITY**

Given the realities of today's world, Dominica needs all the help it can get, as do the countries of the Caribbean as a whole. This is a fact recognised by the richer countries of the world. One of the decisions of the recent meeting of the G20 countries in London in March of this year was to make more resources available to developing countries through the IMF, in order to cushion the effects of the global financial meltdown.

Madam Speaker, opposition spokespersons thought they had come upon an issue that they could use against the Government. Once again, they embarked on a propaganda campaign to scare the public into believing that the Government was returning to IMF conditionalities. The Opposition parties should know that the IMF has a number of different facilities, each with its own purposes and terms of access. For example, Dominica was first under the Fund's "Stand By" arrangement in 2002, before moving on to its Poverty Reduction and Growth Facility (PRGF) for three years ending in December 2006. The Fund also has a facility called the Exogenous Shocks Facility (ESF) which was established to do just what it says: provide special assistance to countries that have been adversely affected by external events outside the control of the Government and people of the affected developing countries. The facility was revamped by the Fund in late 2008 precisely in response to the global financial meltdown.

St Vincent and the Grenadines was the first of the Eastern Caribbean countries to access this facility - their request for US\$ 5.1 million was approved in May 2009. St. Lucia has sought assistance from the same facility. Dominica's request for US\$5 million was submitted to the Fund and approved on 10<sup>th</sup> July 2009. Other countries that might have been interested in this particular facility are not eligible because of their indifferent fiscal situations.

Madam Speaker, there is no disgrace in seeking access to this facility that has been established precisely for the countries like Dominica, reeling under the effects of the global financial apocalypse. On the contrary Dominica can take pride in the fact that we are easily eligible to access this facility, unlike some of the other member states of the OECS. And there is nothing to fear from the terms of the new facility. It does not come with conditionalities. All that is required is that countries are seen to be following prudent fiscal policies and taking growth-inducing structural measures. We should all be proud, Madam Speaker, that Dominica is seen to fit easily into this set of criteria.

Accessing this facility will help ease the pains of the global financial crisis, gives us time to make for a lasting adjustment to the crisis; and is in the interest of the people of this country. It does not mean that Dominica is in a fiscal crisis. There is no fiscal or economic crisis in our country, Madam Speaker.

Indeed our performance over the past year has been quite good, (as I have already indicated); but we cannot be complacent -- the effects of the global crisis may not yet have fully played themselves out in terms of its implications for Dominica. We would be short-sighted not to look down the road and make the necessary provision for an uncertain future. It would be foolish not to take advantage of facilities such as the new Exogenous Shocks Facility, if we think it would be in the best interest of our people so to do. This is not the time to be playing political games, but a time to face up to the realities of this unprecedented crisis that is confronting all countries of the world.

## **PRE-BUDGET CONSULTATIONS**

Government is grateful, Madam Speaker, to the many persons who turned out to the pre-budget consultations organised by the Ministry of Finance. We have spent time assessing the various submissions from persons and organisations. I will give a summary assessment of those submissions, but let me say, first, that this Government is committed to such consultations with members of the public. They provide a valuable opportunity for the public to engage decision makers; they provide valuable feedback to the decision makers on the impact of government decisions and the issues that occupy the minds of our people; and they provide the raw material to be analysed and processed on the road to decision making and policy formulation.

Madam Speaker, one conclusion that emerges from the process is that these consultations are essential, but not necessarily only as pre-budget consultations. Many of the submissions were useful and worthy of serious consideration, but more as issues of development strategy and policy formulation than directly or immediately budget-related. In other words, Madam Speaker, while a large number of the submissions could not realistically be taken on board in time for this Budget, they will be reviewed as soon as possible in the context of our development priorities.

The second broad observation that can be made on a number of the submissions made in those consultations, is that the submissions would have to be reviewed in the context of the enveloping global financial meltdown and its repercussions for small, vulnerable countries such as Dominica, repercussions that were unfolding even as these submissions were being presented.

Many of the submissions took the form of requests for a larger share of the public purse. It is all understandable at an individual or individual organisation level, but when all these requests or submissions are aggregated, the implications for the public purse are staggering. There may be need for greater collaboration between and among various groups, more engagement of the private sector or generally more active in fund-raising activity.

