PRESENTATION OF THE FINANCIAL STATEMENT AND
BUDGETARY PROPOSALS 2015 DELIVERED
BY THE HON. CHRISTOPHER P. SINCKLER TO THE HOUSE OF ASSEMBLY
MONDAY JUNE 15, 2015, 4 PM

Opening Statement:

Mr. Speaker, in my capacity as Minister of Finance and Economic Affairs, I am both privileged and honoured to stand before you, this Honourable House of Assembly and the people of Barbados to present the Financial and Economic Statement and accompanying Budgetary Proposals.

In doing so Sir, it would be remiss of me if I did not seize upon this early opportunity to express on behalf of the Rt. Hon. Prime Minister, colleagues, and all other members of this administration, our debt of gratitude to Almighty God for preserving our nation and its people in these challenging times.

Truly, the Lord has been and continues to be our ever dependable and never failing guide in whose blessed countenance we walk and will surely have no doubts or fears.

Equally Sir, permit me to express our sincerest and humble appreciation to the people of Barbados for their steadfast and committed support for this administration during this crucial period of reflection, reform, restructuring and resuscitation of our economy and society. It has not been easy, and chances are, it will continue to challenge all of us, but your support for Team Barbados has been exemplary and absolutely critical in allowing your government to steady the ship of state and navigate it to less turbulent waters.

On a personal level I would also like to thank the wonderful people of St. Michael North West not only for their continued solid support for me as their MP, but surely for their patience and understanding of the difficulties I would sometimes face in juggling the demands of the office I hold in the government and my ultimate responsibilities to them as their representative.

And last, but certainly by no means least, to my family: my wife Arlyn and children and the extended circle for their insistence in walking this tough journey with me while maintaining a quiet, dignified, and unflinching commitment to the cause to which I have dedicated myself. I am eternally in their gratitude.

Mr. Speaker Sir, just over 20 months ago, I stood before this Chamber and soberly presented to the people of Barbados the then obviously challenged condition of our economy. Barbados was truly at a cross road. Our economy, still reeling from the devastating impact of the worse global economic decline in nearly one hundred years, was facing a potential crisis in key macro-economic variables which, if left unaddressed, would have undermined the very foundations of the country.

Our foreign reserves were declining at uncomfortable rates; our public finances had deteriorated to worrying levels of instability as both fiscal deficits and overall public debt rose to unsustainable heights, while economic growth had stalled and declines in GDP were inevitable.

I indicated to this House and the country, as I had done in previous national consultations with the Social Partners, that if we did not take strong and decisive actions then, that those conditions, plus others, would have coalesced to produce an environment of instability that would have threatened the economic and social viability of Barbados.

Ours was a solemn duty to provide steadfast leadership as a government to ensure that we halted the deterioration, repaired the damage and prepared a platform for the return of financial stability and economic growth.

Today, I am able to say to you, to this Chamber and to the whole of Barbados that the home grown economic stabilization and recovery plan which we devised right here in Barbados (the Barbados Programme) is working. As a result of our 19 month programme, the Barbados dollar is safe, the fiscal deficit has been cut by nearly half and is well on the way to more sustainable levels, and a tourism-led recovery in the Barbados economy is underway.

However, the job is not yet done. We **<u>have</u>** to get the deficit down to more sustainable levels and we must capitalize on the foundation laid for economic growth.

Mr. Speaker, numerous persons inside and outside of this Honourable Chamber believed, propagated and some even prayed, that this administration would have failed. They believed and openly stated that we would have had to devalue the dollar; that the government would have defaulted on its foreign and domestic debt; that Barbados would have had to go (or ought to have gone) to the International Monetary Fund, cap in hand, and that all manner of economic and social calamity would have befallen this fair and beloved land of ours.

They pronounced this administration as an inept, lazy, say-nothing and do-little, incapable of managing Barbados. Our failure, in their view was certain, and the Opposition, I am reliably advised, was already discussing which ministries would go to whom within their ranks when this predicted (end of year 2013 then 2014) collapse came to a certain pass.

However Sir, those of us who are students of domestic politics and/or perhaps have been privileged enough to have been given the opportunity to serve at the highest levels of government are more than familiar with the kind of naked pessimism that makes for political discourse in small societies such as ours. It is a level of skepticism that seeks to undermine confidence in a nation's ability to fashion and implement policies that reflect a collective consciousness.

Surely Sir, this kind of behaviour is hardly new to us. We saw and had to deal with it on the great question of whether to seek independence from Britain in the mid-1960s; we equally had to contend with the doubters of several of the DLP's revolutionary social programmes including free secondary education; and again were confronted by the abuse and vilification of the Erskine Sandiford Administration of the early 1990s which crafted then what is now the widely acclaimed national stabilization and economic resuscitation programme.

It therefore came as little wonder to any of us on this side that the bastions of defeatism once again reared their ugly heads in a vain attempt to destroy the confidence of the people of Barbados that we have what it takes to fix our faults and plot our progress back to the resumption of sustained national development.

But ambition Sir, for all its perceived short-comings is made of sterner stuff, and this Democratic Labour Party Administration led by The Rt. Hon. Member for St. Michael South believed in itself and in the people of Barbados and we trusted God.

To be sure Sir, we took comfort in the exhortation of the great Indian leader and anti-colonial champion Mahatma Ghandi who, when in the heat of the struggle to liberate his country from the clutches of colonial domination, observed and I quote:

"Man often becomes what he believes himself to be. If I keep on saying to myself that I cannot do a certain thing, it is possible that I may end by really becoming incapable of doing it. On the contrary, if I have the belief that I can do it, I shall surely acquire the capacity to do it even if I may not have it at the beginning."

— Mahatma Gandhi

We did not invest in the politics of failure, or succumb to the thought of inability. Rather this administration believed that as a people we had what it took to turn our situation around. We applied ourselves to the task at hand, designed and implemented a programme that was of the correct order of magnitude and appropriate to the circumstances, and have now given our people a chance to resume our march towards constructing a country that is *socially balanced, economically viable, environmentally sound and characterized by good and transparent governance.*

We are once again showing the rest of the region and the world that Barbados and Barbadians are leaders, not followers, and that through dint of hard work and working together as a nation we can achieve success when even the odds seem stacked against us.

Indeed Sir, I make bold this afternoon to say that with the significant progress we have made thus far from the Barbados Home Grown Fiscal Stabilization and

Economic Revitalization Programme, if we stay the course, make the sacrifices for the nation and seize the opportunities which now abound because of our efforts, that we Barbadians will write an uncommon history in the pages of economic achievement. A history Sir, that will serve as a lasting guide to many a developing country that within their minds, hearts and abilities lay many an answer to the challenges they face.

When they predicted failure we crafted success; when they said our dollar would be devalued within months we strengthened it; when they predicted we would run out of reserves we stabilized and grew them; when they said our deficit could not come down we brought it down; when they lamented we couldn’t raise a primary surplus we generated one; when they said our economy would not grow again under our Barbados Home Grown Programme, we laid the platform for the resumption of economic growth and are growing again.

I say to you Mr. Speaker Sir, and to my fellow Barbadians that now is our time to stand upon this launch pad and renew our commitment to country and to ourselves that we will resolve to see this process through to its ultimate goal of correcting past structural imbalances in our economy and society in as complete a manner so that we never have to walk this way again.

It is said that the longest journey begins with the first step and, as the evidence that we will put forward over the next three days will demonstrate, we have begun that walk to a new beginning in Barbados where high deficits are no more, neither high debt nor high unemployment, but balanced, sustainable and inclusive growth that contribute to the expansion of opportunity, the boosting of productivity and reduction of poverty across this fair land of ours.

Permit me Sir to begin my report by reflecting on the results of our 19-Month Barbados Home Grown Fiscal Stabilization and Economic Revitalization Programme:

Mr. Speaker, as I would have noted earlier and as Barbadians would recall, the operating environment, against which government took the decision to initiate the national home grown programme, was such as to threaten the economic stability of Barbados.

The country was losing international reserves at a rate of more than 10 million dollars per month as the FX market remained weak due to contractions in the main FX earning sectors, while aggregate demand in the overall economy was still relatively high.

This situation was further compounded by a growing central government deficit which, at the start of the programme, had reached near 9% of GDP. As a result, it was fuelling an unacceptable expansion in short-term public sector debt since government was forced to borrow at relatively high rates to finance the gap.

Beset with these challenges, and mindful of the potential they had to undermine the stabilizing influence of the exchange rate anchor in the Barbadian economy, the primary objectives of the 19 month adjustment programme were to:

1. Restore and stabilize the foreign exchange reserves so as to be able to protect our fixed exchange rate;

2. Reduce the fiscal deficit to sustainable levels; and

3. Lay the foundation for returning the Barbados economy to a sustainable growth path.

As you would recall Sir, the package of measures I presented before this Chamber was set against a projected operating deficit in central government of between 8 and 9 percent of GDP. However, even before the core measures of that programme could run a full financial year, the impinging growth of rising debt service costs, and particularly, the accruing of several prior year expenditures from key statutory entities such as Queen Elizabeth Hospital (QEH), National Housing Corporation (NHC) and Transport Board, caused the deficit to leap frog the official projected levels.

On a revised basis therefore, the degree of difficulty facing the government was increased by about 3 percentage points of GDP, so that by December 2014 the country was dealing with a deficit projected at 11.8 % rather than 8.5%.

Nonetheless Sir, we were not daunted by the task, preferring instead to recalibrate both our projections and the level of our intervention to suit the circumstances. So that where we were initially intending to move from a deficit of 8% to 5.4 % by the end of fiscal 2013-14, and then to 2.5 % by end of fiscal 2014-15, we had the more difficult task of moving it from 11.8 % in 2013-14 to 6.6% by end of fiscal 2014-15.

Put another way Sir, rather than reducing the national deficit by 6 percentage points in 18 months, we were set with the task of reducing it by the same amount in one financial year.

Of course few people thought this was practical or indeed achievable.

Mr. Speaker, following a comprehensive review by the Division of Economic Affairs, I am able to report to the country that at the end of the 19-Month Home Grown Fiscal Stabilization and Economic Revitalization Programme at March 31st 2015, of the fifty (50) budgetary policies announced by the Minister of Finance and Economic Affairs, an estimated 72 percent or thirty-six (36) policies have been completed. In addition, nine (9) of these policies continued their implementation trajectories in advanced momentum based on key performance indicators. This puts the overall programme for implementation coverage at 90 percent and the overall implementation momentum at 100 percent. Five (5) policy actions are ongoing steadily and there were no outstanding concerns.

In this context the following observations can be made with specific reference to the objectives:

Objective 1. Restore and stabilize the foreign exchange reserves so as to be able to protect our fixed exchange rate:

I am pleased to be able to report to this House and the country that the foreign exchange reserves have been restored and are stable at levels adequate to protect the fixed exchange rate. At the end of March 2015, reserves were $1,135 million or 16.1 weeks of imports of goods and services, up from 14.7 weeks of imports at the end of December 2014 and further up from the 12.5 weeks they had fallen to by the end of 2013. This 16.1 weeks is well above the international benchmark of 12 weeks of import cover. The normal daily pattern of changes in foreign reserves has now been restored, and the foreign exchange market is stable.

Sir, those of us who understand the import of this achievement would tell you that the single most important economic variable in a small vulnerable FX dependent and open economy with a fixed exchange rate such as ours is a stable and growing FX market. Practically, everything we do in Barbados is linked in one way or the other to the earning and spending of foreign exchange. As such the very economic stability of the country, the confidence of domestic and foreign investors, and the sustainability of the operations of government, businesses and households is invariably dependent on the availability of adequate levels of reserves in the Monetary Authorities.

That we were able to stop the disturbing hemorrhaging observed in 2013, stabilize the FX market and resume some signs of growth in reserves by late 2014 is a tribute not just to the appropriateness of the fiscal policies pursued by the administration, but to the very robust monitoring process which the Ministry of Finance and Economic Affairs and the Central Bank of Barbados have put in place ever since these challenges started to emerge.

As with any issue of this nature and sensitivity Sir, we have to be ever vigilant and keep monitoring the performance of our reserves so that we don't slip back into problems but rather keep growing those reserves.

Objective 2. Reduce the fiscal deficit to sustainable levels:

At present, most experts agree that the normal growth rate for the Barbados economy is between 2.5 and 3.0 % of GDP. Therefore, a sustainable fiscal deficit would be at least between 2.5 to 3.0% of GDP, otherwise the debt as a share of the economy or the Debt to GDP will keep rising. As indicated earlier, at the end of the 2013/2014 fiscal year the fiscal deficit stood at 11.8 % of GDP. As we sought to move the deficit to a more sustainable level without, quite frankly, destroying the economy and all the social services, we set ourselves the ambitious target of reducing it to around 6.6% of GDP by the end of fiscal year 2014/2015. More than this we also knew that in real terms the primary deficit of $385 million which we closed 2013/14 with was absolutely unacceptable and had to be brought down significantly over the next fiscal period and reversed entirely.

The empirical results, the figures on which I will shortly report, will show that not only were we able to meet the overall fiscal target of 6.6 % surpassing even our projected revised target of 7.2 %, but also we were able to turn around a primary deficit of $385 million to a primary surplus of $85 million dollars in one fiscal year.

It is important to appreciate Sir, that if you don't run a primary surplus, it means that you are borrowing all of the money you need to pay interest on your debts. Achieving a primary surplus therefore is a crucial first step as we restore fiscal balance, and we have been very successful in achieving this.

The fiscal deficit is not just a number that you mechanically focus on. The fiscal deficit represents the amount of new borrowing the government will have to undertake in a given period and by extension how much of the future wealth of the country will go towards servicing debt rather than being invested in the people of the country. We promised and we are delivering on deficit reduction. What's more Sir, is that we have been able to reduce our deficit by as much as 5 percentage points in one year.

A reduction of this magnitude in the overall fiscal deficit in a single fiscal year, and the dramatic turnaround in the Primary Balance is a remarkable achievement and a testimony to the skill and determination of our economic team, the discipline and determination of the government and the resilience and discipline of the people of Barbados. As we approach our fiftieth year of independence, we have once again shown the world that we have what it takes to be a great nation - firm craftsmen of our own fate.

