
ST. KITTS AND NEVIS
Medium Term Economic Strategy
2003-2005



Government of St. Kitts and Nevis

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Medium Term Economic Strategy
2003-2005

DOCUMENT OF THE
Government of St. Kitts and Nevis
West Indies

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ABBREVIATIONS

ACP	African Caribbean and Pacific States
AIDS	Acquired Immune Deficiency Syndrome
AVEC	Advanced Vocational Education Centre
CARICOM	Caribbean Community
CFATF	Caribbean Financial Action Task Force
CDB	Caribbean Development Bank
CFBC	Clarence Fitzroy Byrant College
CIC	Chamber of Industry and Commerce
CPA	Country Poverty Assessment
CPU	Centralised Purchasing Unit
CSA	Community Situational Analysis
CSME	Caribbean Single Market and Economy
CTO	Caribbean Tourism Organization
CXC	Caribbean Examinations Council
EBA	Everything but Arms
EC	Eastern Caribbean
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
ECHMB	Eastern Caribbean Home Mortgage Bank
E-Commerce	Electronic Commerce
ECTEL	Eastern Caribbean Telecommunications Authority
EMIS	Education Management Information System
EOC	Emergency Operations Center
ERDMP	Emergency Recovery and Disaster Management Project
EU	European Union
FAO	Food and Agricultural Organization
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
FTAA	Free Trade Area of the Americas
GDP	Gross Domestic Product
GSKN	Government of St. Kitts and Nevis
HIV	Human Immunodeficiency Virus
IA	Institutional Analysis
IBC	International Business Company
ICAO	International Civil Aviation Organization
ICT	Information and Communications Technology
IMF	International Monetary Fund
IMO	International Maritime Organization
IT	Information Technology
JNF	Joseph Nathaniel France
KG	Kilo Grams
LLC	Limited Liability Company
MGD	Million Gallons per day
MOF	Ministry of Finance
MW	Mega Watts
MTESP	Medium Term Economic Strategy Paper
NACO	National Agricultural Corporation
NAITP	National Association for IT Practitioners
NCEC	National Certificate of Educational Competency

NCEPA	National Conservation and Environmental Protection Act
NDMC	National Disaster Mitigation Council
NEMA	National Emergency Management Agency
NGOs	Non-Governmental Organizations
NHC	National Housing Corporation
NHDA	National Human Development Agenda
NIA	Nevis Island Administration
IMF	International Monetary Fund
NSA	Non-Sugar Agriculture
OECD	Organization for Economic Cooperation and Development
OECS	Organization of Eastern Caribbean States
OERU	OECS Education Reform Unit
PSIP	Public Sector Investment Programme
PWD	Public Works Department
RGSM	Regional Government Securities Market
RNM	Regional Negotiating Machinery
RSS	Regional Security System
SEDU	Small Enterprise Development Unit
SKN	St. Kitts and Nevis
SLC	Survey of Living Conditions
SME	Small and Medium Enterprises
SRC	St. Kitts Sugar Manufacturing Redevelopment Committee
SSMC	St. Kitts Sugar Manufacturing Corporation
TRIPS	Trade Related Aspects of Intellectual Property Rights
TVET	Technical and Vocational Education and Training
UK	United Kingdom
UNECLAC	United Nations Economic Commission for Latin America and the Caribbean
UNDP	United Nations Development Programme
US	United States
USA	United States of America
USVI	United States Virgin Islands
UTECH	University of Technology
UWI	University of the West Indies
WEO	World Economic Outlook
WTO	World Trade Organization

