

Facing the Issues

Turning the Economy Around

BUDGET 2011

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Introduction

Facing the Issues & People's Pain

Mr Speaker, **on the 24th of May this year**, under 120 days ago, the people overwhelmingly voted for a new mandate. Our people exercised "the right to recall" in the most emphatic manner. They placed their faith, and their future, in the hands of the People's Partnership.

It is a privilege to present the first Budget of the People's Partnership Government to this Honourable House.

For this privilege I thank the Honourable Prime Minister Kamla Persad-Bissessar. Our Prime Minister has skilfully steered the early transition from a discredited conduct of politics to a new pathway to good governance and inclusive development.

I acknowledge my Cabinet colleagues. We share responsibility for this document. In our pre-Budget interaction the voices of the young stood out. We shared a spirited conversation with citizens from labour, business, and civil society. It is their thoughts and inspiration for the future that inform much of what I say today. And so I say thanks to all of those who sent their suggestions and to those who we consulted directly.

My team at the Ministry of Finance worked diligently and beyond the call of duty. I thank them for meeting tight deadlines with long hours. To them I say: you are true patriots.

Mr. Speaker, **we must carefully identify the points of departure and the choices for the future.** This is our mandate. The people expect the People's Partnership Government to meet this mandate. **AND WE WILL!**

We must **Face the Issues** as we partner with all our citizens to chart a different course and lay a foundation for the future.

We believe our energy resources are finite. We need to ensure that those resources are efficiently and wisely monetised; to provide us with the capital to build an economy that can provide a sustainable future when oil and gas are depleted.

We believe that the natural and mineral resources of this country belong to every citizen. Every citizen must be able to legitimately expect to partake in the opportunities those resources can provide.

We believe that the best indicator of national development is a fairer distribution of income that ensures that no one is left behind.

We believe that the key role of Government is to catalyse economic growth, and provide opportunities to allow our people to achieve their maximum potential.

We believe that our people are constrained by fear. We must continuously converse with them to regain all our freedoms. We must at all times remember who we work for. We must make Government work for the people. As our Prime Minister always says: serve the people, serve the people, serve the people.

This Budget Statement comes at a time when the people's pains are clear.

Chief among these is national security: the scourge of crime and lawlessness. Thousands of unsolved murders and other crimes have deeply scarred the national psyche. Thousands of families have been torn apart. They will never forget the pain of loved ones lost. It is especially hurtful for them to know that the vast majority of criminals and murderers continue to walk freely without fear of arrest and conviction.

Our citizens have looked on helplessly as countless millions were spent on 'pie in the sky' projects while their basic needs were ignored. **Infrastructure was neglected at all levels.** Not just physical infrastructure; but organisational and institutional infrastructure without which we cannot possibly function effectively.

Inflation, particularly food price inflation, is another pressing concern. Inflation erodes the purchasing power of those on fixed incomes. Food price inflation is particularly dangerous for the poor as many families struggle to provide adequate nutrition for their children.

Health care is another major issue facing our people. While we have made some progress, the State is still way behind in providing adequate and timely health care to most of our people. We are still short of hospitals. The capacity of existing health care is insufficient to meet our people's needs. Waiting times for surgical and testing procedures are still far too long. Even primary health care is insufficient. We must avoid having patients waiting in hospital corridors.

Our mandate not only expresses the people's desire to be heard. It is also a mandate to change course. We must now usher in a new momentum for growth and a fairer distribution of income and opportunities.

Billions were spent, yet the common man's needs were neglected. Basic needs and issues like safe shelter, water, decent health care, closing the information gap, and our children were cast aside as low priorities. These fundamental needs were sacrificed at the altar of grandiose schemes including: tall buildings and fancy international summits, all of questionable worth to the people's well-being.

Mr Speaker, the country's Gross Domestic Product (GDP) tripled from \$56 billion in 2002 to \$171 billion in 2008. Yet in that time the average person was no better off. Many were in fact worse off. The physical security we once took for granted has been lost in a tide of violence, lawlessness and bloodshed the likes of which we have never seen.

No period in this country's independent history could better exemplify "The Curse of Oil." Corruption, mismanagement and arrogance became the order of the day. It will take time to untangle that mess and bring those responsible to justice. But justice will be served.

Mr Speaker, we must now face the issues head on, hence the theme of our Budget is "**Facing the Issues: Turning the Economy Around.**" We shall do so as we partner with all the people of Trinidad and Tobago.

Our people's well being and future prosperity are greater than the arithmetic of revenues and expenditures. They are measured by much more than economic indices and incomes. The **people's well being and future prosperity** embody development. They embody the enhancement of individuals' abilities to shape their lives. They embody working hand in hand to overcome the challenges facing our nation.

Our Budget is driven by the seven pillars of the People's Partnership Manifesto which has been adopted as Government's policy. Our Budget is driven by the need to fulfil the expectations of the people of Trinidad and Tobago. These pillars are designed to do the following:

- i. foster people-centred development,
- ii. ensure national and personal security,
- iii. entrench good governance,
- iv. steer the country towards a diversified, knowledge intensive economy,
- v. move towards eradicating poverty and promoting greater social justice,
- vi. present an accommodating foreign policy and
- vii. expand the use and availability of Information and Communications Technology.

I.

A Development Approach

Mr. Speaker, **this is the time to change our development path.**

From an obsession with two million dollar flags and private jets to police on the streets, greenhouses for food production, hospital beds, computers for our children, homes for our elderly, and so much more. Our spending priorities must change. Our development process also must be redirected.

It is time to embrace fiscal responsibility and wipe out corruption. It is time to address the plight of the poor and disadvantaged. It is time to provide a steady hand of leadership as we confront the uncertainties of change.

Our Budget comes at a time when we must make clear choices:

The choice to reprioritize spending to better serve the people;

The choice to build a new momentum for our economy's growth and expansion;

The choice to make our regulatory bodies more accountable to the public;

The choice for business leaders to be bold and confident to take the risk of investment and sacrifice immediate profits, with lower income for their executives;

The choice for workers to participate in the economic process and improve their future well being.

This budget is a first step on a new development path for Trinidad and Tobago.

Our concept of development is future focussed. It is not only built on existing configurations but is built on **'new' value adding activities** to expand the range of our country's products and services using existing and potential capabilities.

Models of economic development, including the highly acclaimed Sir Arthur Lewis' model of surplus labour, largely ignored entrepreneurship and the role of individuals in growth. That model ignored the powerful dynamics of entrepreneurship in the economic development process. And so the thrust of this, our first Budget, is to bridge entrepreneurship and development.

We must awaken and harness the vast potential energy of entrepreneurs and engage and focus it on the development of our country.

We must establish a new synergy between the state and the private sector. The Government and the people must work together to achieve solutions. This approach involves dialogue and consensus and there must be transparency and openness in such dialogue.

The State's role must shift from State control to being a catalyst and partner to the development of our country.

II. Removing Uncertainty

Mr. Speaker, it is time to clean the slate and find solutions to the persistent problems that have created great uncertainties on our national balance sheet.

We must remove those uncertainties before we move forward. We must address:

- 1. *The CLICO Fiasco***
- 2. *The Hindu Credit Union***
- 3. *Public Service Wage Negotiations***
- 4. *Alutrint & the Rapid Rail***
- 5. *Contractors Payments & VAT Refunds***
- 6. *Financial Regulatory System***

1. CLICO Fiasco

The most pressing issue in the financial system is the CLICO fiasco.

The CL Financial/CLICO issue was handled badly by the authorities from the start. This fiasco was a colossal, inexcusable, multi billion dollar mistake. This fiasco has cost this nation enormously on several levels. This fiasco has put on hold the lives of thousands and endangered their financial future. This fiasco was caused by reckless corporate governance and the glaring failure of our financial regulatory institutions.

In January 2009, the previous Government of Trinidad and Tobago entered into a Memorandum of Understanding with CL Financial "to protect the interest of depositors, policy holders, and creditors of CLICO Investment Bank (CIB), CLICO, and British American Trinidad and Tobago Limited."

At the time of this intervention, the authorities assumed that this was a liquidity issue that could be funded temporarily by the Government and recovered in the short to medium term. This assumption was made without fully ascertaining the financial conditions of the troubled financial institutions. It was a reckless assumption. The impact on Trinidad and Tobago and the Caribbean was grossly underestimated.

The intervention has cost the nation significant public funds. The problem involved more than 10 percent of the country's GDP. It affects 250,000 of our citizens. This crisis was caused by an absence of risk management, excessive borrowing internally and externally to fund high risk speculative investments, and wrong financial reporting.

The failure of both the regulators and financial regulations resulted in insufficient oversight and investigation into this financial giant.

In addition, the then Minister of Finance, the Central Bank and CLICO made numerous public statements assuring depositors that their money was safe and would be protected by the Government. Mr. Speaker, any recovery of the money spent by Government will be a long and difficult process.

The total funding provided as at May 2010 by the Government and the Central Bank, excluding indemnities and guarantees to First Citizens Bank amounted to **approximately \$7.3 billion**. As of June 2010, CLICO and British American combined **total liabilities were approximately \$23.8 billion but total assets were \$16.6 billion**.

The number of traditional, long term policyholders affected by this crisis, covering pensions, life and health insurance, is around 225,000 persons and accounts for \$6 billion in liabilities.