Madam Speaker, some persons seem aghast at the fact that Government has been achieving a surplus on the recurrent budget, and seem to want Government to give it back. Madam Speaker, the purpose of achieving a surplus on recurrent budget is to help Government pay down its debt, provide for emergency situations and meet the necessary counterpart contribution to capital projects.

If we were to grant all of the requests made of Government, Madam Speaker, it is clear what the effect on the Treasury would be. Government's revenue take would be adversely affected as would the provision of goods and services and the integrity of the public finances. In particular the integrity of the VAT would be compromised, as therefore would the tax base of the country. The position of prudence where the VAT is concerned is that it is the cornerstone of the country's tax system and must not be tampered with or otherwise eroded through the granting of exemptions. The more exemptions granted, the more pressure there is to keep on granting, as the list of exemption requests lengthens. It is in the larger national interest that the VAT be protected from the slippery slope of erosion.

As the Government has been demonstrating over the past three years through its income tax reform programme, we will be examining all avenues for tax relief for the population as a whole.

That said, Madam Speaker, Government will not shirk from its responsibility to analyse the various submissions made, including those from the DAIC, with a view to treating with them in the overall national interest. Government has already begun to give consideration to some of the submissions made with a view to determining which of them can usefully be implemented in the new fiscal year and in the next term in office of this Government.

### BUDGET FOR 2009-2010

I turn now to the Budget for the new fiscal year, 2009-2010.

Madam Speaker, the planned total expenditure for the new financial year is \$490.0 million, a 6 percent increase over the estimated actual expenditure for the last fiscal year.

Of the total, recurrent expenditure is projected to be \$321.6 million, representing an increase over the previous year of 6 percent.

Capital expenditure is projected to be \$168.3 million, an increase over the previous year of 7 percent.

Debt amortization, including debt service, accounts for \$43.8 million or 9 percent of projected total expenditure.

Government's fiscal operations in the new year are projected to produce a current account surplus of \$26.4 million, which will be applied to the Public Sector Investment Programme. The projected overall surplus is \$13.6 million.

The primary surplus, Government's main fiscal indicator, is projected to be 2 percent of GDP, down from the 3 percent target that has been serving the country very well indeed. This is due, Madam Speaker, to the impact of the global recession that has negatively affected government revenues as well as Government's determination to fulfil undertakings previously given to the public.

Table 1 shows the overall summary for the fiscal year 2009/2010 with comparative figures for the two preceding years.

Table 1. Budget Summary 2009/2010 (\$m)

	Estimate 2009/10	Estimate 2008/09	Projected 2008/09	Actual 2007/08

Revenue				
Recurrent Revenue	343.0	310.2	336.5	323.7
From Grants	113.9	100.1	106.6	60.0
From Loans	34.6	30.6	27.4	9.8
Government	12.1	3.0	3.0	1.8
Total Revenue	503.6	443.9	473.5	395.3
Expenditure				
Salaries and Allowances	134.6	126.5	124.3	118.9
Other Current Expenditure	143.3	122.5	142.1	131.6
Debt Service	19.8	18.0	19.6	22.7
PSIP (Capital Expenditure)	168.3	143.1	157.8	122.7
Total Expenditure	466.0	410.1	443.8	395.9
Debt Amortization	24.0	22.8	19.1	28.5
Primary Surplus	22.8	21.3	21.9	12.3
Current Account Surplus	26.4	22.5	33.4	22.0
Overall Surplus / (Deficit)	13.6	11.0	12.6	(29.1)
Total Expenditure plus debt amortisation	490.0	432.9	462.9	424.4

## Public Sector Investment Programme (PSIP)

The Economic and Social Review of the past year provides details on the performance of the public sector investment programme (PSIP) for the year. Suffice to repeat here that after a relatively slow start to the year, the pace of project implementation accelerated considerably.

At the end of the financial year 2008/09, the total authorized amount for the Public Sector Investment Programme was \$200,691,883, comprising \$133,352,830 or 66 percent from grant funding; \$32,376,734 or 16 percent from loans; and \$34,962,318 or 17 percent from local resources. The PSIP amounted to 20 percent of GDP.

For the financial year 2008/09, the Supplementary Budget amounted to \$57,549,083 - 61 percent from grants; 36 percent from local funds; and 3 percent from loans. Some of the major components of the Supplementary Budget were: the continuation of ongoing projects such as the Tane Tane and Soufriere/Scotts Head Sea Defences; Roseau Roads Reinstatement Project; Roseau to Melville Hall Road Rehabilitation; Agriculture Diversification; Air Access Improvement Project; House Renovation; the San Sauveur Primary School and Hurricane Omar relief to fishers.