Our goal in the next phase of the fiscal adjustment programme is to move to a current account surplus, where we only borrow for capital expenditures which increase the growth capacity of the economy.

Objective 3. Lay the foundation for returning the Barbados economy to a sustainable growth path.

While a number of commentators have focused on the fiscal adjustment aspect of the 19-Month programme, laying the foundation for growth was always a central plank of our Home Grown Fiscal Stabilization and Economic Revitalization Programme. The specific growth objectives were outlined in the Barbados' Growth and Development Strategy 2013 – 2020. Mr. Speaker, with respect to the progress report on that strategy, there were some key achievements as at March 31st 2015:

Tourism

- The Barbados Tourism Authority (BTA) was successfully restructured with the establishment of the Barbados Tourism Marketing Inc. (BTMI) and the Barbados Tourism Product Authority (BTPA) with minimal disruption to this critical area of work.

- The Government purchased and refurbished the Almond Beach Resort;

- We reduced the VAT rate on accommodation and direct services in the hotel sector to 7.5 percent.

- We successfully amended and are now in the process of implementing the provisions of a much improved Tourism

Development Act (TDA), which when fully accessible will shift the fundamental basis of the tourism trade towards a genuine export sector for the first time in the country's history.

- The Government reduced the bound duty rate on identified items in line with the common external tariff rate of 40.0 percent observed by CARICOM for external goods.

- Over 300 rooms were brought back into operation in the tourism sector.

- We have substantially increased our airlift out of key source markets such as the UK, USA and Canada, while beginning the process to dramatically improve our accommodation offerings with the presence of Sandals in the market place.

- We have successfully worked to resuscitate the high-end part of the tourism market which took a hard hit from the global downturn. Existing capacity is beginning to be sold again, some of the stalled projects have restarted while new ones such as Sam Lords and Hyatt are set to kick-off by next quarter.

- We have worked with private sector interests to enhance our product offerings and attractions to the extent that Barbados now boasts a world standard car racing facility at Bushy Park, where we have already hosted two world-renowned racing events in one year.

- The National Tourism Host Programme has been successfully launched.

- The development of the holistic tourism product pertaining to the UNESCO World Heritage property, which focuses on fully presenting the Historic Bridgetown and Its Garrison Property as a premier attraction, is well underway.

Over the last 19 months much has been done to enhance the competitiveness of the crucial Tourism and Hospitality sector, and in the

2015 Global Tourism Competitiveness Report, Barbados was ranked number one in the Caribbean.

Energy Sector

In the area of energy our policy has been to lead a comprehensive intervention to

achieve three critical results:

1.) restoring financial order to the lone Oil Company and its subsidiaries by completing the removal of the massive debts with which the last administration saddled the BNOCL with from an ill-advised and unsustainable policy of subsidization of fuel, while returning the company to a state of profitability;

2.) continuing our aggressive facilitation of the build-out of an alternative energy sector in Barbados thereby creating the widespread use of renewable sources of energy and bringing down energy costs, while diversifying the economy of Barbados further leading to new areas for investment and job creation; and

3.) crystallizing and advancing in an appropriate manner the efforts of Barbados to successfully pursue an off-shore oil exploration programme, while re-energizing our on-shore efforts from existing fields.

In this regard Sir, government over the last 19 months has been able to fully stabilise the financial position of the BNOCL, eliminate the near 200 million dollars of debt that threatened the viability of the entity as a going concern, and return the company to medium term profitability.

In the meantime we have completed the process for the bidding on the sale of the Barbados Terminal Company Ltd, and are now in a position to not only make a final selection as to the successful bid but finally return this part of the company’s operation to the private sector from whence it came.

In an effort to reinvigorate our on-shore exploration business the Oil Company has been able to sign a deal with a UK-based firm to re-enter previously retired wells on-shore and, using the latest technology, seek to capture residual oil stocks in those wells to the extent of potentially increasing Barbados daily production to between 500 and 1500 barrels a day. If successful, this effort could also increase the amount of natural gas available to the National Petroleum Corporation.

Government has also been able to sign an official licensing agreement with the international oil conglomerate BHP Billiton to lead an off-shore exploration effort that, if successful, could bring hundreds of millions of dollars in earnings to the country in the medium to longer term. And, at a minimum, to bring significant investment and spending in the shorter term as the work leading to the exploration gets started on-shore.

In the Alternative energy sector we have put a National Renewable Energy Policyin place together with accompanying legislation to assist in the orderly build-out of this critical new sector.

That policy envisages more than 29.0 percent of all electricity consumption will be produced from renewable energy. The very critical alternative energy framework is also nearing completion for issuance in October this year. The following specific actions were taken:

- Amended the Electric Light and Power Act to better facilitate the development, distribution and regulation of alternative sources of energy as it relates to their interface with the main power supplier and the National Grid. This is to allow for the sector to grow while still protecting the integrity of the power system in the country.

- Amended the Income Tax Act and other critical pieces of legislation to provide the most wide ranging concessions in the history of Barbados for both producers and consumers of alternative/renewable energy. These efforts alone have seen a steady growth in the production and use of this form of energy forcing the Fair Trading Commission to increase the amount of allowable mega-wattage from the initial 15 MWTs. to 25 MWTs.

- Facilitated the establishment of a BDS$20.0 million Smart Energy Fund.

Under the UN GEF, the pilot programme for the distribution of 2,000 Power Monitors and 15,000 CFLs (bulbs) was completed with all power monitors and CFLs being distributed and installed. The fiscal incentive for Sustainable Transport as well as concessions to stimulate increased Private Sector investment in Renewable Energy and Energy Efficient technologies are in place and are being accessed by the general public.

- The first component of the Energy Smart Fund which is to generate one (1) MegaWatt of Renewable Energy systems and 500 Mw hours in energy saved was 70.0 percent complete at the end of the reporting period. To date, thirty (30) technical assistance grant applications were approved totaling BDS $426,724.50. In addition, BDS $272,363.60 was disbursed and sixteen (16) loan applications were approved by the EGFL Board totaling BBD$8.169 million (of which approximately 72.0 percent of the loan funds was disbursed). The GEF Pilot Programme which is to supply and install PV and Wind systems was successfully completed.

International Business & Financial Services Sector

- The Government has implemented a multi-year license with IBC's in addition to the introduction of a Special Entry Permit.

- A unit that is responsible for Business Facilitation was created.

- Key legislation was passed, particularly regulations to accompany the International Corporate and Trust Provider Act. The Private Trust Companies Act 2012-22 and the Trustee Amendment Act 2012-21 were proclaimed and the Foundations Act, 2013-2 is currently being amended to also provide for an Exempt Foundation.

Agriculture

- The Barbados Cane Industry Project has finally been properly initiated and work has begun on the transformation of the old sugar industry in Barbados.

- The Government has also started a special programme to incentivize local hotels to use more local produce in their operations.

- The process for utilizing excess alcohol as additives for gasoline was also started (2013/2014).

- The Government has also created an initiative for small farmers to further engage in crop production. This initiative provides $2.0 million grant funds to small food crop farmers to help boost production at that level.

Culture, Sports & International Events

- The Cultural Industries Act was passed and proclaimed.

Telecommunications

- The Legal Framework was adopted for the establishment of a National Internet Exchange Point in Barbados which connects Barbados and the region.

Housing

- Construction was completed and a Certificate of Practical Completion was issued for the multi-storey two-bedroom apartments at 'The Woods-at-Dalkeith' or Grotto Housing Project.

- Under the Housing and Neighbourhood Upgrading Programme, the Beneficiary Selection System was successfully utilized for the selection of clients.

Mr. Speaker, against the background of these extensive and successful initiatives, and others not mentioned, by government, over the course of the 19-Month Home Grown Programme we have begun to see a solid platform laid for the initiation of a new period of growth for the Barbados economy. Indeed Sir, following more than four consecutive quarters of contraction in the country's GDP, the Barbados economy started its climb back to growth during the latter part of 2014 and this has continued and picked up pace so far for this year.

Current State of the Economy, Context and Planning Environment

Mr. Speaker, based on the Central Bank of Barbados' 1st Quarter Report 2015, the Barbadian economy recorded its best first quarter performance in two years in 2015, compared to declines in the first quarter of 2014 and 2013.

This was achieved with a 4.0 percent expansion in tourism GDP in the first quarter, leading to an estimated growth rate of almost 1.0 percent in the economy as a whole. Long-stay arrivals grew by 12.0 percent to reach the highest level since 2008, and expenditure is estimated to have risen by 6.0 percent. Canadian, US and UK arrivals rose by 28.0 percent, 24.0 percent and 9.0 percent, respectively. Increases in seating capacity were a key factor. There were also improvements in the German (10.0 percent) and Brazilian (14.0 percent) markets and a turnaround in the CARICOM market, which rose 8.0 percent. The hotel room stock rose by 160 rooms, or about 2.5 percent, even though the average length of stay of visitors dipped slightly reflecting a higher proportion of North American tourists.

While output in the construction sector is estimated to have declined marginally by 2.0 percent this was a marked slowing compared to the heavy fall off in the sector in 2012, 2013 and 2014. Even in spite of this, expectations for positive growth in this sector remain bullish with the observable pick-up in the construction of high-end tourism accommodation projects on the West Coast as well as planned expansion of the traditional hotel room stock with the beginning of work on the Sam Lord's project, Hyatt, Sandy Bay, Settlers Beach and the further expansion of Sandals Casuarina this calendar year.

Marginal increases in wholesale and retail, business and other services and non-sugar agriculture were also recorded during the reporting period.

The foreign reserves, unaided by foreign market borrowings of the nature undertaken last year, increased by $83.0 million between December 31, 2014 and March 31, 2015, boosted by the capital inflows associated with the completion of the sale of Almond St. Peter, increased net private inflows, grant funding, and significant savings generated by falling international oil prices. At the end of March 2015, reserves were $1,135 million or 16.1 weeks of imports of goods and services, up from 14.7 weeks of imports at the end of December 2014.

During the first quarter, retained imports are estimated to have fallen by 12.0 percent, with fuel costs down by 42.0 percent, food and beverages imports down by 4.0 percent and capital goods imports down by 6.0 percent. For January and February of 2015, exports of chemicals and food and beverages declined by 2.0 percent and 18.0 percent respectively, while rum exports were at the same level as in 2014. Construction output fell by 2.0 percent, while the distribution, non-sugar agriculture and manufacturing sectors remained unchanged.

The average annual unemployment rate is estimated to be about 12 percent. The 12-month moving average rate of inflation is estimated to have remained slightly below 2.0 percent, due to declining average prices for food and fuel.

Total labour productivity growth averaged 1.0 percent from 2009 to 2013, while the unit cost of labour has increased by an estimated 2.0 percent over the same period. An accelerated level of productivity is needed to close the gap between wage costs and productivity that opened up in the 1990s.

As could be expected Mr. Speaker, the beginning of the turnaround in the Barbados economy which started from around the last quarter of 2014 has begun to have some impact on the outturn of the fiscal figures. This, together with a concerted effort by government to improve its tax administration process with the establishment of the Barbados Revenue Authority, has not only led to a stabilisation of revenues but significant growth in several key areas.

In this regard, permit me to now turn to the fiscal outturn report for the period April 1st 2014 to March 31st 2015.

Current Revenue

Preliminary information received from the Accountant General indicates that current revenue for the period April 1st 2014 to March 31st 2015 was $2,486.5 million, an increase of $151.9 million or 6.9% from the amount recorded for the corresponding period during 2014. This amount was $26.0 million more than projected.

Taxes on incomes and profits realized $767.1 million, an amount of $132.7 million or 20.9% more than that collected for the corresponding period in 2014 and $49.3 million more than projected for the period. Corporation taxes increased by $31.6 million for the period under review.

With respect to income taxes, $93.6 million more was recorded for the period April 2014 to March 2015. Withholding taxes decreased by $11.1 million from the corresponding period in 2014. Consolidation tax collected for the period was $33.1 million.

Taxes on property decreased by $8.4 million from the corresponding period in 2013-2014 to $122.6 million. Amounts of $105.3 million and $17.3 million were collected for land tax and property transfer tax respectively. This small decline is attributable to a change in the payment period for hotel properties which was extended to coincide with the winter season as an accommodation to players in the hospitality sector. It is projected that the final figures would show a similar amount in 2014 as for the previous year.

Taxes on goods and services increased by $16.4 million or 2.0% to $1,154.1 million. The projected amount for the period was $1,181.4 million. Receipts of VAT totalled $886.3 million, a decrease of $19.4 million from the corresponding period in 2013-2014. Excise duties recorded $132.5 million, an increase of $17.1 million from the actual outturn for 2014.

Import duties increased by $29.5 million to $223.1 million. This is an increase of 15.2% over the amount collected in 2013-2014. The projection for the period under review was $209.4 million.

Special Receipts decreased by $18.0 million to $63.2 million. An amount of $32.0 million was collected for the municipal solid waste tax. The projection for total special receipts for the period under review was $61.9 million, of which $35.9 million was projected for the municipal solid waste tax.

Non-Tax Revenue recorded $89.4 million, an amount of $4.6 million less than the corresponding period in 2014. An amount of $55.7 million was received in Grant Income from the European Development Fund.

Expenditure

Current expenditure, exclusive of amortization of $774.9 million, decreased by $216.9 million or 6.9% from the 2013-2014 figure to $2,907.3 million. The projected amount was $2,945.0 million.

Wages and Salaries decreased from $807.8 million in the corresponding period of 2014 to $751.1 million. The amount projected was $743.1 million.

Expenditure on goods and services decreased by $42.0 million to $340.2 million. The projection for the period was $388.3 million.

Expenditure on current transfers decreased by $158.6 million, moving from $1,261.5 million in 2014 to $1,102.9 million for the period April 2014 to March 2015. The main contributors to this decrease were Subsidies, Grants to Individuals and Grants to Public Institutions which were reduced by $31.5 million, $30.3 million and $98.3 million respectively. Conversely, there were increases in Retiring Benefits and Other Benefits of $8.2 million and $4.0 million respectively. The projection for current transfers was $1,084.2 million.

Capital expenditure for the period under review was $171.3 million compared to $143.9 million for the corresponding period in 2013-2014. Capital formation decreased by $9.4 million whereas capital transfers increased by $33.3 million. This is mainly attributed to the subscription of $50 million by the Government of Barbados to become a member of Corporación Andina de Formento (CAF). It should be noted that the projection for capital expenditure was $173.3 million.