St. Kitts and Nevis
Selected Economic and Financial Indicators

	1997	1998	1999	2000	2001 ^p
Mid-Year Population	40,740	40,130	42,460	40,410	45884*
Mid-Year Population (% change)	-3.6	-1.5	5.8	-4.8	13.5
GROSS DOMESTIC PRODUCT (GDP)					
GDP at factor cost (current prices) EC\$millions	625.1	652.0	693.3	766.5	796.3
GDP at factor cost (constant 1990 prices) EC\$millions	496.3	501.4	520.1	548.9	559.9
GDP at current market prices EC\$millions	742.3	775.2	822.7	891.2	927.5
Annual rate of growth in real GDP (%)	7.3	1.0	3.7	5.5	2.0
Per Capita GDP (current market prices) EC\$	18,220	19,318	19,375	22,053	20,214
Per Capita GDP (% change)	16.1	6.0	0.3	13.8	-8.3
GDP Deflator	125.95	130.05	133.30	139.66	142.23
PRICES					
Consumer Price Index (% change)	8.9	3.4	3.4	2.1	2.1
GDP Deflator (% change)	4.8	3.3	2.5	4.8	1.8
MONEY (EC\$000)					
Broad Money (M2)	525,048	545,921	607,383	776,667	794,235
Of which:					
Money (M1)	82,168	91,400	106,088	110,104	106,169
Quasi-money	442,880	454,521	501,295	666,563	688,066
Net Foreign Assets	139,992	175,477	99,521	152,458	238,041
Net Domestic Assets	385,056	370,444	507,863	624,209	556,193
Of which:					
Credit to public sector	216,945	278,324	335,606	444,112	493,276
Credit to private sector	521,062	563,672	610,171	680,535	673,803
CENTRAL GOVERNMENT FINANCES EC\$millions					
Current revenue	223.0	236.9	251.9	255.7	261.3
Current expenditure	214.6	235.4	273.2	302.4	306.5
Current account balance	8.4	1.6	-21.2	-46.7	-45.2
Capital revenue	0.9	7.0	1.3	2.7	3.7
Capital expenditure	38.2	53.2	79.6	91.9	78.4
Total revenue	223.9	243.9	253.2	258.3	265.0
Total expenditure and net lending	252.8	290.3	352.7	394.3	385.0
Overall balance (before grants)	-29.0	-46.4	-99.5	-136.0	-120.0
Grants	1.8	0.8	7.4	7.5	4.6
Overall balance (after grants)	-27.1	-45.6	-92.1	-128.5	-115.4
CENTRAL GOVERNMENT FINANCES (in percent of GDP)					
Current revenue	30.0	30.6	30.6	28.7	28.2
Current expenditure	28.9	30.4	33.2	33.9	33.0
Current account balance	1.1	0.2	-2.6	-5.2	-4.9
Capital revenue	0.1	0.9	0.2	0.3	0.4
Capital expenditure	5.1	6.9	9.7	10.3	8.5
Total revenue	30.2	31.5	30.8	29.0	28.6
Total expenditure and net lending	34.1	37.4	42.9	44.2	41.5
Overall balance (before grants)	-3.9	-6.0	-12.1	-15.3	-12.9
Grants	0.2	0.1	0.9	0.8	0.5
Overall balance (after grants)	-3.7	-5.9	-11.2	-14.4	-12.4
EXTERNAL SECTOR EC\$millions					
Current account balance	-166.5	-112.0	-226.7	-169.6	-279.6
Trade balance	-233.4	-240.1	-245.2	-324.1	-311.5
Services, net	79.8	117.1	38.3	60.6	64.0
of which: Travel	177.7	188.6	164.3	134.1	142.2
Income, net	-56.2	-68.5	-76.7	-78.7	-90.8
Transfers, net	40.7	73.1	55.3	169.2	53.3
Capital and Financial Account	141.4	147.2	316.2	210.8	303.6
Net errors and omissions	34.9	-5.3	-82.1	-52.9	6.1
Overall balance	9.9	29.9	7.3	-11.8	30.1
Financing (- equals an increase)	-9.9	-29.9	-7.3	11.8	-30.1
EXTERNAL SECTOR (in percent of GDP)					
Current account balance	-22.4	-14.4	-27.6	-19.0	-30.1
Trade balance	-31.4	-31.0	-29.8	-36.4	-33.6
Capital and Financial Account	19.1	19.0	38.4	23.7	32.7
Overall balance	1.3	3.9	0.9	-1.3	3.2
AVERAGE EXCHANGE RATE					
EC dollars per US dollar	2.70	2.70	2.70	2.70	2.70