Total expenditure at the end of the last financial year is estimated to be \$157.8 million, resulting in an overall estimated implementation rate of 80 percent, compared to an implementation of 73 percent in the previous year.

The Government of Dominica's Public Sector Investment Programme (PSIP) for the Financial Year 2009/10 has been framed to contribute to economic growth and to help create employment and reduce poverty. Emphasis has been placed on the efficient completion of a number of ongoing projects.

The Capital Budget for 2009/2010 is projected to be \$168,275,089 or 16 percent of projected GDP. It will be funded as follows: 65 percent from grant funding, 21 percent from loans and 15 percent from local resources.

The largest share of the PSIP has been allocated to infrastructural development (35 percent). This includes financing for major road projects such as the Roseau Roads Reinstatement, Roseau to Melville Hall Road, Road Improvement and Maintenance Project for the Valley Roads, Road Network Improvement project, and the second phase of the Vieille Case Road. Significant amounts have also been included for sea defences at Soufriere/Scotts Head, Fond St. Jean, and Tane Tane.

The much anticipated West Coast Road is expected to come on stream this fiscal year.



A new sea defence wall for the village of Pointe Michel is also projected for this year. This project involves the construction of a reinforced concrete wall, varying in height from 2.5 metres to 5 metres, a rock revetment system, nominal 1.5 metre sidewalks along the wall, parking space at selected locations, drainage structures, and a new road of proposed width of 5.5 metres.

These infrastructural projects benefit communities by creating opportunities for local employment, improving access, and reducing vulnerability to natural disasters. In some cases, it also facilitates visitor access to tourism sites.

The Air Access Improvement project at the Melville Hall Airport also continues with the focus this year on the extension, surfacing and lighting of the runway and other works. The overall project will ease access and facilitate trade and tourism, with the potential for increasing employment for residents of the surrounding areas, and added income generation for the state.

Investments in agricultural development continue into the new financial year with the resulting benefits of employment and income generation, particularly in the rural areas, food security, food safety, increasing productivity and competitiveness, and promotion of the sustainable use of our natural resources. Allocations have been made towards the development of the livestock, poultry, and fisheries sub-sectors with infrastructural development, support and training components.

For instance, the new Portsmouth Fisheries Facility will include a 120 metre long jetty; a gabion basket protection wall along the lower end of the river, a sea wall with rock-armour protection, slipway for hauling boats, boat and gear repair shed and mechanic workshop, locker room building, fuel pump station, waste treatment facility, and a central building to house the fish market, refrigeration and processing equipment, generator, meeting room, and offices.

Support for crop production and export also continues with the Citrus Certification programme, Hillsborough Horticultural centre and support to the horticulture sector, and cocoa and coffee rehabilitation, as well as the management of red palm mite. The management and sustainable use of our natural resources is reinforced by projects such as the establishment of the National Parks Authority, the OECS Protected Areas and Associated Livelihoods Project, and the rehabilitation of ecotourism sites.

Investments in the social sectors continue with construction of primary and secondary schools, and the PRC-funded construction of new sections to the Dominica State College. The construction of this new facility will include classroom blocks, laboratories, teachers' facilities, an agricultural training centre, a library, and an auditorium.

The classrooms and laboratories will be able to accommodate an additional 1,000 persons; the new multifunctional auditorium will provide a comfortable venue for holding events; and the agricultural training centre will be used as a research base. The project is therefore expected to create a more spacious and comfortable learning environment, making the DSC more multidimensional.

As part of Government's community development thrust, the Carib Territory Capacity Building project, the Basic Needs Trust Fund and the Dominica Social Investment Fund continue to have a large impact on rural communities. Provision of care for the elderly and vulnerable is reinforced by the inception of the *Yes We Care* programme. Investments in the redevelopment of the Princess Margaret Hospital will be pursued through repairs to wards and installation of fencing and lighting while we undertake the preparatory work for the major rehabilitation work to be financed by the PRC.

The importance of access to affordable housing continues to be reinforced with investments in various housing construction and rehabilitation programmes in Dublanc, Hillsborough Gardens, Bellevue Chopin, Tarreau, Jimmit, Carib Territory, Chance, Lily Valley and Charlotte Valley. The Petro CASA initiative continues to take shape with the ongoing preparation of sites.