CLICO also sold short term investments, which were in substance, deposit accounts with 3-5 year durations, and which earned interest rates significantly above market rates. The company also guaranteed the liabilities of a mutual fund that also paid above market interest rates with terms similar to the short term investments. There are approximately 25,000 customers holding these short term contracts, and the liability to this group is in the region of \$12 billion. It was from these short term contracts that CL Financial financed many of its large acquisitions and speculative investments which have fallen tremendously.

More than eighteen months after the previous Government invoked Section 44D of the Central Bank Act, the People's Partnership Government must now clean up this mess. The People's Partnership Government must find the resources and defend the public interest.

As a responsible Government, we must take action now.
This is no easy task but we resolve to fix it.

It is against this background that a high level team of experts critically analyzed the situation and advised the Government on a course of action. What we need to do now is:

- i. Stop the drift and indecision;
- ii. Bring order to CLICO and British American within the confines of fiscal responsibility;
and
- iii. Take immediate action that can drive recovery in a prudent and structured manner.

I now advise this Honourable House of our decisions.

One, we will separate the insurance business from the short term investment and mutual funds business to protect the insurance policyholders; and the obligations of 225,000 policyholders will be honoured, backed by the statutory fund.

We will also restructure and merge the traditional insurance businesses of CLICO and British American, and prepare this merged business for divestment.

Two, to depositors in the short term investment and mutual funds the Government will make an initial partial payment of a maximum of \$75,000.

This is intended to bring immediate relief to the small depositors.

This will fully pay off approximately 40 percent of the 25,000 investors in these products, including more than 140 credit unions and 15 trade unions.

Three, short term investment and mutual fund depositors whose principal balances exceed \$75,000 will be paid through a Government IOU amortised over 20 years at zero interest. This Government IOU would be structured in such a way that it could be traded on the secondary markets, thereby creating a measure of immediate liquidity for the depositors.

Four, the Government will conduct a detailed review of CL Financial and its subsidiaries and will introduce measures, including the divestment of assets, to reduce CL Financial's debt and recover public funds.

Five, the Government will engage a firm with relevant local and global expertise to assist with the restructuring of the CL Financial Group.

The cost of the payment of \$75,000 to all short term investment and mutual fund depositors is estimated at \$1.5 billion over the next four years, as payments become due. The Government will also provide \$1.8 billion in the next fiscal year to provide a funding mechanism for the 20 year amortization.

To ensure that this does not happen again, we shall strengthen the legislative and regulatory framework governing financial institutions and their holding companies. We shall strengthen the enforcement of regulations through stricter oversight and compliance with the relevant legislation, including the Insurance Act. In addition, we shall amend the Central Bank Act to provide the legal framework to implement an economic solution and to subject our financial institutions to a higher level of control than currently exists.

Furthermore a legislative framework will introduce changes in the Central Banks powers to take decisive actions to protect CLICO's assets and ensure the safe and sound continuation of its legitimate insurance business.

Our nation cannot allow a mistake of this magnitude to go without severe consequences. Those responsible for this crisis must be held accountable.

2. Hindu Credit Union

Mr. Speaker, in the case of the Hindu Credit Union (HCU), a preliminary assessment by independent auditors in 2008 reported that the HCU was bankrupt. In fact, many of HCU's real assets were over-estimated or encumbered.

Mr. Speaker, the HCU had a large membership which included thousands of small savers. Although the failure of HCU did not carry a systemic risk to the financial system since it represents less than one percent of the total assets of the financial sector, this Government is of the view that these funds of these small investors must be protected. As a consequence, the Government will employ a similar approach to that which has been applied to the CLICO fiasco. This includes the following interventions:

One, depositors and shareholders will be entitled to \$75,000 in accordance with the rules of the Deposit Insurance Corporation. Whilst the former Government failed and or neglected to address this issue, and protect the small depositors and shareholders, in this Government's thrust to serve the people, we must address the inequity meted out by the former Administration to the vulnerable shareholders and depositors. The small depositor cannot be held liable for the failure of the past Administration to do its duty.

Two, depositors above \$75,000 will be paid in equal annual instalments at zero interest rate over 20 years.

Three, shareholders receiving these payouts will be required to sign over their rights to HCU assets to the Government.

Four, the Government will recover the public funds injected from the proceeds from the sale of these assets. This intervention will cost taxpayers an estimated \$300 million and will benefit more than **160,000** people. Those responsible for this crisis must also be held accountable.

3. Public Service Wage Negotiations

Mr. Speaker, public servants' terms of employment have remained unsettled for 2008, 2009 and 2010. This affects some 83,000 persons employed in the Civil and Teaching Services and the Protective Services and Statutory Authorities, as well as daily rated employees of the Central Government and Municipal Corporations.

This is another part of the previous Administration's legacy of neglect which the People's Partnership must deal with. It is our intention to settle this matter as quickly as possible. We expect to settle this issue by the end of 2010. This is a challenging task, made even more difficult by the strained finances we have inherited. The Government is exploring the idea of expanding medical coverage to family units on a cost sharing basis as well as death benefit. We are tackling a difficult situation with creativity.

The thrust of the new salary negotiation will be to make the civil service attractive to talented people. We will develop a new system in which wage increases will be based on performance. We need to revisit the structures of hiring, assessment, and termination and will engage the public service unions.

Mr. Speaker, the provisions for a new minimum wage will continue to be reviewed.

4. Alutrint & Rapid Rail

Mr Speaker, **there has been great uncertainty about both the Alutrint and the Rapid Rail projects.** There has been much public criticism of these projects rising from legitimate concerns. In addition to the health and environmental risk, there is also serious concern as to Alutrint's viability and the optimal use of our gas. This project shall cease and an alternative strategy will be put into place for the south-west peninsula.

The rapid rail project has cost this nation \$565 million to date for a feasibility study and design plans. No viable economic plan has emerged from all this waste. This project, if undertaken will have an expected capital cost of 22.5 billion TT dollars. **Yes, 22.5 billion dollars.** This nation has suffered enough from bad judgement and outrageous spending.

We will cancel this project and design an alternative transport programme. This programme will open up new economic spaces for the expansion of the economy, linking transport to the restructuring of development.

5. Contractors Payments & VAT Refunds

Mr. Speaker, there is also uncertainty over **payments owed to many of our contractors** based on contractual agreements with the previous regime. Many of our businessmen are experiencing cash flow problems due to delays in **VAT refunds** from the Board of Inland Revenue. We estimate that the total owed to contractors amounts to approximately \$4 billion while total outstanding VAT refunds amount to \$2.8 billion. We have already started putting measures in place to meet these commitments.

6. Financial Regulatory System

There is also much uncertainty as to the effectiveness of the Central Bank, the Securities and Exchange Commission and the Office of the Commissioner of Co-operatives. Although our financial system has been resilient in stormy waters, our regulatory system is inadequate to meet the challenges of today's financial markets.

The **Government will also create an Independent Risk Committee**, which will identify and monitor key risks in the financial and state sectors with the major objective of preventing economic failures which can lead to systemic risk.

III.

Rebuilding Confidence - Laying the foundation

In order to rebuild confidence in the economy and wider society, we must take the first steps to lay the foundation for a new policy direction.

Mr. Speaker, permit me to outline the framework for our new policy direction. Let me at the outset say, that the Budget Statement of 2010/11 is located in a wider 3 to 5 year horizon. It will

be based on four major goals with appropriate programmes and actions. The goals to be achieved are:

- ***Inclusive Development,***
- ***A Sustainable Future,***
- ***A Competitive Environment,***
- ***A Growing Economy.***

A. Inclusive Development

Stable Society

A stable society must be based on inclusive development. This development must harvest the creativity of our people, secure their safety and eradicate poverty.

Improving Security & Justice

Mr. Speaker, we have inherited one of the worst periods of crime in our nation's history. The deepest concern of our people is safety. Creating a safe society is this Government's highest priority, backed by our full resolve.

This is not only reflected in the Budget allocation, but also in recent steps to transform our country's law enforcement agencies. It is a complex problem dealing with underlying issues of social dispossession, lawlessness and the value of life itself.

To address some of these, we are examining proposals to re-integrate ex-prisoners, deportees and delinquent youth into the fabric of mainstream society.

The Government will establish a youth mentoring programme. Grants will be provided to community based organisations which can run successful mentoring programmes for youth, deemed to be at risk, away from crime. We will seek ideas and assistance from successful international mentoring programmes.

We will implement a National Security Operation Centre (NSOC). This special unit will focus on intelligence gathering through a comprehensive electronic database of all criminal related activities. Officers on mobile patrols will be able to link with the National Security Operation Centre and log on to the information network to ascertain all relevant data on vehicle and individuals through license plates and driver's permit numbers.

This Centre is expected to lead to a response time of less than 10 minutes to emergency calls in most locations across the country. Additionally, a computerized crime statistics and reporting (COMPSTAT) programme will record daily all reports of criminal activities to identify hot spots and assist with the effective deployment of protective personnel.

Our police officers are often the unsung heroes of our nation risking life and limb every day. They do so with much too little resources at their disposal. The Government will provide the necessary resources to our Police Service and other protective services but we also recognise that rogue elements and inefficient systems must be rooted out if our efforts are to be successful.