Total expenditure for April 2014 to March 2015 was $3,853.5 million compared to $3,939.5 million in the corresponding period of 2013-2014. The projection for the period was $3,929.1 million.

Debt Stock

Central Government's disbursed and outstanding debt stood at $11,390.4 million as at March 2015, approximately 133.1% of projected Gross Domestic Product (GDP), compared to $11,070.9 million for the corresponding period ending March 2014. Of the $319.4 million increase in Government debt, there was a $22.6 million net increase in external debt, compared to the same period in the previous year, mainly the proceeds of the US$25.0 million First Citizens' loan. This increase was offset against repayments, particularly on the US$120.0M Bond. Domestic debt increased by $296.9 million, financed principally through the issuance of Debentures and Treasury Bills, which are significantly more prone to roll-over risk.

The net increase of $319.4 million is attributable to the need to finance the deficit.

Debt Service

Total debt payments in the period April 2014 to March 2015 amounted to $1,442.1 million with interest payments of $664.8 million, amortization payments of $639.0 million, and Sinking Fund contributions of $138.3 million. Interest payments saw a net increase of $56.2 million, primarily as a result of interest payments due in respect of the Credit Suisse US$225.0 million and First Citizens' US$25.0 million loans. The larger domestic interest payments are attributable to increased issuance of domestic securities. External amortization decreased by $28.4 million primarily as a result of the maturing of a number of loans. Domestic amortization increased primarily due to a larger amount of maturing debentures during the period April 2014 to March 2015 compared to 2014, total net increase in amortization payments was $87.4 million. Sinking Fund contributions increased by $18.5 million during the period under review as a result of the increased issuance of Debentures.

Contingent Liabilities

Government's contingent liabilities stood at approximately $1,399.6 million at the end of March 2015, compared to $1,422.9 million at March 2014.

Deficit

The deficit of $592.1 million represents 6.8% of GDP at market prices of $8,767.7 million. Using the IMF accounting method the deficit is calculated at 6.6 % of GDP. The deficit for the corresponding period in 2013-2014 was $984.6 million representing 11.6% of GDP at market prices of $8,458.1 million.

Global and Regional Economic Outlook:

The global economy continues to present a mixed picture, with strong growth prospects in the USA, continued uncertainty in the Euro Zone, and slowing growth in China and Emerging markets. While oil prices showed a downward trend for a large part of 2014, some recovery in the price has begun and it is predicted that prices will like go a little higher in the latter half of 2015. There has been some positive shock from lower oil and commodity prices to the extent that our external current account deficit has declined marginally and is expected to improve some more over the next financial year.

These are all good developments for the domestic economy and present a real opportunity for government to press ahead with its fiscal consolidation and economic reform programme. The global economic environment remains uncertain and we remain highly vulnerable to adverse shocks and developments.

At present the Barbados economy is stable with solid foreign exchange reserves, an improving fiscal deficit and growth is returning. However, the job is not yet finished and there are a number of structural issues which we need to address in a meaningful and sustainable manner if we are to protect the gains we have made as a nation, and continue to develop our country and people even further.

THE NATIONAL ECONOMIC GROWTH AND REFORM AGENDA

Growth Initiatives

The single largest issue facing the economy is that economic growth in Barbados remains below the 2.5 to 3.0 percent that is normal for our economy.

We must get back to normal levels of growth sooner rather than later. To be sustainable this growth must be led by the foreign exchange earning sectors and must be based on improvements in productivity and the competitiveness of our economy. The public and private sectors in Barbados must now craft a productivity and competitiveness revolution over the next few years.

Our growth strategy is private sector led, and key to the productivity and competitiveness revolution must be a fundamental change in the environment for doing business in Barbados. Great ideas for new businesses happen every day and everywhere. Great ideas are at the heart of social and economic development: they allow economies to grow and they improve people's lives; they provide the base of tax revenues to support the social services that make a more equal and just society. For ideas to prosper it is important that entrepreneurs can give legal form to the idea, that is, by forming a business. It is important that this process is simple, quick and inexpensive. Entrepreneurs also need a well-designed insolvency system, in case the idea fails to work out. The whole suite of business regulations is crucial to the process.

The right business regulations enable good ideas to take root, leading to greater levels of investment and the creation of jobs. Where business regulations make it difficult to start and operate a business, good ideas may never see the light of day and important opportunities may be missed. Budding entrepreneurs daunted by burdensome regulations may opt out of doing business altogether, or if they have the resources, take their ideas elsewhere.

In Barbados we have to guard against creating the impression that we are anti-business, not because we don't appreciate the importance of business investment, but because we have become too wedded to cumbersome and in some instances outdated and unnecessary processes and procedures that frustrate rather than facilitate investment. In this Budget we will introduce measures aimed at enhancing our competitiveness and productivity.

The National Medium Tern Economic Objectives

In pursuance of these objectives government's medium term fiscal, debt and growth strategy must continue to be the anchor on which the economic stability so critical to successful developmental outcomes must be attached.

In this regard over the next three years your government will push forward its medium term economic agenda to achieve the following:

1. **Continued stabilization and growth of the International Reserves to an average of at least 20 weeks of import cover.**

2. **To reinvigorate and deepen economic growth to an annual average of between 2.5 to 3.5 % of GDP at a minimum.**

3. **Reduce the fiscal deficit to be at least no greater than the rate of GDP growth by end fiscal 2017, and near balance by 2020.**

4. **A primary surplus of at least 4 % by end fiscal 2018 and thereafter annually of about 5%.**

5. **Establish and achieve a medium term debt anchor that use the above outcomes to stabilize debt growth by 2018 and start the process of reducing the debt to GDP ratio to a target below 100% in the next five years.**

<u>Facilitating Economic Investment - Public/Private Sector:</u>

Sir, government is in the process of investing in or facilitating private investment in a number of major capital projects that will invigorate productivity on the island, grow jobs and deepen economic growth going forward. A total of US$1,126.9 million in capital projects are currently on the books for growing and developing the Barbados economy. Some of these include projects such as the Sam Lords Refurbishment project due to start in September 2015 which will bring US$200.0 million in investment; Royal Westmoreland expansion expected to start within weeks will bring an additional US$30.0 million; Beachlands due to start in September 2015 and will bring US$120.0 million; the Barbados Port Development project (Berth 5) is currently ongoing and is expected to cost US$25.0 million and clear the way for the Port to accommodate two new mega ships to Barbados from the coming winter and with 8,000 new passengers every week; the refurbishment of the Settlers Beach Hotel scheduled for this year is estimated to be US$50.0 million; Sandals Beaches Casuarina in Christ Church will start an expansion project in July to add 200 more rooms and will cost US$145.0 million; Sandals Almond

Beach Project at Heywoods, St. Peter is due to start in November 2016 and will cost US$200.0 million; and the world renowned brand of the Hyatt Hotel is expected to be constructed at a cost of approximately US$70.0 million starting in August this year.

Projects such as the Sandals Casuarina (phase 1) and the Barbados Water Authority Headquarters Complex have been completed or are in their final stages of completion. While the new owners of the Sandy Beach will be carrying out some refurbishment of the hotel plant at an approximate cost of US$20.0 million starting in a few weeks.

All of these plus others not mentioned are expected to lock in the economic turnaround in the local economy as private and public foreign inflows continue to grow.

Added to these will be a fairly robust public capital works investment programme which is already on the way and expected to expend more than US$100 million over the course of this and the next financial year. Some of these include the ongoing BWA mains laying/replacement and water augmentation project, US$50 million; the BWA Smart Meters upgrade project US$70 million and the SSA headquarters project at Vaucluse estimated to cost 28.7 million Barbados dollars. All of these projects have already started, will intensify going forward and will drive a resurgence in the domestic construction, wholesale and retail sectors.

On the basis of these, a stronger tourism performance this year, a settling in the international business and financial services sector, and expected increased output from industry and agriculture we are expecting that the current growth trend in the Barbados economy will continue through this year and into an even stronger performance next year.

In order to lock in these gains and build on them however there are a number of things which we have to keep working on to ensure that we improve our overall competitiveness and raise the level of our output.

Facilitation: The cost and ease of doing business in Barbados:

Another one of our key strategies for sustaining and intensifying growth has to be in focusing on reducing the costs of doing business, especially for Small and medium-sized businesses as more and more persons explore self-employment. ***As such we propose a 25% reduction in fees and licenses related to operating a number of businesses in Barbados, this year, with a further 25% reduction to be undertaken next year.***

This will be applicable to the following under the ***Profession, Trade and Business Registration Act***

Licensee	Current Rate	Proposed Rate 2015/2016	Proposed Rate 2016/2017
General Wholesale Licence	$10,000	$7,500	$5,000
Wholesale	$,5000	$3,750	$2,500
Retail	$1,000	$750	$500
Restaurant Licence	$1,000	$750	$500
Occasional Licence	$100	$75	$50
Members Club	$500	$375	$250
Proprietary Club	$5,000	$3,750	$2,500
Druggist Licensee	$750	$562.50	$375

Trade, Business or Calling	Current Rate	Proposed Rate 2015/2016	Proposed Rate 2016/2017
First Schedule Part 1	First Registration: $2,500 Annual fee: $2,500	First Registration: $1,875 Annual fee: $1,875	First Registration: $1,250.00 Annual fee: $1,250
Second Schedule Part 1	First Registration: $750.00 Annual fee: $750	First Registration: $562.50 Annual fee: $562.50	First Registration: $375 Annual fee: $375
Second Schedule Part 2	First Registration: $750 Annual fee: $750	First Registration: $562.50 Annual fee: $562.50	First Registration: $375 Annual fee: $375
Third Schedule	First Registration: $50.00 Annual fee: $50	First Registration: $37.50 Annual fee: $37.50	First Registration: $25 Annual fee: $25
Temporary Registration Fees Dental Practitioner Dental Hygenist and Dental Technician Nurse	3 months or less: $375 More than three months but not more than 6 months; $750 (i) 3 months or less: $150 (ii) More than three months but not more than six months: $300	3 months or less: $281.25 More than three months but not more than 6 months; $562.50 (i) 3 months or less: $112.50 (ii) More than three months but not more than six months: $225	3 months or less: $187.50 More than three months but not more than 6 months; $375 (i) 3 months or less: $75 (ii) More than three months but not more than six months: $150

The expected loss to the treasury from this adjustment will be 2 million dollars.

One Stop Shop:

The Ministry of Industry, International Business, Commerce and Small Business Development will be provided with the requisite resources to elevate the current business investment facilitation unit to a full online portal (or virtual one stop shop) to permit investors to engage the statutory registration and other requirements to make it significantly easier and faster for entrepreneurs/investors to start a business and bring Barbados in line with international best practices.

Credit Bureau:

The Central Bank of Barbados will take the lead in facilitating the establishment of a Credit Bureau in Barbados which will serve to increase access to credit for entrepreneurs. It is well known that access to credit is one of the major challenges facing entrepreneurs in Barbados and the establishment of a Credit Bureau is a crucial piece of the puzzle in terms of investors being able to access financing, and will again bring Barbados' competitive landscape in line with international best practice.

Update of Companies Act:

The Attorney General's office will undertake a comprehensive review of the Companies Act and Insolvency Legislation with a view to bringing them into line with international best practices. Special attention will be paid to the rights of minority investors and the treatment of related party transactions. Again, updating these aspects of our legislation will serve to bring Barbados' competitive landscape in line with international best practice.

Competitiveness Commission:

In addition, Mr. Speaker, a Competitiveness Commission will be established towards the end of 2015. This Commission will seek to improve the level of competitiveness in Barbados. Such a Commission is currently in place in Jamaica. In the case of Barbados, the proposed Commission on Competitiveness will be chaired by the Prime Minister, and will fall under the purview of the Social Partnership (SP) as the main articulator of public-private dialogue on Barbados' competitiveness. This Commission will be supported by a Technical Unit that will assume the coordination, formulation and implementation of recommendations resulting from dialogue.

Legislative Reform:

Mr. Speaker, a list of all outstanding pieces of legislation which can aid in growth will be compiled and ranked in order of significance and enforced as quickly as possible. Individual Ministries and the Chief Parliamentary Counsel's Office (CPC) will be mandated to meet in order to eliminate any issues in bringing the legislations into reality. The sequencing of all legislative reforms by order of importance to economic growth will be done expeditiously. These legislations, some of which were mentioned previously include:

- Foundation legislation
- Private Trust legislation
- Limited liability Partnerships
- Mutual Funds
- the Procurement Bill
- the Prevention of Corruption Bill

Some of these are far advanced to final proclamation while work on others has already started and is expected to intensify during this financial year.

Protecting and Enhancing Food Security -Agriculture:

Sir, it is absolutely critical that we maintain some capacity to feed ourselves, provide our population with healthy food options and create employment opportunities for our people. As such, it is vital that we continue with our programme to build on the initiatives launched during the 19 month programme. In this budget, I want to deal with the challenges faced by the local dairy industry.

Mr. Speaker, the current state of the local fresh milk industry is a concern for both farmers and processors and there is need for a resolute solution to address the current the situation.

The local dairy industry's output for 2014 has been estimated at $42.5m a far cry from the $60m plus it was some time ago. The contributing factors to the decline were identified and one of the major components was pricing.

Unlike most of the countries with which Barbados trades, there is currently no dairy subsidy or incentive at the farm level to facilitate processed fresh milk reaching consumers at an affordable price. This attribute was tested and confirmed in 2013 when excess processed inventories were discounted into the market to mitigate against the need to dump milk at the farm level. What was estimated, at existing consumption patterns to take 10 weeks, was effected in less than 5; a strong indicator that given the right price consumers would support the local fresh milk industry.

The above indicated that, with a suitably targeted subsidy/incentive, farmers would be able to reduce their farm gate price to the processor and the savings thereon would flow through the system to the consumer.

The proposal therefore requires the following:

1. The farm gate price for milk collected from farms will increase by $0.25 per kg – this is an important element of the proposal to incentivise farmers to expand production so that the processor can access the additional supply and gradually reduce import quantities of powder.

2. The subsidy from Government will be fixed at $1.17 per kg
3. The subsidy will be paid directly to farmers based on their supply.