Investments will be made towards the development of a diversified and vibrant tourism industry, with destination and niche marketing as well as site development. The Roseau River Promenade project is currently at the feasibility stage. This project involves the enhancement of the South side of the Roseau River bank from the New Market to the West Bridge to include a riverside walkway, vending kiosks, landscaping and seating areas. The aim of the project is to provide a pleasant and relaxing atmosphere for shopping and enjoying the view of the river.

Modernisation of the public sector will continue with the training, reform and capacity building within the public service. These activities will be reinforced by the OECS E-Government for Regional Integration Project which seeks to promote efficiency, quality, and transparency of public services through the delivery of regionally integrated e-government applications; strengthen the enabling environment for small business development; foster public-private collaboration; enhance social inclusion; and increase competitiveness in the Region.

Additionally, the rehabilitation of several government and public buildings such as the Immigration Building, Government Headquarters, and Police Training School, as well as the construction of the Melville Hall Fire Station, and the Grand Bay Police station is also carded. The major expansion of the State House will include the construction of the official residence of the President, the President's office complex and the electoral office.

Madam Speaker, Government is mindful of the importance of a reliable supply of water to the homes of all our people. Government has partnered with DOWASCO to obtain financing for some major projects around the island. Funding has been approved under the BNTF programme for new or improved water systems in Morne Savon (Thibaud), Grand Fond, Petite Savanne, Quartre Bois (Bagatelle), Upper Giraudel, North End (Marigot), Cocoye and Wesley. These are provided for in the budget allocation for BNTF. Government is also seeking the approval of the Government of Venezuela to utilise funds earned from the Petro Caribe arrangement in the amount of about \$9.0 million to fund water systems in Warner, Campbell, Delices, Bense (phase 2), Belles/Penrice and Vieille Case, and the necessary allocations will be made once the approval is obtained.

Government has approved a request to the CDB to fund studies to determine how the water intake Water Area-1 (WA-1) can best be relocated. In the interim Government has given approval to DOWASCO to utilise land in Morne Bruce to construct a major tank in Morne Bruce in an effort to reduce the water shortages caused by the difficulties being faced in the WA-1.

The overall goal of the PSIP is to have projects contribute simultaneously to economic growth, poverty reduction, and sustainable development, via both short- and long-term employment, creation of new opportunities, infrastructural development, social and human investment, and sustainable use of resources.

### **Recurrent Expenditure**

Madam Speaker, the recurrent expenditure projection for 2009/10 of \$321.6 million compares with projected expenditure to June 2009 of \$305.1 million.

The largest allocation in the amount of \$125.6 million is in respect of the wage bill. This consists of personal emoluments, wages and salaried allowances. This outlay has remained at about 12 percent of GDP for the past three years and is in keeping with Government's fiscal target for that expenditure item.

The allocation of \$78.4 million for goods and services is \$14.0 million higher than the amount budgeted for the last fiscal year. This figure is reflective of increases in the cost of providing Government services and additional amounts being provided for utilities, fuel, and road maintenance. It also demonstrates government's commitment to providing adequate resources to facilitate the efficient functioning of all ministries and departments.

A provision of \$62.4 million is being made for Government transfers. This is an increase of \$6.8 million over the amount budgeted for the previous year. Included in this amount is the allocation of \$6.3 million for payment of contributions to local, regional and international institutions. This provision has remained unchanged from the previous year. The allocation for educational assistance has

been increased from \$13.6 million to \$17.1 million. This reflects a 26 percent increase over the allocation for 2008/09 and demonstrates that government is honouring its promise to invest heavily in human resource development.

This year the provision for retiring benefits is \$21 million. This is an additional \$1 million over the previous year's allocation. Owing to increases in the quantum of benefits being paid, the amount estimated for last year was insufficient to meet the requirements, hence the need for additional resources to provide for those persons who have retired from the public service.

An amount of \$19.8 million has been provided to meet interest payments. Owing to the favourable fiscal and economic performance during 2008/09 and the effects of the debt restructuring programme, the government has been able to reduce the public debt further to about 81 percent of GDP. The reduction in the debt to GDP ratio has the effect of maintaining expenditure on debt servicing at sustainable levels.