Source: St. Kitts and Nevis Authorities, ECCB and IMF Fund staff estimates

p - preliminary

* - preliminary Census 2001 figure

I. INTRODUCTION

The Federation of St. Kitts and Nevis (SKN) is made up of two islands separated by a narrow strait, situated at the northern end of the Leeward Island chain of the West Indies. The island of Nevis lies about 3 kilometres (km) south-east of St. Kitts, and is the smaller of the two islands with a land area of 93.2 square kilometres (sq km), while St. Kitts has a total land area of 168.4 sq km. SKN has a population of 45,884¹, with 75.6% of the population residing on St. Kitts and the remaining 24.4% on Nevis. The islands were colonized by the Europeans in the 17th century. After changing hands several times between the British and French during the 17th and 18th centuries, the islands were ceded to Britain in 1793. They remained a colony of Britain until independence was attained on September 19, 1983.

SKN is a small, open economy producing a very narrow range of goods and services, most of which are exported, and relying heavily on imports to satisfy the demand for consumer and producer goods. The sugar industry was a major contributor to economic activity, with sugar being exported to the United Kingdom (UK - under preferential arrangements, and to the United States of America (USA) under a separate access arrangement. However, over the years some diversification has occurred, with tourism and related services, and to a lesser extent light, non-sugar manufacturing, developing as important areas of economic activity. SKN is one of the eight members of the Eastern Caribbean Central Bank (ECCB) area which share a common currency and monetary policy.

SKN is faced with the challenge of consolidating the economic gains of the last two decades within a global economic environment characterized by the process of globalization, increased trade liberalization and reduction in aid flows to the Caribbean region. The authorities have initiated steps in the diversification of the economy from its dependence on sugar in St. Kitts and cotton and coconuts in Nevis, to the development of new and balanced economic activities, including tourism, financial services, manufacturing, information technology and non-sugar agriculture. Although the importance of the sugar industry has declined over the years, it still makes an important contribution to economic activity in SKN. However, the Government of

¹ 2001 preliminary Census figure

St. Kitts and Nevis (GSKN) is now faced with making a decision on the future of the sugar industry because of the non-viability of sugar manufacturing, with production costs far exceeding revenue under the current preferential trading arrangements. In addition, the accumulated deficits over the years have resulted in significant indebtedness of the sugar industry to the domestic banking system. Economic diversification into other activities in the agriculture sector will be a high priority over the medium term.

The tourism sector has grown rapidly over the last decade and has emerged as the dominant sector in SKN, accounting for a major source of income and employment. GSKN has invested substantially over the years to improve the airports in both St. Kitts and Nevis and renovate the berthing facilities in Basseterre. However, the sector has declined in recent years mainly because of destruction to the hotel plant caused by hurricanes, inadequate direct access to the destination from major markets and the downturn in the world economy, particularly in the United States in 2000, compounded by the September 11, 2001 terrorist attacks. In addition to the tourism sector, GSKN has identified financial services, telecommunications and information technology as spheres of activity with significant growth potential and has taken initiatives to realize this potential.

GSKN's vision for socio-economic development is to improve the quality of life for the people of the Federation by promoting sustainable growth and development within the context of economic diversification, human resource development, sound environmental management, a stable macroeconomic and political environment and with equity and social justice.

The purpose of this Medium-Term Economic Strategy Paper (MTESP) is to set out the policies and approaches which will be pursued by the Government to sustain growth and development in the changing world environment. This MTESP evaluates SKN's macroeconomic structure and performance, discusses macroeconomic, institutional and other cross-cutting issues, details GSKN's policy agenda for the medium-term and examines the Public Sector Investment Programme for 2002-2005.