But even as we demand and expect so much more from our police officers we recognise that that they must be given incentives to perform. In addition to the Minister of National Security's many measures, we now propose to this Honourable House that a monthly Special Duty Allowance of \$1,000 be paid to the more than 7,000 officers in the police service taking effect from October 1st this year. Taxes on this Allowance will be waived in accordance to Section 124 of the Income Tax Act. This Allowance shall be funded from transfer of funds from within the Ministry of National Security.

Mr. Speaker, Parliament recently agreed to appoint new Commissioners in the Police Service to signal a new determination to introduce fresh ideas in law enforcement, community policing and security intelligence. We must build up the morale of our police force. They work under extreme stress and great expectations from society.

We will inspire our police officers through the establishment of a dedicated national recognition programme that honours those officers who go above and beyond the call of duty. The details of this proposal will be worked out between the Ministry of National Security and the Police Service Commission.

A better equipped Police Service that is inspired and recognised and given the right leadership will produce results.

Mr. Speaker, there has been much talk but little action in the past with regard to the return of bike patrols. It is the view of this Government that the introduction of bicycles for the police to conduct patrols in some communities is a sound one and it is our intention to deploy bicycles into the Police Service for this purpose. Too many times police are station bound and unable to effectively patrol areas within communities. The introduction of bicycle patrols will go a long way to create a stronger police presence.

An aggressive recruitment drive for the Police Service will be introduced as the Government supports the initiative to attract more officers. In addition, as you would already have heard from the Minister of National Security, retired police officers are being recalled for administrative duty which would enable their younger colleagues to assume patrol duties across the island.

We will refurbish and upgrade police stations across the country to improve the working conditions of police who have languished for far too long in old, dilapidated, and even uninhabitable structures. We will improve training for the police to better prepare them for the tough tasks required.

We will also establish a Victims of Crime Support programme. The victims require so much emotional and psychological help and often have nowhere to turn for on-going support. This initiative will be conducted through the Ministry of the People in conjunction with the Ministry of National Security.

We will establish a Special Criminal Court to provide swift justice. The Court will treat with firearm, kidnapping and narcotic offences and is meant to relieve the case burden on the Magistrates' Courts. The construction of the Sangre Grande Magistrates' Court and the Arima Judicial Complex are key priorities. Progress is being made in acquiring sites for these projects.

As you can see Mr. Speaker, the Government has taken a very holistic approach to tackling crime, examining the issue and creating solutions that are both immediate and long term.

Social Safety Net Efficiency

The annual Budget currently supports an extensive social safety net which includes subsidies, National Insurance, Social Assistance through GATE, and the Conditional Cash Transfer Programme; Health and Nutrition through the School Feeding Programme, and CDAP; temporary Jobs through URP and a Housing Subsidy through the Home Improvement Grant programme. Our new policy will improve the efficiency, effectiveness and relevance of these programmes.

Transfer Payments and Subsidies

Transfer payments comprise one of the largest components of budget spending. These payments, which were around nine percent of GDP in 2003, are estimated to reach about 15 percent of GDP in 2010 and 16 percent of GDP in 2011.

The largest Subsidy is on petroleum products, particularly gasoline which usually represents one to two percent of GDP per annum. All of our citizens benefit from this subsidy. It is often difficult to determine whether resources are being used wisely to achieve the intended objectives of subsidies. We are currently reviewing whether alternate options are more efficient.

Poverty Reduction

We are reviewing social programmes to reduce the number of poor by 2 percent each year. To complement this, we have established a Ministry of the People to ensure that our citizens' needs are better analyzed and are meaningfully catered for.

Mr. Speaker, our newly established Ways and Means Committee will formulate a project plan to ensure that Government services are made more accessible to our citizens in Tobago.

In the coming year, the Government's social development objectives include transforming the Social Welfare System; establishing a mechanism for effective collaboration and partnership between the Government and the non-Governmental sector; and implementing a monitoring and evaluation policy for social development. We will make a concerted effort to ensure that

spending on rehabilitative and developmental programmes is balanced with significant investments to build social capital.

Mr. Speaker, **the Milk Feeding Programme** will be introduced to complement the National School Feeding Programme to ensure that vulnerable groups in the population are provided with the basic nutrition within the home. The Programme will supply milk to all Health Centres to nutritionally vulnerable or at-risk persons. Other beneficiaries will also include patients of the Child Welfare Clinics and Antenatal mothers.

Elder Care

Mr. Speaker, **we will lay in Parliament the 'Proclamation of Homes for Older Persons' legislation in the new fiscal year.** Under this legislation, homes for the aged would be required to meet and maintain minimum criteria and standards of care for residents. The Government will also launch the Elderly Mobile Shuttle Service in 2011 which will provide a shuttle service to the elderly.

Closing the Information Gap

Addressing the information gap is important in fighting poverty. We must close this gap. Mr. Speaker, the Government will provide a laptop to each new secondary school student this month. This will ensure that our children can compete in a world where knowledge is currency.

Pension

The Government recognizes that increasing longevity and low interest rates are driving up the cost of pension plans. Stakeholders are finding that large, indexed pensions starting at an early age are unaffordable. They must plan in advance for their retirement. Citizens of Trinidad and Tobago are not immune to this pressure. We must avoid one generation shouldering the burden of previous generations.

We must never forget that the primary purpose of a pension system is to provide security to members of society who are retired. An effective pension system provides a basic safety net to minimize poverty amongst the elderly. It creates an environment in which all citizens have the ability to maintain a reasonable standard of living in retirement.

The policy of this Administration is to balance the two competing objectives of securing retirement and keeping costs sustainable. The Government will therefore examine the feasibility of moving towards a retirement system involving:

- **A Mandatory Employment-based System:** This system would be entirely funded by employees and employers. It would be similar to the current National Insurance Board pension, but with the distinction that the self-employed would be included;
- **The Introduction of Individual Savings Incentives:** We will examine the current system and identify improvements that will encourage saving for retirement, in a tax effective manner that avoids penalizing those who choose to save for retirement.

This is the first stage in the Government's thrust towards creating a harmonized pension system which will incorporate public service pensions, the National Insurance Board, and Senior Citizens' Pensions.

Housing

Mr. Speaker, **home ownership** is the strongest pillar of a stable society and the foundation of a democratic and equitable society. In the short term, we shall radically increase the Rent-to-Own programme whereby tenants will have the opportunity to purchase their homes.

There are many different institutions now engaged in home mortgage financing: the Trinidad and Tobago Mortgage Finance Company, the Home Mortgage Bank, the National Insurance Board and the Trinidad and Tobago Housing Development Corporation. We will clarify and confirm the mandates of these institutions and create a new holding company so that:

- The TTMF continues to be the lender of choice for financing affordable housing to lower and middle income groups;
- The Home Mortgage Bank returns to its original mandate as a secondary mortgage financier promoting the development of financing products using mortgages as the underlying security;
- The NIB and the HDC transfer their mortgage business for administration by TTMF as mortgage financing is not their core business;
- A new holding company, Trinidad and Tobago Mortgage Bank, be formed, with the TTMF, and the Home Mortgage Bank as subsidiaries with the latter the funding source. The Trinidad and Tobago Mortgage Bank will buy out the existing shareholders of the subsidiary companies and offer an Initial Public Offering on the Trinidad and Tobago Stock Exchange allowing for more extensive ownership of this very important aspect of the nation's financial and social well being.

During this fiscal year over 6,400 persons have sought regularization and these persons will benefit from an Inter American Development Bank programme. The Land Settlement Agency will profile squatter sites and study land use. In pursuit of more equitable land ownership patterns and the simultaneous eradication of informal settlements, we will intensify relocation and other measures to curb illegal squatting, following legislative amendments to the Land Settlement Agency.

Gender Equity

Mr. Speaker, we are committed to full gender equity in our society. This will entail a renewed emphasis on family and labour law, protection against violence and maternal health. The participation of women in all aspects of public life will be encouraged. Immediate steps will be taken to ensure that more women will be included on state boards and statutory bodies.

We believe that it is not solely the State's responsibility to entrench gender equity. It is best that the wider society share and act on this social imperative.

Sport and Youth

Mr. Speaker, **sport is an integral aspect of any society.**

The highlight of the **Government's Sport Programme** is a pathway model that promotes a systematic approach to achieving the optimum potential of athletes, coaches, officials and administrators, from amateur to elite levels. We aim to improve the standard of national teams and athletes, increase the number of qualified coaches and sporting professionals, and develop a **Life-Sport Programme** to identify new young talent.

The Government will also promote sport tourism in Trinidad and Tobago via the introduction of **off-season training camps** targeting foreign national teams, university teams, professional teams, clubs and high schools to take advantage of our sport facilities.

Taxpayers Rights and Responsibilities

Mr Speaker, The Inland Revenue Division and the Customs and Excise Division **of the Ministry of Finance** account for the collection of more than 90 percent of Government's revenue. During the coming fiscal year, we shall concentrate on ensuring that these two agencies operate as efficiently as possible.

The fundamental basis for revenue collection to operate effectively is taxpayer confidence that the system is transparent and equitable.

Fostering Confidence in the System

The Government will establish a **Covenant with the Taxpayers of Trinidad and Tobago** with immediate effect.