The sum of \$5.9 million is being estimated for expenditure on public assistance as government continues to provide social safety nets to mitigate the effects of the food and fuel cost increases on the most vulnerable groups.

Table 2 (of the printed text) provides a summary of recurrent expenditure by economic classifications plus debt amortization. Personal emoluments, wages, salaried and non-salaried allowances together constitute the largest share of 41.8 percent of the recurrent expenditure budget. The second highest is the allocation for goods and services of 24.4 percent. Interest and loan repayments together amount to 13.7 percent followed by grants and contributions at 10.9 percent. Retiring benefits account for 6.5 percent.

Table 2. Recurrent Expenditure by Economic Classification (\$m)

Classification	Estimate 2009/2010	%	Projected 2008/2009	%	Budget 2008/2009	%
Personal Emoluments	113.2	35.2%	108.8	35.9%	108.4	37.4%
Wages	5.8	1.8%	4.0	1.3%	4.3	1.5%
Salaried Allowances	6.5	2.0%	6.9	2.3%	5.6	1.9%
Non-salaried allowances	9.0	2.8%	7.0	2.3%	8.1	2.8%
Interest	19.8	6.2%	19.6	6.5%	18.0	6.2%
Retiring Benefits	21.0	6.5%	21.2	7.0%	20.0	6.9%
Grants & Contributions	35.2	10.9%	36.7	12.1%	29.7	10.3%
Subsidies (Public Assistance)	6.2	1.9%	5.5	1.8%	5.9	2.0%
Refunds	2.5	0.8%	2.5	0.8%	2.5	0.9%
Goods & Services	78.4	24.4%	73.8	24.3%	64.4	22.2%
Loan Repayments	24.0	7.5%	19.1	5.6%	22.8	7.9%
Total	321.6	100%	305.1	100%	289.7	100%

## Recurrent Revenue

Madam Speaker, while revenue performance for 2008/09 has performed reasonably well, the global slowdown is expected to impact the outcome for the coming year. Nevertheless, it is anticipated that revenue collections for 2009/10 estimated at \$343 million, will increase by \$6.6 million over the estimated revenue collection for the previous year.

Table 3 (of the printed text) shows the sources of revenue projected for the new year. The major categories are: Personal Income tax at \$30.9 million; Corporate Income Tax of \$18.3 million; VAT \$122.7 million; Other Domestic Taxes of \$68.8 million; International Trade Taxes of \$71.4 million and Non Tax revenue of \$30.9 million.

Table 3. Breakdown of Current Revenue Projections

Item	Estimates 2009/2010	%	Projected 2008/2009	%	Budget 2008/2009	%
Personal Income Tax	30,948,000	9.0%	34,476,850	10.2%	24,979,589	8.1%
Corporate Income Tax	18,323,000	5.3%	21,835,060	6.5%	16,958,750	5.5%
VAT	122,658,000	35.8%	120,000,000	35.7%	107,792,394	34.7%
Other Domestic Taxes	68,775,000	20.0%	66,140,396	19.6%	67,015,150	21.6%
Int'l trade taxes	71,378,000	20.9%	66,814,300	19.9%	61,049,283	19.7%
Non-tax Revenue	30,947,000	9.0%	27,252,490	8.1%	32,401,000	10.4%
Totals	343,029,000	100%	336,519,096	100%	310,196,167	100%

### Capital Revenue

Capital revenue is estimated at \$12.1 million. This amount is expected to come mostly from the sale of houses and from the sale of state lands. Government has invested heavily in housing over the past two years and it is expected that this investment will generate additional revenue for the coming year.

### FISCAL MEASURES

Considering all the factors, Madam Speaker, I have had to ponder long and hard over the fiscal measures that may need to be introduced into the Budget this year. The global financial and economic outlook is not bright; growth across the world is likely to be slow in 2009 and 2010. For us in the Caribbean this portends slow

growth as well. This in turn will affect us on the fiscal side as it presumes lower revenue collection.

One priority of Government at this time is to pay attention to administrative and other efficiency improvements that need to be made in key areas of the government system, in particular Customs and Inland Revenue.

#### Reorganisation of the Inland Revenue Division

Madam Speaker, we are taking measures to improve the system of tax administration. This will complement the work that is ongoing towards reorganisation and reform of Customs and Excise. It is anticipated that changes to the operations and consequent changes to the structure of the Inland Revenue Division (IRD) will lead to greater efficiency in tax collection and reduced effort on the part of taxpayers.

