Fiscal Space for a Social Protection Floor in Saint Lucia

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FISCAL SPACE FOR A SOCIAL PROTECTION FLOOR IN SAINT LUCIA
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ABBREVIATIONS

ALMP	Active Labour Market Policies
BELfund	The James Belgrave Micro Enterprise Development Fund Inc.
BNTF	Basic Needs Trust Fund
CPIP	Constituency Projects and Infrastructure Programme
CSO	Central Statistics Office
EC$	Eastern Caribbean Dollar
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
ECD	Early Childhood Development
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GOSL	Government of Saint Lucia
HOPE	Holistic Opportunities for Personal Empowerment Programme
IFMIS	Integrated Financial Management Information System
ILO	International Labour Organization
IMF	International Monetary Fund
KSL	Koudmen Sent Lisi
MDA	Ministry, Department or Agency
MDG	Millennium Development Goal
MICS4	Multiple Indicator Cluster Survey 4 (2012)
MOE	Ministry of Education
MOH	Ministry of Health
MOST	Ministry of Social Transformation Local Government & Community Empowerment
MOF	Ministry of Finance and Economic Affairs
NACC	National Aids Coordination Committee
NACPC	National Action Child Protection Committee
NAPP	National Apprenticeship and Placement Program
NAIRU	Non Accelerating Inflation Rate of Unemployment

NELP	National Enrichment and Learning Programme
NEMO	National Emergency Management Organization
NICE	National Initiative to Create Employment
NIC	National Insurance Corporation
NSDC	National Skills Development Centre
NSPH	National Strategic Health Plan
NSPP	National Social Protection Policy
OECD	Organization of Economic Cooperation and Development
OECS	Organization of Eastern Caribbean States
PAP	Public Assistance Programme
PEFA	Public Expenditure and Financial Accountability
PET	Productivity Enhancement Training
PFM	Public Financial Management
SBTAP	Small Business Targeted Assistance Programme
SHC	Secondary Health Care
SIDS	Small Island Development States
SLTU	Saint Lucia Teachers' Union
SMART	Specific, Measurable, Assignable, Realistic, Time-related
SMEs	Small and Micro Enterprises
SMILES	Single Mothers in Life Empowerment Project
SPF	Social Protection Floor
SR	Single Registry
SSDF	Saint Lucia Social Development Fund
SSNA	Social Safety Net Assessment
STEP	Short Term Employment Programme
UHC	Universal Health Care
UNCRC	United Nations Convention on the Rights of the Child
UNICEF	United Nations Children's Fund
VAT	Value Added Tax
WSC	Women's Support Centre

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EXECUTIVE SUMMARY

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This report explores the fiscal space that is available for the Government of Saint Lucia to finance social protection programmes. Subsequently, this fiscal space – in so far as available – will be translated into a proposal for a minimum SPF package covering the basic needs of Saint Lucians in the areas of health care and provisions for children, individuals in their working ages and families with children, and for Saint Lucians after retirement.

What is fiscal space? The closest definition provided by available literature is that fiscal space concerns 'the financial resources that governments can mobilize to finance a certain series of programmes, without endangering the government's current or future financial position or credibility'. There are two approaches in the literature. One is normative in that it seeks to establish 'debt limits' or boundaries that governments should keep clear from. The other approach is more pragmatic. It identifies the dimensions that governments can explore in their quest for fiscal space. These dimensions are the following: (i) decrease or re-prioritization of public expenditures (reallocation within the overall spending portfolio), (ii) increase of public revenues, (iii) deficit financing, (iv) resort to external development aid (grants). Other dimensions that have been mentioned are (v) tapping into fiscal or foreign exchange reserves, (vi) fighting illicit financial flows, and (vii) the pursuit of more conducive macroeconomic policies. Governments across the globe are in the process of tapping into these dimensions. Scaling down subsidies (fuel, food and agricultural inputs), capping public sector salaries, rationalizing social protection spending (for example through intensified targeting), are among the most popular approaches. On the revenue side there is scope to increase tax rates, widen the tax base (introducing VATs, for example), and improve compliance. However, governments in their effort to step up revenues find themselves in the trade-off between economic and social objectives sooner or later.

The tax bases that would maximize revenue collection are the same ones the poor and

vulnerable are most dependent on (such as, low paid labour, basic commodities and services). Still, stepping up revenues and reprioritizing expenditure are the two dimensions Saint Lucia's government needs to concentrate their efforts on, since the other dimensions are irrelevant to Saint Lucia.

The main reason for this lies in Saint Lucia's economic environment. Economic growth has slowed down to an almost complete halt in the past decade. The island is vulnerable to economic and environmental disasters, not least because it relies on just a small number of economic activities that are highly exposed to international markets and patterns. From a fiscal perspective, the high debt/GDP ratio stands out. This ratio has increased over the past decade and stood at 80 per cent in 2013/14 and is expected to 'go through the roof' (100 per cent of GDP) in the near future. The government's response to the increasing debt/GDP ratio so far has not been to achieve a primary balance surplus. Therefore, the main conclusion is that opportunities for new spending initiatives are extremely limited.

The demographic situation does not help either. There is a large segment in the 15-24 age-group who are on the threshold of and/or are making their entrance into the work force. The labour market over the past decade has not been able to absorb the inflow, and seems unlikely to be able to do so in future. Over 50 per cent of the current unemployed population are in the 15–29 age-group.

On the fiscal side, the government is working hard to improve its public financial management (PFM). Successes include the streamlining of macroeconomic and fiscal forecasts, the move towards integrated budget preparation and economic planning, and enhancement of the strategic content in the budget preparation process. The reform of PFM for Saint Lucia is a crucial condition for exploring fiscal space for social protection purposes.

Saint Lucia's social budget spans close to one-quarter of total government expenditure or 8 per cent of GDP. Moreover, expenditure on social programmes has been rather stable at that level from 2009/10 onwards.

This report constructs two scenarios for social protection expenditure. For that purpose, a distinction was made between two time periods. For the first period, up to 2018/19, the report makes use of International Monetary Fund (IMF) projections. For the remainder of the projection horizon, two sets of economic and fiscal scenarios have been compiled. The neutral economic scenario continues where the IMF forecast stops, projecting real GDP growth to be just above 2 per cent. The second economic scenario is more conservative. It uses average real GDP growth in the decade before 2019/20 to set the rate for the period afterwards. This results in an estimate of 0.7 per cent average real GDP growth for the remainder of the projection period. On the fiscal side there is a neutral scenario and a fiscal consolidation scenario. The former assumes that Government will be successful in curbing expenditure growth and at the same time step up revenues. This will not be sufficient, however, to curb the rising trend in the debt/GDP ratio. The fiscal consolidation scenario assumes that the government will balance its budget in 2024/25 and this will lead to a gradual fall in the debt/GDP ratio, materializing before the end of this report's projection horizon. The combination of the economic and fiscal sets results in four scenarios.

The projections for the labour market do not forecast a substantial easing of the present problems. The overall unemployment rate falls from 23.3 in 2013/14 to 19.9 in 2024/25 in the most favourable of economic conditions. In the economic bad weather scenario, overall unemployment rises a fraction to 24.6 per cent. In both scenarios youth unemployment is twice (males) to four times (females) the adult rate. Perhaps, some of the current active labour market programmes turn the tide, but their effectiveness still needs to be proven.

In order to assess the fiscal space that can be available for the government to finance a package of social protection programmes, the report has explored a simplified simulation model. The rationale behind this exercise was to obtain an estimate for the growth in non-interest public

expenditure that will keep clear from the 'debt limit', here taken as an evolution in the debt/GDP ratio that does not converge, or fall to a level below the present level. This simulation reveals that any fiscal space in terms of increasing public expenditure is close to non-existent. In the longer run, after 2024/25, this situation might change but earlier attempts to increase spending will be punished relentlessly with an unsustainable debt/GDP ratio. Moreover, the simulations also reveal that the debt dynamics is extremely sensitive to minor variations in assumptions with respect to growth rates in revenues and expenditures, the implicit interest rate on public debt and economic growth. The report has built on these findings in constructing the fiscal projections that constitute the frame for the costing of the two social protection scenarios. The test for both scenarios is whether, within the scope of the projection period, these scenarios remain below the ceiling of the current expenditure portfolio.

Two social protection scenarios have been assessed. The first projects the costs of the current set of programmes into the future. This called the status quo (SQ) scenario. In this scenario it turns out that spending remains well below this ceiling. Saint Lucia's social budget in the SQ scenario will contract from 8.4 per cent of GDP in 2014/15 to 7.8 per cent a decade later. This does not preclude re-allocations between some of the existing programmes. Past trends point out the directions in this respect. But these re-allocations remain even within the confines of the four separate clusters: health, child-related programmes, working age programmes and old age programmes. No significant redistribution of resources between these four clusters is anticipated in the SQ scenario. Therefore, the SQ scenario does not provide a solution for some major coverage gaps that exist in the areas of children (in particular, early childhood, child protection, also social assistance for children) and the elderly in Saint Lucia.

The second scenario is called the social protection floor (SPF) scenario and it sets out to meet the challenge to cost, and assess the fiscal space for, a set of social protection programmes that provide a basic level of social protection for Saint Lucians in all age categories. In fact, this scenario consists of several sub scenarios and the model that has been built for the costing enables users to simulate various combinations of these measures. Some entail the introduction of a new programme to cover an apparent gap in Saint Lucia's SPF, whereas others expand cover or coverage in existing programmes, and again other reform proposals focus on rationalizing existing programmes in an attempt to eradicate some of the inefficiencies in their design and/or implementation.

In the health care cluster the SPF package assumes a higher medical inflation, for example deriving from technological improvements in medical services. Second, this scenario assumes an intensified utilization of primary health services, in particular for children, families with children and the elderly. The first assumption has a substantial cost driving impact (0.4 percentage point), whereas the second turns out to be rather negligible. In the child related social protection cluster the expenditure on early childhood development (ECD) accelerates from its past trend at 1.3 per cent, to 10 per cent annual real growth. This results in per capita ECD spending rising from EC$ 484 in 2013/14 to EC$ 781 towards the end of the projection period if at the same time it is assumed that ECD will be expanded to universal coverage for all children below the age of 4. Nevertheless, the impact of this reform on total social spending on child-related programmes is small due to the small weight of ECD in the overall expenditure portfolio. In the expenditure for the working ages cluster two sets of reforms have been assessed.

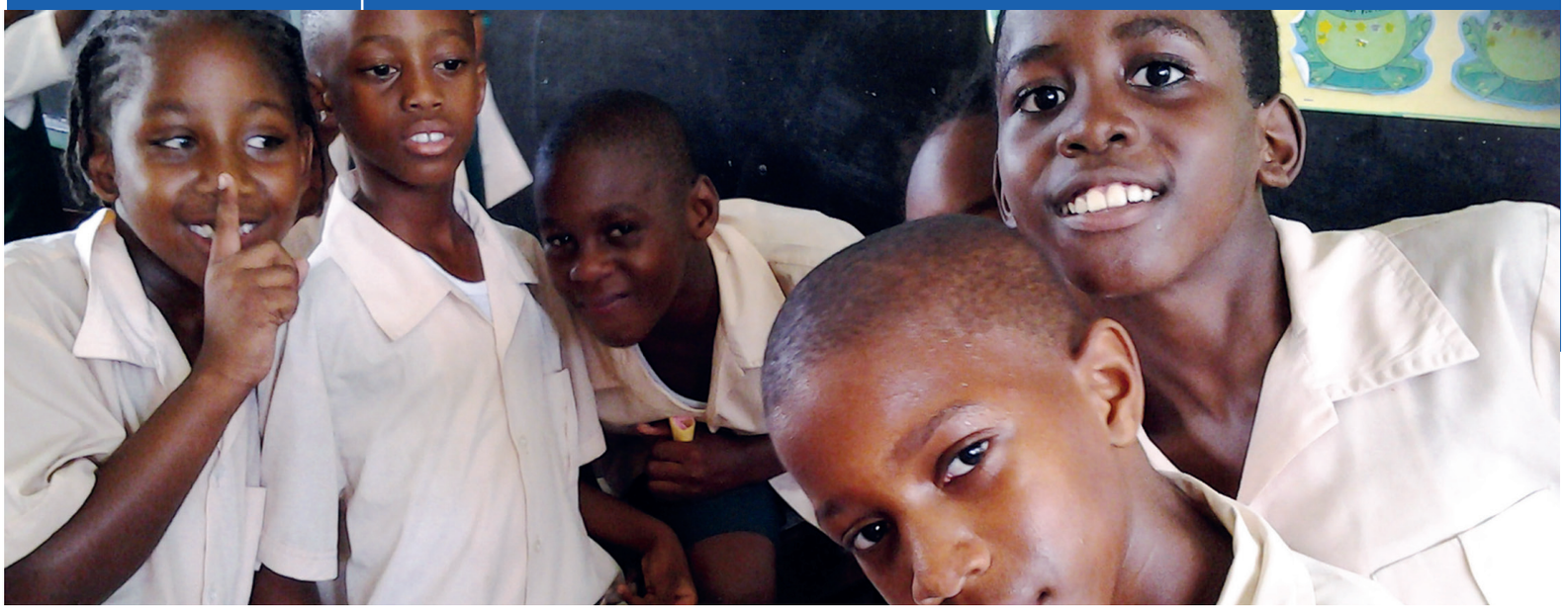
This first is an expansion of coverage and the level of benefits in the social assistance programme. The second is a combination of wage reductions and capping administrative costs in the active labour market programmes. The latter to serve to finance the expansion in the other programme in this cluster and, in fact, the other clusters as well. To illustrate this point, overall spending on ALMPs is curtailed from 1.1 per cent of GDP in 2014/15 to 0.6 per cent in 2014/24. Last but not least, in the old age cluster a new programme is introduced providing those Saint Lucians that are at presently not covered through social insurance, a social pension. Two variations have been

simulated and it turns out that the most expansive programme, providing the pension to all non-covered individuals aged 65+ at a subsistence level, appears affordable. In fact, the 0.5 per cent of GDP that it takes exactly matches the savings from the rationalization of the ALMPs.

Total social protection expenditure in this SPF scenario remains within the boundaries that were set. In the neutral economic growth scenario the social budget falls from 9.0 per cent of GDP in 2014/15 to 8.6 per cent ten years later. In the conservative economic scenario there would be small increase to 9.2 per cent towards the end of the projection period. This should not be alarming. In fact, the earlier discussion of the Government budget has suggested several avenues for re-allocating resources.

Overall, the report concludes that the fiscal space for increasing the current level of social protection expenditures is limited, given the unfavourable economic and fiscal conditions. However, this does not mean that the Government of Saint Lucia has no options for reform. There is ample scope within the current programmes to improve the design and implementation of individual programmes and to arrive at a more coherent set of social protection programmes. In the longer run, there should be more fiscal space available once Government starts tightening the purse strings.

1 Introduction



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This study specifically set out to look into the fiscal space for social protection with a focus on child related social programmes and child protection policies, and to conceptualize a cost estimate for a 'Social Protection Floor (SPF) package for Saint Lucia'. This report will explore the fiscal space that is (or might be) available on the short and medium term to finance social protection programmes in Saint Lucia. In another accompanying report entitled *Budget Analysis for Investments in Children in Saint Lucia*, the existing social protection framework and its impacts, related to children in general, and in poor and vulnerable households in particular, is investigated.

Social protection floor in Saint Lucia

The Government of Saint Lucia has embarked on developing a National Social Protection Policy (NSPP) with the objective of bringing the multitude of social protection programmes under one umbrella, based on a coherent framework and programmatic approach, and embedded in legislation. There is a strong consensus that the problem is not that Saint Lucia has no social protection programmes that could address critical vulnerabilities, but rather that existing programmes suffer from a multitude of constraints and challenges in providing a sustainable structure to protect the poorest and most vulnerable groups.

The NSPP aims to provide a framework that addresses these deficiencies in a coordinated and coherent manner, and in doing so harmonizes the various interventions and rationalizes social protection spending in Saint Lucia. This includes using the available resources in the most effective and efficient way, avoiding the duplication of efforts and striving towards closing social protection coverage gaps. In alignment with this, the NSPP subscribes to the objective of building a national social protection floor as a fundamental element of the social protection system.

According to the International Labour Organization's Social Protection Floors Recommendation, 2012 (No. 202), national social protection floors are nationally-defined sets of basic social security guarantees which secure protection aimed at preventing or alleviating, ill health, poverty and vulnerability and social exclusion.

The meaning of the word 'floor' within this context should be well understood. Building a house without having a solid floor makes no sense. The floor is therefore the guarantee that anything that is built on it will remain standing. In the context of social protection, the four social protection floor guarantees should ensure that, over the life cycle, all those in need have access to at least essential health care and basic income security. These together ensure effective access to essential goods and services defined as necessary at the national level.

The social protection floor concept, therefore, should be taken as a *minimum*, not a maximum, level of social protection for the citizens of Saint Lucia. Moreover, establishing a social protection floor means first and foremost *horizontal* expansion of coverage, making coverage universal on the guaranteed level. This does not preclude the *vertical* expansion in terms of further increasing benefit levels or services above the level that has been defined in the guarantee, but this is not the focus of the social protection floor.

The following table provides an overview of the various social protection programmes in Saint Lucia. The table categorizes these programmes in terms of their intervention mechanism (cash transfers, non-cash transfers, subsidies and active labour market programmes) and the various social protection floor guarantees (health, children, working ages and elderly).

Table 1-1 Overview of Social Protection Programmes in Saint Lucia

	Social Protection Floor Basic Guarantees			
Programmes	**Health**	**Children**	**Working Age**	**Elderly**
Cash transfers				
Public Assistance Programme		X	X	X
Bursaries		X		
NIC Old Age pension				X
Non-cash transfers				
KSL		X	X	X
School transport		X		
School feeding		X		
OLPC		X		
BEL Fund			X	
BNTF (SSDF)			X	
YAEP			X	
Subsidies				
Health care provision	X			
BTC		X		
Court diversion		X		
Transit home		X		
Upton Gardens		X		
WSC			X	
Active Labour Market Programme				
CPIP			X	
NAPP			X	
HOPE			X	
STEP			X	
NELP			X	
NSDC			X	
OECS Skills			X	
SMILES			X	

The NSPP points to the need to explore the various options for financing social protection in a sustainable manner, including in periods of economic recession when the resource base is at risk of depletion. This necessitates the assessment of the financial implications of the reforms defined in the policy and the specific financial needs for each agency over time, which is required for the development of the social protection financial structure and its instruments. One of the main objectives of the NSPP therefore is to analyse Saint Lucia's fiscal space and outline a budgetary plan for affordable and financially sustainable social protection programmes (MOST 2015, p. 20).

1.1 Outline of this report

This report is structured as follows. **Chapter 2** starts with a theoretical discussion of fiscal space. **Chapter 3** highlights the current macroeconomic and fiscal situation in Saint Lucia, and proceeds with outlining the assumptions for the projections and presenting the economic and fiscal scenarios that result from these assumptions. **Chapter 4** presents the results of projections of the currently existing programmes in the four areas that have been examined in the accompanying report "*Budget Analysis for Investments in Children in Saint Lucia*", namely education, child social protection, child protection and health. This chapter projects the status quo (SQ); and it answers the question as to what extent this current set of programmes is sustainable. **Chapter 5** projects the outcomes for a series of reform measures across the range of programmes in the four areas of the social protection floor. Some of these reforms entail the introduction of a new programme that might help to bridge a perceived gap in the social protection floor, other measures expand coverage or entitlements in some of the existing programmes, whereas again other reform measures may focus on rationalizing current programmes, that is eliminating existing inefficiencies and in this manner decreasing expenditure on these programmes. The final chapter, **Chapter 6**, brings the previous elements together and assesses the fiscal space available for the current and the alternative set of programmes in Saint Lucia.

Data sources and limitations

The compilation of this report experienced some challenged with respect to data availability. These will not be spelled out in detail in this section, but discussed later in the report. Sources were official government budgets, policy and planning documents, detailed budgets from sector ministries and from specific publicly financed programmes for children. In close collaboration with the relevant ministries and supported by UNICEF, the team collected detailed budget information during field visits to Saint Lucia.

In addition, the report draws on secondary data published by the Central Statistical Office of Saint Lucia. The analysis also uses a series of existing publications, such as journal articles, working papers, project and policy reports, and other general and legal documents. An overview of the sources used is provided at the end of the report.

With respect to social protection programmes, large amounts of data have been collected. Often, these were data that are not standard to the information system. The challenge, therefore, was mainly at the level of the staff of the various agencies administering these programmes to meet this report's data requests. Still, there were some serious deficiencies in available data with respect to some of the programmes. Sometimes, expenditure information was not available and budget information was used instead.

For several programmes, time series data was not of sufficient length to estimate trends in utilization and costs. In these cases assumptions had to made. For most programmes, information to produce reliable estimates for administrative costs was unavailable. The methodological details with respect to the cost projections will be further explained in the chapters 4 and 5.

1.2 Process

This report is one of three reports. The objectives as reflected in the TORs were threefold: (i) analyze existing national budget policies, social expenditures and investment in social policies for the needs for children in Saint Lucia, (ii) analyze the existing 'allocation and operational'

effectiveness and efficiency of direct and indirect public allocations for children, and the degree to which gender responsive budgeting and policy development has impacted on this effectiveness and efficiency, and prepare recommendations for increasing the effectiveness and efficiency and review the impact on public finance of national development policies for children, and (iii) analyze the overall economic and financial situation of Saint Lucia, ensuring a gender-responsive analytical lens, to identify the scope of available and potential fiscal space to spend for social protection on a sustainable manner. Table below provides an overview of the activities and outputs.

Phase		Activities	Outputs
I.	Mapping existing programmes	• Conduct interviews with Ministries and other agencies, collect information • Construct an inventory of social protection and child protection programmes in Saint Lucia • Assess the financial governance framework • Review expenditure in areas of social expenditure relevant for children, with a focus on: health, education, child protection and social protection • Assess benefit incidence focusing at public allocations • Assess the needs and impact from social expenditures for children • Assess the planning and implementation framework, in particular related to children • Assess the allocation of budget resources towards their stated objectives • Assess the 'economics' of spending: develop benchmarks to assess the choice of inputs related to programmes for children	• Inception report • 'Assessment matrix', this is an overview of relevant programmes: design, implementation and challenges • Draft first version benefit incidence report • Draft first version budget report • Meeting with Ministries (June 2014)
II.	Analysis of the administrative and allocation efficiency of existing social protection programmes, related to children	• Produce an overview of the overall macroeconomic and fiscal environment, and fiscal management, including a projection of key economic and fiscal variables • Formulate a proposal for a minimum SPF package for Saint Lucia (preparing phase III)	• Draft final benefit incidence report • Draft final budget report • Draft first version of fiscal space report • Seminar with national stakeholders to discuss the draft reports and work with the costing model (November 2014)
III.	Analysis of fiscal space and costing of a SPF package for Saint Lucia	• Estimate the short, medium and long term cost of the SPF package • Estimate the amount of fiscal space required to finance both existing and envisaged policies	• Draft final fiscal space report
IV.	Recommendations and dissemination		• Final versions of the three reports (June 2015) • (Training on the costing model)

The team conducted three missions to Saint Lucia. The first (February – March 2014) was to have interviews and collect information required to undertake the budget analysis and construct an assessment matrix providing an overview of relevant programmes and their design and implementation challenges. The second mission (June 2014) was for clarification, the collection of further budget information, presentation of the first results and to collect information with respect to benefit incidence. The third mission (November 2014) was to present the preliminary results and introduce the costing model in a seminar with stakeholders in Saint Lucia.

2 Fiscal Space

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This chapter highlights insights from the expanding literature on fiscal space. After providing a definition of fiscal space, the chapter continues with a listing of the various dimensions of fiscal space.