4. The subsidy applies solely to milk utilised in the processing of milks which contain, at a minimum, 60% of liquid cow's milk;

5. The CESS will be levied at two rates, a 5% rate on milk containing no less than 60% of liquid cow's milk and a 10% on all other milk and milk substitute products.

Currently, dairy farms supply just short of 4,000,000 kgs annually to the processor, and this is used exclusively in fresh milk and flavoured milks. In addition to this volume, the dairy imports over 800,000 kgs of powder largely used in the manufacture of Evaporated and Reconstituted milks. This powder comes at a cost significantly lower than the economic cost of raw milk from the farms and must be used by the processor for the local brand to be competitive with imports. With the availability of the reduced farm gate price (post subsidy), the processor will be able to replace 25% of that powder requirement with fresh farm milk; this will save the country approximately US$1m annually in foreign exchange and facilitate growth in output at the farm level by as much as 50% once the farms fully "gear up" their production.

Furthermore, the lower price facilitates the industry moving into the export market with fresh milks, currently that activity is limited to milks reconstituted from imported powder. Finally, there is the benefit to consumers; the current economic pricing required means that consumers pay a high price for a product which elsewhere is kept low through various incentives/subsidies. With the subsidy/incentive, the recommended retail price for fresh milk will fall by approximately 11%.

Apart from the above financial reasons, the proposal also provides indirect support for increased employment in the industry as it expands to meet the increased requirements; it also will provide spill-off benefits to the feed manufacturer which currently supplies the industry with approximately $2m worth of output. There is also the issue of food security, Barbados has the capability to be 100% self-sufficient in milk, given some of the scares of recent times in larger countries, and this is a desirable position to be in.

Finally, in an era where there are concerns relative to the rise of NCDs and the cost of treatment, any switch in consumption from less nutritious beverages to the more nutritious fresh milk as a beverage will help promote a healthier nation and this will translate to a reduction in the cost of providing health care to citizens.

To fund the above, ***I now propose that effective August 1st 2015 that a CESS on all milk and milk substitutes be implemented. The CESS should have 2***

rates, a 5% rate for milk products containing 60% or more of liquid fresh cow's milk and a 10% for all other milks & milk substitutes. The only exception to this would be the local Goat's milk industry which would be exempted. The CESS would be applied across all relevant imports and locally processed milk at the rates above. It is estimated that, at current output & consumption, the rates above will be sufficient to fund the incentive/subsidy and thus the scheme would not be a burden on Government.

To manage the process outlined, it is proposed that a National Dairy Board be constituted with representatives from farmers, processor & Government. That Board would manage the interaction between farmer & processor and continually monitor the industry metrics to ensure the most efficient use of all resources deployed and the raw milk pricing mechanism. Participation should be equal between farmer & processor with Government (or their nominee) holding the position of Chairman.

This initiative is expected to initially generate revenue of approximately $5.0 million which could rise to $8.0 million, depending on demand.

Completing the job on Fiscal Consolidation and Reform – Phase 2

One of the main drags on economic growth has been the need to engage in aggressive fiscal consolidation. This has been necessary, but it has inevitably impacted negatively on growth. If we are to achieve our full growth potential we must complete the job and get the fiscal deficit down to sustainable levels. In terms of the public finances and meeting our deficit targets there are several issues and immediate challenges that we must acknowledge and confront. One of these realities is that there is now a serious structural decline in our revenue base which we can no longer afford to ignore. This structural decline, which can be seen across all major categories of tax, has now been matched by structurally locked in public expenditures consequential on growing inefficiencies in the public sector, and increased demands for free social services from a more sophisticated population. These two scenarios are now openly challenging the efficacy of the very development model which we have successfully operated on for much of our post-independence national experience.

Many of us Sir, including me, understandably and justifiably wedded to the altruistic principles of democratic socialism, which espouses in part an extensive, growing and largely free social services sector, are having an extremely difficult time appreciating a modern day reality where the conditions and rules of the process have so changed that the very things that have separated us as a number one developing country in the world are now our biggest challenges to deal with.

The frank truth is that unless we accept the reality that growth of our public expenditure based on our desire to provide universal free public services has now collided with our inability to grow our economy fast enough and is therefore feeding the growth of deficits.

As a country we have to weigh the options of doing nothing and allowing this situation to continue to deteriorate against raising the courage and showing the leadership in tackling it up-front. Whether we cut expenditures to make up for this shortfall, levy permanent taxes on the local economy to help close the gaps, create new funding models for activities now funded by government, or some combination of the above we have to act and act now. It is for this reason that we cannot as a country excuse ourselves from the tough decisions that must be made today to secure our future tomorrow.

In this regard, I now turn my attention to laying out key aspects of phase two of the fiscal reform and consolidation agenda. Today I will focus on tax reform, reform of the state owned entities, debt management and reform and financing of critical social services.

Reform of Our Tax System:

Few can deny Sir, that over the last twenty years or so, our tax system has become somewhat unbalanced with a heavy reliance on VAT, Corporation Tax primarily from the International Business Sector and Personal Income tax. While it is true that these main categories of taxes have been generally proficient in gathering substantial amounts of tax revenue for the country, it has also become a reality that over time their respective bases have faced gradual erosion and weakening.

It has been a long practice in Barbados for successive administrations to utilise the method of waivers, remits or other such carve outs from standard tax rates across all categories of impositions to progressively achieve economic and social outcomes.

This, in modern tax practice particularly in a small developing economies, has proven to be a useful tool to at one time shield the poor, while in another incentivise potential investors to help spur economic expansion, create jobs, earn foreign exchange, and the like.

However, while these and other similarly progressive interventions have proven to be quite useful they have also come at the cost of not only eroding the base of these taxes, but also overly complicating the tax code and making tax administration cumbersome and costly.

A simple analysis of any of the major taxes in Barbados would reveal for example that while tax rates are at generally acceptable levels, carve outs related to waivers, credits and allowances of varying types have tended to undermine the yield from these taxes.

A case in point is that of personal income taxes which shows that up to income year 2013 while total assessable income was recorded at approximately 3.777 billion dollars, because of a plethora of allowances and deductions then in excess of 23, the actual taxable income (that is the amount to which actual tax is applied) was only 1.645 billion dollars or less than half the total assessable income.

Similarly, in the case of the VAT which in fact has been the country's most proficient collector of tax revenue, generous and extensive zero rating and exempt provisions have contributed to the gradual erosion of the revenue take from the tax even as governments have added to the original list of carve outs and in spite of increases in the standard rates in recent times.

Indeed by 2013 available information from the Comptroller of Customs suggested that the country was waiving and/or remitting, or otherwise forgoing in excess of 750 million dollars in VAT, customs duties and excise taxes alone. By themselves these are staggering amounts. However when matched against the fact that for instance the fiscal deficit for this past financial year was put at 319 million dollars, it begins to paint a picture as to why these issues could not go unaddressed for too much longer.

In keeping with this and appreciating the importance of having an effective and proficient tax system as part of a modernizing and demanding economy, the Ministry of Finance and Economic Affairs invited a mission from the Fiscal Affairs Department of the IMF to send a team of tax experts to Barbados during 2014 to conduct an analysis of several of our major categories of taxes.

That Report was received in August 2014 and was widely shared with critical stakeholders across the economy including members of the Social Partnership, academic and professional associations, other civic groups and the Official Opposition. All groups, save for the Official Opposition responded sharing their opinions and ideas on the report's contents and recommendations.

Simultaneously, after receiving the Report, I empanelled a Committee of experts in the area of tax policy, headed by retired Permanent Secretary in the Ministry of Finance and Economic Affairs, Mr. William Layne, to conduct an assessment of the Report and make specific recommendations on how government should set about addressing issues and challenges arising therefrom.

Across the board most respondents conceded that the study was correct in concluding that there existed critical areas of concern that affected the efficiency and proficiency of most areas of tax policy and administration and that these needed to be addressed with some degree of urgency.

While stakeholders may have differed in some areas as to the specific type of changes they would have preferred to see all were unanimous that changes were unavoidable.

In this regard, government, mindful of the need for intervention across a number of areas, and also mindful of the impact which such changes would have across the body of the economy, has determined that changes to its overall tax policy would be phased and implemented over a three year period starting with this year.

We have also determined that given the embryonic nature of the new Barbados Revenue Authority, changes to the system should be categorized in short, medium and longer term interventions. This is done in an effort to ensure that policy changes can be properly and completely implemented with as little disruption to the tax revenue system.

To this effect, we have decided that the following shorter term interventions will be undertaken in year one of the reform process:

VALUE ADDED TAX:

From its inception in 1997, it was part of the official design of the VAT to allow for a special carve out by way of an exemption from the standard applied rate on a select basket of basic food items for all tax payers. This was done on a universal basis as a way of giving relief particularly to the poor who were likely to be more negatively impacted upon by the accepted regressive nature of the VAT.

Equally, the exemption was also intended to ensure that certain foods, particularly those of known high nutritional value, were always kept within the price range of the average shopper.

However, following close analysis by an Inter-Ministerial Committee comprising officials from Finance and Economic Affairs, BRA, Commerce, Agriculture, Health and Social Care, it was discovered that the so-called basket of basic goods contained over 409 items, many of which could not be legitimately classified as basic, of high nutritional value or indeed within the price cohort of the most vulnerable in Barbados. Indeed, it appears as though the entire tariff headings were included in the basket of goods irrespective of whether they were applicable or not.

The Committee has therefore recommended and I have accepted that the VAT basket of basic food items should be amended to exclude all of those items. ***Therefore with effect from September 1st 2015 a new basket of basic food items, which has been appended to this budget statement, will be in force as the applicable basket to which full exemption from the standard VAT rate of 17.5 % will be applied.***

All other food items in the original VAT Basket (a list of which has also been appended to this budget statement) will be subject to the standard rate of the VAT of 17.5 %.

It is expected that this change will result in a net gain to the Treasury of just over $20 million in a full financial year.

Mr. Speaker Sir, another area of concern that emerged from the tax review was the manner in which betting and gaming services were being treated, or as it turned out, not being treated under the existing VAT laws.

During the review it was discovered that for some reason unknown betting and gaming services were not exposed to the VAT as they are currently listed under the Second Schedule as “exempt” from the payment of VAT. Under current legislation such services are variably treated through an elaborate licensing regime and for the lotteries through a series of smaller fees attached to their operations and sales.

That tax review along with other internal assessments conducted by the Ministries of Finance and Economic Affairs and Prime Minister’s Office under whose remit the Betting and Gaming Committee that regulates the sector falls, have thrown up a number of regulatory issues which are in urgent need of attention by all stakeholders. Indeed it is the considered opinion of all that a complete overhaul of the system is required including appropriate updates to all laws and other regulatory provisions governing the operations of the sector.

I am suitably advised that the Prime Minister's Office has started that review and it will intensify over the coming months leading to consultations with industry players and other stakeholders from which a reform plan will be developed for implementation over the medium term.

Ahead of this however, and in an effort to proceed with the implementation of the short term adjustments to the tax policy process as it relates to VAT, the Ministry of Finance and Economic Affairs has recommended and the Cabinet has approved that all betting and gaming services and supplies are be subjected to the VAT at the standard rate.

In execution of the mandate, I am proposing that with effect from September 1st 2015, all betting and gaming services and supplies which are currently exempted from the VAT, will be removed from the exemptions list and will therefore be subject to VAT at the standard rate of 17.5 %.

It is also our intention that once the arrangements for the application of VAT on the sector have been put in place, the existing applicable license and other fees will be reduced and/or entirely eliminated where appropriate. Until such time the existing fees will remain applicable.

This will give both sector stakeholders and the BRA sufficient time to engage each other on the new tax regime and to iron out any perceived issues which might arise. It should however be noted that irrespective of how and when this new tax regime is implemented entities which are now subject to a process of licensing as prescribed under the Act, will still be required to engage that process as required by law even if the licensing fee is removed.

It is anticipated that with imposing of the VAT on this category that the treasury should benefit to the tune of 20 million dollars in this financial year.

Relative to the issue of VAT registration, as you will recall Sir, in 2010 on recommendation from the then VAT Division, I agreed to and announced that the threshold for VAT registration should be moved from 60, 000 dollars to 80,000 dollars. Since then further analysis both from the most recent review and other market research has shown that compared to other jurisdictions Barbados' threshold still remains way too low.

Indeed tax authorities have opined that any revenue gain from having such a low threshold is currently outstripped by the costs associated with diverting tight financial and human resources to contend with a plethora of small registrants and the VAT refunds which many are forced to claim on the input VAT. It is argued that these resources should be better spent covering larger businesses which collect the bulk of the VAT revenues.

Accordingly, effective January 1st 2016, the VAT registration threshold requirement will be increased from the current level of 80, 000 dollars to 200, 000 dollars.

<u>Corporation Tax Reform:</u>

One of the key findings of the entire review process as it relates to Corporation Tax, is that Barbados has one of the most competitive tax rates in the region and the wider world. This, together with a number of very generous carved out provisions for capital allowances and credits have allowed investors both domestic and international to see Barbados as a very attractive place to do business. This regime, which has been built up over many years has afforded the country to build out many aspects of its economy and society from the spending which these businesses do within our borders.

However, as with any regime of incentives there are some provisions which over time would have served the purpose they were originally intended and would be in need of review since they could be permitting more benefit than was originally intended.

Added to this there has been a structural decline in the level of revenues from corporation taxes**.** In 2006, Barbados earned $445m from corporation tax, in

2007 we earned $521m, $447 m in 2008, $372m in 2009, $294m in 2010, $298m in 2011, $268m in 2012, $174m in 2013 and $206m in 2014.

This decline in revenue from corporation tax is largely due to developments related to the International Business Sector. Firstly, in the 2009 to 2010 period, revenues were affected by the fact that many companies in this sector declared losses as a result of the global economic recession. Secondly, changes in the tax laws of Canada, our main source market for international business companies, meant we had to reduce the tax rate by around half to retain the companies we have and remain attractive generally.

In this context, I have accepted the advice of the tax administrators that a couple of small adjustments are necessary to the corporation tax regime to permit for a rebalancing of the process.