The reorganisation of the IRD is being pursued in phases. The first phase will focus on introducing a Large and Medium-size Taxpayer Unit at the Division. The objective of this change is to focus attention on, and provide more efficient and quality service to, taxpayers in the large and middle ranges, and to reduce the administrative burden on the smaller taxpayers. That Unit will be responsible for audit and enforcement.

The reorganisation of the IRD will include an examination of the scope for adjusting the filing requirements for PAYE in order to simplify and improve the systems. One of the outcomes we would like to see, (subject to the review and analysis of the proposal), is that the Income Tax Act would be amended so that it would not be mandatory for some categories of persons to file annual returns. This would include those persons who now pay no income tax (pensioners, for example) and persons with only employment income (most public officers, for example). Where these persons have income other than their employment income or pensions, they would be required to file.

Phases two and three will address the introduction of a planning unit and small taxpayer unit for IRD. In subsequent phases we intend to begin work on a presumptive tax for small taxpayers (non-employees) to replace current income tax requirements. We expect that the full reform will be substantially implemented by fiscal year 2013/14.

This measure is not expected to increase revenue immediately, but we believe that the increased efficiency should impact positively on revenue collection in the medium-term.

### Reduction in the processing time at Customs

This measure is being proposed within the context of the ongoing Customs reform, a process that is quite advanced.

The main objective of the ongoing Customs reform is to reduce the time and costs associated with doing business in Dominica. The restructuring of the Division will result in a consolidation of all Customs activities in the Commercial Transaction Unit (commonly referred to as the Long Room), so that members of the public would not have to go to more than one location to conduct their business, and the entry process could be completed within one working day of lodgement of the entry.

Government has been seeking ways to simplify the process for the approval of duty-free concessions approved by the Cabinet. Effective 1<sup>st</sup> September 2009, processing of duty-free applications will be done at the Customs. The Customs Division will accept full responsibility for the implementation of the Cabinet decision and apply relief as directed. The Customs will also be required to keep records of concessions granted and duties forgone and prepare reports on a monthly basis for the attention of the Ministry Finance.

We are satisfied that the organisational changes being made within the Customs Division will ensure that the necessary checks and balances are in place.

As in the case of the proposed changes at the IRD, this measure is not expected to increase revenue immediately, but the increased efficiency should result in a reduction in the cost of doing business in Dominica.

### Reduction of Arrears

Madam Speaker, we have been paying attention to the collection of tax arrears. This is more of an issue with the Inland Revenue Division than with the Customs, and there are other revenue collection agencies such as government ministries that show considerable arrears owing to them. Each taxpayer who is listed as being in arrears will receive from the IRD a letter of invitation to discuss options for settling these arrears. The objective is to collect what is due to the State on behalf of the citizens of this country. The IRD will have no option other than to exercise the full penalties of the law on those taxpayers who fail to make use of this opportunity for discussion and resolution. For fiscal year 2009/10 we expect to collect a minimum of \$3.0 million in arrears.



### Sale of Assets

Madam Speaker, the housing revolution has been a major feature of this Government's tenure in office. We have approached this from various angles: some persons have been assisted directly with the renovation of their houses; some have been given the opportunity to become owners of land they have occupied for years; others have been given access to concessional loans to build their own houses. Government has also built houses and during this year Government will make some of these houses available for sale to the public. This is expected to yield some \$6.0 million in capital revenue.

Additionally, as we continue with the policy to regularise squatters and develop new lots for housing, we have strengthened the administration of land allocation and collection of the related revenues. This we hope will yield capital revenues of \$2.0 million.

### Measure to Improve Targeting of Education Assistance

Madam Speaker, I am proud of this Government's record in education. We have been able to secure many scholarships for our people and have invested a considerable amount of local resources in education at all levels, including tertiary education.

This fiscal year, Government will transfer the local resources currently allocated to assist tertiary education to a fund that is to be managed by the AIDB. Based on approved criteria, persons could then be provided with loans at low interest rates of not more than 2 percent to cover the cost of administration. This new arrangement would have the effect of allowing the Government to assist many more persons than it currently does.