There is no clear definition of fiscal space. Heller (2005) defines fiscal space as 'the availability of budgetary room that allows a government to provide resources for a desired purpose without any prejudice to the sustainability of a government's financial position' (Heller, 2005, p. 3). Fiscal space needs to be assessed against the background of a medium term expenditure framework (MTEF) that provides a comprehensive perspective on the government's expenditure priorities and corresponding fiscal consequences, according to Heller (2005). It is the comprehensiveness of the assessment that is crucial.

Ostry et al. (2010) and Ghosh et al. (2013) estimate the fiscal space available for a series of advanced industrialized countries. In their approach the historical response of countries to increases in their debt is crucial for the confidence that financial markets will have in governments meeting their future debt servicing obligations and in turn their debt limit. This historical response can be observed from the adjustment of the primary balance as a response to the evolution of the debt/GDP ratio.

In particular when debt/GDP ratios have exceeded a certain threshold (for example, 50 per cent), the primary balance should be in surplus to ensure that the debt/GDP ratio will not become unstable, or according to the authors, after a shock will not 'not converge to a finite level' (Ostry et al. 2010, p. 3). Countries with a higher risk of defaulting will to a lesser extent be able to sustain high levels of debt. Financial markets will charge excessive rates of interest each time debt needs to be rolled over. This is an analysis that, unfortunately, cannot be replicated for Saint Lucia, given insufficient data, but in chapter 3 a simplified simulation model, inspired by the work of Ghosh et al. will be used to assess fiscal space for Saint Lucia.

In most of the literature, a somewhat more pragmatic approach is generally followed in which several dimensions are identified where fiscal space can be sought. These dimensions are the following: *(i) decrease or re-prioritization of public expenditures (reallocation within the overall spending portfolio),*

(ii) increase of public revenues, (iii) deficit financing, (iv) resort to external development aid (grants). Other dimensions mentioned are (v) tapping into fiscal or foreign exchange reserves, (vi) fighting illicit financial flows, and (vii) the pursuit of more conducive macroeconomic policies (see for example: Ortiz et al., 2011).

More recently, the World Bank published a report that proposes to look into three dimensions to assess fiscal space: (i) the debt/GDP ratio as a stock measure of fiscal space, (ii) the fiscal deficit/GDP ratio as a flow measure, and the (iii) 'sustainability gap', this is defined as the difference between the actual primary balance and the debt-stabilizing primary balance, which depends on the target debt/GDP ratio to be achieved in the long run (World Bank, 2015). This approach can be perceived as reconciling the earlier approaches, as in Ortiz et al. (2011), and the 'normative' approaches in Ostry et al. (2010) and Ghosh et al (2013), in that it allows one to look into the various dimensions where additional spending for programmes for children would or would not lead to higher debt/GDP or fiscal deficit to GDP ratios, and at the same time arrives at a 'normative' measure for debt sustainability.

For this report, it is not feasible to formulate a normative measure for Saint Lucia. That is beyond the scope and timeframe of this report as it would require a much more in depth level of research. This report, therefore, will follow the pragmatic approach of Ortiz et al. (2011), supplemented with the findings of a simulation exercise that will test the sensitivity of Saint Lucia's debt/GDP ratio against alternative assumptions for revenue and expenditure growth and rates of implicit interest paid on debt. The aforementioned dimensions are discussed in detail below.

(i) Re-allocating public expenditure. This constitutes a first avenue for governments looking for resources to spend on alternative programmes. Is it possible to find such resources within the expenditure portfolio? There are two possibilities here, governments can either reprioritize existing programmes, or governments can make resources available when these existing programmes can be implemented in a more cost effective manner. In other words, existing programmes can be terminated, scaled down or implemented against lower costs.

Ortiz et al. (2011) point to the complications that tend to arise in this approach, which are well known from the public choice literature. Existing programmes represent vested interests, for example at the level of beneficiaries, staff in implementing agencies and/or politicians, all of which have a stake in these programmes and can (*and will)*, organize resistance against initiatives to terminate or scale down these programmes[1].

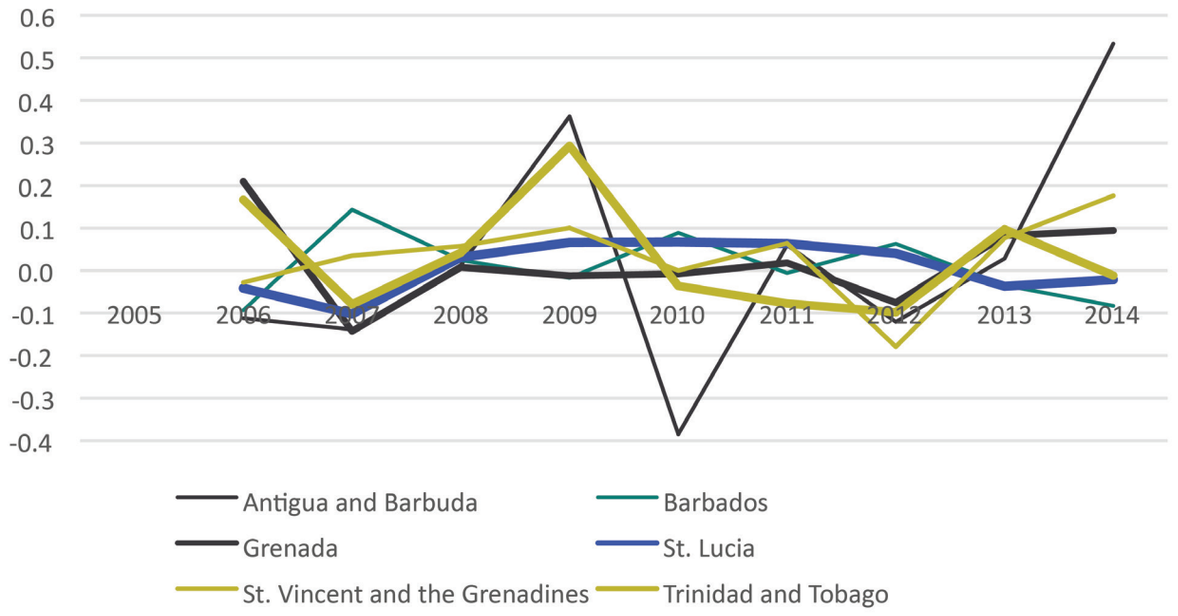
In cases where governments do succeed in curtailing existing programmes, pro-poor programmes are often the first victims (Ravallion, 2004). Nevertheless, re-prioritizing and/or rationalizing public expenditure is an avenue that needs to be explored when governments aim for fiscal space. Instruments that have proven to be useful are public expenditure reviews and thematic budgets, replacing high-cost, low-impact components, eliminating inefficiencies in the implementation of programmes and, of course, fighting corruption at the level of the administration of these programmes (Ortiz et al., 2011).

Government expenditure in a large number of countries has increased since the global financial crisis, while staying constant in some, and contracting in others. In their 2013 paper, Ortiz and Cummins examined "*IMF Article IV consultation*" reports from 181 countries and found evidence that this fiscal contraction has occurred most severely in developing countries.

Figure 2-1 provides an example for a number of countries in the Eastern Caribbean region. The figure shows that the GDP share of public expenditure in Saint Lucia has been rather stable in the past decade. Several countries in the region however have responded more vehemently to the macroeconomic shockwave that the global financial crisis initiated when compared to the Government of Saint Lucia.

1 For example, Pierson (1994) has forcefully described how even for politicians such as Ronald Reagan in the United States and Margaret Thatcher in Britain - politicians with a clear ideological agenda and a strong electoral mandate - it has turned out to be contentious and, in fact, even quite impossible to pursue their political programmes of retrenching major welfare state programmes.

Figure 2-1: Growth in GDP share in public expenditure 2006-2014 – selected OECS countries



Source: Cummins 2014, based on IMF/World Economic outlook statistics Oct. 2014

According to Ortiz and Cummins (2013), adjustment strategies that are under consideration or have been implemented include: (i) elimination or reduction of subsidies (fuel, agriculture and food products – 100 countries), (ii) capping the public sector wage bill (98 countries), (iii) rationalizing and/or intensified targeting of social protection programmes (80 countries), (iv) pension reform (86 countries), (v) health care reform (37 countries), and (vi) labour market reform (32 countries). The authors also found that the most developed countries tend to be the ones that are the least successful in implementing these austerity policies (Ortiz and Cummins, 2013).

(ii) Increasing public revenues. This is the second avenue that could lead to enlarged fiscal space. There are three dimensions to be considered. The first is widening the tax base, the second is increasing tax rates, and the third is enhancing compliance. Examples of widening the tax base could be the introduction of a value added tax (VAT) and/or the termination of certain exemptions, for example, the deduction from taxable income of interest costs paid on mortgages – this can represent a sizable foregone revenue item for governments.

With respect to increases in tax rates, governments have to be mindful that this will not always lead to larger tax revenues. This goes back to the well-known Laffer curve. Depending on substitution elasticities of economic behaviour, the result of an increased tax rate could be a reduced tax base.[2] In general, there are six broad categories that governments can use to increase their revenues (Ortiz et al., 2011). These are: (i) tariffs, (ii) consumption and/or sales taxes, (iii) income taxes, (iv) corporate taxes, (v) taxes levied on (income from) natural resources, and (vi) other taxes.

Tariffs are a less viable avenue because countries are engaged in, or bound to, international trade agreements. Indirect taxes, such as VATs, are an effective instrument to increase government revenues. Here, again, governments have to factor in a trade-off between efficiency and equity, as the revenue potential is highest from those commodities that have the lowest substitution elasticities and these tend to be basic commodities

2 For example, when the substitution elasticity for labour supply is higher than 1, that is, when people respond by decreasing their percentage of time worked disproportionally more than the percentage in which their net-of-tax wage is lowered, then the tax base from labour income will shrink. For more detail, see for example: Gruber (2011) or Hillman (2009).

and services on which the poor tend to spend a larger share of their income than the less-poor. Ortiz et al. (2011) list excise taxes as a potential alternative. The trend with respect to direct taxes, income taxes and corporate taxes, has been towards reduction rather than increase. The (more often perceived than experienced) impact of increasing these direct tax rates on economic behaviour tends to deter governments from using these as a mechanism for stepping up their revenues.

Tax reform is often about lowering marginal tax rates – in particular marginal tax rates for higher salaries and income from capital investments.[3] Taxes on the revenues from natural resources extraction can be a large source of income for governments. Ortiz et al. (2011) discuss examples of countries which have been successful in this respect, even in channelling part of the proceeds into special funds with a view to finance health and education programmes, as has been the case in Peru. The authors conclude their discussion of the various mechanisms with a comment on their redistribution impacts. In this respect the following caveat is in place, the economic (maximizing revenue collection) and social (redistribution) objectives, *and* in fact outcomes, of government policies are often not in line. Governments, therefore, need to balance their tax reforms with care in order not to harm poor and ulnerable groups, including poor and vulnerable families with children.

The third element is increasing tax compliance. This implies eliminating inefficiencies from the existing tax collection mechanism. It also includes fighting tax-evasion. Both are efficient from a societal perspective.

(iii) Deficit financing. There are two options under this heading. The first is that governments tend to have a range of options with respect to the financing of their fiscal deficits, and in fact their debt stocks. These options can differ substantially in terms of their costs. Concessional loans from international agencies often come with attractive conditions and interest rates. Interest rates from commercial banks charging high rates of interest are at the other end of the spectre. The rates of return on government securities (bonds) tend to be somewhere in the middle. For large parts of the world the market for government bonds has not been developed to an extent in which these securities would become attractive for foreign investors. Often, the main investor is the public sector pension fund and it is not exceptional that governments borrow from these public sector pension funds at concessional (reduced) interest rates.

The second option is the restructuring of the existing debt. The range of options starts from re-negotiating, relief, conversion down to default (Ortiz et al., 2011). Even though the level of public debt in the case of Saint Lucia is high (chapter 3), neither of these options provides a viable route for the government of Saint Lucia and, hence, these options will not be discussed in further detail here.

(iv) Aid. This dimension of increasing fiscal space can take either of three forms: increased North-South aid, increased South-South aid, and curtail South-North financial flows (Ortiz et al., 2011).

The first option provides limited resources. There are significant problems with international aid, including coordination problems, concentration (the so called 'donor darlings' as against the 'donor orphans'), high transaction costs, illicit use and spillages from corruption. Overall, 15 countries receive more than half of all international aid inflows (Ortiz et al., 2011). For middle income countries this channel is even more limited.

South-South transfers are gaining importance. In some instances these transfers take the shape of transactions – for example, aid in exchange for concessions for extracting natural resources or construction projects in combination with long-term contracts for exploitation of these investments. Similar to North-South transfers, in general this is not a viable avenue for governments in middle income countries to tap in to.

The third option is the fighting of illicit financial flows – either legal or illegal financial flows. This form of 'South-North aid reversal' has assumed enormous proportions. For example, it has been

3 For examples, see Piketty and Goldhammer (2014) and Stiglitz (2012).

estimated that developing countries channel seven dollars to the wealthiest countries for each dollar received in terms of development aid.[4]

(v) Reserves. Tapping into fiscal and/or foreign exchange reserves provides another avenue for creating fiscal space. These reserves include surpluses of special (concessional) funds and profits from state-owned enterprises. The sale of natural resources or privatization of public companies are also among the options. Another avenue is foreign exchange reserves stored in central banks.

These reserves could be the result of self-insurance strategies of countries against future economic or financial shocks – these reserves can be used to stabilize the exchange rate, for example. Ortiz et al. (2011) argue that developing countries often invest these reserves in secure but low-profit assets and the authors see some scope for fiscal space associated with alternative investment strategies.

(vi) Macroeconomic policies. Last but not least, more conducive macroeconomic policies have been listed as a dimension to increase fiscal space. This is a contested issue.

To date, neither among economists, governments, nor international agencies is there a consensus on the short and medium-term consequences of pursuing more expansionist macroeconomic policies.

On the one hand, there is a strand of economists arguing that these policies, such as operating fiscal deficits or lowering central bank interest rates, will stimulate demand, investments and lead to increased economic activities, more jobs and a larger tax base. On the other hand, there are those who argue that these policies will fuel inflation above the non-accelerating inflation rate of unemployment (NAIRU) point and will affect the confidence of financial markets – and the general public, because people will realize that there is a price tag attached to such policies in the form of higher taxes in future. In the side line of this academic debate, some governments will see opportunities to pursue this path whereas others will find themselves constrained. Countries with high fiscal deficits, increasing debt/GDP ratios will not find fiscal space here.

4 See for example, Ortiz et al. (2011) and Karr (2010)

3 Macroeconomic and Fiscal Environment

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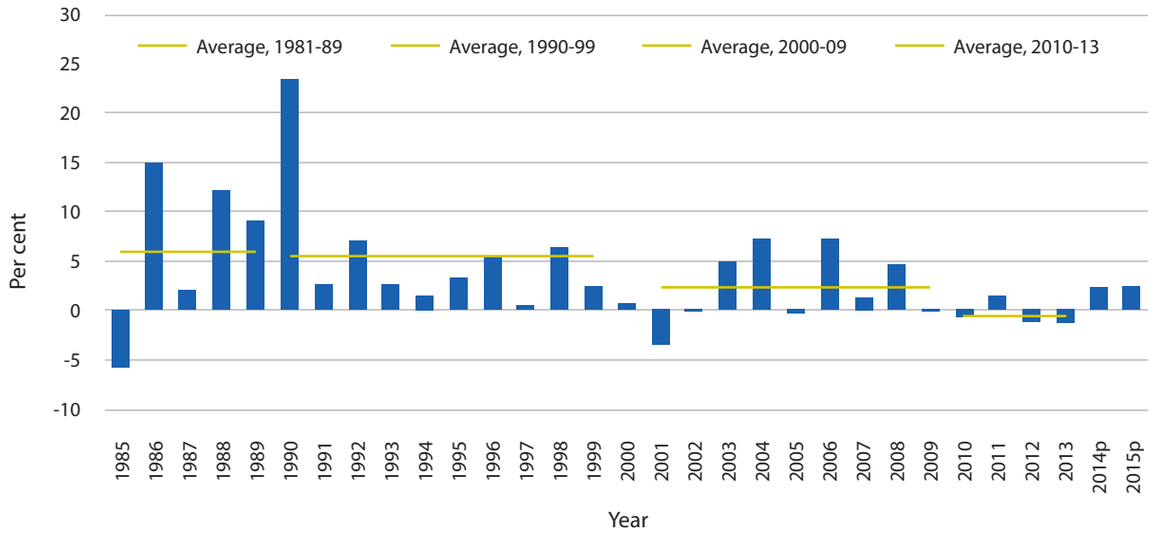
This chapter highlights some of the characteristics of the macroeconomic and fiscal environment of Saint Lucia, in addition to discussing a few aspects of the current labour market situation that would be relevant from a fiscal space perspective. Section 3.2, subsequently, discusses public financial management in Saint Lucia, and in particular the ongoing reform towards performance budgeting. This reform, among other advantages, should enable the Government to improve its financial planning and, hence, increase control over the budget. The last section, section 3.3, elaborates assumptions for the cost projections (chapters 4 and 5) and discusses the economic and fiscal scenarios that result from these assumptions.

3.1 Saint Lucia's current macroeconomic and fiscal environment

3.1.1 Economic growth

Saint Lucia experienced a relatively low economic growth over the past decade, averaging only 1.7 per cent real GDP growth over 2001–2012 (CSO, 2014a). Figure 3-1 below shows the GDP growth rates from 1981 until 2012, with projections up to 2015. The figure shows a significant slowdown in real GDP growth in the past decade, compared to the two decades prior. It is clear form looking at the averages shown in the figure that since 2008, when the waves of the global financial crisis hit, Saint Lucia has not recovered.

Figure 3-1: (Real) GDP growth (%), 1985–2015



Source: CSO (2014a); The World Bank (n.d.); IMF (2014). Note: Growth figure for 2000 onwards were taken from CSO (2014a). For the 2013 figure, the IMF World Economic Outlook was used (2014). Their growth figures for earlier years corresponded with CSO numbers, so this is a more recent estimate than the CSO figure. Figures for 2014 and 2015 are projections by CSO (2014a).

Moreover, growth has been volatile throughout the entire period mentioned above, mainly caused by exogenous shocks (IMF 2008), and recently with rising external headwinds, economic activity has become more dampened (IMF, 2012). In fact, when it comes to volatility of real per capita GDP and output, Easter (1999) ranked Saint Lucia as the 19th most vulnerable out of 111 developing or emerging countries.

This is related to some of the characteristics of the island. Saint Lucia has a relatively small and open economy with few productive sectors. The country relies heavily on food and oil imports from other countries and the tourism sector is arguably the most important sector, accounting for roughly 40 per cent of GDP and employment (indirect effects taken into account) (WTTC, 2014). Tourism receipts have fallen in the entire region. For example, the main sources of tourist inflows in the Eastern Caribbean, the United States, Canada and the United Kingdom, accounted for a 37 per cent drop in tourism revenues since 2008 (Gimenez et al., 2015). The inflow of foreign direct investments (FDI) also contracted from a high of 24 per cent of GDP in 2007 to an average of 9 per cent in the period 2008 – 2013. With it, construction and banking activities suffer (Gimenez et al., 2015).

Apart from volatile economic growth, Saint Lucia is also *extremely* vulnerable to environmental shocks, which is high even compared to other islands in the region.[5] In the last ten years, Saint Lucia had to endure one trough and two devastating hurricanes. The outbreak, in 2011, of a banana leaf disease provided a setback to Saint Lucia's declining banana export (Gimenez et al., 2015). These exogenous economic and environmental shocks have had their impact on recent economic performances (see Figure 3-2).

5 Trinidad and Tobago and Barbados are other Caribbean SIDS that were found to be extremely vulnerable. Grenada, St Kitts and Nevis and St Vincent and the Grenadines are among those classified as highly vulnerable. These environmental shocks obviously have an effect on the economy. All these characteristics make the island heavily vulnerable to economic shocks.

Figure 3-2: Saint Lucia's recent economic performance from a regional perspective, 2010–2012

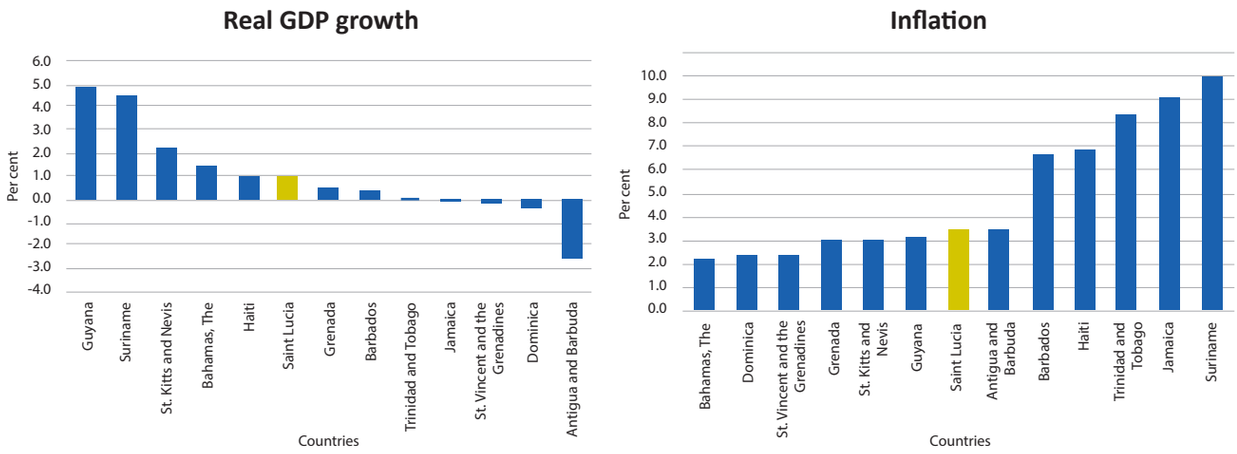


Table 3-1 below highlights some key economic and social indicators for Saint Lucia over the past five years. Real GDP per capita was lower in 2012 than it was in 2008 and unemployment rates have been high and rising – up from 15.0 per cent in 2008 to 23.3 per cent in 2013. The labour force participation rate has been increasing since 2008 – in particular the labour force participation rate for women. The latter increased at an annual average of 2.0 per cent in the past decade, against an average annual increase of 1.2 per cent for men. In 2013, 97,621 of Saint Lucians were in the labour force, corresponding to a labour force participation rate of 81.4 per cent.

Table 3-1: Selected economic and social indicators for Saint Lucia, 2008–2013

	2008	2009	2010	2011	2012	2013
Nominal GDP, Million EC$	3,197	3,186	3,381	3,500	3,560	3,556
Real GDP, Million EC$1[6]	3,637	3,634	3,607	3,659	3,611	3,556
Real GDP growth, per cent	4.7	-0.1	-0.7	1.4	-1.3	-1.5
Inflation, index (2013=100)	85.8	90.6	90.5	93.4	96.0	100,0
Unemployment rate, per cent	16.3	19.1	20.6	21.2	21.4	23.3
Female unemployment rate, per cent	19.3	20.6	22.0	23.3	23.6	25.5
Labour force participation rate[7]	76.4	77.6	..	78.8	81.7	81.4
Female labour force participation rate[8]	69.3	73.5	..	75.7	77.3	77.5
Population size	163,857	164,726	165,595	169,130	172,363	172,631
Real GDP per capita, EC$3	22,192	22,060	21,761	21,860	21,348	20,804
Debt/GDP ratio, per cent	56.2	61.1	63.4	66.5	71.7	80.1

Source: GOSL (2014); CSO (2014a); CSO (2014b); IMF (2014).

6 Base year 2013

7 2010 has been left out, because a census instead of a LFS has been conducted which gives a distorted picture.