The foundations of this Covenant will be that the Revenue Collection agencies of Trinidad and Tobago will:

- *Be open, transparent and accountable;*
- *Be professional, responsive and fair;*
- *Take into account taxpayers' circumstances and previous compliance. That is, taxpayers who comply regularly will not be subject to repeated audits;*
- *Make it as easy as possible for taxpayers to comply with their obligations;*
- *Be firm with those who try to avoid their obligations and effective in bringing them to account.*

In fiscal 2011, the Inland Revenue Department and the Customs and Excise Division will develop a detailed plan to make the system efficient and honour the Covenant with taxpayers.

Efficiency in the Public Service

During our Budget interactions, we were bombarded with complaints about the quality of service delivery at various Ministries and Government agencies. As a result, the Government will implement measures to improve efficiency, productivity and customer service within agencies such as the Board of Inland Revenue, the Ports, the Licensing Authority and the Customs and Excise Division.

B.
Sustainable Future
Ensuring long term growth

Mr Speaker to ensure long term growth and achieve a sustainable future we must take actions to:

- **Expand the Energy Sector**
- **Realign the economy**
- **Revitalize the Agriculture Sector**
- **Expand Tourism**
- **Standardize our Environmental Regulations**

1. Expansion of the Energy Sector

Mr. Speaker, the energy sector remains the main driver of the Government's revenues and exports. The expansion of this sector remains critical to ensuring the long-term growth of Trinidad and Tobago's economy. The energy policy framework will strive to increase exploration of new oil and gas finds, aggressively support the use of alternative energy, and create opportunities for the export of advisory services internationally.

Mr Speaker, the level of hydro-carbon reserves determined by the Ryder-Scott report has raised doubts as to the sector's sustainability. Our approach is that the level of hydro-carbon reserves depends not only on geological factors but also on the level of investment in exploration and production. It is for this reason that the Government has a new fiscal regime, and has concluded an agreement with the Government of Venezuela to jointly develop a cross border gas field. Discussions are ongoing for further opportunities in this regard.

We shall explore the development of alternative energy, such as solar and wind energy and explore the prospect of developing a regional effort for the long term sustainability of our energy supply. We will provide appropriate incentives to encourage the development of an industry to provide energy savings solutions.

The Government will institute a clear structure to develop the entire value chain in the energy sector from the primary product, to finished manufacturing industries. The Government has also mandated the Ministry of Energy to promote small energy based projects and production firms.

This further strengthening of downstream production will allow us to leverage the energy sector. It will forge internal linkages with other sectors in the economy such as energy services and manufacturing. Using more natural gas greatly benefits the economic mix. It adds to yet another layer of industries and contributes to a sustainable petrochemical industrial base.

We recognize the advantages of going further downstream. The Government is evaluating a project to manufacture Ammonia and Downstream Derivatives. We will evaluate this project

based on downstream value added and transparent and competitive gas pricing. The new evaluation framework that establishes the criteria will include:

- the extent to which the project maximises local value and capabilities,
- the drive for energy efficiency,
- protection of the environment
- and promotion of corporate social responsibility.

It will also provide long term revenue and create value for the people of Trinidad and Tobago.

We have a real opportunity to export our energy advisory services to Africa and elsewhere. We shall take steps to facilitate this, to enhance our income from abroad. Local value and participation in the energy sector have been identified as critical aspects of the Government's National Energy Policy. We intend to revisit this issue in an effort to ensure that the local services sector expands and remains relevant to the development of Trinidad and Tobago.

By developing local content, this country will become a producer and net exporter of energy services for all segments of the energy industry. In this way the country could eventually become an exporter of intellectual expertise, apart from just energy based commodities. As such, the Government will hold discussions with all stakeholders to make this project happen.

2. Realigning the Economy

Mr. Speaker, the current development process has not worked for us. Our economy remains disconnected in enclaves.

The time has come to integrate the economy and re-align small business with the expansion of our entrepreneurial capability. This is the heart of the restructuring effort now engaging our Ministry of Planning, Economic and Social Restructuring and Gender Affairs. To facilitate this restructuring, the Government will create a National Innovation System that consists of Centres of Excellence, small and medium enterprises, finance, marketing and market development systems.

- a. **This realignment will rationalize and rearrange state enterprises** mandated to finance small business development, like the National Entrepreneurship Development Company, the Business Development Company, the Agricultural Development Bank and the Development Finance Limited. As presently configured, these institutions perform well below the development requirements of the small business sector. As such we shall immediately begin rationalizing and fully capitalizing these institutions.
- b. **A well designed business incubator programme will enhance the link between entrepreneurship and small business development.** We need a revolution in entrepreneurship, particularly among young people. We need to create a new breed of entrepreneurs and will encourage the banks to embrace the innovative ideas for lending. We shall also encourage institutions of higher education to develop active links to foster small business development.

- c. There are also renewed calls for the development of the **Shipbuilding and Repair industry**. This industry could create a large amount of skilled and unskilled jobs. We will develop a shipbuilding training programme in association with the University of Trinidad and Tobago. It has the potential to earn a significant amount of foreign exchange. We will further explore this potential in the new fiscal year.
- d. **The world outsourcing industry** is growing at a phenomenal rate in the fields of medicine and education. To re-align our nation's economy, we must explore such opportunities by becoming an attractive location for offshore medical and education programmes. We have already begun discussing these prospects with banking and energy firms.
- e. **The diversity of our culture is our strength**. We must now leverage our cultural energy to develop a culture based industry for both local and export market. We will partner with the Artists Coalition of Trinidad and Tobago and other interest groups to act on a number of projects. Some of these include: additional funding for the music industry, creating a National Heroes Policy and publishing a Book of Heroes, restoring and recognising Heritage sites to promote destination tourism, as well as creating a National Hall of Fame and a House of Music, amongst other policies. These projects will reflect the rich heritage of our multicultural society.
- f. The **international fashion industry** is a multi-billion dollar business. We must be prepared to enter this market. To do so we shall encourage our local fashion industry to market its strengths abroad. Trinidad and Tobago is known for creative design, expressed in carnival and other cultural and religious festivals. We must use this strength to build a thriving design industry that can compete internationally. We will support these groups to market their products abroad.
- g. We will review the Trinidad and Tobago **Film Company** and the Trinidad and Tobago **Entertainment Company** to ensure that their mandates are consistent with their operations and financial management. We will take steps to ensure that these companies are entrepreneurial and commercial entities. In addition, the National Arts Scholarship programme will be expanded.

Education

Mr. Speaker, tertiary education is a major driver of economic competitiveness in an increasingly knowledge driven global economy.

We will continue the **Government Assistance for Tuition Expenses (GATE) programme**. It will be expanded to include vocational training, strengthened and made sustainable to increase the participation rate in higher education to 60 percent. In addition, to avoid and stop the abuse of GATE, we will strictly enforce existing measures.

To sustain, in the long run, the opportunity for every child to have access to higher education, the Government is examining at proposal to set up a children's educational plan modelled in accordance with proven international standards.

We will restructure the **On the Job Training (OJT) programme** to expand private sector placement. We will also re-evaluate **technical vocational programmes** such as the 'Multi-Sector Skills Training Programme' and the 'Helping Youth Prepare for Employment' programme to ensure that they achieve their objectives.

Health Care & Facilities

Mr. Speaker, the Government is developing a 5 year Strategic Plan for Health care. This will focus on: improving Health Care Management; meeting the tertiary care needs of society's vulnerable; supporting patients' rights and services through health quality standards, policies and legislation; addressing chronic diseases and mental health; reducing communicable disease, including HIV/AIDS; and improving public health care facilities and physical infrastructure.

The Government will adopt a two pronged approach to develop **health infrastructure**. Firstly, we will build new facilities to meet the demand of previously underserved populations. Secondly, we will continuously upgrade, and in some cases expand existing health facilities, to improve service and access to a wider range of health services.

The Point Fortin hospital is scheduled for completion in 2013. When completed, this 100 bed hospital will bring secondary health care services to the doorsteps of people in south-west Trinidad who would previously have had to travel to the San Fernando General Hospital. The new Point Fortin hospital will reduce excess demand for patient care, which has contributed to long waits and overcrowding at the San Fernando General hospital.

Other **major infrastructure** projects scheduled for the next fiscal year include a new wing at the San Fernando General Hospital, which will house a pharmacy, a laboratory, a Critical Care Unit and a mortuary. We expect this new wing to be completed in 2013. Next year, we will finally build the oft-promised and long-awaited National Oncology Centre.

In terms of **primary Health Care facilities**, construction on the Sangre Grande Enhanced Health Facility, and the Chaguanas District Health Facilities is scheduled to begin in the next fiscal year.

Mr. Speaker, all abuse and neglect of children is traumatic. The effect of this does not just impact individuals but also families, communities, and the nation by impeding our national development. As a result, the Government will establish four trauma clinics in association with the Trinidad and Tobago Association of Psychologists.

3. Revitalizing the Agriculture Sector

Mr. Speaker, our Government has committed itself to increasing food production and expanding agriculture. Food security is an imperative which for too long has received much more lip service than actual support. We are determined to give real active support. Our food import bill is too high and is growing. We cannot afford to depend on the food production of other nations to provide for our shortfalls. Climate change and an impending world food shortage make this issue paramount.

Mr. Speaker, the Government will introduce **revised incentives** to encourage sustainable development in Agriculture. This programme will promote agro-forestry and soil conservation, develop cooperatives, encourage young entrepreneurs in agriculture and further promote the use of local inputs in agro- processing.