### Payment of subvention to Day Care Centres

Madam Speaker, we are aware of the challenges faced by some of our day-care service providers. By and large many of these service providers attempt to provide a service that is affordable to parents. If the services provided at day-care centres are of a high quality parents will be more inclined to focus on what needs to be done during the work day. Government will therefore provide a subvention to all day-care centres registered with the Ministry of Education. The subvention would be a maximum of \$2,500 per term. The actual amount paid to any one centre would be determined by the population of that institution.

### Payment of subvention to Early Childhood Education Centres, (Pre-schools)

Pre-schools are an important part of the formative years of our children. Information from the Ministry of Education indicates that there are 68 pre-schools in operation at this time. The arguments made earlier for day-care centres also apply to pre-schools. As such the Government proposes a subvention to all pre-schools registered with the Ministry of Education at an average rate of \$2,500 per school, per term.

### Extension of the Policy of Free Hospital Care for Older Persons

Madam Speaker, in last year's budget, I announced the policy of free health care for persons 65 years and older. We recognise that many of our people retire at the age of 60 and at that age income reduces, in some cases by as much as one-third or even more. Unfortunately, it is also at that age that many of us are diagnosed with various types of illnesses. Very few, if any, insurance service providers give health coverage to persons of that age. We have therefore decided to lower the age of persons who could benefit from free health care services from 65 to 60 years.

### Continuing support provided to citizens in previous budgets

Madam Speaker, I highlighted earlier in this address, a number of measures which this Government has implemented to cushion the effect of high and rising prices of basic commodities in the last year. I wish to assure the population that the measures adopted in the last four years will continue including but not limited to:

- The implementation of the school transfer grant at \$500.00 per student;
- The removal of the import duty on some fifty items;
- The removal of the excise tax on LPG.

### "Yes We Care Programme"

Madam Speaker, I have chosen to highlight this programme in this section because of the great positive impact it is expected to have on our population. On the one hand, there are the three hundred (300) older persons who will benefit from the care that will be provided. On the other hand, there are the thirty (30) or so persons who will gain direct employment as administrators and caregivers. There will also be those who benefit indirectly such as the persons from whom supplies are purchased. And of course the greater benefit of improved quality of life for our country's citizens cannot be minimised. The Government of Libya has committed \$1.0 million to finance this programme in the first year and we are indeed grateful. Government will ensure that this programme is sustained.

## Continued implementation of Income Tax Reform

Finally, Madam Speaker, I made a public promise recently that the Budget for 2009/10 would contain no new taxes. I felt able to make this promise to the people of this country, notwithstanding the global economic difficulties. I am pleased to say that Government will hold firm to this promise and I am in a position to announce that this Budget contains no provision for new taxes.

Madam Speaker, there is another undertaking that we gave to the Dominican people. We stated our commitment to a three-year programme of income tax reform. Government gave a commitment to taxpayers to reduce the level of personal income taxes over a three-year period. In the Budget Address of July 2007 I stated Government's intention to increase the 'tax free' personal allowance to \$20,000 per annum and to reduce personal income tax to 15 percent, 25 percent and 35 percent in the respective tax brackets over a three-year period. This policy has been implemented in stages, with the personal allowance now at \$20,000, (up from 15,000), and current tax rates now at 16 percent, 26 percent and 36 percent, (down from 20 percent, 30 percent and 40 percent respectively).

In spite of the prevailing circumstances, Government is holding firm to its commitment to the people of this country on this matter, as we have done on other matters. From 1<sup>st</sup> January 2010, the last phase of the three-year programme to reduce tax rates will be implemented and the new applicable rates will be 15 percent, 25 percent and 35 percent respectively.

## **LOOKING AHEAD TO A BRIGHTER FUTURE IN THE FACE OF GLOBAL CRISIS**

Madam Speaker, in the face of crisis all around us, Dominica has certainly done well in keeping its economy going; maintaining project spending; and sustaining employment creation. Doubters and naysayers notwithstanding, this much is undeniable. Government has responded comprehensively and competently to the mandate given to it by the people of this country. Our stewardship has been good.

There is clarity to our vision for this country - essentially a place where all persons are profitably engaged, have jobs and at least a decent standard of living, and contribute to ensuring that the less fortunate or less able among us, are assisted to live a decent life.

It may well be that no other Government in this country has matched the achievement of this Government, considering all the circumstances. In the face of the near collapse of the banana industry, negative economic growth, falling revenues and huge debt, we appealed to the people of this country to work with the Government to do what we had to, in order to pull things around.