Therefore, effective income year 2015, I have decided that in respect of the existing allowances and deductions for corporations against their standard tax rate be adjusted as follows:

In Section 12 of the Income Tax Act where it says "other" deductions against corporation tax, and/or deductions for contributions to special funds, etc. the applicable claim will be reduced from 150.0 or 120.0 percent where applicable to 100.0 percent.

Based on the definition of a 'special fund' and what is classified as 'other', investments in certain funds such as the Regional Negotiating Fund, Tourism Investment Fund and the Enterprise Growth Fund etc. would be included. ***This would mean that businesses which would have spent $32.0 million on special funds and were allowed to claim an amount of $48.0 million representing between 120.0 and 150.0 percent of expenditure will have this refundable rate reduced to 100 percent.***

In this particular case, Government is expected to yield an additional $4.0 million of tax revenue based on the current applicable corporate tax rate of 25.0 percent corporation tax rate.

Corporate Group Relief:

The use of Group Losses by companies in Barbados has been a cause for concern over the past years. Approximately 54 companies make use of Group Losses in any given year with the largest amount claimed being in excess of $17M. Using figures from Tax Year 2013; losses surrendered totalled $81M and losses claimed $76.9 M. (***In order for a company in a group to use the losses from another company that company must agree to give up those losses since losses can be carried forward for nine years.)*** The impact of these group losses can be felt many years down the road and impacts negatively on revenue forecasting.

Therefore, with effect from tax year 2015 Group losses will no longer be allowed and losses will be carried forward for only seven years. This is expected to result in additional income of approximately $15M using the current tax rate of 25%.

Personal Income Taxes:

For tax year 2013, in excess of 90,000 tax returns were filed with over $68M in refunds payable to 62,100 taxpayers. The administration of the tax system has become complex as the years have gone by and even in a technological environment a high degree of human intervention is still required to check, review and assess returns submitted. As the number of deductions has increased, more resources are needed to carry-out this auditing, even where a threshold has been established for returns to be audited, leaving fewer resources to address other areas of compliance and enforcement.

Further to this, the current economic situation, which has affected the Treasury's cash flow position, has had a negative impact on the rate at which tax refunds have been paid for tax year 2013. We are cognisant of the fact that this has caused some hardship to Barbadians and are seeking to reduce the recurrence of this situation in the future.

The Barbados Revenue Authority in its Business Plan 2015 – 2016 speaks to the development of a customer-centric approach to tax administration which would lead to a greater incidence of voluntary compliance. To assist in this initiative the Ministry of Finance and Economic Affairs is therefore of the opinion that a simpler, less complex approach to tax administration should be developed.

With this in mind, and coming out of the 2014 tax review process government has agreed to recommendations that not only should the personal income tax process be simplified but also that there should be some relief of the burden of taxes by making more disposable income available upfront to the tax payer instead of at the point of a refund.

Therefore, it is proposed that with effect from Income Tax Year 2015 that only the following deductions will be allowed along with the existing personal allowances; contributions to trade unions and statutory associations, donations to charities including the church, and energy audit retrofits. Other special credits such as foreign currency earnings allowance and double taxation relief will also remain in keeping with Treaty arrangements.

In addition and in an effort to ensure that tax payers are not unduly disadvantaged by these changes I now propose that the current tax rate of 17.5% will be reduced to 16% and the higher rate of 35% to 33.5%.

This will result in a reduction of approximately 60% of tax refunds being processed and be relatively revenue neutral netting the government 9 million dollars in additional revenue.

Finally in this area Sir, it has now become an open secret in Barbados that there are several potential tax payers who for a number of reasons including their own insistence in not paying to the authorities taxes that are due and owing to it. Over the years, this problem has gotten worse as a result of the weakness in the capacity of the tax authorities to contend with the growing number of "drop outs" from the system and those who have decided that they would not enter the system at all.

From as early as 2002, the last BLP administration under the leadership of the Rt. Hon. Member for St. Peter as Minister of Finance agreed to and initiated the process for a reform and consolidation of the tax collection functions in government, equipped with enhanced powers and adequate resources to address these unacceptable conditions.

This administration accepted the value of this approach as useful and necessary, and under my tenure as Minister moved the concept of a centralized tax collection administration from idea to reality with the birth of the Barbados Revenue Authority (BRA).

I am satisfied ***Ceteris Paribus*** that this process has been going as well as could be expected, and in spite of the resistance in some quarters to the new dispensation which, with only one year behind, it is already having a very positive effect in improving tax collections and administration in Barbados.

However, an institution such as this can only be successful in dealing with such critical challenges if government is prepared, as we are, to stand behind the institution and ensure that our support is not just verbal but backed by real actions to ensure the necessary, appropriate and efficient execution of its mandate.

To this extent, in the next few weeks I will bring to parliament various amendments to specific pieces of legislation including the BRA Act, to close loop holes which have presented themselves now that the BRA is fully operational and which are acting in ways inimical to the objectives of the organization.

One of those areas relates to the effectiveness of the organisation to bring a larger group of non-salaried or independent professionals who earn money from the practice of their profession or trade but simply refuse to pay tax or even register with the authorities. Sir, this has been a long standing bug bearer for tax administrations in Barbados as these individuals still have full access to and utilize all of the public goods and “free social services” and amenities which our country so generously provides.

Our responsibility as a government is to ensure that every citizen who is liable by law to pay taxes does so in order to create the conditions that will lead to the broadening of the tax base to allow government to collect enough revenue to run the country while lowering the tax rates.

Put another way Sir, this situation of some people paying their fair share and others escaping the net must be brought to a halt to the extent that we can.

I therefore propose that effective immediately all those individual professional operators provided for under the registration regime of the Profession, Trade, and Business Registration Act, shall be required to produce a valid tax clearance certificate from the BRA in order to renew their respective licenses to practise in this jurisdiction.

Land Taxes:

Mr. Speaker you would recall that as part of our 19 - Month Home Grown Economic Stabilization and Growth Programme we introduced a number of temporary taxes to assist government in boosting its revenue in-take to tackle our unacceptably high deficit. In December of last year in a Ministerial Statement to this House, I asked the country to bear with us as we seek to continue our success in that regard by extending the life of those impositions for an additional year.

At that time I also noted that it was government's intention to review the Municipal Solid Waste Tax (MSWT) which had formed part of that package and was expected to lapse after the first phase of the programme ended at March 31st 2015.

We have subsequently completed that review and have decided that we will proceed with the planned repeal of the Act. However Sir, as you would appreciate government is still in need of the revenues which this tax would have generated to ensure that our programme of fiscal consolidation stays on track to meet its 2015-2016 targets, while providing resources to assist with the management of the country.

In this regard, I therefore propose that in an effort to provide for the expected loss in revenue from the removal of the MSWT adjustments be made to the current land tax rates and bands as defined under Land Tax Act Cap 78A.

It would also mean that only one set of bills would have to be issued, a cost saving measure in itself.

It must be remembered that the land tax rates were last adjusted in the tax year 2011-12, where the rates for non-residential properties were adjusted from 0.65% to 0.50% and the bands for residential were expanded from the original structure to the existing ones.

The proposed new structure effective 2015-2016 will be as follows:

Tax Year	Vacant Land	Non-Residential	Residential
2015-16	0.80%	0.70%	0.0% on First $150,000
			0.1% on the next $300,000
			0.45% on the next $550,000
			0.75% on excess over $1,000,000

For example,

- A residential property owner with a property valued at $150,000 or less would still be exempt from the payment of land tax.
- A homeowner with a property valued at $250,000 would now be required to pay $100.00 per annum, an increase of $40.00
- A property valued at $450,000 would now attract a charge of $300.00, an increase of $40.00 from $260.00 per annum.
- A property valued at $600,000 would now result in a tax of $975.00 up from $760.00 and
- A property valued at $1,000,000 would now be required to pay an additional $215.00 moving from $2560.00 to $2775.00.

It must be emphasized that the rebates, allowances and discounts for early payment will continued to be honoured. It should also be noted that the amended rates for the residential sector is no less imposing than those which existed in the 2010-2011 tax period and the incidence of tax would be no more demanding in this form than if both Land and Municipal Solid Waste taxes were imposed. ***This realignment is expected to realize $44 million based on last year's tax revenue.***

Excises:

Mr. Speaker, another key area of tax policy and taxes levied which attracted the attention of the various committees was that of Excise tax. Most if not all analysts and stakeholders were of the opinion that our system of excises though complicated in some areas and in need of targeted reforms was generally consistent with international structures and norms of application.

They however lamented the fact that quite like most of the other fiscal impositions in the country there are substantial derogations from the standard rates across applications as a result of very generous waivers and other exemptions. Indeed, the Layne Committee in its analysis drew particular attention to the fact that the value of Excise Tax waivers during the period April 2009 to June 2014 was $456,256,333.67 and for that period, total VAT and Excise waived was $1.8 billion.

These shocking statistics point to a stark reality of how much revenue, albeit for many useful purposes, government is currently foregoing to assist many interests in the economy and society.

While it is accepted that a significant part of this is frankly unavoidable, if Barbados wishes to remain relevant and competitive in the investment market, it is also agreed that going forward some measure of discipline needs to be exercised by the Ministry of Finance and Economic Affairs in how, who and in what amounts such waivers are entertained.

It is also believed that in keeping with the country's efforts at fiscal consolidation and reform and the meeting of the challenge associated with the financing of government operations that the Ministry of Finance and Economic Affairs must seek not only to put measures in place to limit the amount of waivers but identify strategic areas in which the introduction of new excises can be implemented to assist with special issues while at the same time not putting undue burden on the public.

My Ministry has accepted this timely advice and has already moved to curtail discretionary waivers on excises as announced in previous Ministerial Statements. In addition to this, and as part of our continued efforts to recover some of the hundreds of millions forgone each year, we have determined that, as part of the national effort required to support special social development causes, three new special excises will be introduced.

The proceeds of the new excises will help finance education and environmental protection, as well as contribute to health financing. They will be as follows:

1. <u>A new excise on mobile airtime usage</u>

As you might recall Mr. Speaker Sir, in his 2009 Financial Statement and Budgetary Proposal, my predecessor in this office, the late Honourable Member for St. John, announced the imposition of a special excise on cell phone usage. It was intended that some of the resources garnered from the said imposition would have been provided to assist with particular aspects of our educational system.

For reasons not yet entirely clear to me, that imposition was never implemented. In the interim, several social partners including some members of the labour movement raised the issue of a cell phone tax as a way of raising additional revenue to contribute to government's efforts to deal with its deficit.

The matter was again raised during the tax policy review process where it was indicated that Barbados was one of the few countries in which such a tax or excise was not levied.

Following much consideration of this matter the Ministry of Finance and Economic Affairs with the approval of the Cabinet has decided to revisit the issue of a “cell phone” tax.

In considering this matter however we determined that a different approach was required and we decided that an airtime excise duty shall now be applied on all mobile airtime used by cell companies operating in Barbados.

Information gathered from the Telecommunications Unit of the Division of Energy and Telecommunications indicates that annual total minutes used by LIME subscribers for 2014 was approximately 575.9 million minutes and for Digicel subscribers approximately 514.5 minutes were used. While in contrast to date, current charges to land lines and other mobile devices issued by both of these service providers are as high as $0.72 per minute in the case of Digicel and $0.65 per minute in the case of LIME.

Therefore with effect from August 1st 2015 a mobile airtime excise duty on cellular phones will be imposed at a nominal rate of $0.03 per minute for both service providers LIME and Digicel. On current times it is expected that this imposition will generate a total of approximately $32.7 million in revenue on an annual basis for the Treasury.

These service providers currently pay in the VAT to the Barbados Revenue Authority and will be responsible for collecting the airtime tax and paying it to the BRA in the same manner as they do the VAT.

Much in the same way as was intended by the late Prime Minister when he introduced the now unimplemented cell phone tax in 2009, it is the desire of this government that some of the resources garnered from this imposition will be provided to the Ministry responsible for Education to specifically fund a new national UWI tuition scholarship programme to which I will draw general attention but on which that Ministry will give fuller details in the weeks to come.

2. Special Excise on sweetened beverages:

Mr. Speaker, it is now an indisputable reality that Barbados is on the verge of a national crisis with regards to persistent health problems associated with the escalating level of Non-Communicable Diseases (NDCs). This has caused expenditure across the health care system to explode as government seeks to provide requisite but costly interventions to assist Barbadians to manage their respective illnesses.

One of the major afflictions in this category of illness that has escalated in the past few decades is that of diabetes mellitus, which is now a major cause of sickness, amputation and morbidity on the island. In this regard, empirical research has shown that the explosion in the number of persons affected with this disease particularly the type 2 version can be shown to have a very strong causal link to the consumption of high amounts of processed sugars and carbohydrates. In Barbados, as is also the case in many other jurisdictions where diabetes is a major challenge, one of the products which is known to be heavily used by unsuspecting populations is sweetened beverages.

In the case of Barbados the plethora of these sweetened drinks and juices on the local market is as a result of supplies both through importation and from domestic production, and studies have revealed that they are generally known to contain an over generous input of high calorie sweeteners including sugar, syrup and the like.

Over the past few years as Barbados and other countries in similar positions have intensified national focus on NCDs, their treatment and especially their prevention, health and economic policy officials have petitioned their respective governments to urgently address this particular issue among others.

The general thrust of the efforts has been not only to raise public education and awareness as to the latent dangers in consuming such beverages but also to try to encourage a change in behaviours so as to lessen the consumption of sweetened beverages and/or to encourage the producers of such drinks to reduce the level of added high calorie sweeteners in the drinks.

In Barbados, we have always respected the maxim that an ounce of prevention is worth more than a pound of cure. This government is of the view that this maxim is particularly applicable in this regard and has decided to respond to the numerous petitions for some action to be taken to address this issue going forward.

In this regard, Cabinet has decided that in order to encourage healthier consumption patterns of our people as it relates to the consumption of

sweetened beverages such as carbonated soft drinks, juice drinks, sports drinks, fruit juices and others particularly those which fall under tariff headings 20.09 and 22.02 on the import side, and similar products of like standing produced within Barbados that contain added high calorie sweeteners, will now attract a 10 percent excise tax levied on the value of the product before VAT is applied.

Beverages containing intrinsic sugars only such as 100 percent natural fruit juice, coconut water, plain milk, evaporated milk will not be subject to the excise tax.