8 Base year 2013, own calculations (real GDP/population) based on CSO (2014b).

3.1.2 Inflation

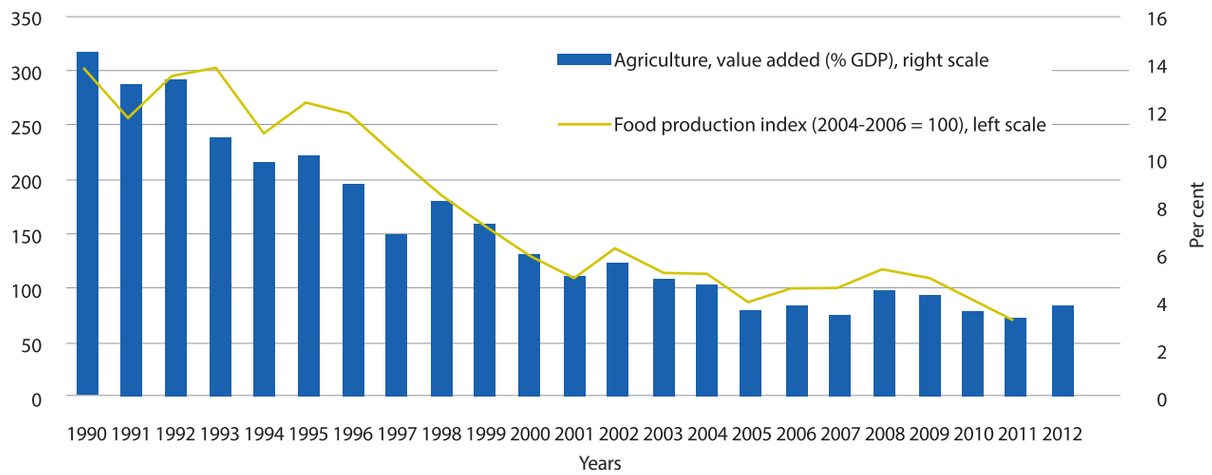
Saint Lucia's low inflation rate, averaging 2.6 per cent over 2000-2013, is considered a strength (Kairi Consultants Ltd., 2011, p. 68). However, inflation rates have become higher and more volatile in recent years. Annual inflation was estimated at 7.2 per cent in 2008, which reflected global price increases in food and fuel and the depreciation of the U.S. Dollar (to which the EC$ is pegged) (IMF, 2008). The financial crisis tempered inflation rates in 2009, resulting in a (negative) inflation rate of -1.3 per cent, but the introduction of VAT in October 2012 increased prices again. The annual inflation rate in 2012 and 2013 was estimated at 3.0 per cent and 1.5 per cent, respectively (CSO, 2013a). For 2013, the categories of the consumer basket which accounted for the increase included clothing and footwear, recreation and culture, and food and beverages (GOSL, 2013a).

3.1.3 Sector changes in Saint Lucia

Since the late 1980s, the agriculture sector has declined significantly and the food production index has dropped along with it (see figure 3-3). Particularly, the decline in the banana industry was significant – where banana exports used to make up about 10-15 per cent of GDP in 1985–1990, its contribution was only 3.7 per cent of GDP in 2000 and a meagre 0.55 per cent in 2011 (GOSL, 2013b).

Efforts to diversify Saint Lucia's agricultural sector have only had limited success; this is again very much related to the island's high susceptibility to hurricanes and other natural disasters (Cultural Marketing Communication (Caribbean) Ltd., 2011). The downturn in banana exports contributed to the worsening of socio-economic conditions of many residents in rural communities and has had negative impacts on employment, income levels and general standards of living in the island's rural communities

Figure 3-3: Agricultural value added and food production index, 1990-2012



Source: The World Bank (n.d.). Note: The 2012 figure for food production index was not available at the time of writing.

(Cultural Marketing Communication (Caribbean) Ltd., 2011; Kairi Consultants Ltd., 2011). Relevant from a fiscal space perspective is the narrowing of the tax base that tends to be the outcome of the decline of agriculture and trade and, along with it, industrial activities further down the value chain.

The service sector grew from 67 per cent of GDP in 1990 to 80 per cent in 2012 (The World Bank, n.d.). Other sectors remained relatively constant over the years, but growth rates have been volatile in some sectors. Table 3-2 shows the growth rates for these sectors for 2006–2011.

Table 3-2: Selected sector growth rates (%), 2006–2011

	2006	2007	2008	2009	2010	2011
Bananas	6.0	-12.3	46.4	-8.0	-46.6	-48.0
Fishing	3.9	14.7	12.0	-2.2	-0.7	2.0
Mining and Quarrying	368.0	60.1	-23.9	-17.4	10.5	-3.9
Construction	51.3	-28.3	26.7	-0.5	-9.4	2.1

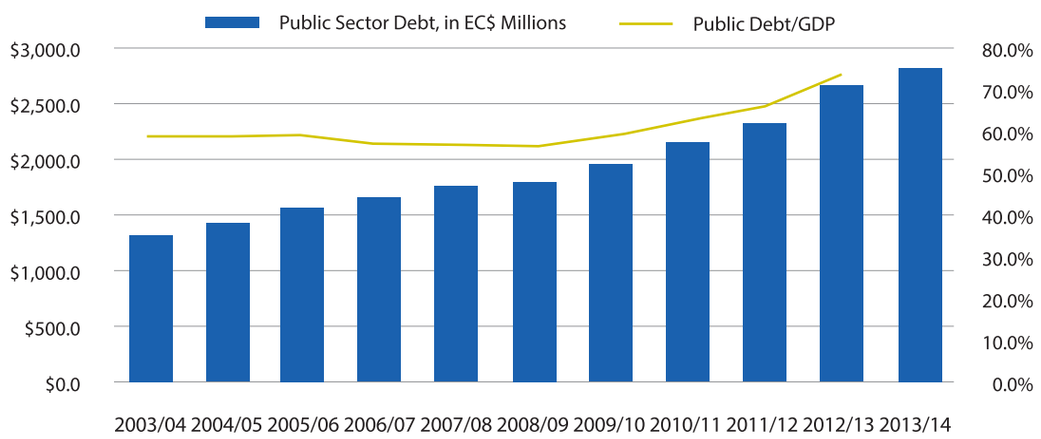
Source: GOSL (2013b). Note: The mining and quarrying sector in Saint Lucia, contributing roughly 0.5 per cent to GDP, is very small. The authors realise that therefore any changes in activity would tend to impact the sector statistics heavily.

3.1.4 Saint Lucia's current fiscal environment

The public debt of Saint Lucia has increased substantially over the last decade, due to large stimuli in Government spending in recent years. In 2003, the debt/GDP ratio was 55.9 per cent, but it reached 80.1 per cent in 2012/13 and is expected to rise even further. Figure 3-4 below shows the past trend of the public debt. The government pursued an expansionary fiscal policy in the aftermath of the global financial crisis, just like a large number of other countries did (Ortiz et al. 2011). Concerns have been raised about the fiscal sustainability of the situation. The Government's 2013 budget statement (GOSL, 2013a, p. 9) comments:

"If we continue on our current path, without making the necessary fiscal adjustments, then, by 2015 the debt-to-GDP ratio will soar to 90 per cent. This path is clearly not sustainable. With such limited fiscal space, another external shock or natural disaster would then present significant challenges to the country."

Figure 3-4: GOSL public debt (left) and debt/GDP (right), 2003–2013



Source: GOSL (2014)

Table 3-3 provides some highlights of the Government's revenues and expenditures. Current expenditure has exhibited an upward trend from 2008 onwards. Capital expenditure increased up to 2011, but decreased in 2012 and 2013. The primary balance[9] has progressively deteriorated since 2008, showing higher deficits each year, except in 2013, when the deficit was 119 million EC$, down from 205 million EC$ in 2012.

The overall balance shows similar dynamics, but with steeper increases, as interest costs of the Government also increased. It is important to note that the primary balance went into deficit the same time when the debt/GDP ratio deteriorated. Government apparently did not curb the primary deficit in response to the higher debt ratio.

Table 3-3: Central Government revenue and expenditure 2008–2013, million EC$

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Government total expenditure	**857**	**928**	**1,041**	**1,145**	**1,201**	**1,169**
Of which						
Government current expenditure	648	686	743	777	857	876
Government capital expenditure	208	241	299	369	345	292
Government total revenue	**829**	**827**	**875**	**915**	**873**	**913**
Of which						
Tax revenue	738	701	737	765	758	789
Non-tax revenue	67	59	51	71	52	47
Overall balance (expenditure – revenue)	**-28**	**-101**	**-167**	**-231**	**-328**	**-256**
Plus						
Interest payments	88	89	102	106	123	137
Primary balance	**61**	**-12**	**-65**	**-125**	**-205**	**-119**
Government total expenditure	**857**	**928**	**1,041**	**1,145**	**1,201**	**1,169**
Principal debt payments	86	88	91	98	95	57
Government grand total expenditure	**943**	**1,015**	**1,132**	**1,243**	**1,297**	**1,226**

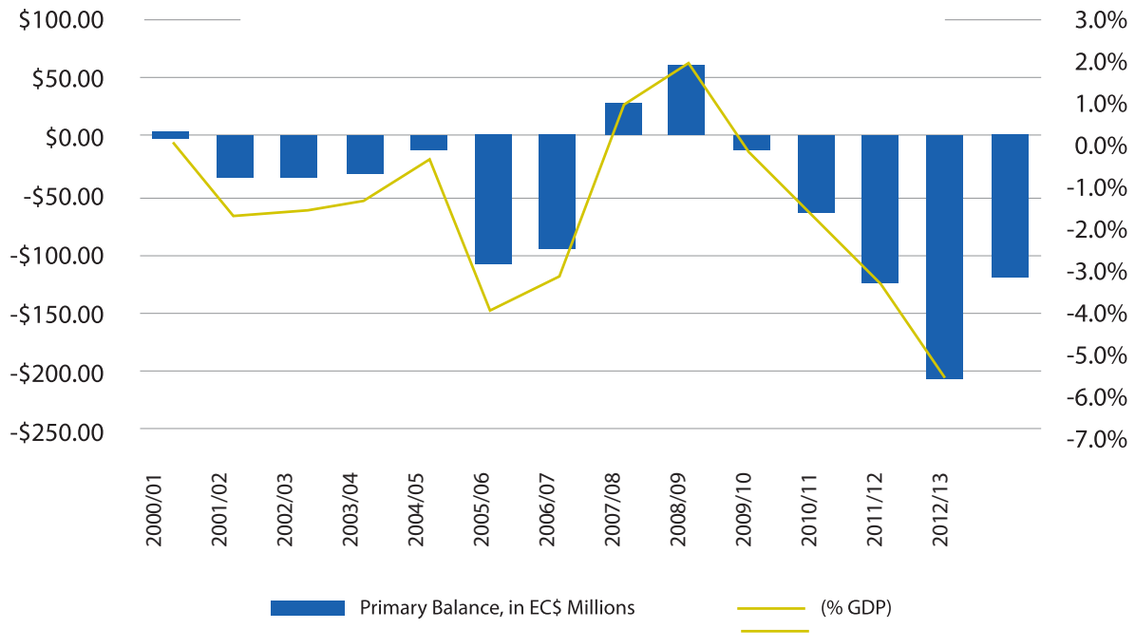
Source: GOSL (2014)

9 Defined as government net borrowing or net lending, excluding interest payments on consolidated government liabilities (OECD, 2005).

Figure 3-5 shows the development of the primary balance since 2000. The balance was in surplus in 2007 and 2008, with respectively 0.8 and 1.9 per cent of GDP. These were the years when public debt was stable. In the four consecutive years (2009-2012), the primary balance dropped with an average rate of 1.9 per cent points per year at the same time when public debt increased. In 2012/13, the deficit was 5.7 per cent.

Compared to neighbouring countries, Saint Lucia is relatively well-off in terms of its debt situation. For example; Saint Kitts and Nevis' debt level reached 156 per cent of GDP in 2011, Antigua and Barbuda's debt stood at 117 per cent and Dominica (2002) at104 per cent. These countries are on IMF support. In fact, over the past couple of years, the IMF received eight requests from five members of the ECCU (Schipke, Cebotari, & Thacker, 2013).

Figure 3-5: Primary balance of the GOSL 2000–2013



Source: GOSL (2014)

As early as 2008, IMF observed that Saint Lucia's fiscal deficits are mainly structural, reflecting among other adverse trends in the tax base (IMF 2008). This was before the introduction of VAT in November 2012. The VAT, in broadening the tax base, might have altered the situation. Nevertheless, the VAT replaced the environmental protection levy and the consumption tax on imports. Hence, its impact should not be overrated. Table 3-4: summarizes the Government tax revenues for the years 2008/09 – 2013/14. Starting in 2012/13, the domestic excise tax and the hotel occupancy tax also decreased significantly. This resulted in the total tax revenue for 2012/13 (758 million EC$) being lower than total revenues 2011 (765 million EC$), but increased again in 2013 reaching 789 million EC$. In fact, total tax revenues as a percentage of GDP have decreased 2 points between 2008/09 to 2012/13, from 23.1 per cent to 21.1 per cent, which indicates a contracted tax base.

Table 3-4: Government tax revenues 2008/09–2013/14, million EC$ (current prices)

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Taxes on income	**232**	**218**	**224**	**241**	**224**	**217**
Tax on property	**3**	**3**	**3**	**4**	**5**	**8**
Tax on goods and services	**123**	**108**	**129**	**133**	**164**	**211**
Of which						
VAT on domestic goods (IRD)	0	0	0	0	64	148
Excise tax (domestic)	7	10	14	13	7	3
Hotel occupancy tax	35	25	34	40	22	2
Other	81	73	81	80	71	57
Taxes on international trade	**380**	**371**	**381**	**387**	**365**	**354**
Of which						
Net VAT on international trade	0	0	0	0	76	140
Environmental levy	16	14	16	16	8	0
Consumption tax (import)	136	140	114	112	48	0
Other	228	217	251	259	233	213
Total tax revenue	**738**	**701**	**737**	**765**	**758**	**789**

Source: GOSL (2014)

On the expenditure side, public sector wages and salaries increased in absolute terms from 301 million EC$ to 384 million EC$, but also in relative terms from 9.4 per cent of GDP to 10.5 per cent of GDP between 2008/09 to 2012/13. The second largest item in the budget, expenditures on goods and services, increased from 4.1 per cent of GDP to 4.7 per cent. Interest costs stood at 3.4 per cent of GDP in 2012/13, up from 2.8 per cent of GDP in 2008/09. The Government is paying an implicit interest rate of 4.6 per cent on its total stock of debt. This implicit interest rate has remained relatively stable over the past years.

Table 3-5: Government current expenditures 2008/09–2013/14, million EC$ (current prices)

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Wages and salaries	**301**	**316**	**342**	**350**	**378**	**384**
NIS	**7**	**7**	**8**	**9**	**9**	**10**
Retirement benefits	**46**	**50**	**56**	**63**	**61**	**65**
Goods and services	**132**	**131**	**138**	**146**	**169**	**170**
Current transfers	**75**	**92**	**96**	**103**	**117**	**108**
Interest costs	**88**	**89**	**102**	**106**	**123**	**137**
Of which						
Domestic	44	46	58	65	75	84
Foreign	44	43	44	41	48	53
Total current expenditure	**648**	**686**	**743**	**777**	**857**	**876**

Source: GOSL (2014)

The current fiscal situation therefore severely limits the opportunities for new spending initiatives. The government's Budget Statement (2013) reflects this: "(…) fiscal control should focus on current spending, while targeted capital projects should be protected. In that regard, sustainable reductions in expenditure can only be achieved by curtailing current spending." (GOSL, 2013a, p. 26). This is in line with the IMF's 2012 statement, which indicated that considerable effort will be required to strengthen the fiscal position of Saint Lucia, and to be successful, this adjustment effort will need to fall predominantly on current spending (2012).

3.1.5 The labour market in Saint Lucia

At the end of 2013, the unemployment rate stood at 23.3 per cent[10]; denoting a significant increase from its low of 14.5 per cent in 2007. It is to be noted that unemployment rates above 20 per cent are not exceptional for Saint Lucia. Between 2002 and 2004 the overall rate also exceeded the 20 per cent mark. The downturn in output in agriculture and in manufacturing around the turn of the century accounted for a large share of the increase in unemployment rates in those years. Workers in the agricultural sector found it difficult to find employment in other productive sectors, given their lack of education and transferable skills. Between 2004 and 2007, together with economic activities, the situation on the Saint Lucian labour

10 The average unemployment rate for 2013 was 23.3 per cent (as per CSO definition).

market improved. Nevertheless, even at its low in 2007, unemployment never fell to a single digit level. After this, the 2008 global financial crisis drove unemployment upward again to historic levels. This clearly points to a structural incapacity of Saint Lucia's labour market to absorb its workforce. This is a major problem given the demographic distribution of the population with a high concentration t in the ages of 15 to 24, people who are on the threshold of entering the labour force between now and the coming decade (sub section 3.3.1). This will increase the strain on the labour market for some time to come. The remainder of this section will highlight some of these structural labour market deficiencies. Unemployment rates have always been higher for women in Saint Lucia (Bellony & Reilly, 2009). The 2013 overall unemployment rate for women was more than 2 percentage points higher (CSO, 2014a). This is also visible in Figure 3-6 (top panel) where female unemployment rates below age 30 and in the age groups 40-49 are substantially higher than male rates. There is one positive element. The difference between male and female unemployment has declined since the last trough (2002-2004), when male unemployment recorded just above 17 per cent on average over this three year period and female unemployment was as high as 26 per cent over the same period. Looking at the more recent trough (2011-2013), the male average climbed to 20 per cent, whereas the female average unemployment rate slightly declined to 24 per cent. Youth unemployment in Saint Lucia is of significant concern. According to the latest Labour Force Survey of Saint Lucia (CSO, 2013b), 44 per cent of young women (ages 15-29) were unemployed, together with 36 per cent of young men (see Figure 3-6 bottom panel). Youth unemployment in total is more than 15 percentage points higher than the overall average. Over 50 per cent of the total unemployed population are between the ages of 15 and 29.

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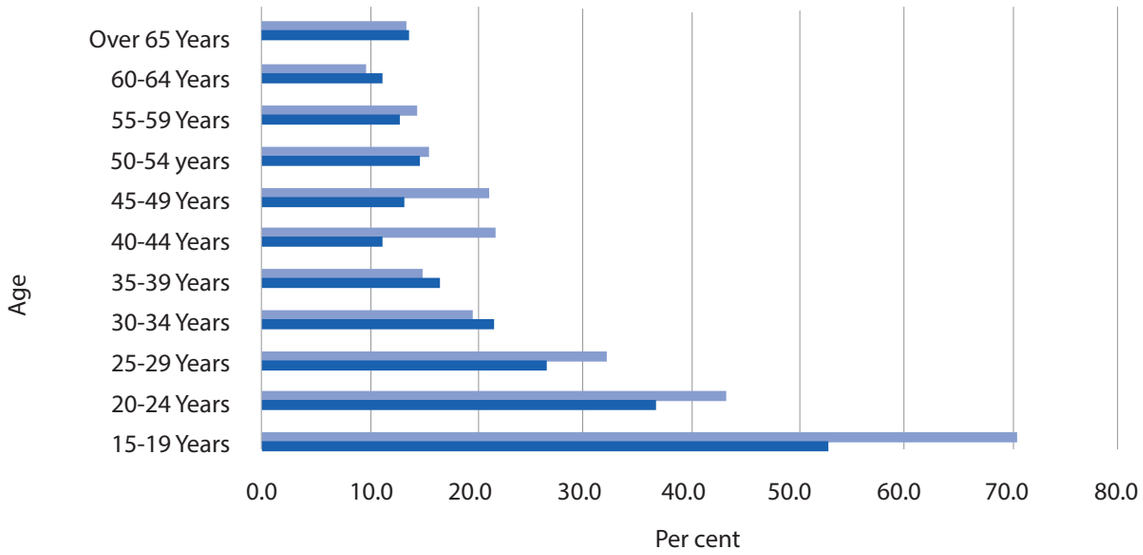
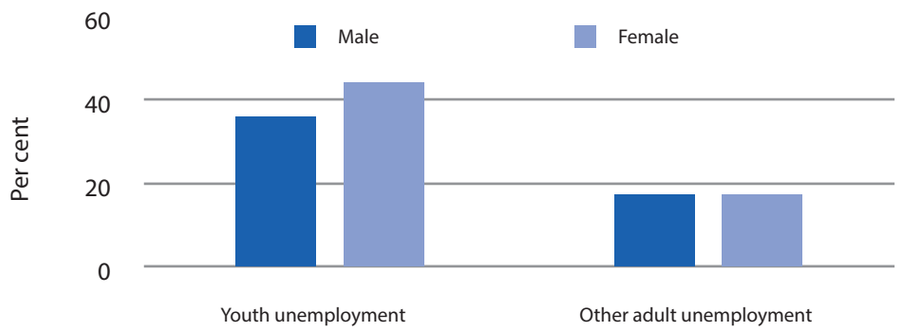
Figure 3-6: The gender and age structure of unemployment 2013/14





There appears to be a 'U-shaped' pattern of unemployment related to educational attainment (Figure 3-7). The unemployment tends to be highest among those with secondary education. The unemployment rates for Saint Lucians without schooling has been volatile but dropped since 2008, whereas the unemployment rate for those with tertiary education was lowest of all categories and remained at single digit level throughout this period (Gimenez et al., 2015). On the other hand, the figure makes it clear that unemployment rates among those with a university diploma are high and close to the overall average.

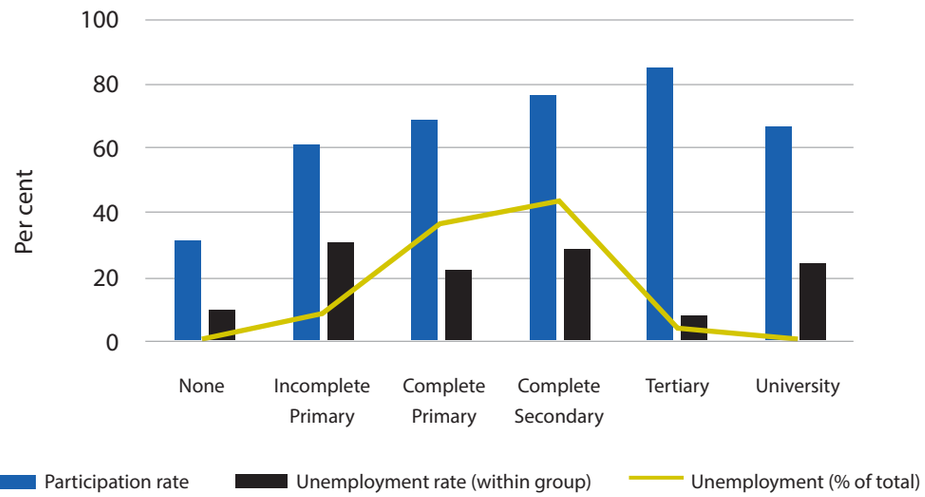
Informal employment[11] makes up a sizable proportion of the employed. According to the most recent Informal Sector Survey of Saint Lucia by CSO (2010a) the percentage of informal workers is an estimated 27.3 per cent[12], while contributing 8 per cent to (nominal) GDP. Almost half of that figure stems from the agricultural sector[13].