The objective of GSKN is to use the available resources optimally and to generate sustainable growth while at the same time ensuring that the benefits of prosperity are widespread among the population. In order to achieve this, GSKN intends to: (i) use the capital investment programme and the legislative and regulatory framework to provide an enabling environment for private-

sector led growth; (ii) improve the fiscal position in an effort to generate adequate public sector savings to finance the capital programme; (iii) reform the public sector to increase efficiency; (iv) engage in appropriate human resource development; (v) adequately provide public goods and services while not compromising the optimal use of resources; and (vi) seek to reduce economic vulnerability by encouraging economic diversification and increased investment by domestic and foreign economic agents and by incorporating disaster mitigation in the development process.

II. CURRENT ECONOMIC SITUATION AND EXTERNAL ENVIRONMENT

A. DOMESTIC ECONOMIC DEVELOPMENTS

Real economic growth in the Federation of St. Kitts and Nevis averaged approximately 3.9% during the period 1997-2001 compared with 4.7% over the previous five years, 1992-1996. The deceleration of growth during the review period was affected mainly by the passage of hurricanes, which impacted negatively on the agricultural and tourism sectors, as well as the global recession in 2001. Significant infrastructural damage was incurred by the passage of hurricane Georges in 1998, but more particularly by Lenny in 1999 on hotel plants, houses, roads, ports and agricultural lands. The rehabilitation of damaged infrastructure, together with public sector investment in housing, the upgrading of health facilities, roads, air and sea ports as well as private sector investment in the tourism sector have contributed to the construction sector emerging as the leading sector in the economy during this period. The pattern of economic growth was influenced by the hurricanes and subsequent rehabilitation efforts. Real growth during the period 1997-2001 exhibited significant fluctuation from a peak of 7.3% in 1997 to 1.0% in 1998 to 5.5% in 2000 and 2.0% in 2001. While the construction sector led in terms of contribution to the growth performance during this period, the tourism and agricultural sectors recorded rather dismal performances. This period also witnessed a significant decline in national savings from 28.9% of GDP in 1997 to 8.0% of GDP in 2000.

The hotels and restaurant sector, which reflects tourism activity, reflected a declining contribution to GDP growth during the review period from 7.1% in 1998 to 4.3% in 2000 and 4.4% in 2001. The impact of the hurricanes seriously affected hotel accommodation. The Four Seasons Resort

in Nevis was closed for eleven months in 2000. The decline in stay-over arrivals was insufficient to offset the rapid expansion in cruise passengers in the latter years. The tourism sector also suffered from inadequate scheduled air carriers offering direct airlift from the major tourism-generating markets and insufficient hotel rooms to induce an increase in jet carriers. In 2001, the tourism sector was severely affected by the slowing down of the US economy compounded by the September 11, terrorist attacks highlighting the vulnerability of the sector to one major tourist generating market.

Table 1: Sectoral Rates of Growth of Real GDP (%)

	1996	1997	1998	1999	2000	2001 ^P
Agriculture	10.0	20.7	-11.7	-9.1	-8.5	11.1
Mining and Quarrying	5.4	3.1	9.3	8.1	33.3	-19.4
Manufacturing	5.3	11.2	-0.9	8.0	11.3	-8.9
Electricity and Water	3.6	13.3	6.3	-1.1	11.0	3.9
Construction	5.0	6.0	7.0	12.6	29.2	4.3
Wholesale and Retail Trade	5.8	5.6	4.2	3.7	-3.2	2.1
Hotels and Restaurants	9.2	5.2	2.3	-12.6	-23.4	3.9
Transport	2.1	6.7	-0.5	1.7	8.0	4.1
Communications	11.5	5.6	0.9	10.0	0.7	4.7
Banking and Insurance	9.2	12.8	-0.1	3.4	11.6	-0.9
Real Estate and Housing	3.0	3.0	-15.0	8.0	6.0	4.5
Government Services	4.2	3.1	4.7	2.7	2.5	2.6
Other Services	3.0	3.5	-3.0	4.0	4.0	3.0
Less Imputed Service Charge	10.2	9.6	1.3	5.2	13.6	-0.9
GDP at factor cost	5.9	7.3	1.0	3.7	5.5	2.0