And pull things around, we did. We did it together. The facts are there for all to see, Madam Speaker.

Let us fast-forward to today. Let us look around us - at our Region; at our world. Our people deserve to take some comfort in the fact that we are not among the countries most adversely affected by the global crisis. Let us not forget the reason for this. It is because of the good things we have done in the past in rescuing the economy; ensuring the economic fundamentals were in place; respecting the economic and fiscal imperatives that presented themselves; growing the economy, and sustaining that growth. Madam Speaker, I cannot help but emphasise the need for continuing fiscal responsibility and prudence. Countries like ours have little room for fiscal error and so we must remain focused and steadfast in that commitment.

Our proactive foreign policy has served to elicit funding support for our programmes of economic growth, social protection and poverty reduction.

We have dealt with the effects of the crisis on several fronts. We have provided financial assistance to hotels affected by hurricane Omar and import duty concessions on capital items used in the upgrade of properties. We have accelerated the implementation of capital projects to ameliorate the unemployment impact. We have increased social spending to protect the most vulnerable groups. Our economic growth strategy, aimed at fostering private sector growth by improving the business climate and enhancing critical infrastructure, will facilitate an improvement in social and economic performance when external conditions turn around. We are receiving financial support for our efforts from the IMF, not through a stand-by arrangement or even a PRGF, but through its Exogenous Shocks Facility, a facility from which Dominicans have nothing to fear.

We are confident that the international financial community will support our efforts to sustain economic growth and reduce poverty. Our eternal gratitude goes out to our partners and friends - China, Venezuela, European Union, Libya, Turkey, Algeria, France, UK/DFID, Canada/CIDA, the CDB, the ECCB, UNDP and the many other bilateral and institutional friends of our island state.

As to the future path of our economy, we have to face the fact that much will depend on the projection for recovery in the global economy. It is possible that we may not yet have seen the worst as regards reductions in remittances to Dominican families from overseas, in tourist receipts and inflows of foreign direct investment; or in a decline in the retail and distributive sector.

Madam Speaker, it is my hope that the global crisis will cause the islands of the Caribbean to be reminded of our shared circumstances, at the CARICOM level and at the level of the OECS. I have previously reported that at the levels of both the OECS and CARICOM there has been a high level of coordination in response to the ongoing global crisis. At the OECS level we have the ECCB's Eight Point Stabilisation and Growth Programme, by way of a coordinated response to the global meltdown.

In the continued pursuit of OECS Economic Union, we in Dominica have been playing our part to ensure that the various publics in our island are consulted and have an opportunity to express their views and concerns. Our programme of public outreach is going well and much of the feedback on OECS Union has been positive. I look forward to an acceleration of the pace of progress on this matter in coming months.

Fellow Dominicans, in these times of uncertainty there is no room for complacency, even though the evidence shows that we are doing something right. We cannot be complacent; nor can we afford to be irresponsible -- as a people; or as a Government.

In various ways we are gearing up to serve you better in the years ahead, including introducing enhancements to the structure and effectiveness of the Cabinet. I am proposing to establish four Cabinet sub-committees in the following subject areas: Economic Policy, Social Policy, Infrastructure and Governance. The idea is to provide opportunity for greater input into decision making by allowing public officers, representatives of statutory corporations and other stakeholders the opportunity to critique draft policy papers before they reach the full Cabinet. The staffing of the Cabinet Secretariat will also be enhanced during the year.

It is our performance in Government over the past nine years, and the clear evidence of the significance of our achievements in economic management, economic growth, employment generation, housing, social protection and poverty reduction; it is on these towering pillars of achievement that we will be seeking, when the time comes, the renewed mandate from the people of this country, to continue the good work.

Yes, Madam Speaker, together we can achieve, together we can have a brighter future, even in the face of global crisis.

I expect, confidently, that on the basis of this Government's demonstrated performance in all spheres of activity - in health, in education, housing and community empowerment; in growing the economy; in developing this country's physical and human infrastructure; in managing this country's finances, including our management of the public debt; in our caring for the young and the old and all members of the national community; I expect, confidently, Madam Speaker, that the Dominica Labour Party will receive a renewed mandate at the polls, so that we can continue the good work. Thank you, Madam Speaker, and I commend to this House, the Budget for 2009-2010.

May God bless the great people of this country!