11 Informal employment here is defined as employees who have no written contract and do not have a pay slip.

12 This is considered to be a slight drop if we compare with the year 2000 where the proportion of informal workers in the labour market stood at 30.5

13 Includes livestock, fisheries and forestry.

Figure 3-7: The education structure of unemployment 2013/14



According to Blank (2009), 38 per cent of employment takes place in informal home-based enterprises that produce products for the market. Gimenez et al. (2015) report that the share of workers with a formal contract has declined in recent years from 54 per cent in 2011 to just above 49 per cent in 2013. On the other hand, the share of workers with access to occupational social insurance (either NIC or private insurance) has remained rather stable at around 82 per cent since 2011 (Gimenez et al., 2015). Moreover, the drop in workers with a formal contract has occurred more with prime aged males than with females in the same age group, or youth and elder employees in general. For example, the proportion of youth with a formal contract increased 4 percentage points since 2011 (Gimenez et al., 2015). Even though the difference between public and private sector workers in terms of their contract status is large (20 percentage points to the advantage of the public sector), the drop in the share of workers with a formal contract has been the highest in the public sector (Gimenez at al., 2015). One of the potential causes is the amendment to the Saint Lucia Labour Code (2006), reinforcing entitlements for contract workers, which might have affected incentives to hire staff on a formal contract basis, an effect that is likely to be exacerbated in the aftermath of the global financial crisis (Gimenez et al., 2015).

3.2 Fiscal operations and management of the social budget

3.2.1 Public financial management

One of the dimensions where governments can find fiscal space is in streamlining their public financial management (PFM), with a view to render government's financial operations more effective and efficient. One side is the improvement of revenue collection – for example, increase compliance, introduce reliable revenue forecasting mechanisms, etc. The other side is in planning and implementing expenditures in an effective and efficient manner – for example, ensuring that spending is in line with political preferences and is planned well so as to minimize surprises, reduce administrative overhead within MDAs, etc. In order to improve their budget and planning processes, governments in an increasing number of countries have introduced medium term expenditure frameworks (MTEF).

Saint Lucia introduced its first MTEF in the late 1990s. Later, the Government's focus broadened to include the strengthening of budget execution, commitment control and accounting, and the development of an integrated financial management information system (IFMIS). Saint Lucia is currently in the process of developing from a medium term fiscal framework towards attaining the highest level – that is, the development of a MTEF.[14]

Two (independent) public expenditure (PEFA) reports have been published over the past decade, the last one in 2009. In general, PEFA reports look into six critical areas of PFM. These are (i) the credibility of the budget, (ii) comprehensiveness and transparency; (iii) policy based budgeting, (iv) predictability and control in the budget execution, (v) accounting, recording and reporting, and (vi) external oversight (PEFA, 2009). Where the thrust of the earlier (2006) report was towards improvement across the board, the 2009 PEFA reports some stagnation – with improvements recorded on 1 indicator (out of 28 indicators) against deterioration on 8 indicators (PEFA, 2009). In terms of the credibility of the budget, recurrent expenditure has a better rating than capital expenditure. In terms of transparency, the budget is deemed adequate. However, the report identifies several significant revenue and expenditure items that are not recorded in the budget. It is not clear what the current status is on this important issue.

Some issues in the PEFA (2009) report have been taken up since – for example, the shift to performance budgeting which aims to link the budget on a one-to-one basis with outputs and outcomes. In one area, external oversight, the practice is still inadequate. This became clear when the latest audit report available at the time of writing this report turned out to cover FY 2009. The one indicator that improved, in 2009 compared to 2006, was the quality and timeliness of annual financial statements. Indicators that were stagnant or deteriorated were (inter alia) the accrual of arrears, oversight of other public entities, effectiveness in collection of tax payments, and the proportion of foreign aid inflows managed through the Government of Saint Lucia. From a fiscal space perspective, in particular the latter two are of crucial importance. If compliance in tax collections is slipping and government is not capable to act against this, it shuts down one of the avenues for creating fiscal space for social spending. Likewise, if government cannot control substantial shares of foreign aid inflows, there is a risk of allocative and operational inefficiencies in the use of these resources. It has been stated that the share of inflows that remains outside the consolidated budget is insignificant.[15]

Strategic planning for the budget starts in April (Fiscal Year) FY-1 when, throughout the summer, strategic directions and fiscal targets are developed. The economic outlook for the operational fiscal year, and revenue, recurrent expenditure and capital expenditure projections are formulated. Ministries, Departments or Agencies (MDAs) submit proposals and the initial budget allocations are drafted.

In August/September, detailed estimates are prepared and discussed between the budget office and the MDAs. The estimates are submitted, with recommendations from the budget office, to cabinet (see Table 3-6: The budget calendar of Saint Lucia).

14 MTEFs can be classified into three categories: MT Budget Frameworks, MT Fiscal Frameworks, and MT Performance Frameworks. MTFFs set revenue

15 Interview with senior officials from MOFs Budget Office.

Table 3-6: The budget calendar of Saint Lucia

Key Task	Activities	Responsibility	Indicative completion date
Medium term fiscal framework	MoF prepares draft medium term fiscal framework aggregate expenditure ceilings, updated revenue forecasts, projected and target fiscal balance baseline budget and forward estimates ceilings for each ministry indicative expenditure priorities (including possible priority investment projects).	Budget office	31/8
	Cabinet approves medium term fiscal framework	Cabinet	15/9
National budget call circular	Budget call circular issued to all agencies setting out baseline budget ceilings and requirements for: preparation of programme-based annual budget and two forward years estimates in accordance with the baseline budget ceiling' and new spending requests (above initial ceiling) , savings options, and revenue measures (i.e. fees and charges)	Budget office	15/9
Agencies submit 2014/15 budget submissions	Agencies submit baseline estimates (ie 2014/15 budget estimates and 2015/16 and 2016/17 forward estimates by Programme).	Agencies	30/11
	Agencies submit proposed new spending requests (budget pressures and new initiatives, savings options and revenue proposals.	Agencies	30/11
	Budget office rejects and returns incorrect or incomplete submissions to agencies for amendment and resubmission.	Budget office, agencies	15/12
Bilateral consultations with agencies	Budget office meets with agencies to discuss new spending proposals and proposed revenue measures in the context of the Government's strategic objectives and fiscal targets.	Budget office, agencies	1-15/1
Budget technical committee	MOF updates medium term economic and fiscal outlook report	MOF	17/1
	Budget office presents draft budget to Budget Technical Committee	Budget office, technical committee	21/1
Policy committee meeting with PM	PM meets with policy committee to finalise new spending requests, savings options and proposed revenue measures.	Policy committee	31/1
Budget meetings with PM	Agencies meet with PM to discuss expenditure policy priorities	Agencies	15/2
Final budget estimates	Cabinet meets to approve final budget ceilings including approved new spending requests, savings options and revenue measures	Cabinet	28/2
	Budget office and agencies make final adjustments to budget estimates in accordance with final budget ceilings and policy decisions.	budget office	28/2
	Budget office prepares budget ceiling reconciliation tables for each agency to highlight all approved adjustments between baseline budget ceilings (ie 2014/15 and 2015/16 forward estimates rolled forward from 2013/14) and final budget ceilings.	budget office	28/2
Budget approval	Budget estimates and appropriation bill submitted to Parliament	Minister of Finance	28/2
	Budget debate	Parliament	1-31/3
	Budget approved	Parliament	31/3

Source: Authors' compilation

In the spring, until mid-March, the budget documents are prepared and following that, end-March, Cabinet approves the budget and submit it to Parliament. Budget documents submitted to Parliament include the Minister's budget statement, economic report, financial statement containing the consolidated budget and detailed budget estimates and output based estimates of each of the MDAs in administrative and functional breakdowns. In addition to this, MOF should prepare the public sector investment plan, which is also to be submitted to Parliament. However, over the past decade no public sector investment plan has been submitted to Parliament.

Throughout the fiscal year, MDAs report on a quarterly basis on the implementation of budget plans and performance of planned results.

Improvements are ongoing in the following areas:[16]

a. The inclusion of macroeconomic and fiscal forecasts in the budget
b. The integration of budget preparation and economic planning
c. Reducing the incremental ('bottom-up') nature of the current budget preparation process and turning it into a more strategic venture

With regards to these points, the Government of Saint Lucia, with assistance from the Caribbean Regional Technical Assistance Center (CARTAC), has embarked on an important reform to improve the PFM framework and address some of the challenges. First, it has adopted 'rolling' three-year budget estimates to establish hard annual and multi-year budget ceilings to underpin a medium-term expenditure framework (see below). The aim here is to develop forward estimates to establish 'hard' multi-year budget ceilings that serve to underpin the preparation of formal programme-based budget submissions and estimates in a more strategic rather than incremental manner. The second element of the reform process calls upon Government to prepare the annual budget and forward estimates in a programme-based format. The aim of programme-based budgeting is to better align budget allocations to Saint Lucia's strategic policy goals and priorities (CARTAC 2013).[17]

In fact, in 2013, the Government of Saint Lucia published, for the first time, forward estimates of recurrent expenditure for the following two fiscal years (that is, 2014/15 and 2015/16) as a part of the 2013/14 annual estimates of revenue and expenditure. Moreover, the draft budget call circular requires MDAs to submit savings options in a more rigorous manner. The aim here is to provide Cabinet with a 'menu' of savings options to prioritize spending requests and/or meet its fiscal targets. This should eliminate the practice of submitting rather vague across the board spending cuts that are seldom linked to planned reductions in services, hence leading to additional funding requests or the accumulation of arrears (CARTAC 2013).

Hence, focusing on the objectives and planned results of Government expenditures, programme-based budgeting is an important tool for assisting Cabinet to make choices between competing demands for scarce budget resources as well as for evaluating the results and cost-effectiveness achieved from budget programmes (CARTAC 2013). According to the new budget call circular, MDAs are required to submit their 2014/15 budget and forward estimates in a revised format including the listing of their mission statement, strategic objectives, organizational objectives, programmes, programme objectives, programme costs (recurrent and capital by economic category), planned strategies for 2014/15 (that is, specific strategies aimed at improving performance) and output and outcome indicators and targets (CARTAC 2013). Hence, budget and performance information are now merged into a single format. The new format also reduces the level of detail in expenditure categories (both functional and economic) and in staff categories, focusing now more on the proportion of staffing resources allocated to front line services (CARTAC 2013).

16 This information was captured from an interview with senior officials from the MOF's Budget Office.

17 The CARTAC (2013) report presented factual information related to the budget allocations, moreover, the team verified the information given in this

Included in the PFM reform are several new tools, to be implemented in this and subsequent FYs, that aim to support fiscal discipline and a more effective prioritization of budget allocations – such as a budget scorecard, a cabinet decision table and a budget ceiling reconciliation table, all meant to strengthen the planning process and render the budget process more transparent.

There is some scope for further improvement; two issues are of particular relevance for the discussion on budgeting for children in Saint Lucia. Firstly, the formulation of performance indicators – in SMART terms – that help to reduce the incremental nature of the budget and turn it into more of a strategic venture has only just started. Secondly, there is no unified framework for recurrent and capital expenditure – the capital (development expenditure) budget is prepared parallel to the recurrent expenditure budget and the two are not integrated at a later stage, despite the fact that there are 'hidden' recurrent costs in capital expenditure. In this report, *Budget Analysis for Investments in Children in Saint Lucia*, some effort has been made to disentangle recurrent and capital expenditure items and to bring both to a level of detail where meaningful claims as to allocative and operational inefficiencies can be made.

3.2.2 Saint Lucia's social budget

This section highlights the conclusions from the accompanying reports[18] on budgeting for children, in so far as relevant for the remainder of this report. It revisits the budgets of the three key Ministries in the area of social protection policies. These are the Ministry of Education (MOE), the Ministry of Health (MOH) and the Ministry of Social Transformation (MOST). Together, these three ministries come close to what could be perceived as the social budget for Saint Lucia. The rationale behind this exercise is to assess whether there is any fiscal space to be found *within* the budgets of these three ministries.

Table 3-7 presents the social budget in constant (2012/13) prices, to reveal real trends in expenditure. What can be observed from the table is that the overall trend in social expenditures has been stagnant over the past five years. Within the overall portfolio, the trend in health spending is negative, education spending has been stagnant. Expenditure on child protection and social protection has increased according to the table. However, a caveat is in place here. In the earlier years there may have been social protection programmes that have remained off the radar and, hence, escaped the data collection. What is clear though, is that total social spending has been fairly stable, in the range of 7.5 to 8 per cent of GDP and just below 25 per cent of total government expenditures, over the past period.

18 *Budget Analysis for Investments in Children in Saint Lucia and the Mapping of Child Wellbeing in Saint Lucia*

Table 3-7: Saint Lucia's social budget (constant 2012/13 prices), 2009/10-2013/14

Expenditure in 1,000 EC$	Actual			Revised	Estimates	2009/10 to
	2009/10	2010/11	2011/12	2012/13	2013/14	2013/14
Inflation, average consumer prices (index, 2012/13=100)	90,5	93,4	96,0	100,0	101,5	
Health	**96,086**	**77,578**	**84,656**	**83,511**	**82,138**	**-3.8**
Children	**153,433**	**169,231**	**159,328**	**156,344**	**157,749**	**0.7**
Education	143,986	149,505	146,817	143,684	142,786	-0.2
Child Protection	3,890	14,046	6,214	6,393	6,318	12.9
Social Protection	5,557	5,680	6,297	6,267	8,645	11.7
Working ages	**5,107**	**27,190**	**29,337**	**46,397**	**30,516**	**3.9**
ALMPs	741	16,515	14,511	37,534	22,303	10.5
Cash transfers and social services	4,366	10,676	14,826	8,863	8,213	17.1
Elderly	**3,386**	**8,160**	**4,488**	**4,737**	**5,049**	**10.5**
Total Expenditure	**258,012**	**282,160**	**277,810**	**290,989**	**275,452**	
(percent government expenditure)	**25.2%**	**25.3%**	**23.3%**	**21.6%**	**23.3%**	
(percent GDP)	**7.3%**	**7.8%**	**7.6%**	**8.2%**	**7.9%**	

Source: GOSL (2009, 2010, 2011, 2012, 2013), authors' calculations #: trend recorded from 2010/11 onwards.

The budget of MOE [19]

- Expenditure on primary, secondary and tertiary education exceeds 70 per cent of the budget. On the other end of the scale, the share of spending on ECD is a meagre 1.2 per cent over 2009/10 – 2013/14.
- Expenditure on salaries represent two thirds of the total budget and has crowded-out other items.
- Spending execution has not improved in the period 2009/10 – 2011/12.[20]

The budget of MOH

- Administrative expenditures represent two thirds of the total budget and half of recurrent expenditure.
- Spending execution has improved.
- Most of the programme expenditures fall into it the functional classification and one third of the total budget is allocated to the three large hospitals. Other programmes, that might be more cost-effective, receive far lesser resources.

The budget of MOST

- The share of non-specified expenditure, itemized as 'other costs', is high.
- Capital expenditure is high, in particular for social transformation.
- Staff salaries on average are high – for example, more than twice the average level in the other Ministries reviewed.
- Spending execution has improved.

This short overview of the findings points to several areas where fiscal space might be found within the social spending portfolio. Rationalizing social expenditures is an avenue that provides resources for reformulating priorities and re-allocating financial resources in line with it. Chapter 5 will aim to do exactly this.

19 These points are summarized from the report entitled: Budget Analysis for Children in Saint Lucia, UNICEF 2015

20 Note that 2011/12 is the last FY where the budget as approved in parliament could be compared to the actual execution of the budget.

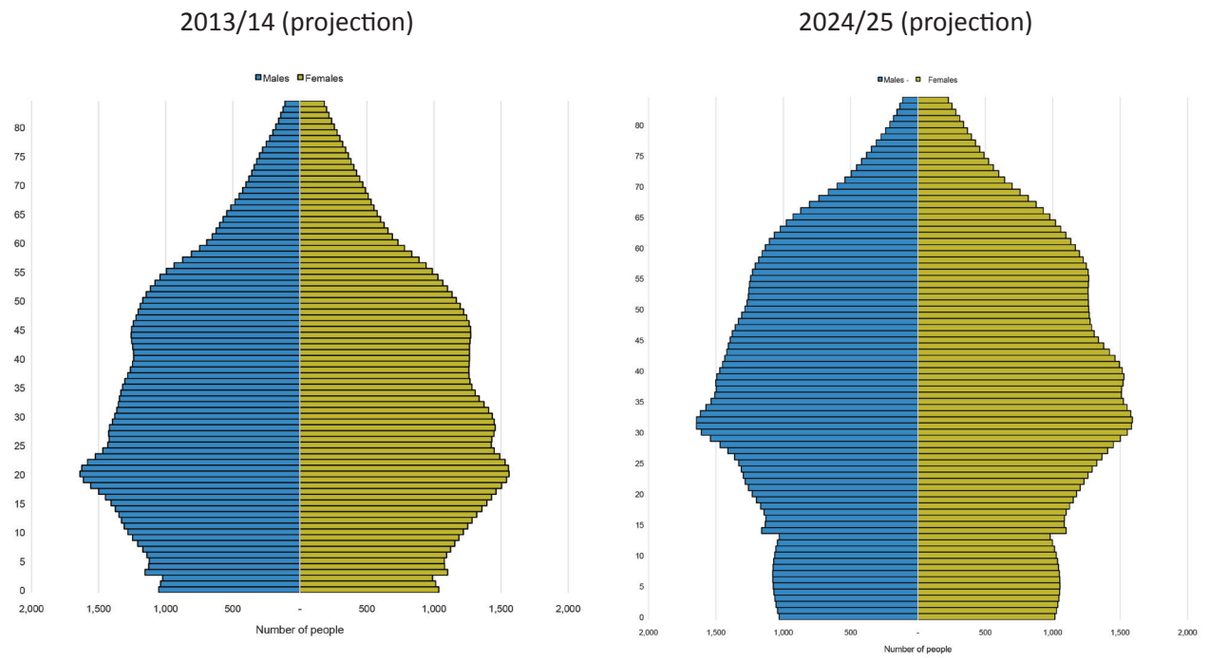
3.3 Projections: 2013/14 to 2024/5

This section discusses the projections that will be used in the costing scenarios in chapters 4 and 5, starting with demographic trends. Subsequently, macroeconomic and fiscal scenarios will be presented and the section ends with a labour market outlook.

3.3.1 Population

Figure 3-8 shows that Saint Lucia is embarking on a path of demographic change. The structure of its population is set to alter. More Saint Lucians will be in their working ages, more will be in their post-working ages (retirement age), and there will be both relative and in absolute numbers fewer Saint Lucians under the age of 18. This provides both a challenge and a window for Saint Lucia: in that it is crucial whether there will be sufficient job opportunities for the cohorts that will make their appearance in the labour market, and, if Saint Lucia is successful in providing sufficient employment opportunities for the young, there will be an enlarged tax base available to finance social protection programmes for those who cannot work.

Figure 3-8: Population projection 2013/14 and 2024/25



Source: compiled from statistics received from CSO, June 2014
Note: the age cohorts have been smoothed (CSO), the ages above 80 have not been included due to missing information with respect to 5 year's age groups.

3.3.2 Economic growth

In looking at the prospects with respect to economic growth for Saint Lucia, we can turn to the IMF medium-term GDP growth projections for Saint Lucia, which were published with projection up to 2018/19. In these projections, real GDP growth is expected to accelerate from 0.3 per cent in 2013/14 to 2.2 per cent in 2018/19. For the period 2019/20 to 2024/24, two scenarios have been compiled, based on the following assumptions (Table 3-8).

Table 3-8: Projection frame

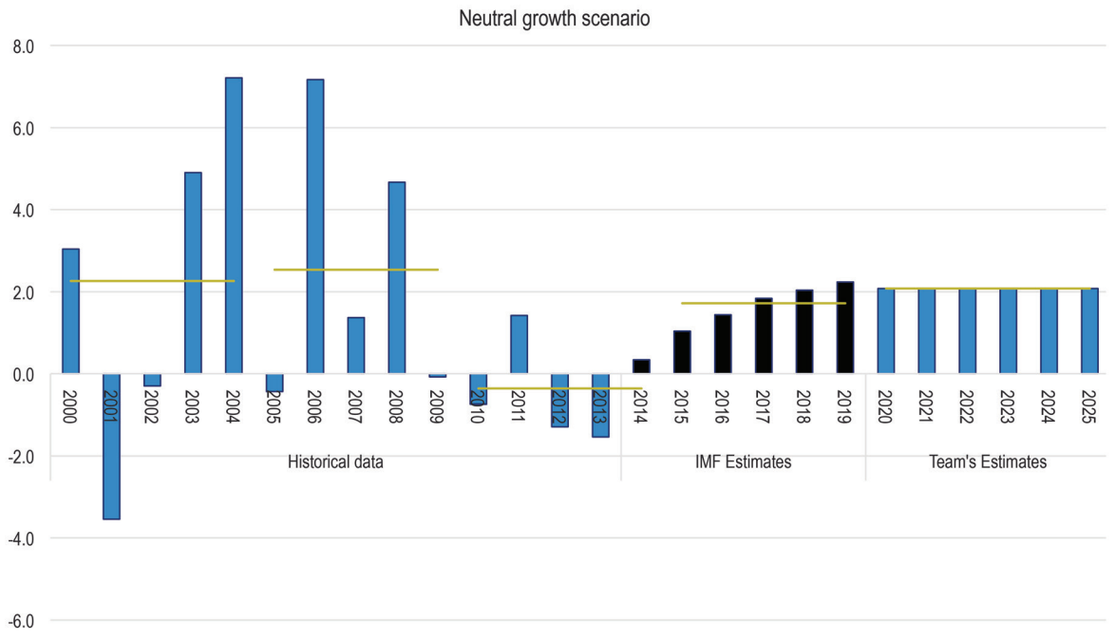
GDP growth rate: data, assumptions and projections for St. Lucia, 2000-2025									
	Historical Data				IMF Estimates			Team's Estimates	
Subject	2000	2004	2008	2012	2014	2016	2018	2020	2025
GDP growth									
Real GDP growth (%) - Neutral growth	3.0	7.2	4.7	-1.3	0.3	1.4	2.0	2.1	2.1
Real GDP growth (%) - Moderate growth	3.0	7.2	4.7	-1.3	0.3	1.4	2.0	0.7	0.7
GDP, EC Million $ (2013 prices)									
Real GDP (Million EC$) - Neutral growth	2,970	3,212	3,637	3,611	3,568	3,657	3,800	3,966	4,396
Real GDP (Million EC$) - Moderate growth	2,970	3,212	3,637	3,611	3,568	3,657	3,800	3,913	4,052
GDP Deflator (2013=100)	71.1	73.8	87.9	98.6	101.1	107.8	116.4	124.2	135.3
Population size									
Population size, in 1,000 (CSO projections, June 2014)	156.0	160.5	163.9	169.2	172.6	175.8	178.7	181.2	185.4
real GDP per capita									
GDP per capita (neutral growth)	19,039	20,019	22,192	21,348	20,670	20,800	21,267	21,890	23,711
GDP per capita (moderate growth)	19,039	20,019	22,192	21,348	20,670	20,800	21,267	21,594	21,852

Source: CSO, IMF & Authors' Calculations

Neutral economic growth scenario

Real GDP growth in this scenario will stabilize just above 2 per cent after 2019/20. This would lead to GDP amounting to 4.4 billion EC$ in 2024/25, and GDP per capita would be EC$ 23,711 (both figures are listed in 2012/13 prices). Figure 3-9 shows GDP growth rates over the entire projection horizon.