Source: St. Kitts Statistics Division / ECCB

p - preliminary

The contribution of the agriculture sector to real GDP declined from 6.8% in 1997 to 4.5% in 2000 and 4.6% in 2001. The lower output of the sugar industry coupled with lower production of agricultural crops accounted for the poor performance of the agricultural sector. The factors responsible for the lower agriculture output included the destruction to crops by the hurricanes, adverse weather (drought) and damage caused by pests and diseases and fires especially in the cane fields.

Inflation as measured by changes in Consumer Price Index remained relatively low, with the exception of 1997, when the rate increased to 8.9% following the introduction of a new method of calculating the consumption tax on imported goods. The introduction of this new method resulted in higher prices for retail goods.

Table 2: Sectoral Distribution of Real GDP (%)

	1996	1997	1998	1999	2000	2001 ^P
Agriculture	6.1	6.8	6.0	5.2	4.6	5.0
Mining and Quarrying	0.4	0.4	0.4	0.4	0.6	0.4
Manufacturing	11.1	11.6	11.3	11.8	12.4	11.1
Electricity and Water	1.7	1.8	1.8	1.8	1.9	1.9
Construction	13.5	13.4	14.1	15.4	18.8	19.2
Wholesale and Retail Trade	14.8	14.6	15.0	15.0	13.8	13.8
Hotels and Restaurants	7.1	7.0	7.1	6.0	4.3	4.4
Transport	7.9	7.9	7.8	7.6	7.8	7.9
Communications	9.9	9.7	9.7	10.3	9.9	10.1
Banking and Insurance	11.7	12.3	12.2	12.2	12.9	12.5
Real Estate and Housing	3.2	3.0	2.6	2.7	2.7	2.7
Government Services	16.0	15.3	15.9	15.7	15.3	15.3
Other Services	4.4	4.3	4.1	4.1	4.0	4.1
Less Imputed Service Charge	7.8	8.0	8.0	8.1	8.8	8.5
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: St. Kitts Statistics Division / ECCB

p - preliminary

Public finances during the period 1997-2001 were characterized by a continuous decline in government savings and a deteriorating overall fiscal deficit. The balance on the recurrent account shifted from surpluses in 1997-1998 to deficits in 1999-2001. The recurrent balance moved from a surplus of 1.1% of GDP in 1997 to deficit of 4.9 % in 2001 as recurrent expenditure growth outpaced increases in recurrent revenue. The decline in fiscal savings did not severely restrict the capital programme as the government increased its borrowing to finance the development expenditure. Capital expenditures increased significantly as GSKN sought to pursue its development programme as well as rehabilitate the damages caused by the hurricanes over the years. Consequently, the overall fiscal deficit as a percent of GDP worsened from 3.7% in 1997 to 14.4% in 2000 and to 12.4% in 2001. Concomitant with the deteriorating fiscal position was the increase in public indebtedness over this period. The total public debt at the end of 2001 was 133.7% of GDP compared with 85.6% at the end of 1997. A higher public debt incurred higher debt service obligations over this period. Consequently, the debt service ratio rose from 5.3% in 1997 to 14.0% in 2000.