Agriculture must be made profitable. As such, **an ambitious infrastructure programme** dealing with water resource management, drainage, and irrigation is at the core of our Public Sector Investment Programme (PSIP). But we need more than that. The *Agricultural Development Bank* (the ADB) must return to its proper mandate: to finance agricultural entrepreneurship. The ADB will be streamlined and its credit policies reviewed. We will also fast-track the transfer of deeds and titles of land to farmers frustrated by insecurity of tenure and the inability to use land as collateral in financial transactions.

Food sovereignty is a national requirement in today's uncertain world. It demands that we explore a Caribbean framework within which sustainable solutions can be found. Previous attempts have lacked political will. But we shall confront this issue head on and immediately place this on the action agenda of the wider Caribbean.

4. Tourism Expansion

Mr. Speaker, the Government will make tourism an important platform to create sustainable jobs and increase the contribution of tourism to GDP. We will achieve this by **expanding the tourism product and by using our festivals and cultural diversity** to anchor a significant year-round tourism development.

Trinidad and Tobago's tourism product is very diverse. It contributes to our strength as a destination. The Government will **upgrade our sights and attractions** to maximize their potential and attractiveness to both local and foreign visitors. We also intend to establish a Sugar Heritage Village and Museum at Sevilla House in Caroni.

With respect to hotel room stocks, the Government is currently reviewing a proposal for the construction of a 251-room Radisson Hotel at Piarco and another proposal to develop a luxury resort in Tobago.

Airlift is a serious issue facing the worldwide tourism industry. Airlines are looking for routes that will maximize their returns. They are looking for countries with a critical mass in terms of

quality accommodation that will support a significant share of their load factor. The Government is exploring the possibility of providing **guaranteed seats** which will encourage direct flights.

5. The Environment

Mr. Speaker, environmental issues have surged ahead on the development agenda. New air and noise pollution rules will be shortly laid in Parliament. The Environmental Agency will be given adequate powers to support quick action to enforce existing standards, including a direct attack on littering. As an expression of lawlessness in our society – littering must stop.

As part of the focus on sustainable economic development, the Government will examine the feasibility of establishing a recycling industry. Recycling programmes will complement our many Green initiatives.

There are several other benefits to be derived from the introduction of waste recycling projects. Manufacturers will benefit from the recycling and reuse of their waste products. In addition, waste can be redirected away from landfills and into productive use in downstream industries. Recycling projects can give birth to a new category of entrepreneurs. People currently employed or involved in landfills and the waste disposal business can engage in financially viable projects in waste collection and sorting. These projects will be encouraged at the present waste sites.

C. Competitive Environment

The world competitiveness report has exposed Trinidad and Tobago's ranking on the competitive index as extremely low. How easy is it to do business in Trinidad and Tobago? How competitive are we? The Ease of Doing Business Rankings gives an insight.

- In 2006, we were 55.
- In 2007, 59
- In 2008, 78
- And in 2009, we were an astonishingly low 81.

The global competitiveness index paints just as bleak a picture:

- In 2006, we were 66
- In 2007 we dropped to 67
- In 2008 we dramatically fell to 84
- And finally, in 2009 we settled at the shockingly low point of 92.

Now is the time for action to reverse these trends.

1. Ease of Doing Business Programme

A strong initiative is now required to attract foreign investment into the economy. To this end we shall build a new capability premised on knocking on the doors of the boardrooms of the world which may have a strategic interest in using the location of Trinidad and Tobago in the Western Hemisphere as an advantage. This will open us up to investment from high performing emerging markets of the 21st century: Russia, China, India, Brazil and South Africa.

In order to facilitate new investment, we must secure appropriate bilateral investment agreements, double taxation treaties, and reciprocal regulatory agencies arrangements. This would allow us a global reach. We must be prepared. We are therefore in the process of establishing an International Business Centre (IBC) working together with E-teck, the Tourism Development Company, and the Ministries of Trade and Industry and Finance. It replaces the old idea of the International Financial Centre, which was flawed at best.

This International Business Centre IBC is part of the institutional structure of a new thrust in investment promotion and innovation. It is supported by the Economic Development Board and the Competiveness and Innovation Council. Together these entities will be responsible for an innovation and investment strategy in Trinidad and Tobago. We have already begun discussion with an international financial institution to introduce a programme that will build on our Single Electronic Window Project in the Ministry of Trade and Industry. This will improve our business ranking in previously cited indices.

2. Public Offerings Programme

We shall widen ownership through public participation and develop the country's capital market to expand the sphere of the private sector and involve the people in development. A programme of public offerings will ensure that our people will participate in the fruits of growth and development. It will further reduce the financial burden on the treasury.

Mr. Speaker, no coherent, co-ordinated planning or strategy for state enterprises exists. As a result we have begun to rationalize the state enterprises, including the special purpose companies, which will incorporate a new accountability system that goes beyond the presently operating company ordinances. It is these loopholes in public accountability that resulted in the UDeCOTT scandal. This must never again happen in Trinidad and Tobago.

We will search for strategic investors to partner with state enterprises to introduce more effective market conduct and economic efficiency. In addition, we will select enterprises for public offerings with the clear objective of widening ownership to include citizens of this country. The process for this selection is currently in motion.

The domestic capital market has been under great stress as the number of transactions collapsed from 34,946 in 2004 to 9,844 in 2009, as did the market value of the shares traded, from 3 billion in 2004 to 1.4 billion in 2009. These have resulted in a drop in the composite index from 1074.6 in 2004 to 756.3 in 2009.

Steps must now be taken to revitalize this market. Such steps include the restructuring of National Enterprise Limited (NEL) and public offerings of state enterprises. In addition, we are considering a fiscal inducement to increase activity in the stock market. The draft of the Securities Act 2009 will be advanced, to boost domestic capital markets by enabling retail and institutional investors in Trinidad and Tobago to greatly diversify their investment portfolios without having to leave the local capital market. As such we will facilitate access to the equity of the Royal Bank of Canada and ARCELOR Mittal.

Mr. Speaker, through CLICO, the Government now has access to a substantial and potentially transformative asset, Methanol Holdings of Trinidad Limited. We are exploring the possibility of listing Methanol Holdings on an international stock exchange with a cross listing on the Trinidad and Tobago Stock Exchange. A critical component of such listings would be the distribution of a portion of these shares at a discount to full market value, to a wide cross section of our population. There are highly regarded and successful precedents internationally for such a strategy. Investors will recognise how valuable this methanol stock would be, as the only comparable large company being traded is Canada's Methanex Corporation. Investors will then increasingly recognise the Trinidad and Tobago brand as a stable reliable long term energy producer in the global economy.

Enhancing the TTUTC Governance Framework

Mr Speaker, **this Administration's policy is to strengthen the regulatory framework governing the Trinidad and Tobago Unit Trust Corporation's core collective investment scheme business.** The current statutory arrangements governing the UTC are not consistent with the SEC guidelines for collective investment schemes.

Our policy will *ring-fence* the Trust's assets from the assets and liabilities of TTUTC. This measure will further enhance the Corporation's governance framework and will safeguard its over 500,000 unit holders. Segregated reporting for the collective investment schemes will be achieved via the legal separation of the Trustee from the Investment Management and other lines of business like merchant banking.

Some progress has already been made with the incorporation of UTC Trust Services Ltd. in June 1999 under the Companies Act. We will also place the UTC under the regulatory oversight of the Central Bank.

D

Growing Economy

Mr Speaker, the growth strategy underlying this Budget has the following vision for *developing the economy*:

- ***Improving the Infrastructure***
- ***Opening new economic space,***
- ***Implementing a growth and investment strategy,***
- ***Effectively managing industrial estates,***
- ***Expanding and improving free trade zones and***
- ***Developing the economic space of Tobago.***

1. Improving the Infrastructure

Strong infrastructure and efficient public utilities system are critical components of a platform for a growing economy.

This is a huge challenge. We will immediately begin a programme to turn around the utilities of water, sewerage, electricity, telecommunications, ports and airports. This turn-around will focus on operational efficiency, financial management and customer service. It will deal with the expansion of services to meet the unacceptable unfulfilled demand, especially in the case of water.

The water and wastewater sectors continue to be plagued by severe deficiencies in the delivery of services. Only about 18 percent of customers in Trinidad and 41 percent in Tobago receive a scheduled supply of water, ranging from 6 days a week to less than 2 days a week.

The services provided by the Water and Sewerage Authority (WASA) are neither reliable, nor financially sustainable. The Government recognises that the immediate challenge is to increase access to a reliable, sustainable and affordable water service where every citizen in the country can meet their daily need for water.

In the next fiscal year T&TEC will focus on increasing its power generation capacity. The Commission will expand its Electricity Transmission and Sub-Transmission System, upgrade its Telecommunications System and accelerate its Advanced Metering project.

In the coming fiscal year we will begin restructuring the internal layout of the Scarborough Terminal Building to accommodate increased demand in the number of people using the ferry service; demolish and reconstruct the ferry service cargo jetty at the Port of Port of Spain; and begin constructing a full container terminal at the Port of Port-of-Spain.

Transforming the Licensing Authority is a top priority. We will establish a Motor Vehicle Authority using the knowledge, experience and best practices of Canada to completely transform the Licensing Division by adapting Canada's Business Processes, Service Delivery method, layout of Facilities, Systems Software and Legislation to meet the needs of citizens. The proposed Motor Vehicle Authority will be established at Southern Main Road, Frederick Settlement, in Caroni.