Figure 3-9: Neutral economic growth scenario 2014/15 to 2024/25

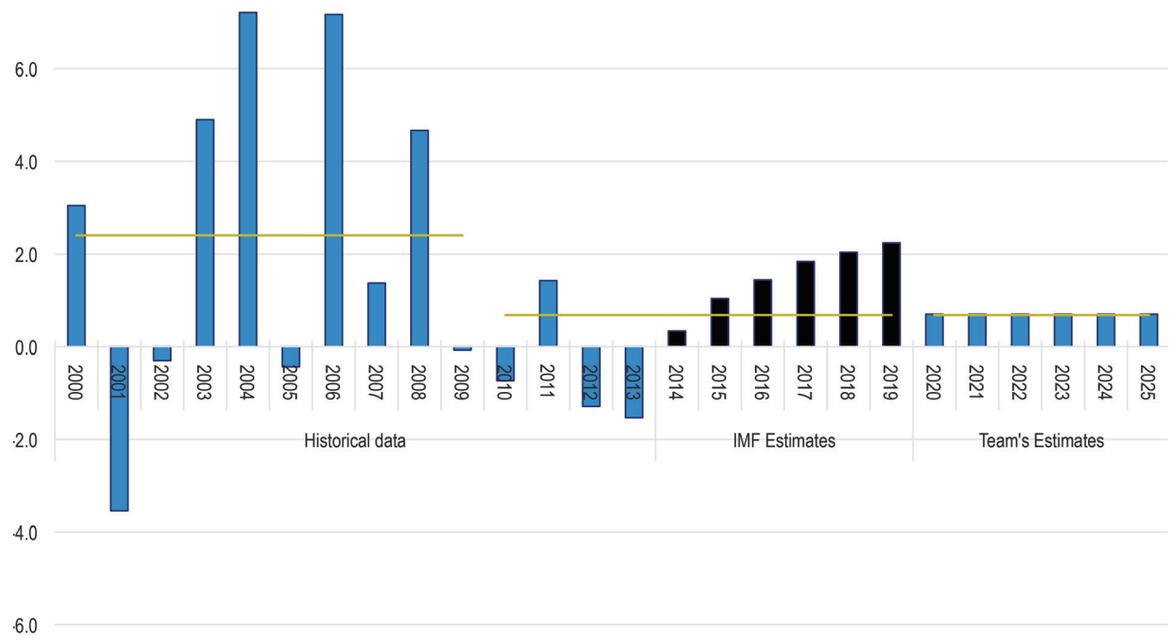


Source: CSO, IMF & authors' calculations

Moderate economic growth scenario

The second scenario, moderate growth, pictures a more conservative perspective. This scenario takes the average real GDP growth rate from 2010 to 2019 (including the IMFs projections), 0.7 per cent, as a basis for the projections. Hence, this conservative scenario is far from not-realistic. Figure 3-10 makes this visible. In this scenario GDP will be 4.1 billion EC$ in 2024/25, and GDP per capita will be EC$ 21,852 (both figures are in 2012/13 prices).

Figure 3-10: Moderate economic growth scenario 2014/15 to 2024/25



Source: CSO, IMF & authors' calculations

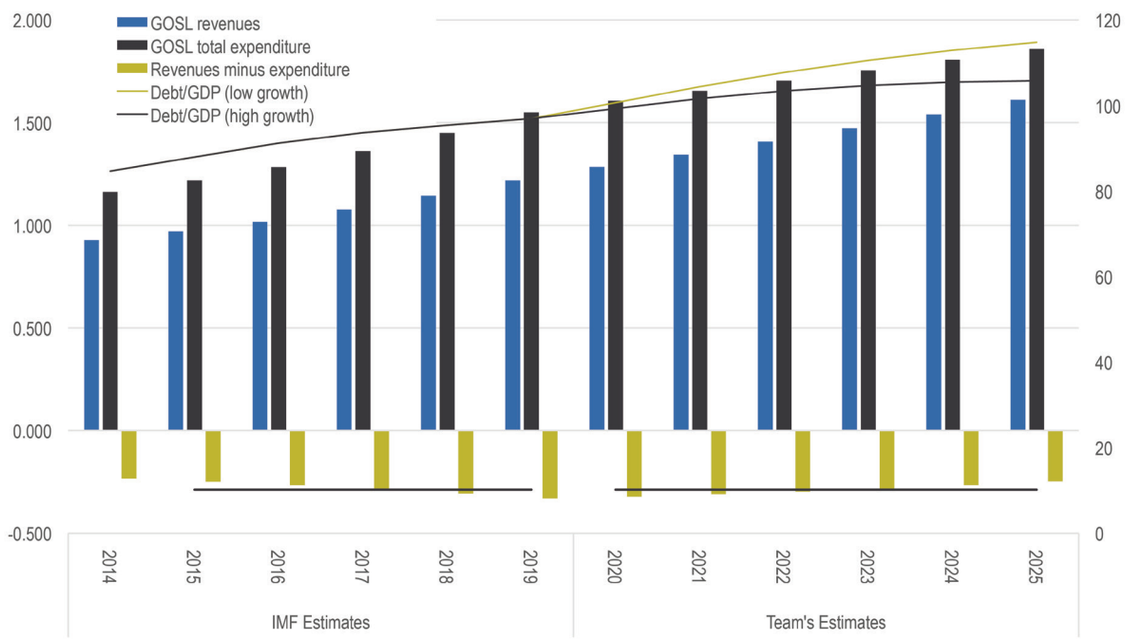
3.3.3 Fiscal scenarios

The IMF projections include estimates for government revenues and expenditure for the medium-term (2014-2019). Total government revenue, including grants, is expected to increase to EC$ 1.2 billion and total expenditure to EC$ 1.5 billion. This corresponds to a fiscal deficit of 6.9 per cent of GDP, and general government gross debt will be close to 100 per cent of GDP, both in 2019, according to the same IMF projections. For the period 2019/20 to 2024/25 the following two scenarios have been constructed.

Neutral fiscal scenario

In this scenario, expenditure and revenue growth have been chosen so as to maintain the fiscal balance at its average 2014-2019 level. This is visible in Figure 3-11. The straight dark lines at the bottom of the figure represent the averages for the fiscal deficit according the IMF estimates for 2013/14 to 2018/19 (left), and the author's estimates for the remainder of the projection period (right). To maintain the fiscal balance at its 2020 level, this scenario curbs expenditure growth to an annual level of 0.4 per cent, and it has further been assumed that revenue growth increases (accelerates) with more than 1.3 percentage points annually, from its 2014-2019 average level.

Figure 3-11: Neutral fiscal scenario 2014/15 to 2024/25

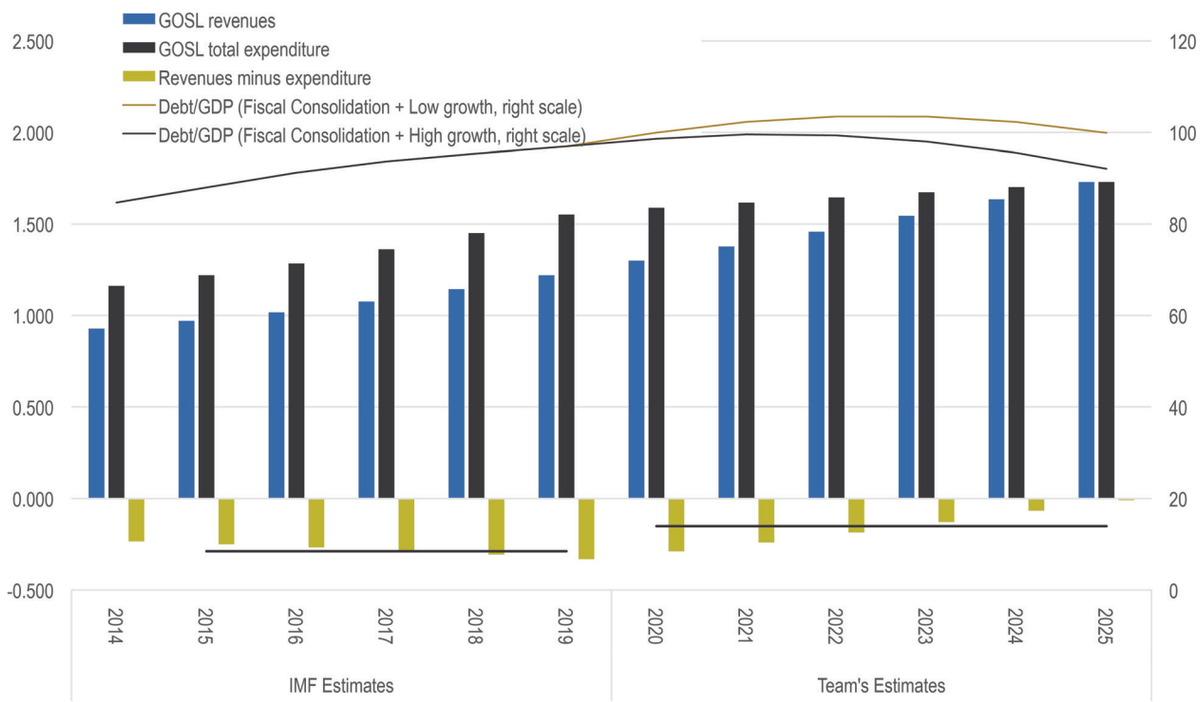


Source: CSO, IMF & authors' calculations

Fiscal consolidation scenario

In the second scenario, revenues increase at an annual 4.1 per cent growth rate in real terms, and expenditures are contained, that is maintained at their 2019 level, again in real terms. This would enable Government to achieve a balanced budget in 2025/26. Figure 3-10, below, shows that in this fiscal consolidation scenario, the share of gross debt in GDP will diminish. This can be seen when looking at the lines at the top where the dark coloured line represents GDP according to the neutral economic growth scenario, whereas the light coloured line follows the moderate growth scenario. It is clear that with a lower level of GDP (this is in the denominator) the debt ratio will be higher. In the first fiscal scenario (Figure 3-12) the debt ratio will further increase or stabilize depending on the economic growth scenario that is taken as a reference.

Figure 3-12: Fiscal consolidation scenario 2014/15 to 2024/25



Source: CSO, IMF & authors' calculations

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3.3.4 Labour force, employment and unemployment

The labour force projections have been derived from (i) the population estimates received from CSO for the period 2013 to 2025, and (ii) the trend observed in labour force participation rates over the period 2002-2013 from Labour Force Survey data. Table 3-9, upper panel, gives the projection results for 2019 and 2025.

The employment projections have been derived from (i) the two GDP scenarios that were outlined above, (ii) the past trend in labour productivity growth, calculated from CSO data on GDP (at factor cost) and employment. The result of these calculations is a rather low labour productivity growth rate: 0,23 per cent over the period 2000 to 2013. This gives an estimate for the employment elasticity of real GDP growth. This has been used to derive overall employment growth from real GDP growth in the two scenarios.

Subsequently, total employment has been distributed according to gender and age. This has been done in a more or less similar manner as explained above for labour force participation. Again, a more detailed explanation can be found in the annex. Table 3-9, middle panel, gives the projection results for 2019 and 2025.

Finally, the numbers of unemployed and corresponding unemployment rates follow from the labour force participants and the employed for each of the gender/age categories. Table 3-9, bottom panel, gives the projection results for 2019 and 2025. The table corresponds to the neutral GDP growth scenario. The same exercise has been done for the other scenario (moderate GDP growth); the results can be found in the annex.

The projections indicate that Saint Lucia faces a huge challenge in finding employment opportunities for the younger age cohorts that will make their appearance in the labour market in the near future. Youth unemployment, even in the more favourable of the two economic scenarios, is expected to increase in the medium-term (up to 2019) and only to gradually decrease afterwards.

Table 3-9: Labour force participation rates, employment to population ratios and unemployment rates, 2013 to 2025, selected years.

Labour force participation rate by age group and sex, 2013, 2019 and 2025 (neutral growth)									
Age group	2013			2019			2025 (neutral growth)		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
15-19 Years	37.5	33.1	35.4	36.5	36.8	36.6	37.3	37.3	37.3
20-24 Years	84.4	79.8	82.2	86.8	84.6	85.7	85.6	85.8	85.7
25-34 Years	86.5	75.3	80.8	87.6	83.4	85.5	87.4	88.6	88.0
35-44 Years	88.3	87.9	88.1	88.0	88.2	88.1	88.0	89.2	88.6
45-54 Years	95.1	92.0	93.5	90.0	86.2	88.1	89.4	86.2	87.8
55-64 Years	77.4	60.9	69.0	74.9	51.9	63.3	73.6	51.3	62.3
Over 65 Years	41.0	20.5	29.5	34.1	16.9	24.3	28.8	13.6	20.2
Total	**85.3**	**77.5**	**81.4**	**84.9**	**78.3**	**81.6**	**85.1**	**79.6**	**82.3**

Source: CSO statistics received, June 2014

Employment/population by age group and sex, 2013, 2019 and 2025 (neutral growth)									
Age group	2013			2019			2025 (neutral growth)		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
15-19 Years	17.6	9.7	13.7	18.9	9.0	14.0	19.9	9.7	14.9
20-24 Years	53.2	45.2	49.3	53.1	45.1	49.2	61.9	53.8	57.9
25-34 Years	65.4	55.6	60.5	58.4	52.0	55.2	60.7	56.4	58.5
35-44 Years	75.9	71.5	73.7	70.1	72.7	71.4	71.5	73.6	72.6
45-54 Years	81.8	74.7	78.3	81.6	79.2	80.4	85.8	83.7	84.8
55-64 Years	67.8	53.3	60.4	64.7	47.1	55.8	67.9	48.0	57.8
Over 65 Years	35.2	17.6	25.3	61.0	32.2	19.7	55.3	28.2	18.7
Total	**67.1**	**57.7**	**62.4**	**64.8**	**58.0**	**61.4**	**69.5**	**62.3**	**65.9**

Source: Team's calculations

Unemployment rate by age group and sex, 2013, 2019 and 2025 (neutral growth)									
Age group	2013			2019			2025 (neutral growth)		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
15-19 Years	53.0	70.7	61.1	48.3	75.6	61.8	46.7	74.1	60.1
20-24 Years	36.9	43.4	40.0	38.8	46.7	42.6	27.6	37.3	32.4
25-34 Years	24.3	26.2	25.2	33.3	37.7	35.5	30.6	36.3	33.5
35-44 Years	14.0	18.6	16.3	20.3	17.6	19.0	18.7	17.5	18.1
45-54 Years	14.0	18.8	16.3	9.3	8.1	8.7	4.0	2.8	3.4
55-64 Years	12.4	12.5	12.4	13.6	9.3	11.9	7.7	6.4	7.2
Over 65 Years	14.1	14.0	14.0	20.6	16.3	18.9	8.5	5.0	7.2
Total	**21.3**	**25.5**	**23.3**	**23.7**	**25.9**	**24.8**	**18.3**	**21.7**	**19.9**
Youth unemployment (age 15-34)	32.2	37.5		36.5	44.5		31.5	40.4	
Adult unemployment (age 35+)	13.7	17.6		14.7	12.4		10.7	10.0	
Youth/adult ratio	**2.35**	**2.13**		**2.49**	**3.59**		**2.94**	**4.04**	

Source: Team's calculations

3.3.5 Fiscal space for Saint Lucia

The exercise which follows applies a simple simulation model to assess Saint Lucia's fiscal space and to test its robustness against some alternative scenarios with respect to the development of revenues, expenditures and alternative parameters, such as the (implicit) interest rate on public debt. The following definitions are useful for this exercise (derived from Allen et al. eds., 2013, p. 24).

$$\frac{\text{Primary deficit}}{GDP} = \frac{\text{Fiscal deficit}}{GDP} - \frac{\text{Interest}}{GDP}$$

$$\text{where, } \frac{\text{Interest}}{GDP} = \text{Implicit Interest Rate} * \frac{\text{Debt}}{GDP} \text{ and } \frac{\text{Debt}}{GDP} = \text{Debt Ratio}$$

$$\text{Change in Debt Ratio} = \frac{\text{Primary deficit}}{GDP} + (\text{Implicit Interest Rate - Growth Rate}) * \text{Debt Ratio}$$

The latter formula has been applied in a simple simulation exercise to assess the evolution of the debt/GDP ratio in the longer-term. The rationale for this exercise is to obtain a value for non-interest public expenditures, given certain assumptions on real GDP growth, the implicit interest rate and the growth rate of government revenues. For the initial FY (2015), the values (initial debt/GDP ratio and revenue and expenditure shares in GDP) are as close as possible to the actual values.

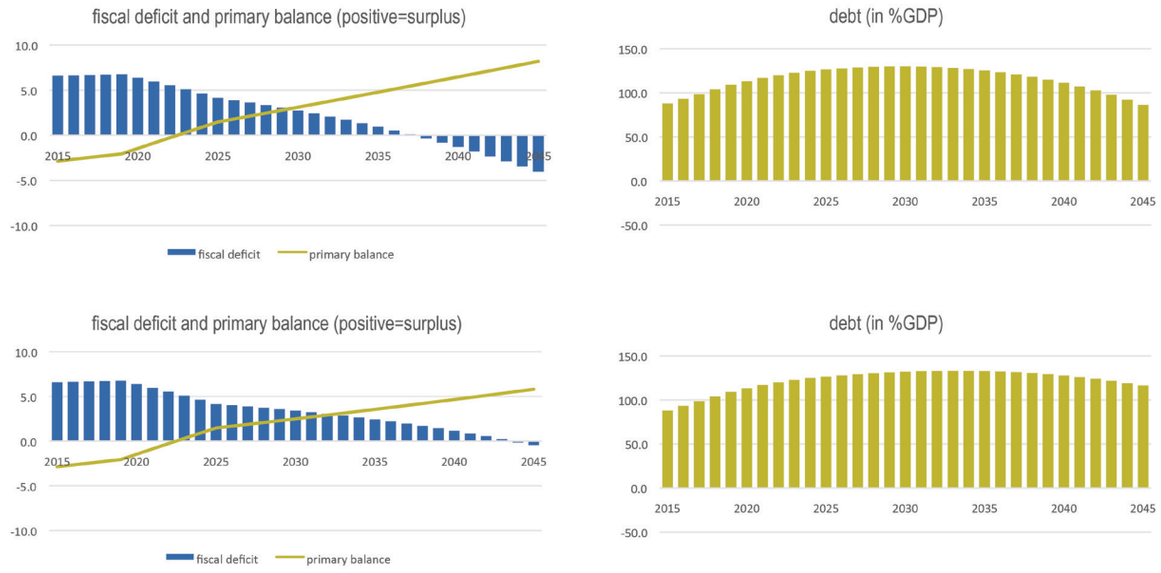
For the growth rates (real GDP, revenues and non-interest expenditures) three time periods have been defined. Table 3-10 provides more details. The parameters in the first column (2015 – 2020) are in line with IMF projections for Saint Lucia. The second column presents the parameters corresponding with the neutral economic growth and fiscal scenarios discussed earlier in this chapter. The third column presents parameters for the period after 2025. The projection horizon in this report extends to 2025. However, to make an assessment of fiscal space it is imperative to look further into the future. There are two scenarios after 2025. The first assumes that non-interest expenditure after 2025 accelerates to 1.6 per cent; this is one percentage point above the assumed growth rate for 2020-2025. The second scenario assumes that non-interest expenditure even accelerates half a percentage point more.

Table 3-10: Fiscal space simulation for Saint Lucia: model parameters

parameters + initial values	2015	2020	2025	2025
GDP growth rate	1.5%	2.1%	2.1%	2.1%
Initial level of debt (FY0), in % GDP	81.3			
Implicit interest rate on debt	4.6%	4.6%	4.6%	4.6%
Initial tax/non-tax revenues (FY1), % GDP	23.6			
Initial grants (FY1), % GDP	2.1			
Initial non-interest expenditure (FY1), % GDP	28.6			
Growth rate of tax/non-tax revenues	1.5%	2.9%	2.9%	2.9%
Growth rate of grants	1.5%	2.9%	2.9%	2.9%
Growth rate of (non-interest) expenditure	0.8%	0.6%	1.6%	2.1%

Note: the first 3 columns provide the parameters for the top panel of Figure 3-13, the fourth column provides the parameters for the bottom panel of Figure 3-13. The difference between the two is a 2.1 per cent, instead of a 1.6 per cent annual growth rate of non-interest expenditure.

Figure 3-13: Fiscal space scenarios for Saint Lucia, Neutral Economic and Fiscal scenarios



Source: Authors' calculations

Figure 3-13 presents the results of this simple exercise. The left two graphs show the fiscal deficit and primary surplus in the two scenarios. The right two graphs show the evolution of the debt/GDP ratio. Note that in the fiscal consolidation scenario – not shown here – the fiscal deficit will be zero in 2025, whereas in the neutral scenario this will eventually also be the case, but much later.

The model is extremely sensitive to small variations in the parameters. For example, a 1.5 percentage point increase in the implicit interest rate on public debt will result in the debt/GDP ratio no longer converging. Likewise, a larger increase in the growth rate of non-interest expenditure or a lower growth rate of revenues can have similar consequences for the debt/GDP ratio.
This leads to following conclusions with respect to fiscal space in Saint Lucia.

- **2014/15 – 2019/20**: there is extremely limited space for growth of Government expenditure, even in the neutral economic growth scenario. Government needs to improve its primary balance, before there can be fiscal space for increased social spending.
- **2019/20 – 2024/25**: the space for government to increase its spending is even less, even when revenue growth is accelerating in this period.
- **2024/25 – …**: in the longer term there should be fiscal space to increase social expenditures. Only after the fiscal deficit is in the range of 3 per cent and lower, and Government has achieved a surplus on its primary balance, there will be fiscal space to accelerate social spending.

If it would have been the case that the public debt/GDP ratio would have been lower to start with, interest costs would have been less of a burden on the Government's budget. In this situation, the prospects of increasing social spending would have been better. But, unfortunately, this is not the actual situation for Saint Lucia. Further, it is important to note that in the simulation model it is the differential between revenue growth and non-interest expenditure growth which matter. Hence, it would be sensible for the Government to define a target for expenditure growth that uses revenue growth as an anchor.

The dimensions for fiscal space

The remainder of this chapter will revisit each of the dimensions that were discussed in chapter 2 and assess fiscal space for Saint Lucia, against the conclusions that can be drawn from this chapter.

***(i) Revenues*:** Total revenues have increased 1.9 per cent on average between 2007/08 and 2012/13. Tax revenues in the same period increased 0.6 percent on average and income taxes even less: 0.3 per cent. The VAT that was introduced in October 2012 led to a strong increase in indirect taxes on domestic goods and services. Not-tax revenues, on the other hand, decreased 9.3 per cent on average in the same period. The authors of this report believe that there is some fiscal space in the area of revenues. This has been captured in this report in the assumption that Government will succeed to further step up revenues at an annual rate of 2.9 in the neutral fiscal scenario and even 4.1 per cent in the fiscal consolidation scenario. In both cases this would mean an acceleration of revenue growth from the rate between 2008/09 to 2013/14 and 1.5 per cent in the IMF projections 2013/14 to 18/19.

***(ii) Expenditure*.** Government expenditure has increased since the global financial crisis. The average annual real growth rate of government spending has been 3.6 per cent between 2008/09 and 2013/14. Major items in the budget are wages and salaries (representing 44 per cent of total current expenditure in the government budget in 2013/14, with an average annual increase of 2.4 per cent between 2008/09 and 2012/13), interest costs (5.9 per cent increase on average over the same period), purchases of goods and services (4.7 per cent annual increase) and current transfers (3.7 per cent annual increase). Hence, fiscal space should be sought first of all there. Still, curbing the current upward trends will be a major challenge for government in the near future when it is to find fiscal space for re-allocations to social spending.

***(iii) Deficit financing*.** The deficit has fluctuated between 6 and 7 per cent of GDP in the period 2010/11 to 2014/15, with an exception in 2011/12 when it exceeded 9 per cent. In the IMF projections the fiscal deficit remains within this bandwidth (6 to 7 per cent) up to 2018/19. Government has not managed to operate a primary surplus over most of the recent years. Gross debt has increased to around 84 per cent of GDP in 2013/14, and is projected to climb further in the upcoming decade. Government therefore will have a major challenge to contain the level of debt in the medium run, in an effort to progressively lower debt in the longer run. Hence, there is no fiscal space to be found in this dimension.

***(iv) Aid*.** For some time now, Saint Lucia has entered the ranks of the upper middle income countries. It is therefore not to be expected that grants from development agencies or foreign governments will continue to provide significant fiscal space in the course of the projection period.