SKN's external accounts continued to be influenced by the level of export earnings, tourism receipts, remittances, current transfers and other capital inflows. The current account deficit fluctuated over the review period from 22.4% of GDP in 1997 to 14.4 % in 1998, 27.6 % in 1999 before falling to 19.0% in 2000. The narrowing of the current account deficit between 1997 and 1998 reflected an improvement in the trade balance, primarily from an increase in export earnings, significant growth in tourism receipts and a sharp increase in current transfers to settle insurance claims in the wake of hurricane Georges. Preliminary estimates for 2001 indicate a deterioration in the current account deficit to 30.1% of GDP, largely on account of a significant fall off in current transfers. The overall balance of payments position as a percentage of GDP moved from surpluses of 1.3% in 1997 to 3.9% in 1998 to a deficit of 1.3% in 2000. The balance of payments out turn in 2000 were influenced by a widening of the trade deficit largely on account of a sharp rise in imports of construction related materials and higher expenditure on fuel imports. In 2001, an overall surplus of 3.2% of GDP was recorded.

B. EXTERNAL ECONOMIC ENVIRONMENT

The global recession, which began in the middle of 2000, seems to have abated with leading indicators signalling that consumer and business confidence have strengthened. Projections in the revised World Economic Outlook (WEO) published by the International Monetary Fund (IMF)

indicate positive developments for 2002 and 2003 with world output projected to increase by 2.8% in 2002 and 4.0% in 2003, much higher than the earlier forecast made at the end of 2001. Likewise, world trade is projected to increase by 2.5% and 6.6% in 2002 and 2003 respectively compared with a decline of 0.2% in 2001. Economic growth in the advanced countries is projected to increase from 1.2% in 2001 to 1.7% and 3.0% in 2002 and 2003 respectively. Economic growth in the US is projected to increase by 2.3% in 2002 and 3.4% in 2003 from 1.2% in 2001. Forecasts for the developing countries indicate a modest downward revision in economic growth to 4.3% in 2002 and 5.5% in 2003 from earlier forecasts of 4.4% and 5.7% for the corresponding years. Inflation rates for the developed countries for 2002 and 2003 are projected to be lower than in the previous two years. Consumer prices for the advanced countries are projected at 1.1% and 1.7% for 2002 and 2003 compared with 2.3% and 2.2% for 2000 and 2001 respectively. However, unemployment is expected to increase in both 2002 and 2003.

The small open economy of St. Kitts and Nevis continues to be influenced by developments in the global economy. Relative stability in the global economy will provide confidence in the future economic growth prospects in the Federation. The revised forecast of higher growth and reduced inflationary pressures in the advanced countries, particularly the United States, offers good prospects for a more positive performance for SKN in the medium term. Higher growth in the US together with easing of fears of international travel will help the tourism sector to make a more meaningful contribution to economic growth in SKN. Positive developments in the world economy may also provide greater opportunities for higher levels of foreign direct investment in the Federation. The outlook for lower rates of inflation of SKN's trading partners should help to further contain domestic inflation. The Government is however cognizant that positive economic developments in SKN also depends on creating a macroeconomic framework favourable to growth. The maintenance of strong fiscal and external balances is also necessary as a means of providing a cushion against external shocks.

III. MEDIUM-TERM MACROECONOMIC POLICY AGENDA

The challenges posed by globalization and trade liberalization within the context of sustaining growth and development in the Federation would of necessity demand restructuring the economy to adapt to a changing global economy. GSKN recognizes and accepts the importance of consistent macroeconomic policy for sustained development, and for achieving its macroeconomic and social objectives. Appropriate fiscal, monetary and trade policies determine to a large extent the ability of the economy to adapt successfully to the changing international environment. The pursuit of 'good' policies is essential for achieving macroeconomic stability, which is necessary for attracting investment. GSKN has sought to create a facilitative policy environment, which encourages both domestic and foreign investment. The vulnerability of SKN to natural disasters, particularly hurricanes, has resulted in severe economic disruption through infrastructure damage as well as production and export losses. Natural disaster management is therefore a critical component of the overall development strategy.