The Government's proposed flood mitigation plan will be guided by a coordinated, integrated water resources management system; protection of the environment; and people's participation. To solve problems with drainage infrastructure, the Government proposes several structural and targeted measures as part of an integrated Drainage Action Plan.

These include: cleaning and de-silting rivers; constructing sediment traps and check dams in the upper reaches of priority water courses; and removing accidental and illegal blockages in watercourses, culverts and bridges. We will prepare a Nation Wide Preventative Drainage Maintenance Programme, including main, secondary and tertiary drains, to be implemented in the dry season of 2011; and establish a Drainage and Irrigation Authority.

2. Opening of New Economic Space

Mr Speaker, Trinidad and Tobago needs to expand its economic space both within the economy and outside it. Hence we will develop five poles for expansion in the medium term using a cluster development approach.

The first pole includes the 4 C(s), covering Couva, Charlieville, Carapichaima and Chaguanas. This project will be primarily private-sector driven with Government acting as a catalyst. This partnering will bring communities together to fill the void created by the demise of the sugar industry. It will encourage new investment in these areas. The project will involve, among other things, the establishment of a port at Felicity, a science park and business incubators. We have already begun discussions with the relevant Chambers of Commerce.

The second pole will focus on developing the **South Western Peninsula** of Trinidad. Mr. Speaker, over the past two decades the roads in this part of the country, particularly in Point Fortin, have deteriorated due to wear and tear, age and neglect. The net result is the gradual separation of this area from the country leading to depressed economic opportunities for its inhabitants. For too long, a new highway from San Fernando to Point Fortin has been promised. We intend to make this a reality. The area already has a power generation plant and port

facilities. Building on these advantages, we will construct a new Industrial Estate which will create jobs in the area.

The third growth pole will be the **East Port of Spain Area**. The intervention here will also rely heavily on the creation of business incubators, initially targeting, the arts, culture and entertainment. We also propose to restore East Port of Spain into a 'heritage city' like Old Havana in Cuba or Old San Juan in Puerto Rico. These measures are expected to reduce the impact of poverty and steadily contribute to the economic health of these communities by optimizing existing entrepreneurial resources. We will establish a special task force, including civil society, UTT and UWI to develop a creative plan for a new entrepreneurship in small business development, particularly in East Port of Spain.

The fourth growth pole involves developing the **North-Coast**. We all know how difficult it is to access Maracas Bay through the North Coast Road. Currently, it takes approximately 45 minutes to get from Santa Cruz to Maracas Bay. Furthermore, landslips on the North Coast road are a major deterrent to persons wishing to access this scenic route for pleasure or business. As a result we will do a business plan for a new: 'Connective Development Project'. This project would create an underground tunnel from Maracas Valley to Maracas Bay, to enable quicker access to the North Coast.

The **fifth growth pole** is in the **North East region of Tobago** where we will provide incentives for persons who are prepared to establish business enterprises particularly in St. John's parish which stretches from Kings Bay on the Atlantic side to Parlatuvier on the Caribbean coast. Special preference will be given to persons who will be establishing businesses in the services sector, including commercial farming. A special financing facility will be established at the Agricultural Development Bank to augment other financing options.

Mr. Speaker, special fiscal incentives, including granting Free Trade Zone Status, and designating these areas to allow access to Agriculture, Tourism and Manufacturing tax incentives, will be given to provide the necessary support to ensure the success of these growth poles.

3. Developing the Economic Space of Tobago

Looking ahead, we must work for a new development strategy for Tobago that reflects its size and location in the changing global arena. However, there has been real concern about the pace of projects in Tobago. We already have begun discussion with the Tobago House of Assembly and intend to further these discussions to accelerate all outstanding projects to completion. Through this, we expect that Tobago's economy will expand.

In addition, we will also establish an Integrated Campus Facility which will house campuses of UWI, UTT and COSTATT.

The People's Partnership Government will, in the next fiscal year, provide total budgetary resources to the Tobago House of Assembly in the order of \$1.975 billion. In addition, \$460.1 million and \$133.2 million will be spent in Tobago by other Ministries. This will bring the total sum to be spent for the benefit of the people of Tobago to \$2,568.8 million or 5.24 percent of total Government expenditure significantly higher than 4.03 percent as required by law.

4. Expanding Free Trade Zones

Mr. Speaker, the Trinidad and Tobago Free Trade Zones Programme was designed to encourage local and foreign investment in export-driven projects that create jobs, develop skills and create external markets for our products. It is administered by the Trinidad and Tobago Free Zones Company (TTFZ) under the Free Zones Act (1988).

Free Zone enterprises may be established in any part of the country. They benefit from tax exemptions, including those from customs duties on capital goods, parts and raw materials for use in building and equipping premises as well as exemptions on Import and Export duties, and associated taxes or licensing requirements.

Mr. Speaker, present legislation excludes large scale projects over US\$50 million from benefitting from Free Zone status. However, given the passage of time and the evolving business environment with new cost structures, we propose that this requirement be removed to allow increased free trade zone business activity.

5. A New Model to Manage Industrial Estates

Mr. Speaker, we will **build new non-energy export platforms through our Industrial Estates.** The primary focus will use our existing industrial parks to build these non-energy export platforms, through a programme designed to attract foreign investment in targeted areas. While industrial estates will remain state owned, we will invite private companies to manage these estates along commercial lines, similar to the model used in the Hyatt Trinidad and the Dominican Republic.

IV

Financial Action Plan

A.

Overview & Financial Projections 2011

Mr. Speaker, **after 15 years of positive economic growth**, our economy stumbled in 2007, registering fiscal deficits for the last 2 years and the first Balance of Payments deficit since the early 1990s in 2010. However, after a significant contraction of the economy of 3.5 percent in 2009, we have benefited from higher energy prices than expected in 2010 and are registering

positive economic growth of 2.5 percent this year. This fiscal year, 2010 we are projected to record a fiscal deficit of 3.5 percent of GDP.

Economic growth is based on the rate of capital formation and the level of investment.

The Public Sector Investment Programme is approximately \$7 billion and a similar amount will be spent by state enterprises. It is expected that the energy investment, based on interest shown so far could amount to \$8 billion. In light of the favourable investment climate and our new development path, we expect private sector investment to reach \$3 billion.

In other words, the potential for investment and capital formation in Trinidad and Tobago could amount to \$20 billion. If realized, this will generate an economic growth rate between 3 to 4 percent. The key issue is building confidence. The People's Partnership has started to do so in its 100 plus days in office.

Mr. Speaker, our cash balance moved from \$17.7 billion in 2008 to \$9.7 billion in 2009 and at the time this Government came to office, it stood at \$5.4 billion. The cash balance at the end of September is estimated at \$4.3 billion.

The balance in the Heritage and Stabilisation Fund as at August 2010 stands at US \$3.3 billion and US\$328 million was deposited in the 2010 fiscal year. However, the returns on the investment portfolios of the Heritage and Stabilization Fund (HSF), the Unit Trust Corporation (UTC), and the Central Bank did not meet expectations. For instance, profits from the Central Bank declined significantly from \$1.65 billion in 2008 to \$920 million in 2010.

The past regime's borrowing to satisfy its profligate spending saw the Net Public Sector Debt Stock increase from 34.1 percent of GDP in 2008 to 49.4 percent of GDP by September 2010. The Net Public Sector Debt Stock is defined as the Total Public Sector Debt Stock less Open Market Operations but inclusive of the debt of the Central Government and the guaranteed and non-guaranteed debt of the state enterprises and statutory authorities. We must return to balanced budgets, growing our cash balances while lessening our borrowing, in order to consolidate our fiscal position.

But we must do much more than that. Our economic action plan asserts and involves renewed investment in the energy sector, an expansion of the domestic economy, infrastructure development and a sustainable programme for social investment for now and for the future.

The 2011 Budget calculation was based on a real GDP growth of 2 percent, an average inflation rate of 7 percent, an oil price of US\$65 per barrel and a gas price of US\$2.75 per mmbtu.

The total revenue is fixed at \$41.3 billion of which the energy sector's revenue is \$15.2 billion and the non-energy revenue of \$26.1 billion, while total expenditure is projected at \$49 billion

resulting in a fiscal deficit of \$7.7 billion, or 5.48 percent of our GDP. However, the debt to GDP ratio has been contained to less than 50 percent.

Of the total expenditure:

- Education and Training will receive \$8,325 million;
- Infrastructure: \$5,918 million including Works and Transport and Public Utilities;
- Health: \$4,341 million;
- National Security \$4,762 million;
- Agriculture: \$1,836 million; and
- Housing: \$1,837 million.

To summarize Mr. Speaker:

Total Revenue is estimated to be \$41,283.7 million

Total Expenditure net of Capital Repayments and Sinking Fund Contributions \$49,015.9 million

For an overall fiscal deficit of \$7,732.2 million

The revenue projection comprises \$15.2 billion from the energy sector and \$26.1 billion from non-energy sources. With respect to the financing of the deficit, we have projected that 30 percent of the financing requirement will be met by domestic sources, while the remainder will be sourced from multilateral and other external sources.

B.

Fiscal and Other Measures

I now turn to the Fiscal Measures which will drive our policies and objectives in Fiscal 2011.