***(v) Illicit financial flows*.**[21] **S**aint Lucia accounts for less than 1 per cent of the global market for offshore financial services (Tax Justice Network, 2013), this to some extent limits the relevance of fighting illicit financial flows as a factor in creating fiscal space. Nevertheless, there is significant room for improving transparency since Saint Lucia has a low comparative ranking in this respect (Tax Justice Network, 2013). Information on financial transactions between resident and non-resident companies or individuals is not collected on a regular basis, and there is little cooperation between the Government of Saint Lucia and other governments to trace and deter illicit financial flows. Having said this, it is not clear what the net effect of effectively fighting illicit financial flows would be on the public finances situation in Saint Lucia.

***(vi) Reserves*.** Tapping into fiscal and/or foreign exchange reserves is not a genuine option for the Government of Saint Lucia. There are no major state-owned enterprises that could be auctioned and apart from revenue collection from tourism there are no major channels to step up foreign exchange reserves. In fact, Saint Lucia has been running a sizable negative trade balance close to 20 per cent of GDP for the past years and there are no signs of major improvement (IMF 2012).

21 Note that this was subsumed under the aid dimension in the discussion in chapter 2.

(vii) Macroeconomic policies. Last but not least, more conducive macroeconomic policies have been listed as a dimension to increase fiscal space. However, as has been mentioned, operating a fiscal deficit has been disqualified as a viable avenue. This leaves monetary policy as an option. However, Saint Lucia (as a member of the Eastern Caribbean Currency Union) has no discretionary room to manoeuvre at the national level. Monetary policy would need to be coordinated at the ECCB (Eastern Caribbean Central Bank) level and this will be difficult as inflation rates of the 6 member countries are rarely in sync. Moreover, IMF projects inflation for Saint Lucia in the short to medium term (up to 2018/19) to be around 3 to 4 per cent leaving little room for policies that would drive inflation to higher levels.

4 Projections, 2013/14 - 2024/25: *The Status Quo Scenario*

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4.1 Introduction and method

This chapter contains the results of projections of the current programmes in the four areas that have been studied in the report "Budgeting for Investment in Children in Saint Lucia", these areas are: education, social protection, child protection and health. In this scenario, therefore, the status quo has been projected using the assumptions with respect to economic growth, public finances and demographics and the labour market that were outlined in the previous chapter.[22]

The method applied to arrive at expenditure projections for the various programmes is as follows:

- The first step was to calculate real annual figures for budget and expenditure by recalculating the nominal figures for the period 2009/10-2013/14 into real figures, using the 2013/14 price as a base.
- Subsequently, the number of beneficiaries has been calculated using either of the following four 'driver techniques': (1) fixing the share in the relevant age group (in particular when this is sizable), (2) extrapolating the trend increase 2009/10 to 2013/14, (3) extrapolating the average for the same period, this was applied when year-to-year figures were very volatile, or (4) fix the latest figure, this method was applied when information was only available for one to two years, and trends or averages could not be calculated.
- The third step was to calculate expenditure per beneficiary using either of the following three driver techniques: (1) the trend increase in per capita expenditure from 2009/10 to 2013/14, (2) the average for the same period, again this was applied when year-to-year figures were very volatile, or (4) fix the latest per capita spending figure, again when information was only available for one to two years. In a few cases, no expenditure information was available. For these programmes, the authors used information from the budget estimates, assuming this gave a reliable measure for expenditure.

22 One caveat on the data situation needs to be made. There were some serious deficiencies in available data with respect to some of the programmes. Sometimes, expenditure information was not available and budget information was used instead. For several programmes, time series data was not of sufficient length to estimate trends in utilization and costs. In these cases assumptions had to made. For most programmes, information to produce reliable estimates for administrative costs was not there.

- The final step, after figures for the number of beneficiaries and the expenditure per beneficiary were constructed, was to calculate total expenditure by multiplying the two.

4.2 Projection results: the status quo scenario

4.2.1 Health expenditure

For most of the health programmes, detailed cost and utilization statistics were not available. In particular, the information currently available does not allow for calculating expenditure shares of the various age categories: children, persons in their working age, and elder Saint Lucians.

The only programme for which utilization statistics were available is primary health care. This information has been used for projection purposes. In fact, the current utilization profiles, for males and females separately, of three broad age groups: children (<15), working age (15-64) and elderly (65+) were used to calculate average costs for each of these six categories. These costs were then multiplied with the numbers of persons in each category throughout the projection period to obtain programme expenditure. For three other programmes, general hospitals, district hospitals and medicine expenditure, the trend 2009/10 to 2013/14 was extrapolated. For general hospitals this gives an annual growth of 2.3 per cent, for district hospitals annual growth derived from this past trend was 0.1 per cent, and for medicines this was 0.6 per cent. For the remaining health programmes, public health and mental health, current expenditure has been fixed. Both programmes have seen their expenditure decrease significantly in the past five years, and it was not deemed realistic to extrapolate these negative trends.

The above pertains to total expenditure. For administrative costs similar assumptions were applied to arrive at separate projections. That is, for general and district hospitals and medicines past trends were extrapolated, and for primary health care, mental health care and public health, administrative costs were fixed at their current levels. Table 4-1 gives the projection results.

Table 4-1: Health expenditure projections (constant 2012/13 prices), status quo scenario: 2014/15-2024/25

Expenditure in 1,000 EC$	Projections						
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2024/25
General Hospitals	53,084	54,322	55,590	56,888	58,215	59,574	66,859
District Hospitals	2,312	2,315	2,318	2,320	2,323	2,326	2,340
Medicines (drugs, alcohol rehabilitation)	594	598	601	605	608	612	630
Prim. Health Care (incl. Gros Islet Polyclinic)	11,618	11,736	11,854	11,971	12,087	12,203	12,804
Mental Health	6,140	6,140	6,140	6,140	6,140	6,140	6,140
Public Health	9,726	9,726	9,726	9,726	9,726	9,726	9,726
Total Expenditure	83,473	84,836	86,228	87,649	89,099	90,580	98,498
(percent government expenditure)	**7.3%**	**7.3%**	**7.2%**	**7.2%**	**7.2%**	**7.1%**	**7.3%**
(percent GDP)	**2.3%**	**2.4%**	**2.4%**	**2.4%**	**2.3%**	**2.3%**	**2.3%**

Source: Authors' calculations

4.2.2 Programme expenditure

In this area, three categories of programmes can be distinguished: education, social protection and child protection programmes. Education represents the largest component of expenditure: 4.1 per cent of GDP was spent on education in 2013/14. Compared to education, the other two categories, child protection and social protection, constitute much smaller items on the Government budget – 0.2 per cent of GDP in 2013/14 was spent on child protection programmes and 0.3 per cent of GDP on social protection programmes for children. Note that the information to assess how much of spending on social protection programmes targeting households rather than individual persons was not available. Hence, some of the amounts spent on these programmes – notably, public assistance and KSL – ideally should also be counted under this category.

The assumptions are as follows: the steps to construct projections have been outlined earlier and for most programmes this approach was followed. For two programmes under education, special education and student welfare support, the information was not sufficient to follow the general approach and for these programmes expenditure levels have been fixed at their current (2013/14) levels. The same applies for birth registration under child protection and the after school programme. For birth registration projected costs follow the past trend over 2009/10 to 2013/14, and for the after school programme the average (in constant prices) of the annual expenditure over 2010/11 to 2013/14 has been taken for the projections as spending for this programme has turned out to be rather volatile in the recent past.

For all other programmes numbers of beneficiaries have been projected. For education and the social protection programmes the latest information on the numbers of students as a fraction of their respective age groups has been used (utilization rates). Subsequently from the population projection statistics from CSO multiplied with these utilization rates, the numbers of students were derived for the projection period. For the child protection programmes this approach did not make sense as too few students are in each of these programmes. Here, the numbers of students were fixed at either their current levels or the average level over the period 2009/10 to 2013/14.

To arrive at expenditure per beneficiary (per capita spending), past trends were extrapolated (in constant prices). However, for a few programmes this was not possible given that there were no data or given that the programme was only recently established. Here, simply the current per capita spending level was fixed. This was done for BCT, transit home under child protection, and once-off bursaries and OLPC under social protection.

This year, the Government has introduced a new programme: a disability grant for children. Currently, 120 children have been enrolled in the programme and receive a grant of EC$ 200 per month. This programme has been included in the projections. The number of children who are eligible for the newly introduced child disability grant is assumed to rise to the target of 690 in 2018/19 and remain at that level onwards until the end of the projection period. The annex presents tables for the number of beneficiaries and per capita spending for the various child protection and social protection programmes.

The results are presented (Table 4-2) taking the neutral GDP growth scenario as a reference. The figures for the other (moderate) GDP scenario are presented in the annex. Note further that expenditure is listed in real terms (constant prices).

It is clear from the projections that no major increases or decreases in expenditure on child related programmes are to be expected in Saint Lucia. This may not be a great surprise given the declining trend in birth rates over the past decade. The reason that expenditure is not, in fact, declining for the education programmes is that increasing real per capita spending tends to offset decreasing trends in numbers of students. This has been true for early childhood education, primary and secondary education. For tertiary education the opposite holds true. For the child protection programmes the projections are the outcome of the assumptions listed above, in particular the fact that for most programmes pupils and per capita spending has been fixed. For the social protection programmes

the picture is rather mixed. Most programmes appear to decline, with the exception of school feeding.

The fact that general spending on education, child protection and social protection appears rather stable does not mean that there are no shifts within these three categories between single programmes. This, for example, is clearly visible when comparing school transportation and school feeding, both under social protection.

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Table 4-2: Child related expenditure projections (constant 2012/13 prices), status quo scenario: 2014/15-2024/25

Expenditure in 1,000 EC$	Projections						
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2024/25
Education (relevant programmes for ages <18)							
Early Childhood education	2,430	2,357	2,274	2,348	2,419	2,485	2,737
Primary Education (curriculum implementation)	55,067	54,962	55,185	54,744	54,607	54,777	58,556
Secondary Education	67,303	68,511	69,881	71,375	72,925	74,469	83,867
Tertiary Education	15,691	15,812	15,934	16,056	16,180	16,304	16,941
Special Education	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Student Welfare Support	250	250	250	250	250	250	250
Total Expenditure Education (< age 18)	**143,741**	**144,892**	**146,524**	**147,773**	**149,381**	**151,286**	**165,352**
(percent government expenditure)	**12.5%**	**12.4%**	**12.3%**	**12.1%**	**12.0%**	**11.8%**	**12.2%**
(percent GDP)	**4.0%**	**4.0%**	**4.0%**	**4.0%**	**3.9%**	**3.9%**	**3.8%**
(Child Protection)							
BTC	2,700	2,700	2,700	2,700	2,700	2,700	2,700
Transit Home (Human Services)	1,058	1,058	1,058	1,058	1,058	1,058	1,058
Upton Gardens Girls School (Human Services)	369	380	392	404	417	430	500
Foster Care (Human Services)	197	197	197	197	197	197	197
CDP	934	934	934	934	934	934	934
BCF, attributed to ages 16-18 population	814	829	845	861	877	894	981
Birth registration	**1,250**	**1,235**	**1,220**	**1,205**	**1,191**	**1,177**	**1,108**
Total Expenditure Child Protection	**7,320**	**7,332**	**7,345**	**7,358**	**7,373**	**7,388**	**7,477**
(percent government expenditure)	**0.6%**	**0.6%**	**0.6%**	**0.6%**	**0.6%**	**0.6%**	**0.6%**
(percent GDP)	**0.2%**	**0.2%**	**0.2%**	**0.2%**	**0.2%**	**0.2%**	**0.2%**
(Social Protection)							
School Transport	3132	3004	2898	2763	2649	2553	2237
School Feeding	2115	2190	2282	2350	2433	2532	3259
Bursaries (one-off)	1240	1215	1186	1155	1124	1093	954
OLPC	3190	3126	3082	3002	2940	2896	2825
After School Programme	800	800	800	800	800	800	800
PAP**							
SSDF (Koudemain SL) - individuals, age <15							
Child disability grant	**288**	**480**	**840**	**1200**	**1656**	**1656**	**1656**
Total Expenditure	**10,477**	**10,335**	**10,249**	**10,070**	**9,946**	**9,875**	**10,075**
(percent government expenditure)	**0.9%**	**0.9%**	**0.9%**	**0.8%**	**0.8%**	**0.8%**	**0.7%**
(percent GDP)	**0.3%**	**0.3%**	**0.3%**	**0.3%**	**0.3%**	**0.3%**	**0.2%**

Source: Authors' calculations

4.2.3 Programme expenditure for the working age population

In this area, a distinction has been made between active labour market programmes (ALMPs) and programmes providing cash transfers or in kind services. The first, ALMPs, represent around 1 per cent of the GDP share. This is rather sizable, even compared to OECD countries. On the other hand, cash transfer programmes and services represent 0.3 per cent of GDP. Given that most of the latter programmes target households instead single persons, and given that some household members will be either below age 18 or above 65, the 0.3 percent even disguises the fact that spending on welfare programmes and services in kind for the Saint Lucians in their working ages is actually lower.

The assumptions are in line with what was described before. For most programmes expenditure projections are the outcome of projected numbers of beneficiaries or participants multiplied by per capita spending levels. Exceptions are BNTF, YAEP and other SSDF programmes (outside the ones listed in the table). For the latter the expenditure trend resulting from 2009/10 to 2013/14 has been extrapolated. The other two programmes were fixed at their current levels.

For all other programmes numbers of beneficiaries have been projected. For most of the ALMPs the latest information on the numbers of participants as a fraction of the relevant age categories has been used (utilization rates) – this varies from programme to programme, given their respective target age groups, for example, for SMILES females aged 20-39 were used, whereas for OECS skills for jobs, both females and males in the ages 15-39 were used as reference for calculating utilization of the programme. Similar to what was explained earlier, from the population projection statistics from CSO multiplied with these utilization rates, the numbers of participants have been derived for the projection period. For some programmes trends in beneficiaries were extrapolated (HOPE and NELP). For the cash transfer programmes and services in-kind, either trends were not available or rather volatile. Hence, the numbers of beneficiaries (households) were fixed at either their current levels or the average level over the period 2009/10 to 2013/14.

To arrive at expenditure per beneficiary (per capita spending), either past trends were extrapolated or, when this was not possible for similar reasons as listed earlier under child related programmes, again the current per capita spending level was fixed, or the average over the period 2009/10 to 2013/14 was used. This was done for NICE, STEP, SMILES, NSDC, OECS, KSL, Belfund, Family and Child Care and the Women's Support Centre.

The results are presented (Table 4-3) taking the neutral GDP growth scenario as a reference. The general picture emerging from the table is that for both categories of programmes expenditure shares are declining. This is most clearly visible when looking at expenditure as a share of total government expenditure but this is optical as the ratio between the two benchmark indicators (GDP and government expenditure) is the same.

What are the factors that cause expenditure to decline? For the cash transfer programmes and services the reason is simple. The assumptions are such that all of the programmes are fixed in real terms. Both their numbers of beneficiaries and their per capita spending levels have maintained constant. With real GDP growing and government spending in line with it, it is not difficult to see that relative expenditure shares of these programmes would decline.

For the ALMPs the situation is a somewhat more complicated. For some programmes, for example NICE and STEP, the increase in real expenditure follows from an increase in the target population. For other programmes, for example HOPE and to some extent NELP, the projected decline in spending follows the declining trends in numbers of participants and per capita spending. The result is that some programmes are projected to increase their spending, whereas for others the opposite will be the case. The overall picture is that these cause some shifts in expenditure between the various ALMPs, where some lose more than others.

Table 4-3: Social protection for working ages projections (constant 2012/13 prices), status quo scenario: 2014/15-2024/25

Expenditure in 1,000 EC$	Projections						
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2024/25
(ALMPs)							
NICE/JOBS (NAPP, CPIP, SBTAP)	23,173	23,543	23,878	24,179	24,446	24,674	25,153
STEP	3,659	3,717	3,770	3,817	3,860	3,896	3,971
SMILES	1,061	1,077	1,092	1,105	1,116	1,126	1,147
SSDF (HOPE)	3,356	3,120	2,901	2,698	2,508	2,332	1,621
SSDF (BNTF)	2,000	2,000	2,000	2,000	2,000	2,000	2,000
NELP	852	877	901	927	953	980	1,128
NSDC	463	475	487	499	510	520	560
OECS	1,342	1,352	1,359	1,364	1,367	1,366	1,322
YAEP	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Total Expenditure	**38,405**	**38,661**	**38,889**	**39,090**	**39,261**	**39,396**	**39,401**
(percent government expenditure)	**3.3%**	**3.3%**	**3.3%**	**3.2%**	**3.2%**	**3.1%**	**2.9%**
(percent GDP)	**1.1%**	**1.1%**	**1.1%**	**1.0%**	**1.0%**	**1.0%**	**0.9%**
(Cash Transfers and Services)							
PAP (individuals, working age)	3,239	3,239	3,239	3,239	3,239	3,239	3,239
SSDF (Koudemain SL)#	1,530.0	1,530.0	1,530.0	1,530.0	1,530.0	1,530.0	1,530.0
SSDF (other programmes)#	2,580	2,106	1,720	1,404	1,146	936	340
Belfund	1,175	1,175	1,175	1,175	1,175	1,175	1,175
Women's Support Centre - MOST Gender Division	368	368	368	368	368	368	368
Family and Child Care - Human services	2,786	2,786	2,786	2,786	2,786	2,786	2,786
Total Expenditure	**11,677**	**11,204**	**10,817**	**10,502**	**10,244**	**10,034**	**9,437**
(percent government expenditure)	**1.0%**	**1.0%**	**0.9%**	**0.9%**	**0.8%**	**0.8%**	**0.7%**
(percent GDP)	**0.3%**	**0.3%**	**0.3%**	**0.3%**	**0.3%**	**0.3%**	**0.2%**

Source: Authors' calculations

4.2.4 Programme expenditure for the elderly

Here, a few remarks are in place. Saint Lucia does not have a large number of programmes targeting the elderly population. Former formal sector workers are entitled to a social security pension from NIS. Other residents fall back on either their savings, or – more likely – their families for income support. Public assistance is transferred to the household so the poor elderly will benefit from it. Statistics that would allow making breakdowns of the individual members in welfare receiving households were not available so the level of social protection deriving from public assistance to the elderly could not be accurately estimated. This report has assumed that half of spending accrues to elderly household members. The latest information that was available from NIS dates back to 2009/10. The trend increase in number of retirement pensioners and the trend in the average pension level were used for the extrapolations. The expenditure projections that derive from that have not been counted in the aggregate expenditure figure because this programme is not financed from general revenues but from social insurance contributions.

The only remaining programme is the senior citizens home, with a capacity of 56 beds. The number of participants in this programme was fixed and the same applies for the current level of per capita spending at its 2013/14 level (this was all there was in terms of information). The projections listed in Table 4-4 are merely the outcome of a simple multiplication of these two indicators.

Table 4-4: Social protection for elderly expenditure projections (constant 2012/13 prices), Status Quo scenario: 2014/15-2024/25

Expenditure in 1,000 EC$	Projections						
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2024/25
NIS (old age pensions)	44,493	47,064	49,784	52,661	55,705	58,924	78,037
PAP**	3,239	3,239	3,239	3,239	3,239	3,239	3,239
Senior Citizens Home	1,821	1,821	1,821	1,821	1,821	1,821	1,821
Total Expenditure (excl. NIC)	5,060	5,060	5,060	5,060	5,060	5,060	5,060
(percent government expenditure)	**0.4%**	**0.4%**	**0.4%**	**0.4%**	**0.4%**	**0.4%**	**0.4%**
(percent GDP)	**0.1%**	**0.1%**	**0.1%**	**0.1%**	**0.1%**	**0.1%**	**0.1%**

Source: Authors' calculations

4.3 Conclusions: expenditure projections in the status quo scenario

Total expenditure, an estimated 26.1 per cent of government expenditure and 8.4 per cent of GDP in 2014/15[23], is expected to more or less stabilize in the projection period. Much depends on the scenarios assumed for GDP growth and for public finances. For example, in the most optimistic of the four scenarios that are possible in combining the two GDP scenarios and fiscal scenarios, total expenditure will decrease to 24.7 per cent of total government expenditure corresponding to 7.8 of GDP. In the least optimistic of the four scenarios, total expenditure will more or less stabilize at 26.2 percent of government expenditure and 8.3 per cent of GDP.

23 Note that these figures for 2014-15 appear higher than the figures shown in the social budget at the end of chapter 3. For example, the social budget 'jumps' from 7.9 per cent in 2013/14 to 8.4 per cent of GDP in 2014/15. The reason for this is that not for all the programmes there were data for FY2013/14, hence the 7.9 per cent should be considered as under estimating the real size of the social budget for 2013/14, and in the projections this has been corrected.

Table 4-5: Overall expenditure projections (constant 2012/13 prices), Status Quo scenario: 2014/15-2024/25

Expenditure in 1,000 EC$	Projections						
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2024/25
Inflation, average consumer prices (index, 2012/13=100))							
Health	**83,473**	**84,836**	**86,228**	**87,649**	**89,099**	**90,580**	**98,498**
Children	**161,538**	**162,559**	**164,117**	**165,201**	**166,699**	**168,549**	**182,904**
Education	143,741	144,892	146,524	147,773	149,381	151,286	165,352
Child Protection	7,320	7,332	7,345	7,358	7,373	7,388	7,477
Social Protection	10,477	10,335	10,249	10,070	9,946	9,875	10,075
Working ages	**50,082**	**49,865**	**49,706**	**49,591**	**49,505**	**49,429**	**48,839**
ALMPs	38,405	38,661	38,889	39,090	39,261	39,396	39,401
Cash transfers and social services	11,677	11,204	10,817	10,502	10,244	10,034	9,437
Elderly	**5,060**	**5,060**	**5,060**	**5,060**	**5,060**	**5,060**	**5,060**
Total Expenditure	**300,153**	**302,320**	**305,112**	**307,501**	**310,362**	**313,618**	**335,301**
(percent government expenditure)	**26.1%**	**25.9%**	**25.6%**	**25.2%**	**24.9%**	**24.5%**	**24.7%**
(percent GDP)	**8.4%**	**8.4%**	**8.3%**	**8.3%**	**8.2%**	**8.1%**	**7.8%**

Source: Authors' calculations

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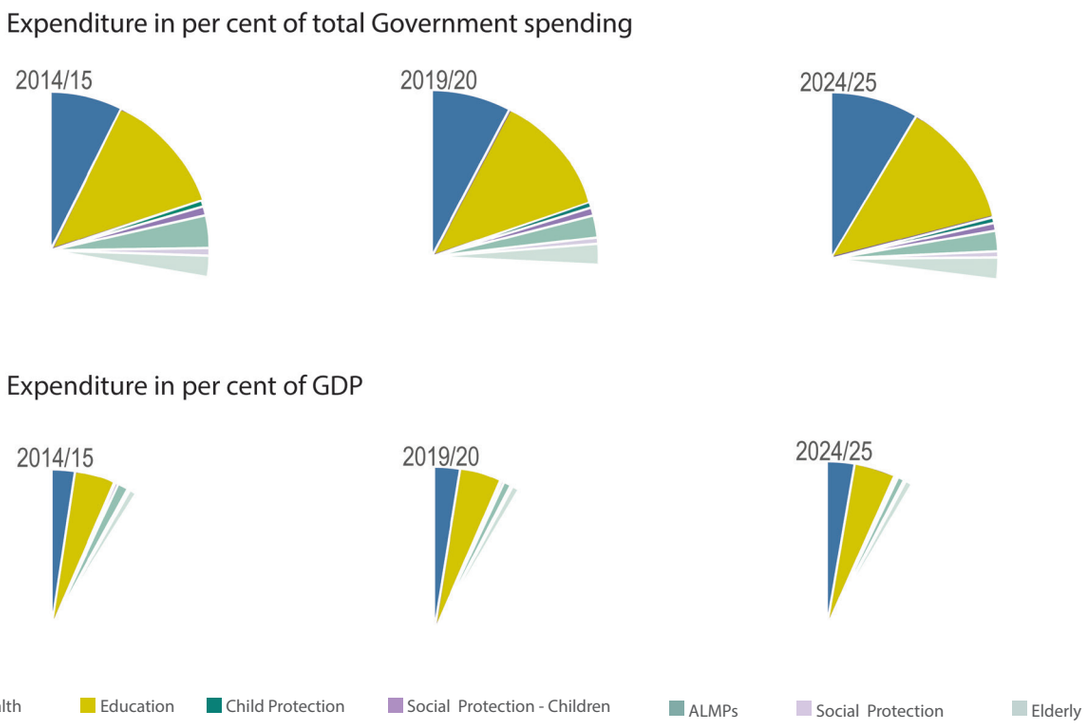
This chapter has provided the results of expenditure projections on the current programmes in the areas of education, social protection, child protection and health.