This policy which is expected to generate in excess of $10 million in revenue this fiscal year will be reviewed in two years time to determine how effective it has been in shifting the behaviours of both producers, importers and consumers as whether it should be extending or intensified.

Mr. Speaker, this policy will take effect from **August 1, 2015.**

STATE OWNED ENTERPRISE REFORM:

Mr. Speaker, the second major area of reform to which I draw the nation's attention is that of public sector reform particularly as it relates to State Owned Enterprises (SOEs).

As you are aware Sir, over the past four decades, Government, in an effort to decentralize the provision of social and economic services, has relied on the creation of numerous government owned entities interchangeably referred to as SOEs, parastatals, or statutory boards to achieve that objective. These entities have come to be associated with the delivery of critical services and goods to the wider public in areas such as housing, public transport, agricultural services, health, education, and water to name a few.

The rationale, we are advised, behind this shift from central government was to allow for greater flexibility in the provisioning for the public goods and services. Over time however as the number of entities grew, they have not only become a heavy financial burden on the central government, but many have found themselves ensnarled in a web of deficiencies that have negatively impacted their capacity to effectively deliver public goods. In the meantime, as a result they have also been building up massive debts.

Indeed, due to a noticeable deterioration in their financial fundamentals as a result of their operational and financial management weaknesses, several of the entities have found themselves in major financial difficulties that now threaten their viability and in some respects their actual survivability.

Even more alarming is the fact that analysis has shown that at a structural level the financial weaknesses of these entities have been a major contributor to the build-up of serious structural deficits in the public finances.

In 2014 as part of government's stated objective to pursue a medium term fiscal consolidation and economic reform programme to reposition the country's economy, the Ministry of Finance and Economic Affairs, with the concurrence of the Cabinet decided to invite a team of public finance and management experts from CARTAC to do a comprehensive review of the state of the non-financial public sector or SOEs. The purpose was to gain an understanding of the true scale of the problem we are confronting, the root causes of the major challenges and ultimately to recommend relevant and implementable recommendations to initiate a turnaround in the situation.

Towards a Performance Monitoring Framework for SOEs

During the period January to February 2015, a team of Advisors from CARTAC conducted a technical study of the SOEs and SBs in Barbados and emanating from the study was the recommendation for the development of a Performance Monitoring Framework (PMF) to monitor the performance of the SOEs and SBs.

The summary of the findings of the CARTAC Report included the following observations:

- Barbados operates a dispersed model of ownership, whereby oversight of each SOE is done by the parent Portfolio Ministry which is concerned with the implementation of Government policy objectives and less focus is on financial performance.

- Both the SOEs and SBs represent a significant source of fiscal risk to Government through the generation of large financial losses, high accumulated debts and cash flow deficits that are funded either by debt accumulation, unpaid arrears or scheduled and ad hoc budget subventions. Some of them have accumulated significant arrears. These arrears are a concern in the context of fiscal risks since they are characterised as un-quantified liabilities.

- Very few of these entities are in a position to record any cost recovery. This can be attributed to the combination of inefficient operating practices, relatively high cost structures, high mandated levels of service and low prices. No clear financial targets have been set for their operating costs, operating deficits, return on assets, return on equity or profitability. Some of the SOEs and SBs are insolvent and are unable to meet their obligations when they become due.

- SBs provide relatively high levels of service but there is little evidence that the cost of the service is factored into the decision regarding the quality or quantity of service to be provided.

- Many SOEs/SBs routinely do not comply with their statutory reporting obligations. Of greatest concern is the backlog in preparation and submission of audited financial statements. The lack of audited financial statements represents a significant risk and makes meaningful oversight difficult.

- Significant capital expenditures are required in many SOEs/SBs, which are beyond their financial capacity, because they do not have the internal capacity to generate capital causing capital projects to be deferred. This leads to the deterioration of existing capital stock of fixed assets. Repairs and maintenance expenses are excessively high.

Following the presentation of the report to the Ministry several internal consultations were held with critical stakeholders in the process including line Ministries and oversight departments in the Ministry.

Coming out of that process the report was presented to and discussed by the Cabinet and a number of decisions were taken. Of these the following are of particular note:

- Amalgamation or abolition of some of the SOEs should be pursued;
- Management Accounting Unit should start the process of collecting more detailed information by undertaking a survey of key fiscal data points (has been completed);
- Establishment of a formal process of performance oversight; and
- Establishment of a Performance Monitoring Framework

Proposed implementation

The Ministry of Finance and Economic Affairs has established a process of implementation which it will begin very shortly. That reform process will be highlighted by the following:

It is proposed that for the Financial Years 2015–2018, the Government will adopt a phased-approach in implementing the Performance Management Framework. During 2015-2016 five (5) selected SOEs/SBs, in terms of risk and size would adopt the Guidelines to “prove the concept” and allow for the development of necessary reporting arrangements. The five (5) SOEs/SBs selected for the pilot are Transport Board (TB), Barbados Agricultural Management Company Ltd. (BAMC,) National Housing Corporation (NHC), Queen Elizabeth Hospital (QEH) and the Barbados Port Inc. (BPI).

At the beginning of the financial year 2016-2017 it is anticipated that the remaining ten (10) SOEs/SBs will adopt the guidelines so that they can commence work on the PMF in preparation for commencement of the programme in financial year 2017-2018.

During the week of May 26 – 29, 2015 meetings were held with the five (5) selected SOEs/SBs and their parent ministries to sensitize them of the new regime and discuss how the PMF would be implemented and what are their requirements. Follow-up meetings with the five selected SOEs will take place in July 2015 and October 2015.

The key elements of the Framework are the:

Letter of Expectations (LOE)

This document seeks to clearly define Government's policy objectives and the expectations of the role and responsibilities of the SOEs/SBs along with Government's commitment to hold the SOEs more accountable for their performance. It would also address the areas of transparency, accountability and operational matters. The signing of this document should be completed and given to the SOEs/SBs by June 30, 2015.

Performance Monitoring Guidelines (PMG)

The guidelines which communicate the MAU's expectations for the performance monitoring regime specify the roles, key tasks and timelines applicable to the PMF should be distributed to the SOEs/SBs by June 30, 2015. The guidelines would outline:

- The process for establishing and formalising specific objectives for SOEs and Statutory Boards;
- The respective roles for the Ministry of Finance and Economic Affairs (MFE) in exercising its ownership role; the parent ministry in exercising its policy role; the Board of Directors in fulfilling their obligations to establish objectives and report on performance and the MAU in exercising its mandate to monitor the performance; and
- Specific operating procedures and guidelines which will set forth the tasks in the monitoring process, sequencing and prioritizing.

It should be noted as well that the SOEs which are not currently part of the pilot will receive this document by December 31, 2015.

Corporate Planning Framework (CPF)

This document is the formal agreement between the Board of Directors of SOEs/SBs, the MFE and the Parent Ministry (PM) to set the strategic direction and performance targets over the corporate planning period which is a fiscal year. The two (2) elements making up the CPF are a three-year Statement of Corporate Intent (SCI), and an annual Financial Plan (FP) in the case of SBs and an annual Business Plan in the case of SOEs which are to be submitted to the MFE and the PM four (4) months before the beginning of the fiscal year 2016-2017.

The SCI which would have a standard format across the SOEs/SBs should provide the following:

- Vision and Mission Statements;
- Core business;
- Operating Environment;
- Strategic direction;
- Budget and Forecast Financial Statements;
- Forecast Capital Expenditures;
- Financial and Non-financial Key Performance Indicators (KPIs); and
- Performance targets for each of the KPIs.

Plans are being undertaken to amalgamate/merge SOEs/SBs with similar activities/roles so as to improve operations and bring about greater economies of scale. This process will be on-going until the targets are achieved. The strategy behind the new regime is to adopt a new culture where SOEs/SBs are self-sufficient, accountable, customer focused and would add to the overall social and economic growth of the country.

I hasten to add Sir, that very shortly my Ministry will also be working on a new set of accountability guidelines for the managers of these entities to adhere to.

These guidelines, which will be largely based on what is already required in existing law, will have, once Cabinet approves, appropriate but stiff sanctions for entities that persist in not meeting their statutory and other obligations. It will not be business as usual.

3. Dealing with Debt – Management, Reform, Reduction:

Sir, the level of debt service is extremely high. The high level of debt service is inextricably linked to our fiscal challenges now but more so to the deep and age old structural weaknesses in our economy. Government has recognized this and is taking several actions in an integrated approach to address this problem. While the bulk of the response in the short term is targeted towards fiscal consolidation and reigniting economic growth, there are a number of other critical interventions which are also being undertaken.

Some of these relate to the build out of a more modern and integrated debt management mechanism which is currently being established and will include completing work on a central debt management policy, further strengthening of our new Debt Management Unit, revising the debt management legal framework through a consolidation of functions and responsibilities of the relevant authorities, and provide for better public debt data and systems.

This extensive body of work is being undertaken with the assistance of the Commonwealth Secretariat and Cabinet has only recently approved recommendations for moving forward to the full implementation phase.

That aside, I believe it is incumbent on me to say Barbados has an enviable record when it comes to paying the monies we have borrowed. We have never in our history defaulted on any debt and are not about to start now. Neither are we courting any inappropriate ideas of taking short cuts and creating long term damage to our hard fought reputation as a country that meets its commitments.

As we are all aware, a reputation takes years to build and can be destroyed in an instant. This administration has no plans to engage in a frolic on the type of debt restructuring which has now seemingly crept into the discourse of the proponents of the economics of the “easy way out”. What we will do is to engage in an enlightened debt management and monetary policy that will seek to allow traditional market interventions to help government reduce some of its debt servicing costs over the next planning period while easing some of the cash flow challenges we have been facing in the past year.

In this regard, our primary focus will be on working to access lower cost financing alternatives particularly for government’s capital works programme. Already we have proceeded to complete our membership in the CAF which affords us access to major financing at highly concessional rates. Equally, we have determined to further exploit our very positive relationship with the People’s Republic of China on major capital projects. This is being kick started with the 400 million dollar Sam Lords Hotel project in September.

Additionally, we have locked-in two major low cost financing options for the BWA mains replacement programme with the IDB and the Citibank/Canadian CCC for over 200 million Barbados dollars of public investment at less than 3 % interest.

We also have to continue to aggressively implement our country strategy programmes with the CDB and the IDB on both existing projects and the new projects for the next programming cycle.

Over and above this, government will pursue an enlightened policy of divestment of particular assets owned by the government that lend themselves to private investment. Already we have identified such assets as the Terminal Company and some of the properties associated with the GEMs of Barbados which are at an advanced stage to divestment.

Resources earned from these initiatives will be used in part to pay down existing debt and lower servicing costs.

Over and above this however as I said before the most efficacious way to reduce debt and related servicing costs is to continue our aggressive efforts at fiscal consolidation to eliminate the deficit which has been fuelling debt growth.

The Path To A Fiscal Responsibility Law:

Mr. Speaker, you would recall that last December I indicated to this House that government was carefully considering the introduction of fiscal rules to condition the way in which the public finances are designed, managed and in some respects reported. Consequential on that intention the Ministry of Finance and Economic Affairs invited CARTAC to sponsor technical assistance to the government of Barbados to initiate the process that would lead eventually to the enactment of a fiscal responsibility law in the medium term.

It is my duty to report to this Chamber and the country that during the past weeks a fiscal rules specialist from the IMF Fiscal Affairs Department visited Barbados to conduct an initial assessment of our situation and to give preliminary advice on how we should move forward to build out that work.

While there is still a significant amount of work for him to undertake before a final report is submitted, the Consultant has indicated that, from his experience in dealing with this process in other countries and given Barbados' own circumstances it would be useful if in moving to our eventual goal of a fiscal law, we first go through the stages of working on several reform initiatives in critical areas of our public sector operations.

This, he opines, will allow for the country to target an appropriate fiscal rules framework that would make the passage of a Law more credible and its provisions more achievable. In fact, he lamented that in many countries where there was a rush to implement the fiscal law, several have in fact broken those laws in a very short period of time after passage.

We do not intend to make that mistake. As such, much of what I have just outlined to this House on key aspects of our reform agenda is designed to put us in the position where we can credibly move toward appropriate fiscal rules and eventually to a hard fiscal framework law.

In the coming weeks as the work of the Consultant progresses and firm recommendations are made I will update the House on the precise road map we intend to use for achieving our desired goal in this regard.

Social Sector Reform - Financing Key Social Services

Sir, the final major area in the government's medium term fiscal reform agenda relates to the very weighty issue of the financing of critical social services within the context of a low growth economy, with high deficit and debt profiles.

Barbados and Barbadians have been highly regarded by millions across the world for the outstanding social development platform that we have been able to construct. This platform has been absolutely integral not just to the socio-economic advancement of Barbados and its human resources but has allowed the country to rise and be acknowledged as one of the leading developing countries.

This achievement has primarily been built around our desire, intent and determination to offer critical social services such as education, health care and sanitation free of cost at point delivery and on the universal access principle.

Since the early 1960s and up until the last decade, this country has operated a model quite similar to those seen in many of the advanced European economies particularly in the Scandinavian countries.

That model called for these services and others to be universally accessible by all members of the population on the understanding that citizens would be asked through the regular tax system to contribute significantly to government's revenue to assist in financing the provision of these services.

By and large that system has worked there as it has here and is still pretty much the preferred option among most stakeholders, particularly the two main political parties.

However, as with most things of this nature, that model of social service provisioning has in recent times been seriously challenged by the country's waning capacity to finance the exploding costs of providing such together with the growing demands of a more sophisticated and aging population.

Indeed Sir, the situation has become even more acute in recent years as the negative impact of the fall-out from the economic and financial down turn has taken a toll on government's revenues.

To be sure, in the past 7 years while government revenues as a percentage of GDP have declined our expenditure outlays in all major social public goods categories have in fact increased. This has in turn been a key driver in the growth of our fiscal deficits over the period.

Germane to this entire debate has been the core philosophical principles underlying the active model on which social public goods provisioning has been based for much of our post-independence dispensation. The issue for many, including this government is not if we should continue making these services available – that is beyond question – the issue is how.

Underlying our fiscal issues is our broad approach to the delivery of social services and how these are to be funded. There are fundamental questions such as which services and activities should be delivered by the government; should there be universal access free at the point of delivery; should there be means testing so that those who can afford to carry a larger share of the cost are made to, and what are the appropriate tax levels.