1. Measures to Improve Production of Oil and Gas

a. Energy Tax Regime

Mr. Speaker, the present tax on Petroleum profits derived from production in Deep Water Blocks includes Petroleum Profits Tax at the rate of 50 percent. The present rate has proven inadequate to stimulate activity, given the capital intensive, high-risk nature of deep water exploration and development.

Based on the review of the economic viability of potential finds in this area it was determined that effective tax was too high and needed to be reduced to provide an incentive to companies. Government has agreed that a reduced Petroleum Profits Tax rate of 35 percent in respect of

profits from Deep Water Blocks would meet the above requirement. This would bring the tax rate of Trinidad and Tobago in line with competing jurisdictions.

Oil production has been steadily declining. For the period 2000 to 2010, oil production has fallen by approximately 25 percent from 138,000 to 103,000 barrels per day. There is great need to revitalize activity in the sector. Consequently, we will revise the Supplemental Petroleum Tax Regime. Under the new system, base rates and a sliding scale mechanism will be introduced for both marine and land operations.

The Government will implement sustainability incentives for mature marine and small marine oil fields. These incentives will provide for a reduction of 20 percent on Supplemental Petroleum Tax rates for mature or small marine oil fields. An Investment Tax Credit of 20 percent on qualifying capital expenditure will also be granted, in respect of the Supplemental Petroleum Tax for mature oil fields, both land and marine.

These measures will take effect from January 1st, 2011 and will require amendments to the Petroleum Taxes Act.

b. Production Sharing Contracts

Mr. Speaker, instead of the taxable production sharing contract that was used for the 2006 Competitive Bid Round, we will return to the conventional production sharing contract of the 1995/1996 Competitive Bid Round, modified to accommodate a flexible bidding process.

Under this new production sharing contract model, the contractor will be liable to Petroleum Profits Tax, Unemployment Levy, Supplemental Petroleum Tax, Royalty, Oil Impost, Petroleum Production Levy, Green Fund Withholding Tax, Stamp duty and any new tax charged on revenues from petroleum operations. However the liabilities, with the exception of Withholding Taxes and Stamp Duty will be met from Government's share of profits.

Both these measures will take effect from January 1st, 2011 and will require amendments to the Petroleum Taxes Act.

2. Measures to Support Alternative Energy Use

a. Compressed Natural Gas

Mr. Speaker, to ensure that the Compressed Natural Gas programme gains momentum and achieves its objectives, the Government proposes the following:

- i) To grant Wear and Tear Allowances on 130 percent of the cost incurred in the acquisition of plant, machinery and equipment, excluding installation costs, for the construction of the conversion centre;
- ii) To grant Wear and Tear Allowances on 130 percent on the cost of kits and cylinders utilized in the conversion of vehicles of fleet operators;

- iii) Removal of Customs Import Duty on both the CNG conversion kits and the CNG cylinders required to convert a vehicle from gasoline to CNG;
- iv) A tax credit of 25 percent to individuals on the cost of CNG kits and cylinders used in the conversion of motor vehicles valued at a maximum of \$10,000;
- v) Motor vehicle tax reduced to zero for a period of five years on imports on factory outfitted private and commercial CNG motor vehicles no older than two years;
- vi) Zero rating for VAT on imports for a period of five years for factory outfitted private and commercial CNG motor vehicles no older than two years.

Mr. Speaker, in order to develop renewable energy and energy efficiency initiatives, we propose the following:

b. Solar Water Heating

- Reduce import duty to 0 percent on extra regional imports of solar water heating equipment;
- Zero-rating for VAT purposes of solar water heating equipment
- Tax allowance of 25 percent of value on solar water heating equipment of maximum value of \$10,000 acquired for use by the household;
- To grant Wear and Tear Allowance of 150 percent of costs of solar water heating equipment acquired by commercial enterprises

c. Wind Energy

- Import duty reduced to 0 percent on imports of wind turbines and supporting equipment;
- Zero rating for VAT purposes on the Wind Turbines
- To grant Wear and Tear Allowance on 150 percent of the expenditure incurred in acquiring wind turbines.

These measures will take effect from January 1st, 2011 and will require amendments to the Customs Act, Income Tax Act and the VAT Act.

d. Energy Audits

- Tax Allowance on 150 percent on the cost incurred by companies in the commissioning of energy audits.
- Accelerated Depreciation of 75 percent in the year of acquisition on the capital incurred by companies in the acquisition of smart energy efficient systems.

3. Measures to Increase the Growth of Agriculture

1. Agricultural Incentives

Mr. Speaker, the authority of the Agricultural Development Bank will be enhanced to provide a more holistic financial support to this sector.

- This will include a pilot for a Loan Default Fund to assist farmers who are unable to meet capital and interest payments, as a result of natural disasters including floods, insects and diseases.
- We will reduce interest rates from 6-8 percent to 3-5 percent.
- The ADB will be allocated \$75 million for the year 2010-2011 with the potential of a further allocation of \$75 million.
- The sum of \$20 million will be designated for lending by the Bank for Greenhouse and other similar technologically driven agricultural projects.

4. Measures to Clean up the Environment

a. The Green Fund

Mr. Speaker, in order to optimize the objectives of the Green Fund, the legislation governing the Fund will need to be amended to allow Non Governmental Organisations incorporated under the Companies Act incorporated as Non-profit companies to be eligible to access the Fund.

Additionally it is proposed that the Green Fund legislation be amended to allow Organisations and Community Groups which include remediation, reforestation and conservation of the environment in their portfolio of projects, to qualify for assistance from the Green Fund.

It is expected that the proposed recommendations to the Green Fund legislation will facilitate easier access to the Fund.

b. Increase in Penalties under the Litter Act

Mr. Speaker, the Litter Act of 1973 was conceived to protect the environment from the harmful effects of citizens and corporations in the disposal of waste and effluent. Given the new environmental challenges we will increase the fixed penalties under this Act by 100 percent as follows:

- i. An individual who deposits Litter in a Public Place the fine is increased from \$1,000 to \$2,000;
- ii. A Corporation which deposits Litter in a Public Place the fine is increased from \$2,000 to \$4,000;
- iii. An individual who is responsible for unsecured Material falling from a moving vehicle including the throwing bottles and fast food boxes from vehicles the fine is increased from \$1,000 to \$2,000;
- iv. A Corporation which is responsible for unsecured Material falling from a moving vehicle the fine is increased from \$2,000 to \$4,000;

- v. Any person who throws down, drops or otherwise deposits and leaves any litter in or into any premises owned or occupied by another without the consent of that other person the fine is increased from \$1,000 to \$2,000;
- vi. Anyone responsible for material deemed a health hazard by local authorities the fine is increased from an initial fine of \$1,000 and \$200 every day thereafter to an initial fine of \$2,000 and \$400 everyday thereafter;
- vii. Failure to comply with a Clean Up Order for unsightly and unkempt premises or deemed to be detrimental to hindering of authorities from entering property is increased from an initial fine of \$1,000 and \$200 every day thereafter to an initial fine of \$2,000 and \$400 every day thereafter; and
- viii. Any person or Corporation responsible for leaving derelict vehicles in a Public Place the fine is increased from an initial fine of \$1,000 and \$200 every day thereafter to an initial fine of \$2,000 and \$400 every day thereafter.

These measures will require amendments to the Litter Act and will take place from October 1, 2010.

5. Measures to Generate New Investment

a. Pension Funds and the Energy Sector

The Government will develop the opportunities for new investment into the Energy Sector by encouraging the use of pension funds in suitable downstream industries which will be examined in terms of least risk parameters. This will provide a mechanism for greater capital participation in Trinidad and Tobago.

This measure will take effect from January 1st, 2011 and will require amendments to the Insurance Act.

b. Manufacturing Incentives

Mr. Speaker, in order to further stimulate the Manufacturing Sector, we will amend the Seventh Schedule of the Income Tax Act to change the minimum wear and tear allowance of 10 percent to 25 percent, except for buildings. This will assist the self employed and those in the SME Sector a quicker write off of assets and place them in a tax beneficial position in start up operations.

This measure is estimated to cost \$10 million and will take effect from January 1st, 2011 and will require amendments to the Income Tax Act.

c. Incentives to Increase New Investment

i. Interest Rate Policy

Mr. Speaker, the Government will address the inflation challenge. However, we are also faced with the challenge of stimulating economic growth through generating productive investment.

The Central Bank, as the State's monetary authority, will continue to be accommodative with its monetary policy to fight inflation. However, in so doing, it is also necessary to encourage new investment from the private sector to generate growth and employment.

Mr. Speaker, the current high levels of inflation is being driven by food prices and we will put measures in place to increase aggregate supply by accelerating food production. We support the recent decision of the Central Bank to reduce the Repo Rate to 4.5 percent, which will lower market interest rates. We recommend that this trend of lowering the Repo rate be continued.

ii. Ploughing Back Profits' Incentive

The current accelerated depreciated allowance of 90 percent, as well as the 25 percent wear and tear allowance will be applied to investment beyond the specific industries named in the Aid of Industries Act to include shipbuilding and recycling, among others.

iii. First Time Homeowners Tax Credit

In light of the continued challenges facing individuals as they seek affordable housing in a period of already high domestic property values and given the Government's objective of making housing affordable for all of our citizens we propose to offer a tax allowance limited to \$18,000 **per household** on mortgage interest paid in the year of income for first time homeowners for five years with effect from the date of acquisition. This measure will generate significant investment in the private sector housing industry.