The results of the various scenarios were presented in EC$ and in shares in total Government expenditure and GDP. From Table 4-5, the status quo projections, it appears that the existing set of programmes will not consume a much larger portion of Government spending or require a much larger share of GDP than currently is the case.

Figure 4-1 reveals this in a different manner. It shows the share of expenditure on the entire range of programmes suggested in this report to establish a social protection floor for Saint Lucia. From the analysis in the budget report it became clear that in the areas of programmes for children and for the working age population, there are no major gaps in coverage. Parametric reforms in the existing programmes, with the aim of broadening entitlements, levels of benefit, et cetera, and making these programmes more child sensitive can do much to address existing deficiencies in coverage, and alleviate the needs of poor and vulnerable groups and households in Saint Lucia. The major exceptions are child protection programmes, social protection for children in their early development and social protection for Saint Lucians aged 65 and above. MOE spends a fraction of its budget on ECD provisions, this is not sufficient to give Saint Lucians a 'fair go' or, in other words, a good start in life. At the other end of the life cycle, two thirds of the elderly are not covered under the NIS social insurance scheme. Therefore, chapter 5 will propose a set of reforms with a view on arriving at a social protection floor package for Saint Lucia.

Figure 4-1: Expenditure: SQ Scenario, with Neutral GDP and Fiscal growth 2014/15 to 2024/25



Source: Authors' calculations

5 Projections, 2013/14 - 2024/25: *Alternative Scenario*

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5.1 Introduction and method

This chapter combines a series of reform measures across the range of programmes in the four areas of the social protection floor. Some entail the introduction of a new programme that might help to bridge a current gap in the social protection floor, other measures expand coverage or entitlements in some of the existing programmes, whereas again other reform measures focus on rationalizing current programmes, that is eliminating existing inefficiencies and in this manner decreasing expenditure on these programmes.

In the final section of this chapter the combined impact of the entire set of reform measures on expenditure is presented. Obviously, it is possible to make other combinations. Actually, the model that has been constructed for the purpose of this report allows to undertake simulations with different combinations of these measures and to assess the outcomes, or to even increase or decrease the scope of some of these reforms – for example, further expand or diminish coverage or the average benefit level of a specific programme.

The methodology is rather similar to what has been outlined in the previous chapter. Specific assumptions and the contents of the various reform measures will be explained in more detail below.

5.2 Projection results: introducing a package of reform measures

5.2.1 Health expenditure

In the area of health, there have been two modifications to the projections that were presented in chapter 3. One is adopting the assumption that there is a specific medical cost inflation – that is, assuming that the average growth rate of medical expenditure is higher than the inflation rate. Several factors may drive this excess medical inflation. The most obvious would be the costs of introducing new medical technologies (cost push inflation). In fact, the recent construction of the New National Hospital in Saint Lucia might well serve as an example in this respect. In the projections, an excess rate of medical inflation at 2 percentage points over average inflation has been assumed.

The second assumption is that children and elderly may gradually increase their use of primary health facilities. This assumption materializes in an increase in utilization ratios in primary health care for both children and elderly. The assumption is that increased consumption of primary health care services causes per capita expenditure to increase at an annual rate of 0.5 per cent for children (male and female alike), and 1.5 per cent for Saint Lucians aged 65 and older. Utilization rates for the working age population is assumed to remain at their current levels.

The results of these assumptions are presented in Table 5-1. Expenditure on health programmes (excluding expenditure on general administration) is estimated at 7.3 per cent of government spending, corresponding to 2.3 per cent of GDP in 2014/15. This is projected to remain at this level without the two modifications described above. The assumption of a specific medical cost inflation of 2.0 percentage points would drive health expenditure to 8.5 per cent of government expenditure and 2.7 per cent of GDP – both in the neutral GDP growth and fiscal scenarios. In the most conservative combination of these two scenarios (moderate GDP growth and fiscal consolidation), assuming a specific medical cost inflation would drive health expenditure to 9.0 per cent of government spending and 2.9 per cent of GDP towards the end of the projection time frame. The second assumption, a higher utilization rate for primary health services, only marginally drives up health expenditures. The size of its impact is limited to 0.1 per cent of government expenditure and it falls even within the margins of rounding with respect to its impact measured as a share of GDP.

Table 5-1: Health expenditure projections (constant 2012/13 prices), SPF scenario: 2014/15-2024/25

Expenditure in 1,000 EC$	Projections						
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2024/25
General Hospitals	54,121	56,467	58,914	61,467	64,131	66,910	82,722
District Hospitals	2,358	2,408	2,459	2,511	2,565	2,619	2,909
Medicines (drugs, alcohol rehabilitation)	606	622	638	654	671	688	782
Prim. Health Care (incl. Gros Islet Polyclinic)	11,618	11,784	11,951	12,120	12,290	12,463	13,423
Mental Health	6,140	6,140	6,140	6,140	6,140	6,140	6,140
Public Health	9,726	9,726	9,726	9,726	9,726	9,726	9,726
Total Expenditure	**84,568**	**87,145**	**89,827**	**92,618**	**95,522**	**98,547**	**115,702**
(percent government expenditure)	**7.4%**	**7.5%**	**7.5%**	**7.6%**	**7.7%**	**7.7%**	**8.5%**
(percent GDP)	**2.4%**	**2.4%**	**2.5%**	**2.5%**	**2.5%**	**2.5%**	**2.7%**

Source: Authors' calculations

5.2.2 Expenditure for children

In the area of expenditure on children it has been assumed that spending on early childhood programmes is increased, leading to an increase in the annual growth rate of per capita expenditure on early childhood development facilities to 10 per cent, from 1.7 per cent in the status quo scenario in chapter 3. This is a significant increase, driving expenditure per studentl from a level of EC$ 484 in 2013/14 to 1,381 in 2024/25, corresponding to a 185 per cent increase in real terms (constant prices) over the entire projection period. This scenario can be interpreted as expanding the coverage of ECD to universal coverage of all children under the age 4, at a per student average level of EC$ 781 of spending, which would still represent an increase of more than 60 per cent in per pupil spending on ECD.

Table 5-2 gives the results. It appears that expenditure on programmes for children is not very sensitive to these specific measures. Total expenditure on programmes for children would still decrease from 14.1 to 13.9 per cent of government expenditure, and 4.5 to 4.3 per cent of GDP – this is more or less the same result as in the status quo projections. Hence the impact of this reform remains within the margins of rounding.

The main reason for this is the gradual reduction of the share of children due to the demographic transition. With less children and stable total expenditure, spending levels per student will increase.

Table 5-2: Child related expenditure projections (constant 2012/13 prices), SPF scenario: 2014/15-2024/25

Expenditure in 1,000 EC$	Projections						
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2024/25
Education (relevant programmes for ages <18)							
Early Childhood education	2,628	2,757	2,879	3,215	3,582	3,981	6,494
Primary Education (curriculum implementation)	55,067	54,962	55,185	54,744	54,607	54,777	58,556
Secondary Education	67,303	68,511	69,881	71,375	72,925	74,469	83,867
Tertiary Education	15,691	15,812	15,934	16,056	16,180	16,304	16,941
Special Education	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Student Welfare Support	250	250	250	250	250	250	250
Total Expenditure Education (< age 18)	**143,940**	**145,293**	**147,128**	**148,640**	**150,544**	**152,782**	**169,108**
(percent government expenditure)	**12.5%**	**12.5%**	**12.4%**	**12.2%**	**12.1%**	**12.0%**	**12.5%**
(percent GDP)	**4.0%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**	**3.9%**	**3.9%**
(Child Protection)							
BTC	2,700	2,700	2,700	2,700	2,700	2,700	2,700
Transit Home (Human Services)	1,058	1,058	1,058	1,058	1,058	1,058	1,058
Upton Gardens Girls School (Human Services)	369	380	392	404	417	430	500
Foster Care (Human Services)	197	197	197	197	197	197	197
CDP	934	934	934	934	934	934	934
BCF, attributed to ages 16-18 population	814	829	845	861	877	894	981
Birth registration	1,250	1,235	1,220	1,205	1,191	1,177	1,108
Total Expenditure Child Protection	**7,320**	**7,332**	**7,345**	**7,358**	**7,373**	**7,388**	**7,477**
(percent government expenditure)	**0.6%**	**0.6%**	**0.6%**	**0.6%**	**0.6%**	**0.6%**	**0.6%**
(percent GDP)	**0.2%**	**0.2%**	**0.2%**	**0.2%**	**0.2%**	**0.2%**	**0.2%**

Expenditure in 1,000 EC$	Projections						
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2024/25
(Social Protection)							
School Transport	3,132	3,004	2,898	2,763	2,649	2,553	2,237
School Feeding	2,115	2,190	2,282	2,350	2,433	2,532	3,259
Bursaries (one-off)	1,240	1,215	1,186	1,155	1,124	1,093	954
OLPC	3,190	3,126	3,082	3,002	2,940	2,896	2,825
After School Programme	800	800	800	800	800	800	800
Child disability grant	288	480	840	1,200	1,656	1,656	1,656
Total Expenditure	**10,477**	**10,335**	**10,249**	**10,070**	**9,946**	**9,875**	**10,075**
(percent government expenditure)	**0.9%**	**0.9%**	**0.9%**	**0.8%**	**0.8%**	**0.8%**	**0.7%**
(percent GDP)	**0.3%**	**0.3%**	**0.3%**	**0.3%**	**0.3%**	**0.3%**	**0.2%**

Source: Authors' calculations

5.2.3 Expenditure for the working age population

With respect to the various programmes targeting the working age population two sets of reform measures have been simulated. The first pertains to the public assistance programme. The assumption is an increase in the scope (coverage) of the programme, materializing in a gradual increase in the number of covered households – from its current number of 2,510 to 2,640 households in 2024/25. Secondly, it has been assumed that the level of the PAP benefit increases at an annual rate of 1.0 per cent which corresponds to an increase of EC$ 2,284 in 2014/15 to EC$ 2,860 in 2024/25 (in constant prices).

The second set of reform measures translates into a moderation of wages paid in the ALMPs and a reduction in administration costs for these programmes. The assumption is a gradual decrease in the wages paid to the participants to 67 per cent of current levels from now to 2018/19, and wage will remain on that level from 2018/19 onwards. More or less exempt from this austerity package is per capita expenditure in SMILES, which is assumed to decrease at an annual rate of 0.8 per cent, that is: from EC$ 4,604 in 2014/15 to EC$ 4,424 in 2024/25.

For administration costs the assumption is a reduction of around 3 percentage points to 12 per cent of total expenditure between now and 2019/20. Unfortunately this could only be simulated for NICE and STEP. For the other ALMPs there was no information available on administration costs.

Table 5-3 gives the results. First, the results for the measures with respect to public assistance are discussed. Expenditure on cash transfer programmes and services is estimated at 1.3 per cent of government spending, corresponding to 0.4 per cent of GDP in 2014/15. This is projected to decrease to 0.9 per cent of government expenditure, 0.3 per cent of GDP, respectively, without the two modifications described above. The combined effect of the assumptions (expansion of scope and level of benefit) would be an increase of 0.1 percentage points in terms of government expenditure in this scenario as compared to the status quo scenario. The effect measured in GDP share is not visible within the margins of rounding in the table.

This is different for the effect of the reforms in the area of ALMPs. Given the magnitude of these programmes any reforms in this area are likely to translate into a visible impact in social spending. Expenditure on active labour market programmes is estimated at 3.3 per cent of government spending, corresponding to 1.1 per cent of GDP in 2014/15. This is projected to decrease to 2.8 per cent of government expenditure, 0.9 per cent of GDP, even without the lowering of the wage levels of the various programmes.

The effect of wage moderation would be a decrease of expenditure on ALMPs to 2.0 per cent measured in government spending and 0.6 per cent measured in GDP towards the end of the projection period. This is in the neutral GDP growth scenario and neutral fiscal scenario. In the conservative combination of these two scenarios the impact would be 0.1 percentage points mitigated and result in 2.1 per cent of government spending and 0.7 per cent of GDP in 2024/25.

Table 5-3: Social protection for working ages projections (constant 2012/13 prices), SPF scenario: 2014/15-2024/25

Expenditure in 1,000 EC$	Projections						
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2024/25
(ALMPs)							
NICE/JOBS (NAPP, CPIP, SBTAP)	22,978	22,223	19,339	18,437	16,852	16,017	16,328
STEP	3,630	3,512	3,068	2,928	2,682	2,451	2,499
SMILES	1,061	1,069	1,075	1,079	1,081	1,082	1,101
SSDF (HOPE)	3,356	2,964	2,321	2,023	1,681	1,563	1,086
SSDF (BNTF)	2,000	2,000	2,000	2,000	2,000	2,000	2,000
NELP	852	779	632	570	490	472	390
NSDC	463	447	381	362	327	330	336
OECS	1,342	1,284	1,087	1,023	916	915	886
YAEP	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Total Expenditure	**38,182**	**36,778**	**32,403**	**30,922**	**28,529**	**27,330**	**27,126**
(percent government expenditure)	**3.3%**	**3.2%**	**2.7%**	**2.5%**	**2.3%**	**2.1%**	**2.0%**
(percent GDP)	**1.1%**	**1.0%**	**0.9%**	**0.8%**	**0.8%**	**0.7%**	**0.6%**
(Cash Transfers and Services)							
PAP (individuals, working age)	3,269	3,384	3,503	3,627	3,755	3,887	4,622
SSDF (Koudemain SL)#	1,530.0	1,530.0	1,530.0	1,530.0	1,530.0	1,530.0	1,530.0
SSDF (other programmes)#	2,580	2,106	1,720	1,404	1,146	936	340
Belfund	1,175	1,175	1,175	1,175	1,175	1,175	1,175
Women's Support Centre - MOST Gender Division	368	368	368	368	368	368	368
Family and Child Care - Human services	2,786	2,786	2,786	2,786	2,786	2,786	2,786
Total Expenditure	**8,921**	**8,563**	**8,296**	**8,104**	**7,974**	**7,896**	**8,034**
(percent government expenditure)	**0.8%**	**0.7%**	**0.7%**	**0.7%**	**0.6%**	**0.6%**	**0.6%**
(percent GDP)	**0.3%**	**0.2%**	**0.2%**	**0.2%**	**0.2%**	**0.2%**	**0.2%**

Source: Authors' calculations

5.2.4 Expenditure for the elderly

In the area of programmes for the elderly, the projections include a new programme. This is an old age pension for those who are not eligible for social insurance (NIC) retirement or survivors pensions. The number of beneficiaries under the NIC scheme has been estimated. Unfortunately, information on the current actual number of beneficiaries was not available, so a trend was constructed from statistics from the 2008/09 Annual Report and this trend was extrapolated. This would give an estimate of 5,262 retirement pensioners under the NIC scheme. This number has been subtracted from the total number of elderly Saint Lucians to arrive at the target population for the social pension scheme. Two scenarios have been constructed. One with the assumption that the new social pension commences at the age of 70 and the second that the scheme commences at the age of 65. The level of the benefit has been set at EC$ 1,948 per year. This should be around the current extreme poverty line. Up to date information with respect to the poverty line and extreme poverty line is not available. The latest information dates back from 2005/06. This level has been updated using annual inflation statistics.

Table 5-4 gives the results. Introducing a new social pension for elderly who are not eligible for a retirement pension from NIC, obviously drives up expenditure. In the status quo scenario, where there is only the senior citizens home, expenditure on elderly decreases to a level of 0.1 per cent of government expenditure and close to 0.0 per cent of GDP. The introduction of the new scheme causes expenditure as a share of total government expenditure to increase to 1.8 per cent and 0.6 per cent as a share of GDP, both in the neutral economic and fiscal scenarios. In the most conservative combination expenditure on elderly rises slightly to 1.9 per cent of government spending and 0.6 per cent of GDP in 2024/25. The table gives the results in the more generous of the two variants when the new programme is open for all non-covered Saint Lucians aged 65 and above. Should eligibility for the programme be restricted to those aged 70 and above then the increase in expenditure for the elderly will be confined to 0.6 per cent of government spending and 0.2 per cent of GDP. Hence, restricting the age of entering the programme would save around two-thirds of spending on the programme.

Table 5-4: Social protection for elderly expenditure projections (constant 2012/13 prices), SPF scenario: 2014/15-2024/25

Expenditure in 1,000 EC$	Projections						
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2024/25
NIS (old age pensions)	44,493	47,064	49,784	52,661	55,705	58,924	78,037
PAP**	3,269	3,384	3,503	3,627	3,755	3,887	4,622
Social Pension (universal)	19,546	19,566	19,612	19,680	19,779	19,932	22,090
Senior Citizens Home	1,821	1,821	1,821	1,821	1,821	1,821	1,821
Total Expenditure (excl. NIC)	24,635	24,771	24,936	25,127	25,354	25,639	28,532
(percent government expenditure)	2.1%	2.1%	2.1%	2.1%	2.0%	2.0%	2.1%
(percent GDP)	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%

** this is under the assumption that 50% pf expenditure is for the elderly

Table 5-5: Overall expenditure projections (constant 2012/13 prices), SPF scenario: 2014/15-2024/25

Expenditure in 1,000 EC$	Projections						
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2024/25
Health	**84,568**	**87,145**	**89,827**	**92,618**	**95,522**	**98,547**	**115,702**
Children	**161,737**	**162,960**	**164,722**	**166,068**	**167,862**	**170,044**	**186,661**
Education	143,940	145,293	147,128	148,640	150,544	152,782	169,108
Child Protection	7,320	7,332	7,345	7,358	7,373	7,388	7,477
Social Protection	10,477	10,335	10,249	10,070	9,946	9,875	10,075
Working ages	**47,103**	**45,341**	**40,698**	**39,026**	**36,502**	**35,226**	**35,160**
ALMPs	38,182	36,778	32,403	30,922	28,529	27,330	27,126
Cash transfers and social services	8,921	8,563	8,296	8,104	7,974	7,896	8,034
Elderly	24,635	24,771	24,936	25,127	25,354	25,639	28,532
Total Expenditure	318,043	320,217	320,183	322,839	325,241	329,456	366,056
(percent government expenditure)	27.7%	27.5%	26.9%	26.5%	26.1%	25.8%	27.0%
(percent GDP)	8.9%	8.9%	8.8%	8.7%	8.6%	8.5%	8.5%

Source: Authors' calculations

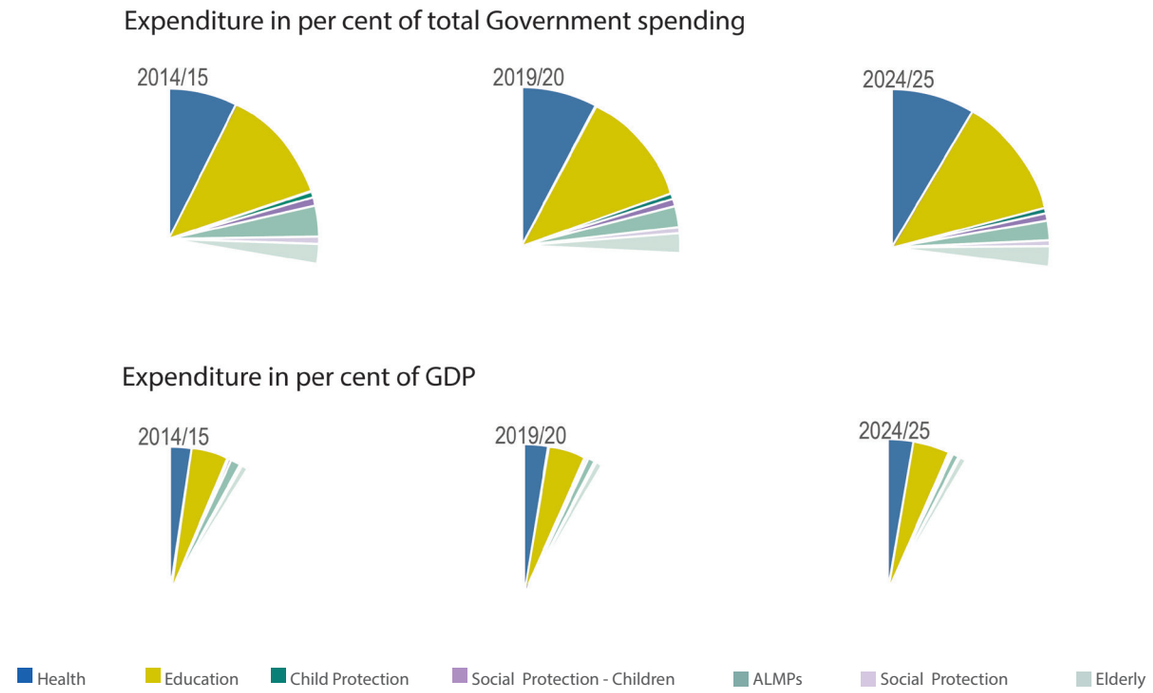
5.3 Conclusions: expenditure projections in the alternative scenario

Table 5-5 shows that implementing a set of reform measures in the four areas of the social protection floor will cause total expenditure to decrease to 27.0 per cent of total Government expenditure or 8.5 per cent of GDP in the projection period in the most optimistic of the four possible combinations of GDP and fiscal growth scenarios. The reason for this small decline in relative spending, despite introducing one new programme (universal old age pension) and expanding the coverage or benefit levels or both in some of the other programmes, is because also a rationalization of expenditure on the ALMPs has been incorporated in the reform package. These ALMPs represent a large share of total social protection spending. Hence, implementing some measures in this area that help to contain costs help to create the fiscal space for the other components in the reform package. Obviously, much depends on the scenarios assumed for GDP growth and for public finances. In the least optimistic of the four scenarios, total expenditure will slightly increase to 28.5 percent of government expenditure and stabilize at 9.0 per cent of GDP.

Chapter 5 introduced a set of reforms to the current programmes, with a view to expand the scope and adequacy of some of these programmes and at the same time rationalize expenditure in some other programmes especially in ECD, and introduced one new programme, a social pension for elderly Saint Lucians who currently are not covered under the national social insurance (NIS) scheme. To bridge this gap, a social old age pension, with a rather modest benefit level, was proposed and costed.

Figure 5-1 shows that the costs of introducing this social protection floor reform package will not be a dramatic burden on either total Government spending or GDP.