Mr. Speaker at present we seem to be caught in a vortex where we have a "Scandinavian" approach to the delivery of social services, where they generally are provided free at the point of delivery to all (universal access), while on the other hand, we appear to desire an Anglo-American approach to the issue of taxation where taxes are relatively low, and citizens clamour for ever lower taxes and tax exemptions.

Indeed Sir, some basic research would show that when compared with most European countries that provide universally free social services at the point of delivery, our tax rates on corporate, consumption (VAT) and especially personal income tax are much lower.

For example, the average personal income tax rate among the Scandinavian countries such as Sweden, Denmark and Norway, is in excess of 42% whereas in Barbados our highest point is 35%. Moreover, very few of those countries offer personal allowances and deductions within the code, whereas in Barbados we start every single taxpayer irrespective of the income level with personal deduction of 25,000 dollars.

Equally, the average VAT rate in most of these countries and indeed across Western Europe as a whole is in excess of 20% while in Barbados ours is 17.5 % and replete with carve outs, remits, exemptions and waivers.

Little wonder Mr. Speaker Sir, that while most of those countries that offer similar social services to ours can boast of an average percentage of revenue to GPD of about 38 % and in some instances above 40 %, Barbados at its highest point could only get as far as 34 %. In fact, over the last 6 years that percentage has been around an average of 27% of GDP.

So that in the amidst of the world's worst recession which has impacted severely on Barbados' fiscal condition, the economic paradox of a public expecting the delivery of a myriad of social services free of costs while at the same time demanding lower taxes has been exposed as being irreconcilable.

Speaker, I submit to you that you can't be the USA and Sweden at the same time. The cost of key social services such as health care, education and waste management that are critical to our continued development and the quality of life, continue to rise at a much faster rate than inflation or the sustainable growth rate of the economy. The quality of these services is relatively good in Barbados, but if they are to remain that way and advance to meet the new challenges, we must develop new models of financing their delivery.

In this particular regard, it is incumbent on a responsible administration to lead the national discourse on these critical issues while at the same time ensuring that the existing services are maintained to a level that can guarantee continued wide access, appropriate quality levels and thereby maintain social stability.

This administration intends to provide that leadership. In December last year we would have indicated that it is was our intention to initiate wide ranging public consultations on issues pertaining to creating viable models for health and education financing over the medium and longer terms.

In this regard, I am pleased to indicate to the country that Ministry of Health, under the leadership of the Hon. Member for Christ Church South, will in a few weeks initiate a series of national and sector specific stakeholder consultations aimed at allowing members of the general public to engage ministry personnel on matters pertaining to the long term financing of public health care in Barbados. The Ministry has produced a discussion document with the help of some technical advice on a number of options and will canvass the views of all Barbadians using various media to capture all positive recommendations for moving forward.

It is our expectation that within this financial year as well a similar exercise will be undertaken by the education ministry relative to financing of post-secondary and tertiary education provision in Barbados.

As indicated above, while this important process of engagement for reform is on-going, it is still incumbent on this administration to ensure that the model we currently have is held together in the most efficacious manner so as to permit it to deliver adequate servicing of a deserving public.

In this regard therefore I am mandated to advise of the following initiatives in health, education and environmental protection:

Health Care - Health Care Capital Expenditure Trust Fund

Modern medicine and health care are built around the use of sophisticated diagnostic and treatment equipment managed and operationalized by highly trained medical and technical staff. These medical professionals are suitably supported by a cadre of experienced administrative personnel that all combine to provide top quality care to a demanding clientele. In Barbados, over the years we have been able to provide adequate medical care in our public health system. However, as a world tourism destination and top flight international business centre, additional pressure is placed on us to maintain medical services at the highest possible level.

In recent times, because of the fiscal and other challenges facing the country, there has been more than a hint that in some areas potential issues have emerged that can and have posed potential threats to some aspects of our much cherished health care system.

One area in which this is true has been at the main general hospital, the QEH. When this administration came to office in 2008, central government transfers of financial resources to the QEH stood at $130 million. By 2012 that amount had increased to more than $212 million. Additionally, government was required during that period to provide more that 50 million dollars to execute significant upgrades to the physical plant and equipment, including its electrical systems which were in a state of virtual collapse. The situation which existed long before 2008, has now been compounded by government's tight financial situation and cash flow difficulties. It is also worthy of note that as health care costs increase daily, the cost of provisioning for our main institution has become more challenging even as we observe the fact that almost 70 % of the hospital expenditure goes to pay wages, salaries and other payroll costs.

It is absolutely essential that, as we strive to maintain a world class health care plant and stay on the cutting edge of medical innovation, technology and equipment, we ensure that this now seemingly unfortunate public discourse which attends the day to day management of our main health care institution, as it relates to financing and provisioning, be brought to a hasty end.

It is government's responsibility to see that this happens.

To this end, the government proposes the establishment of a Health Care Capital Expenditure Trust Fund. The government envisages that the Fund will be a public/private partnership with the government providing an endowment of $20 million to the initial capitalization of the Fund. The government will repeal the legislation passed by this House providing for the Catastrophe Fund currently managed by the National Insurance Scheme, and approximately $20 million of the Fund's $33 million, will be diverted to the Health Care Capital Expenditure Fund.

As you would recall Sir, the Catastrophe Fund was first established in 2007 as a first response mechanism to assist persons within a particular income bracket in accessing resources to mitigate losses occasioned by a natural or man induced disaster.

However, while it was and still is a good idea, conception never met reality as over its life thus far, even in spite of the fact that many have been impacted upon by difficulties resulting from varying forms of disaster, not a single person has ever been able to access a cent from the Fund. There are a number of reasons why this has been the case, the chief among which were the very poorly drafted original piece of legislation and the lack of appropriate administrative regulations to support is operationalisation.

the meantime, Barbados as part of a community of regional nations, buffeted by occasional disasters, came together to establish and launch the Caribbean Catastrophe Risk Insurance Fund (CCRIF), which in its relatively short existence has proven to be an effective mechanism for providing insurance in the case of natural disasters. Indeed, in the instances where Barbados has suffered negative impact from two weather systems that damaged significant parts of the country's infrastructure, disbursements from the CCRIF have come within less than three weeks following the event at appropriate levels.

It is our intention therefore to utilize some of the remaining resources in the Catastrophe Fund to purchase additional insurance coverage in the CCRIF.

While the intricate details of the structure and operations of the proposed Health Care Capital Expenditure Trust Fund will be worked out between the Ministry of Health, QEH officials, the Ministry of Finance and Economic Affairs and other relevant stakeholders in the coming weeks, it is government's expectation that a large part of the main hospital's capital expenditure will in the future be drawn from the contributions to the Fund.

In addition to this Mr. Speaker, given the cash flow challenges with which the Ministry of Health has faced in recent times and the build-up of an unacceptable level of liabilities at the QEH in recent years, it is also government's intention to tackle this matter head on going forward.

In the past couple months as government's cash flow situation has gradually improved, my ministry has maintained a steady bi-weekly flow of resources to the QEH as agreed with hospital officials and the Ministry of Health.

However, even as this will ease the financing pressure significantly at the institution, the QEH still has an un-impressive list of prior year payables to various suppliers which we must over the shortest period of time liquidate.

Sir, from 2006 to 2008, the last administration, against better advice took a decision to subsidise fuel costs to the consumer in Barbados by making BNOC book the costs of losses on the difference between the landed price of fuel and the selling price to distributors. This caused the company to rack up more than 160 million dollars in debt which virtually threatened the operational viability of the company as a going concern.

On assuming office this administration was forced to take the correct step to end that madness and to further seek to put financial arrangements in place to ensure that BNOC would be able to liquidate this massive debt thereby stabilizing the company and regaining its viability.

In pursuance of this, the company with government's support was able to arrange a Bond facility with Republic Bank to clear off its debts as aforementioned. That facility which was for 5 years has now come to an end. It was serviced by the imposition of a small CESS on all fuel products sold by the company. That CESS, I am advised, raised in excess of 35 million dollars annually.

With that requirement at an end, and with oil prices easing to some appreciable extent, it is government's intention to permit the company to continue, under the appropriate legal arrangements, to attach that said CESS on fuels for at least one more year.

We are further proposing that a significant part of these resources be provided to government, again under the appropriate legal arrangements, to be used exclusively in assisting the QEH in its quest to pay down and eventually liquidate any prior year liabilities on its books for goods and services provided and any statutory obligations owing.

Mr. Speaker, let me hasten to add here that the provision of these resources is not intended to be an additional transfer or increased allocation for the hospital vote, but entirely to deal with expenditure that has already been incurred and booked in the system as prior year liabilities. As such, it is not expected to affect our deficit projections in any way.

Education – No person left behind:

Mr. Speaker, as you are aware Barbadian students pursuing studies at campuses of the University of The West Indies are now required to fund their own tuition fees. This has had an impact of a number of existing and new students some of whom have had to suspend their educational careers on a temporary basis. Mr. Speaker as the Cave Hill Campus, and as current and prospective students adjust to this new environment, it is government's intention to ensure that we empower the most vulnerable of these students who may not from a financial perspective be able to meet the current requirements owing to their household economic circumstances.

As such we propose to establish a scholarships and grants programme to aid in this adjustment process. Under this programme government will provide full tuition scholarships and partial tuition grants of $2,500,000.00 in the first year (2015/2016 academic year), $5,000,000.00 in the second year (2016/2017 academic year) and $7,500,000 in the third year (2017/2018) academic year) to reach $15,000,000 over the three-year period.

To be eligible for partial tuition grants, persons must be students of the university and their household income must be $25,000 or less, or $45,000 or less if more than one person in the household is at university. Preference will be granted to applicants who withdrew from their studies for financial reasons. The ministry responsible for education will provide fuller details in the upcoming weeks.

The initial funding of $2,500,000 will come in part from the proceeds gained from the mobile airtime excise duty as outlined above and the Retraining Fund, currently under management by the NIS.

Integrated Solid Waste Management (ISWMP)– Owning our waste:

By the late 1980's and early 1990's, the Government of Barbados recognized the challenges posed by solid waste management to human health and the environment in Barbados. It was also recognized that the traditional approaches were not working to combat the increasing volumes of waste to be disposed of or the increasing complexity and toxicity of the waste stream.

The ISWMP commenced in 1993 with a feasibility conducted by Stanley Associates Engineering Limited of Canada. The Study made recommendations on the appropriate components of an ISWMP for Barbados to address issues such as institutional and organizational strengthening, the proliferation of unauthorized dumpsites, the inadequate collection and disposal of refuse, the practice of uncontrolled littering and the management of special wastes.

By 1994 the ISWMP had been crystallized with the vision to "Develop a Modern, Dependable, Efficient Waste Management System, Accessible to All Residents, which would Protect the Environment, Improve the Standard of

Health and Foster the Participation of the Private Sector in a Structured Manner".

The main objectives of the Integrated Solid Waste Management Programme (ISWMP) are as follows:

National Objective:

- To reduce the potential for and incidence of disease and environmental degradation associated with poor waste management practices:

Sectoral Objective:

- To improve the level of sanitation through the provision of a dependable and efficient solid waste management system

Programme Objectives:

- To provide modern infrastructure and equipment to support the solid waste management system;

- To provide a comprehensive public awareness and education programme thus empowering residents to participate in the management of our environment.

- To involve the private sector as partners in solid waste management on the island in a structured manner; and.

- To reduce the quantity and toxicity of solid waste on the island

The ISWMP was broken down into a series of Physical and Non-Physical components, as detailed below:

Physical Components:

- **National Sanitary Landfill**: This sanitary engineered landfill is located in a disused quarry at Greenland, St. Andrew. (This was subsequently revised to the Expansion of the Mangrove Pond Landfill. The landfill constructed at Greenland, St. Andrew was never utilized).

- **Solid Waste Management Center**: These include Transfer Stations, Chemical Waste Storage Facility and Composting Facility. These facilities will be jointly housed at Vaucluse, St. Thomas.

- **Bulky Waste Facility**: This facility is located at a former quarry at Bagatelle, St. Thomas.

- Upgrading of **Road Infrastructure**: In order to improve efficiency it will be necessary to implement road improvements along routes where vehicles associated with the ISWMP will travel on a regular basis.

- **Institutional Strengthening** of key government agencies within the Ministry of Health (e.g. Sanitation Service Authority, Sewerage and Solid Waste Project Unit) and associated Ministries (e.g. the Environmental Unit, Public Investment Unit, Environmental Engineering Division);

- **A Public Education/Awareness Programme**, that is, consumer education, formal education and technical assistance in waste management for the business and manufacturing sectors;

- **An Economic** aspect which would include cost recovery measures, e.g. taxes, levies, tipping fees and export of recyclable materials;

- **Policy Development** to provide for mechanisms for the proper implementation of the Programme;

- Drafting of relevant **legislation** to facilitate this new thrust in solid waste management.

As would be expected with a programme that has been under implementation since 1993, there have been numerous reviews and evaluations conducted. While there have been some amendments and additions to the Programme to reflect the modernization of solid waste management thinking and practices repeated studies have supported the core components and thinking behind the ISWMP.

Key evaluations were conducted in:

- 2000 Sectoral Plan and Solid Waste Strategic Plan;
- 2003 Comprehensive Economic Analysis of Solid Waste Recycling in Barbados;
- 2004 Evaluation of Alternative Technologies for the Disposal of Solid Waste in Barbados;
- 2005 Review and Evaluation of the Integrated Solid Waste Management Programme for Barbados;

Economics of Solid Waste Management

It is accepted that there are both economic costs and benefits to solid waste management. In order to make the sector more economically viable, a number of economic incentives and dis-incentives were proposed, and some introduced. These include legislation with an economic component such as:

- The revised Returnable Containers Act (1986) – that placed a refund deposit system on reusable and recyclable containers to encourage recycling.

- The Sanitation Service Authority Act – Sanitation Service Authority (Fees) (Amendment) Regulations (1996) – that allows for the charge of $25.00 per tonne (or part thereof) for the deposit and disposal of refuse at any refuse deposit or disposal site.