This measure is estimated to cost \$20 million and will require amendments to the Income Tax Act and will take place from January 1st, 2011.

d. Employee Share Ownership Plan

Mr. Speaker, the Income Tax Act makes provision for companies to implement Employee Share Ownership Plans (ESOPs) on behalf of their employees. The main feature of such plans is the allocation of shares in the employer company to employee members of the ESOP. The ESOP is an attractive vehicle for the promotion of widespread share ownership by employees and for encouraging savings generally. **It also results in greater productivity as it enhances the relationship between employer and employee and provides a tax advantageous method for employees who opt for benefits in company shares in lieu of cash remuneration.**

Mr. Speaker, where shares are withdrawn from the ESOP and transferred to an employee prior to the cessation of his employment due to retirement, ill-health or death, the market value of such shares, at the date of transfer, is deemed to be income and subject to tax at the standard

rate of 25 percent. Prior to 2006, the proceeds of such withdrawal were subject to tax at statutory rates ranging from 5 percent to 25 percent.

We will allow the amount of the proceeds that are subject to tax be limited to the amount of the initial investment only. This approach would also avoid the taxation of any capital gains that may arise on any appreciation in the value of the shares.

The legislation currently requires that a minimum of 40 percent of the annual bonus distribution to employees must be allocated to the ESOP. We will reduce the 40 percent threshold to 25 percent in order to make ESOPs more attractive to employees.

In addition, employees of Subsidiary Companies within a Group of Companies are not explicitly entitled to the ESOP benefits. We will allow employees of Subsidiary Companies within the same Group of Companies to participate in the ESOP of the Parent Company.

This measure is estimated to cost \$20 million and will require amendments to the Income Tax Act and will take effect from January 1, 2011.

6. Measures to Sustain Small Business Development and Innovation

a. Pioneer/Innovation Fund/Window

Mr. Speaker, to provide the nexus for creativity among our citizens we will establish a \$10 Million Innovation Financing Facility to allow individuals with pioneering business ideas the infrastructure to build their concepts.

The main criterion for access to the Facility is the novelty of the idea whose economic potential must be elaborated. It is not to be judged on its feasibility in the classic sense because that feasibility may be unknown. Additionally it should not to be judged on traditional credit and business risk criteria.

Successful applicants will be able to source funding for their ideas at the Commercial Banks which will be provided access to the Facility. Feasibility studies will be assessed on criteria to be determined by the Ministry of Trade and Industry. A one year moratorium will be granted for repayment to allow the business idea to flourish.

b. Expansion of the Research and Development Facility at the BDC

The Research and Development Facility of the Business Development Company is targeted to those business enterprises that would like to introduce innovation ideas into their business in order to improve competitiveness and profitability.

We will now expand the Sales Turnover criteria for accessing the Facility from its maximum of \$5 Million to \$25 Million. Additionally we will increase the grant for single projects from \$100,000 to \$500,000 and for alliance projects from \$200,000 to \$1 million.

c. Expansion of the List under Approved Manufacturing Industries

To further encourage growth in the manufacturing sector we will expand the list of conditional duty exemptions to allow for the removal of the customs duties on equipment and parts imported for use in the manufacturing sector to reduce the capital expenses of manufacturing firms.

This measure will require amendments to the Customs Act and will take effect from January 1st, 2011.

d. Incentives for Small Business and Individuals

Mr. Speaker, a formal customs entry is required for goods valued \$1,000 or more. As a consequence, all consignments of a lower value were admitted without the requirement for the importer to provide a customs entry. The main consideration at the time included providing a simplified and expedited procedure for the examination and release of low value consignments. We will now increase the value to \$20,000.00 for which no formal customs entry is required. This measure requires no amendment to the Customs Act.

7. Measures to Promote Development Poles

i. Free Trade Zones

Mr. Speaker the Free Trade Zone legislation excludes large scale projects over US\$50 million. However, given the passage of time and the need to encourage new business development with an export bias, we will remove this requirement with no ceiling placed to allow increased free trade zone business activity.

This measure will incorporate amendments to the Free Zones Act and will come into effect from January 1st, 2011.

8. Measures to Improve Tax Collection

a. Tax Amnesty

Mr. Speaker, we will offer an amnesty for tax penalties and interest for late filing of returns and late payment of income, corporation and Value-Added Taxes, business levy, environmental levy and Lands and Buildings Taxes. This amnesty is proposed because we expect the tax revenues collected more than compensate for the revenue foregone. It will also encourage taxpayer compliance. The amnesty will apply to returns, penalties and interest on outstanding tax liabilities for years of income up to 2009.

All individuals and corporations who have outstanding tax returns or outstanding tax liabilities and associated interest charges, will have these interest and penalties waived if they comply by May 31st, 2011.

After the amnesty period the State will enforce strict measures to ensure compliance with tax laws, make good on its tax receivables and broaden its tax base.

This measure will require amendments to all Tax Legislations including the Income Tax Act, the Corporation Tax Act, the Petroleum Taxes Act and the Value Added Tax Act. This measure takes place with immediate effect and will expire on May 31st 2011.

b. Repeal of the Property Tax Act and Reintroduce the Lands and Buildings Taxes Act

Mr. Speaker I turn now to the issue of the Property Tax. **We will “Axe the Tax”.** The Property Tax will be replaced by the old Lands and Building Taxes regime at the old rates and old values. **There will be a waiver of lands and buildings tax for the year 2010.**

9. Measures to Support Social Equity

a. Senior Citizens’ Pension

Replace Senior Citizens Grant with Senior Citizens’ Pensions and increase amount available to \$3,000

Mr. Speaker, as outlined to the People’s Partnership Manifesto, the Government has reviewed the Senior Citizens Grant and has changed its name to the Senior Citizens’ Pensions and increased the maximum grant to \$3,000 per month with effect from September 1, 2010.

The additional cost of this proposal is approximately \$972 million and will benefit 75,000 of our nation’s citizens.

b. Increase in Minimum Pension to Public Servants

In addition, the Government will increase the minimum pension for retired public officers to \$3,000 per month. This measure will benefit 28,000 people and will cost an additional \$280 million. It will also require amendments to legislation governing such individuals including the Prison Service Act, the Police Service Act and the Teachers’ Pensions Act.

c. Tax Allowance for Contributions to the Children’s Life Fund

Mr. Speaker the Children’s Life Fund is pivotal to this Government’s mandate of caring for our nation’s children who are in urgent need of medical finance. Too often it has been too late for this assistance to reach our sick children. To encourage contributions to the Fund, once established, we will provide tax incentives to *both* companies *and* private individuals who make donations to the Fund.

To encourage contributions to the Fund, once established, it is proposed that an incentive be provided to both companies and private individuals a tax deduction, equal to the amount of that donation, up to a maximum of 15% of their total income in any one year. These incentives would be contained in the legislation establishing the Children's Life Fund Authority and would refer specifically to donations being made to the Children's Life Fund.

d. Increase in Art and Culture Allowance

Mr. Speaker, we recognize the invaluable contribution made by the arts and culture in shaping Trinidad and Tobago's heritage.

As a result, the government will increase the Arts and Culture Allowance applicable under the Corporation Taxes Act from \$1 million to \$2 million.

This measure is estimated to cost \$10 million and will require amendments to the Corporation Tax Act, and will be effective from January 1st, 2011.

Mr. Speaker, this Budget lays the foundation for a major shift in our developmental approach and adopts a fiscal stance that is stable, people-centred and responsible. It brings us from the edge of a financial collapse to a courageous and steady return to the fiscal consolidation and economic progress. Our nation can breathe a sigh of relief and once again, rest assured that we are on an even keel and a proper stewardship for a more secure and confident future for our nation. This represents the steady hand of the People's Partnership Government. We must now stand shoulder to shoulder and work together in search of new heights as we face the issues of today with determination and with the promise of a better tomorrow.

As we look ahead to the promise of a better tomorrow we shall expect significant progress on the following projects:

1. *The Integrated Tobago Campus*
2. *The UWI Southern Campus*
3. *The Mamoral Dam*
4. *The Navet Trunk Line*
5. *The Business Incubators*
6. *The Tamana Intech Park*
7. *The Establishment of a Recycling Industry*
8. *A Shipbuilding Industry*
9. *The San Fernando-Point Fortin Highway*

10. *The Trauma Clinics*
11. *The Scarborough Hospital*
12. *Greenhouses for Food Production*

In the first one hundred and twenty days of the People's Partnership Government, we have achieved:

1. *Deployed police on the streets, on the beat and increased police presence*
2. *Secured the GATE programme*
3. *Established the Ministry of The People*
4. *Increased the Senior Citizens' Pension to \$3,000*
5. *Developed One Year Ministerial Action Plans*
6. *Established the Economic Development Board*
7. *Established Legislative Agenda for Parliament*
8. *Laid the White Paper on Procurement Legislation in Parliament*
9. *Established the Children's Life Fund*
10. *Formulated Project Plan for completion of Scarborough Hospital*
11. *Initiated Forensic Audit for Petrotrin, UDeCOTT and UTT*
12. *Laptops for secondary schools*
13. *Axed the Property Tax*

Mr. Speaker, I beg to move.