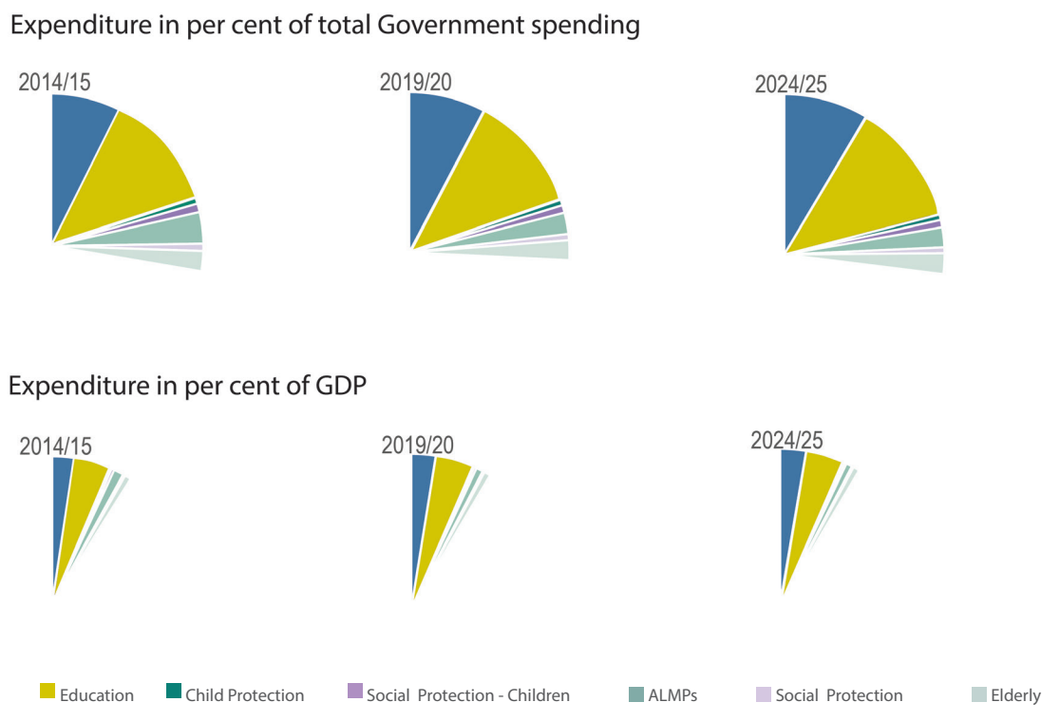
Figure 5-1: Expenditure: SPF scenario, with neutral GDP and fiscal scenario 2014/15 to 2024/25



Source: Authors' calculations

Figure 5-2 shows the results under the most conservative combination of GDP growth and fiscal scenarios, where GDP growth after 2018/19 will slow down and where the government is successful in the pursuit of fiscal consolidation programme with the effect that total government spending will be less in 2024/25 than in the neutral scenario. Again, it appears that the results are not dramatic. Therefore, the proposed SPF reform package should be perceived as feasible for Saint Lucia, even under economic and fiscal bad weather conditions.

Figure 5-2: Expenditure: SPF scenario, with moderate GDP growth and fiscal consolidation 2014/15 to 2024/25



Source: Authors' calculations

6 Conclusions: Fiscal Space for a Social Protection Floor in Saint Lucia

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Fiscal space involves governments finding resources in their budget to finance certain programmes, without jeopardizing its fiscal credibility. Chapter 2 has identified the dimensions where fiscal space can be sought. These dimensions are: (i) decrease or re-prioritization of public expenditures (reallocation within the overall spending portfolio), (ii) increase of public revenues, (iii) deficit financing, (iv) external development aid (grants). Other dimensions that have been mentioned are (v) tapping into fiscal or foreign exchange reserves, (vi) fighting of illicit financial flows, and (vii) pursuit of more conducive macroeconomic policies. Chapter 3 provided a snapshot of economic, fiscal and labour market trends and it looked into the reform of public financial management that is ongoing in Saint Lucia, as an important element in mobilizing fiscal space. Chapter 3 ended with an assessment of fiscal space for Saint Lucia. Chapters 4 and 5 looked into the existing set of social protection programmes and proposed an amended set of programmes with a view to establishing a social protection floor for Saint Lucia. Both packages were assessed (their cost estimates) against several economic and fiscal scenarios for the period 2014/15 – 2024/25.

Based on what was presented in the this report, it can be concluded that increasing revenues and reprioritizing and rationalizing expenditures are the two dimensions Saint Lucia's government needs to concentrate their efforts on. The other dimensions that have been mentioned as avenues for finding fiscal space are rather irrelevant or unsuitable for Saint Lucia. The main reason behind this pertains to Saint Lucia's economic environment. Economic growth has slowed down to almost a complete halt in the past decade. The island is vulnerable and it relies on just a small number of economic activities. The high debt/GDP ratio stands out; this ratio has increased over the past decade and stands at 80 per cent and is expected to increase further. The Government's response to the increasing debt/GDP ratio so far has not been to achieve a primary balance surplus. The main conclusion, therefore, is that opportunities for new spending initiatives are extremely limited.

Saint Lucia's structural labour market deficiencies are cause for concern as well, in particular when considering the demographic transition. There is a large segment of the population in the 15-24 age

group who are at the threshold and/or are making their entrance into the work force. The labour market over the past decade has not been able to absorb the inflow, and this seems to be a continuing concern for the future.

Saint Lucia's social budget spans close to one quarter of total government expenditure or 8 per cent of GDP and expenditure on social programmes has been rather stable at that level in the recent past.

In order to assess the fiscal space that can be available for Government to finance a package of social protection programmes, the report has explored a simplified simulation model. This simulation revealed that there is no fiscal space in terms of increasing public expenditure. In the longer run, after 2024/25, this situation might change but for the period up to 2024/25 the government finds itself in a fiscal straightjacket. The report has built on these findings in constructing the fiscal projections that constitute the frame for the costing of the two social protection scenarios. The test for both scenarios is whether, within the projection horizon these scenarios remain below the ceiling of the current expenditure portfolio.

Two social protection scenarios have been assessed. The first projects the costs of the current set of programmes into the future. This called the status quo (SQ) scenario. In this scenario it turns out that spending remains well below this ceiling. Saint Lucia's social budget in the status quo scenario will contract from 8.4 per cent of GDP in 2014/15 to 7.8 per cent a decade later. The second scenario, the social protection floor (SPF) scenario, assesses the fiscal space for, a set of social protection programmes that aim to provide a basic level of social protection for Saint Lucians in all age categories. This scenario provides a package of reforms to existing programmes and introduces a new programme. The scenario proposes a reform in the design and implementation of the current active labour market programmes to finance the costs of the expansion in the other clusters. Therefore, in is not surprising that overall social protection expenditure in this SPF scenario remains within the boundaries that were set and is considered affordable.

The overall conclusion is that as things stand now, the fiscal space for increasing the current level of social protection expenditures is limited, given the unfavourable economic and fiscal conditions. However, this does not mean that the Government of Saint Lucia has no options for reform. There is ample scope within the current programmes to improve the design and implementation of individual programmes and to arrive at a more coherent set of social protection programmes. In the longer run, there should be more fiscal space available once Government achieves control over its own purse strings.

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8 Annexes

Annex: Background information with respect to the SPF scenario projections.

Table A1: Beneficiaries child related programmes, SPF scenario: 2014/15-2024/25

Beneficiaries	projections						
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2024/25
Education							
Early Childhood education	**4,936**	**4,708**	**4,468**	**4,536**	**4,594**	**4,642**	**4,702**
Primary Education (curriculum implementation)	16,380	16,052	15,824	15,413	15,095	14,867	14,502
Secondary Education	13,170	12,817	12,500	12,206	11,924	11,642	10,474
Tertiary Education	3,477	3,679	3,893	4,120	4,359	4,613	6,120
(Child Protection)							
BTC	30	30	30	30	30	30	30
Transit Home (Human Services)	30	30	30	30	30	30	30
Upton Gardens Girls School (Human Services)	18	18	18	18	18	18	18
Foster Care (Human Services)	20	20	20	20	20	20	20
CDP	80	80	80	80	80	80	80
BCF (Bordelais Correction Facility)	30	30	30	30	30	30	30
(Social Protection)							
School Transport	2,298	2,252	2,220	2,162	2,118	2,086	2,034
School Feeding	7,102	6,960	6,861	6,683	6,545	6,446	6,288
Bursaries (regular)	2,023	1,983	1,954	1,904	1,864	1,836	1,791
Bursaries (one-off)	2,480	2,429	2,372	2,310	2,248	2,187	1,908
OLPC	2,659	2,605	2,568	2,502	2,450	2,413	2,354
After School Programme	750	750	750	750	750	750	750
SSDF (Koudemain SL) - individuals, age <15	173	173	173	173	173	173	173
Child disability grant	120	200	350	500	690	690	690

Table A2: Per capita expenditure child related programmes, SPF scenario: 2014/15-2024/25

Expenditure beneficiary in EC$	projections						
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2024/25
Education (relevant programmes for ages <18)							
Early Childhood education	**532**	**586**	**644**	**709**	**780**	**858**	**1,381**
Primary Education (curriculum implementation)	3,362	3,424	3,487	3,552	3,618	3,684	4,038
Secondary Education	5,110	5,345	5,591	5,847	6,116	6,397	8,007
Tertiary Education	4,513	4,298	4,093	3,897	3,712	3,535	2,768
(Child Protection)							
BTC	90,000	90,000	90,000	90,000	90,000	90,000	90,000
Transit Home (Human Services)	35,250	35,250	35,250	35,250	35,250	35,250	35,250
Upton Gardens Girls School (Human Services)	20,497	21,129	21,782	22,454	23,147	23,862	27,779
Foster Care (Human Services)	9,850	9,850	9,850	9,850	9,850	9,850	9,850
CDP	11,669	11,669	11,669	11,669	11,669	11,669	11,669
BCT	27,127	27,640	28,162	28,694	29,236	29,788	32,709
(Social Protection)							
School Transport	1,363	1,334	1,306	1,278	1,251	1,224	1,100
School Feeding	298	315	333	352	372	393	518
Bursaries (one-off)	500	500	500	500	500	500	500
OLPC	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Child disability grant	2,400	2,400	2,400	2,400	2,400	2,400	2,400

Table A3: Beneficiaries working age related programmes, SPF scenario: 2014/15-2024/25

Beneficiaries	projections						
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2024/25
(ALMPs)							
NICE/JOBS (NAPP, CPIP, SBTAP)	**3,150**	**3,200**	**3,246**	**3,287**	**3,323**	**3,354**	**3,419**
STEP	7,882	8,008	8,122	8,225	8,315	8,393	8,556
SMILES	230	234	237	240	242	245	249
SSDF (HOPE)	473	440	409	380	354	329	229
NELP	1,320	1,271	1,223	1,177	1,133	1,091	901
NSDC	800	813	825	835	844	852	869
OECS	467	470	473	474	475	475	460
YAEP							
(Cash Transfers and Services)							
PAP (households)	2,523	2,548	2,574	2,599	2,625	2,652	2,787
SSDF (Koudemain St Lici, households)#	100	100	100	100	100	100	100
Belfund	58	58	58	58	58	58	58
Women's Support Centre - MOST Gender Division	18	18	18	18	18	18	18
Family and Child Care - Human services	446	446	446	446	446	446	446

Table A4: Per capita expenditure working age related programmes, SPF scenario: 2014/15-2024/25

Expenditure/beneficiary in EC$	projections						
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2024/25
(ALMPs)							
NICE/JOBS (NAPP, CPIP, SBTAP)	**6,364**	**6,046**	**5,091**	**4,773**	**4,264**	**4,264**	**4,264**
STEP	389	370	311	292	261	261	261
SMILES	4,605	4,568	4,532	4,496	4,460	4,424	4,424
SSDF (HOPE)	7,091	6,736	5,673	5,318	4,751	4,751	4,751
NELP	646	613	517	484	433	433	433
NSDC	578	549	462	434	387	387	387
OECS	2,876	2,732	2,301	2,157	1,927	1,927	1,927
YAEP	11,355	10,788	9,084	8,517	7,608	7,608	7,608
(Cash Transfers and Services)							
PAP (households)	2,591	2,656	2,722	2,790	2,860	2,932	3,317
SSDF (Koudemain SL)#	15,300	15,300	15,300	15,300	15,300	15,300	15,300
Belfund	20,250	20,250	20,250	20,250	20,250	20,250	20,250
Women's Support Centre - MOST Gender Division	20,175	20,175	20,175	20,175	20,175	20,175	20,175
Family and Child Care - Human services	6,250	6,250	6,250	6,250	6,250	6,250	6,250

Table A5: Beneficiaries elderly related programmes, SPF scenario: 2014/15-2024/25

Beneficiaries	projections						
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2024/25
NIS (old age pensioners)	5,262	5,566	5,888	6,228	6,588	6,968	9,229
Social Pension (universal)	10,036	10,046	10,070	10,105	10,155	10,234	11,342
Senior Citizens Home	56	56	56	56	56	56	56

Table A6: Per capita expenditure elderly related programmes, SPF scenario: 2014/15-2024/25

Expenditure/beneficiary in EC$	projections						
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2024/25
NIS (old age pensions)	8,456	8,456	8,456	8,456	8,456	8,456	8,456
Social Pension (universal, annual per capita:)	1,948	1,948	1,948	1,948	1,948	1,948	1,948
Senior Citizens Home	32,513	32,513	32,513	32,513	32,513	32,513	32,513

Table A7: Overall expenditure projections, SPF scenario, Moderate Growth: 2014/15-2024/25

Expenditure in 1,000 EC$	projections						
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2024/25
Health	**84,568**	**87,145**	**89,827**	**92,618**	**95,522**	**98,547**	**115,702**
Children	**161,737**	**162,960**	**164,722**	**166,068**	**167,862**	**170,044**	**186,661**
Education	143,940	145,293	147,128	148,640	150,544	152,782	169,108
Child Protection	7,320	7,332	7,345	7,358	7,373	7,388	7,477
Social Protection	10,477	10,335	10,249	10,070	9,946	9,875	10,075
Working ages	**47,103**	**45,341**	**40,698**	**39,026**	**36,502**	**35,226**	**35,160**
ALMPs	38,182	36,778	32,403	30,922	28,529	27,330	27,126
Cash transfers and social services	8,921	8,563	8,296	8,104	7,974	7,896	8,034
Elderly	**24,635**	**24,771**	**24,936**	**25,127**	**25,354**	**25,639**	**28,532**
Total Expenditure	**318,043**	**320,217**	**320,183**	**322,839**	**325,241**	**329,456**	**366,056**
(percent government expenditure)	**27.7%**	**27.5%**	**26.9%**	**26.5%**	**26.1%**	**25.8%**	**28.6%**
(percent GDP)	**8.9%**	**8.9%**	**8.8%**	**8.7%**	**8.6%**	**8.5%**	**9.1%**

Table A8: Health expenditure projections, SPF scenario, Moderate Growth: 2014/15-2024/25

Expenditure in 1,000 EC$	projections						
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2024/25
General Hospitals	54,121	56,467	58,914	61,467	64,131	66,910	82,722
District Hospitals	2,358	2,408	2,459	2,511	2,565	2,619	2,909
Medicines (drugs, alcohol rehabilitation)	606	622	638	654	671	688	782
Prim. Health Care (incl. Gros Islet Polyclinic)	11,618	11,784	11,951	12,120	12,290	12,463	13,423
Mental Health	6,140	6,140	6,140	6,140	6,140	6,140	6,140
Public Health	9,726	9,726	9,726	9,726	9,726	9,726	9,726
Total Expenditure	**84,568**	**87,145**	**89,827**	**92,618**	**95,522**	**98,547**	**115,702**
(percent government expenditure)	**7.4%**	**7.5%**	**7.5%**	**7.6%**	**7.7%**	**7.7%**	**9.1%**
(percent GDP)	**2.4%**	**2.4%**	**2.5%**	**2.5%**	**2.5%**	**2.5%**	**2.9%**

Table A9: Child related expenditure projections, SPF scenario, Moderate Growth: 2014/15-2024/25

Expenditure in 1,000 EC$	projections						
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2024/25
Education (relevant programmes for ages <18)							
Early Childhood education	2,628	2,757	2,879	3,215	3,582	3,981	6,494
Primary Education (curriculum implementation)	55,067	54,962	55,185	54,744	54,607	54,777	58,556
Secondary Education	67,303	68,511	69,881	71,375	72,925	74,469	83,867
Tertiary Education	15,691	15,812	15,934	16,056	16,180	16,304	16,941
Special Education	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Student Welfare Support	250	250	250	250	250	250	250
Total Expenditure Education (< age 18)	**143,940**	**145,293**	**147,128**	**148,640**	**150,544**	**152,782**	**169,108**
(percent government expenditure)	**12.5%**	**12.5%**	**12.4%**	**12.2%**	**12.1%**	**12.0%**	**13.2%**
(percent GDP)	**4.0%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**	**3.9%**	**4.2%**
(Child Protection)							
BTC	2,700	2,700	2,700	2,700	2,700	2,700	2,700
Transit Home (Human Services)	1,058	1,058	1,058	1,058	1,058	1,058	1,058
Upton Gardens Girls School (Human Services)	369	380	392	404	417	430	500
Foster Care (Human Services)	197	197	197	197	197	197	197
CDP	934	934	934	934	934	934	934
BCF, attributed to ages 16-18 population	814	829	845	861	877	894	981
Birth registration	1,250	1,235	1,220	1,205	1,191	1,177	1,108
Total Expenditure Child Protection	**7,320**	**7,332**	**7,345**	**7,358**	**7,373**	**7,388**	**7,477**
(percent government expenditure)	**0.6%**	**0.6%**	**0.6%**	**0.6%**	**0.6%**	**0.6%**	**0.6%**
(percent GDP)	**0.2%**	**0.2%**	**0.2%**	**0.2%**	**0.2%**	**0.2%**	**0.2%**

(Social Protection)							
School Transport	3,132	3,004	2,898	2,763	2,649	2,553	2,237
School Feeding	2,115	2,190	2,282	2,350	2,433	2,532	3,259
Bursaries (one-off)	1,240	1,215	1,186	1,155	1,124	1,093	954
OLPC	3,190	3,126	3,082	3,002	2,940	2,896	2,825
After School Programme	800	800	800	800	800	800	800
Child disability grant	288	480	840	1,200	1,656	1,656	1,656
Total Expenditure	**10,477**	**10,335**	**10,249**	**10,070**	**9,946**	**9,875**	**10,075**
(percent government expenditure)	**0.9%**	**0.9%**	**0.9%**	**0.8%**	**0.8%**	**0.8%**	**0.8%**
(percent GDP)	**0.3%**	**0.3%**	**0.3%**	**0.3%**	**0.3%**	**0.3%**	**0.3%**

Table A10: Working age related expenditure projections, SPF scenario, Moderate Growth: 2014/15-2024/25

Expenditure in 1,000 EC$	projections						
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2024/25
(ALMPs)							
NICE/JOBS (NAPP, CPIP, SBTAP)	22,978	22,223	19,339	18,437	16,852	16,017	16,328
STEP	3,630	3,512	3,068	2,928	2,682	2,451	2,499
SMILES	1,061	1,069	1,075	1,079	1,081	1,082	1,101
SSDF (HOPE)	3,356	2,964	2,321	2,023	1,681	1,563	1,086
SSDF (BNTF)	2,000	2,000	2,000	2,000	2,000	2,000	2,000
NELP	852	779	632	570	490	472	390
NSDC	463	447	381	362	327	330	336
OECS	1,342	1,284	1,087	1,023	916	915	886
YAEP	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Total Expenditure	**38,182**	**36,778**	**32,403**	**30,922**	**28,529**	**27,330**	**27,126**
(percent government expenditure)	**3.3%**	**3.2%**	**2.7%**	**2.5%**	**2.3%**	**2.1%**	**2.1%**
(percent GDP)	**1.1%**	**1.0%**	**0.9%**	**0.8%**	**0.8%**	**0.7%**	**0.7%**
(Cash Transfers and Services)							
PAP (individuals, working age)	3,269	3,384	3,503	3,627	3,755	3,887	4,622
SSDF (Koudemain SL)#	1,530	1,530	1,530	1,530	1,530	1,530	1,530
SSDF (other programmes)#	2,580	2,106	1,720	1,404	1,146	936	340
Belfund	1,175	1,175	1,175	1,175	1,175	1,175	1,175
Women's Support Centre - MOST Gender Division	368	368	368	368	368	368	368
Family and Child Care - Human services	2,786	2,786	2,786	2,786	2,786	2,786	2,786
Total Expenditure	**8,921**	**8,563**	**8,296**	**8,104**	**7,974**	**7,896**	**8,034**
(percent government expenditure)	**0.8%**	**0.7%**	**0.7%**	**0.7%**	**0.6%**	**0.6%**	**0.6%**
(percent GDP)	**0.3%**	**0.2%**	**0.2%**	**0.2%**	**0.2%**	**0.2%**	**0.2%**

Table A11: Elderly related expenditure projections, SPF scenario, Moderate Growth: 2014/15-2024/25

Expenditure in 1,000 EC$	projections						
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2024/25
NIS (old age pensions)	44,493	47,064	49,784	52,661	55,705	58,924	78,037
PAP**	3,269	3,384	3,503	3,627	3,755	3,887	4,622
Social Pension (universal)	19,546	19,566	19,612	19,680	19,779	19,932	22,090
Senior Citizens Home	1,821	1,821	1,821	1,821	1,821	1,821	1,821
Total Expenditure (excl. NIC)	24,635	24,771	24,936	25,127	25,354	25,639	28,532
(percent government expenditure)	2.1%	2.1%	2.1%	2.1%	2.0%	2.0%	2.2%
(percent GDP)	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%

** this is under the assumption that 50% of expenditure is for the elderly

Table A12: Empl./population ratios and unemployment rates, moderate growth: 2014/15-2024/25

Employment/population by age group and sex, 2013, 2019 and 2025 (moderate growth)									
Age group	2013			2019			2025 (neutral growth)		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
15-19 Years	17.6	9.7	13.7	18.9	9.0	14.0	19.2	8.6	14.0
20-24 Years	53.2	45.2	49.3	53.1	45.1	49.2	59.4	51.5	55.5
25-34 Years	65.4	55.6	60.5	58.4	52.0	55.2	59.3	52.1	55.7
35-44 Years	75.9	71.5	73.7	70.1	72.7	71.4	66.7	72.1	69.4
45-54 Years	81.8	74.7	78.3	81.6	79.2	80.4	79.0	81.5	80.2
55-64 Years	67.8	53.3	60.4	64.7	47.1	55.8	60.4	47.1	53.7
Over 65 Years	35.2	17.6	25.3	61.0	32.2	19.7	65.5	24.7	15.4
Total	**67.1**	**57.7**	**62.4**	**64.8**	**58.0**	**61.4**	**69.5**	**62.3**	**65.9**

Source: Team's calculations

Unemployment rate by age group and sex, 2013, 2019 and 2025 (nmoderate growth)									
Age group	2013			2019			2025 (neutral growth)		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
15-19 Years	53.0	70.7	61.1	48.3	75.6	61.8	48.6	77.1	62.5
20-24 Years	36.9	43.4	40.0	38.8	46.7	42.6	30.5	40.0	35.2
25-34 Years	24.3	26.2	25.2	33.3	37.7	35.5	32.2	41.1	36.7
35-44 Years	14.0	18.6	16.3	20.3	17.6	19.0	24.2	19.2	21.7
45-54 Years	14.0	18.8	16.3	9.3	8.1	8.7	11.7	5.4	8.6
55-64 Years	12.4	12.5	12.4	13.6	9.3	11.9	17.9	8.1	13.8
Over 65 Years	14.1	14.0	14.0	20.6	16.3	18.9	28.3	16.9	23.9
Total	**21.3**	**25.5**	**23.3**	**23.7**	**25.9**	**24.8**	**24.3**	**24.9**	**24.6**
Youth unemployment (age 15-34)	32.2	37.5		36.5	44.5		33.5	44.5	
Adult unemployment (age 35+)	13.7	17.6		14.7	12.4		18.2	12.0	
Youth/adult ratio	**2.35**	**2.13**		**2.49**	**3.59**		**1.84**	**3.71**	

Source: Team's calculations
Note: the figures for 2013 and 2019 are similar in both GDP scenarios.

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