- The Environmental Levy Act (1996) – that provided for the imposition and collection of a levy on specific goods to assist in defraying the cost of disposal

The Tipping Fees Regulations sat on the statute books for 19 years before they were introduced. A variety of reasons have been postulated over the years ranging from the need not being there to collect due to the revenue generated by the Environmental Levy to fears that the introduction would result in an increase in illegal dumping.

The Environmental Levy Act served to contribute significantly to addressing the cost of disposal, in some years collecting as much as $40M (BDS) but was removed following objections registered by the Caribbean Community (CARICOM) relative to restrictions to trade. This has left a significant gap in the financing of solid waste management.

Rationale for User-based Fees

The introduction of user-based fees for solid waste management is seen by most solid waste management practitioners as the most equitable and viable approach to charging for the deposit or disposal of refuse. Such a fee adheres to the Polluter Pays Principle and by having a rate that increases with the volume of waste deposited it ensures that the generator of the waste bears a cost directly related with the volume of waste generated.

Such a system should also encourage more diversion of materials to reuse and recycling and serve to encourage higher rates of diversion from transfer stations and landfills.

The Tipping Fee represented in The Sanitation Service Authority Act – Sanitation Service Authority (Fees) (Amendment) Regulations (1996) of $25 (BDS) per tonne or part thereof is significantly lower than that charged in other jurisdictions. The average rate in the United States of America is approximately $50 (USD) per tonne. The rate in Canada varies from an average low in Manitoba of $34 (CDN) per tonne to as high as $130 (CDN) per tonne in Quebec. The rates per tonne converted to USD for the United Kingdom and the Netherlands are $55.66 and $89.46 per tonne respectively.

The rationale for the financing of the ISWMP was based on the combined revenues from the Environmental Levy and the proposed revenues from the introduction of the Tipping Fees, along with the revenue from the sale of products through SBRC.

The removal of the Environmental Levy would however have seriously impacted revenues related to solid waste management.

While it is clear that the rate being charged in Barbados is significantly lower than in other jurisdictions the concerns addressed by the Waste Haulers should not be discounted, especially in light of the fact that the measure sat on the Statute Books for some 19 years before being implemented.

There remains the option of leaving the Fee as is, however, after meetings with the Waste Haulers the following options could be considered:

1. The removal of the phrase “or part thereof” would allow for a charge that is more equitable relative to the volume of waste to be deposited.

2. The introduction of a sliding scale (with the associated tickets corresponding to the volumes) to ensure that haulers depositing less than an exact tonne will be charged in a more equitable manner. One option is detailed below:

It is clear however, that there remains a significant revenue gap related to the removal of the Environmental Levy that the introduction of the Tipping Fee would not adequately address.

It is our expectation Sir that the announced changes to the land tax rates will assist in helping government to meet some of the additional costs associated with this required ISWMP. But we are also mindful that such revenues will not cover the entire costs associated with this very critical but unavoidably expensive process.

It is still therefore necessary that some cost recovery at point of delivery is done. In this regard I am proposing the following:

1. **That the tipping fees remain in place with appropriate amendments to take into account legitimate concerns of the waste haulers and to be worked out between the relevant stakeholders.**

2. **That the fees be set at the following indicative rates:**

   $40 per load for all categories of waste tipped at the Waste Treatment Facility inclusive of MSW, Rock and Soil/Construction and Demolition Waste, Green Waste, Coconuts.

   Liquid waste delivered to be handled by the SSA also be charged at $40 a truck load.

3. **That rules be put in place and executed to ensure that all Waste Haulers intending on tipping waste at the appropriate facilities be required to register and be licensed by the SSA, pay an annual license fee accordingly, and be required to produce a tax clearance certificate from the BRA to enable registration and licensing.**

Based on existing projected daily load factors it is estimated that the new tipping fee would yield around 4 million dollars per year for the SSA, which on the appropriate amendment of its Act will be allowed to retain those resources.

I can also give this House and the country the assurance that having spoken to the owners of the waste treatment facility they are prepared to sit with the SSA, the Ministries of Finance and Economic Affairs and the Environment, and other relevant stakeholders to work on a plan to reduce the costs associated with the treatment of the waste sent to the facility. Those consultations will be immediately initiated following the completion of this budget exercise.

GOVERNMENT USER FEES – A more realistic approach

Mr. Speaker Sir, over the last three (3) decades, specifically since 1981, a period of thirty-four (34) years; Government user fees have not been addressed to reflect the true operation costs borne by Ministries, Departments and associated Agencies. As a result, an inefficient level of output of the daily operations of these entities has occurred. Therefore, to create and encourage a greater level of efficiency in the operations of the Public Sector, all Government user fees will be have to be reviewed in the very near future.

To date, some of the information on Government user fees which the Economic Affairs Division of the Ministry of Finance and Economic Affairs has received indicates that they are vastly understated when they are compared to what the private market levies for similar goods and services. Although the Government continues to create the environment for the smooth facilitation of business, and expects that its services must necessarily be subsidized at some level, it must be able to do so in an environment that is viable and sustainable in the long-run.

Hence, during the coming financial year adjustments will be necessary across a number of areas including: Agriculture Service fees, the Barbados Fire Service fees, Government Day Care Centre fees, Immigration services fees and the general user fees for Corporate Affairs and Registry Services to name a few. Overall, a general assessment of all Government user fees will be conducted and adjustments made to create a more efficient system of doing business. At minimum, these adjustments are expected to generate approximately $6 million in revenue, to assist with raising the level of efficiency and productivity to more commendable heights.

On the basis of a projected net gain of 200 million dollars in additional revenue this financial year, plus projected additional expenditure savings of 30 million dollars from reductions in supplementaries, savings from public sector job attrition, and smaller gains from enterprise reform efforts during the course of this fiscal year, we now project an end of year fiscal deficit of between 3.5 - 4 percent of GDP on an accrual basis. This would mean a shaving of two percentage points of the projected deficit in the 2015-2016 Estimates of Revenue and Expenditure of 6% on an accrual basis.

Revenue Gains :

Milk Cess	$5 million
VAT Basket	$20 million
VAT on Gambling	$20 million
Corporation Tax	$19 million
Income Tax	$9 million
Land Tax	$44 million
Mobile airtime Excise	$32.7 million
Sweeten Bev. Tax	$10 million
Fuel Cess	$35 million
SSA Tipping Fee	$4 million

Gov. user fees	$6 million
Total	**$204.7 million**
Revenue Losses:	
Scholarship Programme	$2.5 million
Reduction in Registration Fees	$2 million
Total	**$4.5 million**
Net Revenue Gain	**$200.2 million**

Finally…a word on CLICO

Mr Speaker, while we all know the matter of restructuring of CLICO International Life is within the providence of the Supreme Court of Barbados and so certain constraints on public statements by government officials must be observed, sufficient time has surpassed since the last Budget in which I have specifically addressed this issue. And while it is not my intention to abridge any rules or conventions, I believe it would be remiss of me if I close this statement without saying a few words on the matter to the many anxious policy holders and investors in the public of Barbados.

As you would recall Sir, in 2008 CL Financial ran into liquidity challenges in Trinidad and made a proposal to the Government of Trinidad and Tobago for financial assistance. CL Financial at the time was the owner of CLICO in Trinidad. In January 2009, the Government of Trinidad and Tobago announced that they would provide a financial bail out to the embattled CL Financial.

On April 14, 2011, the Supreme Court of Barbados (High Court) appointed Deloitte Consultancy Limited (Deloitte) as Judicial Managers (JM) of CLICO International Life Insurance Company (CLICO) in response to a petition by the then Supervisor of Insurance (now the FSC) pursuant to Section 57 of the Insurance Act, Cap 310 in the Laws of Barbados.

On October 26, 2012, after an initial evaluation, the JM presented a report to the High Court outlining a proposal for the restructuring of CLICO the terms of which included regional Government funding of any shortfall in the company's assets over liabilities, a conversion of the EFPAs to long term annuities, and the transfer of assets to a new company to be established in pursuance of the restructuring scheme proposed by the JM.

After consultation with regional Governments, it became apparent to the JM that funding from these Governments would not be forthcoming and after further consultation with the Government of Barbados, a Barbados First approach was developed.

The JM filed a report dated June 14, 2013 with an addendum dated June 24, 2013 presenting the recommendations as set out in the proposed Barbados First restructuring plan which essentially was a resolution plan to keep CLICO as a going concern and required Government funding to support the proper establishment of the statutory fund;

At the time of considering the restructuring proposal in 2013 the total asset shortfall support required from the Government was in the range of BDS$300M with an immediate cash requirement of BDS$30M to provide the working capital the insurance company would need to operate while the restructuring took place.

The Barbados Cabinet at a meeting held on March 27, 2014 approved the Barbados First approach as a first step to the restructuring solution of CLICO and approved the terms, conditions, and actions as set out by the JM in the proposed restructuring term sheet.

The Cabinet at a meeting held on August 21, 2014 approved the establishment of a new company for Government to provide funding to CLICO under the Barbados first restructuring plan.

CURRENT STATUS

The new company, New Life Investment Company Inc. (NLICO) was incorporated by the MFE on January 26, 2015 as a regular business company under the Companies Act of Barbados. The articles of incorporation have indicated that there are no restrictions on the business the company may carry on.

NLICO has a Chairman and a Board of Directors and the company is operational and progressing the mandate of NLICO which is to manage the Government's investment in the CLICO resolution and to have oversight of the insurance company and its property.

All stakeholders in the matter including the Judicial Manager, Ministry of Finance and Economic Affairs, NLICO, FSC, Central Bank and the Solictor General Office have held several meetings in recent times to produce the updated financials for the CLICO resolution and to attempt to finalize the implementation details of the proposed resolution.

The JM has produced the updated financials. The initial cash injection required is now projected by the JM to be BDS$52 million. NLICO has arranged this funding and it will be made available following the decision of the court.

The cash injection would allow the company to satisfy the immediate cash needs of the policy holders.

COURT PROCESS

The matter is down for hearing in the High Court this week.

The Ministry of Finance and Economic Affairs and NLICO have presented a resolution option in their affidavits to the court utilizing the structure as presented by the Judicial Manager in the resolution plan with the initial capital injection available and Government support to guarantee the assets for the statutory fund. It appears that this plan has contemplated several of the elements needed for full implementation. This option can derive significant benefits for policy holders to be returned to their position of near to full policy benefits if it is successful. In addition, an operational insurance company can in the future also create a solution for the policy holders in the Eastern Caribbean.

BIPA has also filed an affidavit which does not support liquidation but rather proposes a resolution option for the insurance company to remain as a going concern with a third party investor. The affidavit is not as detailed in its implementation plan as the MFE and NLICO option but based on what has been presented it resembles the MFE solution in many respects with the insurance company continuing as a going concern.

Subsequent to the preparation of this brief Sir, I have been suitably informed by the Ministry that the government representatives and the Judicial Manager have arrived at a satisfactory agreement to support the restructuring plan put forward by the MFE and supported by NLICO, and so avoid the potentially calamitous liquidation of CLICO International Life. Of course none of this can be executed unless the High Court agrees.

Barring no objection from the Court, it will mean that we can initiate the process of bringing a successful and orderly end to this phase of the restructuring of the company and the pain and inconvenience of thousands of policy holders and investors in that company while maintaining the integrity and stability of the financial system. And to that we say AMEN.

Conclusion:

Mr. Speaker, as I close this presentation permit me to end on a note of personal reflection even as I in turn invite members of this Chamber and the rest of Barbados to reflect on the task that lies before us.

Just about a year ago, having reach a point in my own life where I was drawn to reflect on the state of my physical condition and general health, I took a decision that I had to work to alter the trajectory of my life.

With, too much “good living”, as the old people would say, my physical variables were all heading in the wrong direction. And even in spite of all the information, warnings, and encouragement in the general public discourse on the dangers of certain life style choices and availability of better health options, much like too many other Barbadians, I listened but never acted.

So I watched the deterioration, believing that it wasn't really a big deal and all was well. Of course that was until I witnessed in the year just prior to taking action some very close friends and associates, all relatively young people, fall ill and eventually pass from one chronic non-communicable disease or another.

It was then that I took a very serious look at the man in the mirror and as the late Michael Jackson would sing, I asked him to change his ways. Mr. Speaker, as I stand before you I can say that the man in the mirror responded and has definitely set out on a course of change.

Tonight I say without fear of contradiction that I believe that every man and woman in Barbados know only too well that we have challenges which we must tackle and tackle now!

We know they exist because we have seen over the past couple decades, the decline in several key areas of national endeavour. It is very much as if the country in some respects is akin to an out of condition human body. We spend too much, earn too little, and have been for too long watching our key statistics deteriorate while ignoring the warning signs even as we listen to the discourse on the dangers of what will happen if we don't change course.

Today, as it was three years ago, or even ten years ago, there are some deep structural imbalances in the body of State that are threatening the quality of life and standard of living of our people. If left untreated these chronic non-productive debts and deficits (CNDs) will continue to gnaw away at the health of the State leading to a substandard existence and even certain death to the Barbadian way of life. Sir, we know what challenges we face, and we know what needs to be done to fix them. We just need to do it.

As I stand before you Sir, I am personal testimony to the fact that with effort, sacrifice and discipline good things can and will happen. We can control our spending, we can reduce the size of government safely, we can bring down the debt, and we can certainly pull our country out of harm's way.

In this regard Sir, I use the platform of this Honourable House on perhaps its biggest night to invite all Barbadians especially members of this Chamber to join together in a quest not only to improve our own personal physical condition, but to improve the condition of the body of the State of Barbados. Taxes, like exercise are difficult and not easily welcomed but they help us pay for the things we need. Dieting (especially eating healthier), like expenditure reduction can be disconcerting but encourages discipline; losing weight is tough but if we can get our state to its ideal size the benefits are endless.

The agenda which we have presented today seeks to continue our efforts to correct our imbalances, reverse the negative trends and unleash the benefits of a fitter, leaner, healthier growing economy that can take care of all within the Barbadian family.

The singer R. Kelly says if we believe it then we can achieve it. So then to paraphrase the words of Mahatma Gandhi,

> ***….let our beliefs become our thoughts, let our thoughts become our words, let our words become our actions, because our actions become our habits, our habits become your values and our values become our destiny.***

May the Almighty God continue to richly bless our beautiful country as we reach that destiny of happiness and prosperity for all Barbadians.

Thank You.