The macroeconomic policy framework over the medium term aims to create a favourable macroeconomic environment necessary for increasing competitiveness in the provision of goods and services and sustaining economic growth in SKN. Fiscal policy will be aimed at strengthening public finances to achieve fiscal stability. The fiscal stabilization (consolidation) programme will allow for the resumption of fiscal savings on the recurrent account in the medium term and the overall balance will be significantly reduced to sustainable levels. The improved fiscal position, sustained economic growth and improved debt management system will redress the debt accumulation process. Institutional strengthening of the debt management operations through reorganization, better monitoring, analysis and evaluation will ensure debt sustainability.

GSKN will continue its support to the further development of the private sector and will aggressively pursue investment by local and foreign businesses in key sectors of the economy. Increased emphasis will be placed on human resource development in an effort to provide the skills necessary to achieve international competitiveness. Economic diversification will be pursued more aggressively to absorb the impact of the expected decline in the sugar industry. Monetary policy over the medium term is expected to continue supporting the fixed exchange rate regime to achieve price stability as well as to promote and maintain monetary stability.

A. FISCAL POLICY STRATEGY

GSKN's overall fiscal policy objective over the medium-term is to counter the negative consequences of a spate of hurricanes and the World Trade Centre crisis on the fiscal accounts and return to a sustainable fiscal position through a programme of fiscal consolidation. The fiscal consolidation programme will focus on increasing revenue collection but more importantly on expenditure control. To achieve its objective, GSKN has outlined a number of fiscal targets including:

- (i) reducing the central government deficit by 4 percentage points to 8½% of GDP in 2002;
- (ii) achieving a small overall surplus and government saving of about 5½ % of GDP by 2005, and;
- (iii) reducing the central government debt from 97% of GDP in 2002 to 76% by 2006.

These objectives are consistent with medium term fiscal and debt sustainability, and are also in line with those being considered for the Eastern Caribbean Currency Union (ECCU).

Thus far, in 2002 the main measures undertaken by GSKN have focused on strengthening tax administration and enforcement, and exercising tighter control over the wage bill and government procurement. First quarter data shows that revenue collection, in particular the corporate income tax, has improved. In addition, the granting of tax concessions has been reduced. On the expenditure side, the annual bonus to civil servants was cancelled for the second consecutive year, a freeze on hiring has been instituted, the growth of the civil service is being contained through attrition and by renewing the contracts of temporary workers only for essential activities, and the wage registers of the main spending ministries are being audited. Additionally, the policy of pre-authorization of expenditures by the MOF has been extended to overseas procurement by the line ministries for items in excess of EC\$2,000 (US\$740). Formerly, authorization was only required for items purchased locally having a value over EC\$300 (US\$111).

Further, the Central Purchasing Unit (CPU), which was established in March 2000, continues to record significant savings for GSKN. It is envisaged that the CPU will purchase all goods and services required for government. It will incorporate the procurement and tendering functions of the General Supplies Office, the Pharmaceutical Procurement Unit, the Electricity Department

and the Public Works Department. The CPU has recently moved to its new headquarters and has expanded its procurement from stationery to include furniture and equipment. A procurement module developed by a consultant is now being tested within the Ministry of Finance (MOF). The MOF has also introduced commitment accounting. Once the procurement module becomes operational, the line ministries will not be able to generate orders in excess of their allocations. The MOF will then have a valuable tool to ensure that its expenditure targets are met. Capital projects are also being reviewed, with the aim of cutting spending by the equivalent of 2 percentage points of GDP.

To ensure achievement of the medium-term fiscal targets additional actions will be taken. On the revenue side the focus will be on:

- a. strengthening the legal framework to address the deficiencies in tax assessment, collection, and penalties;
- b. replacing the specific tax on alcohol, tobacco, and fuels with an ad valorem excise tax;
- c. updating the property register and property valuations to ensure an adequate base for the property tax collections;
- d. closer monitoring of existing tax exemptions, with a view to eliminating those which are no longer warranted;
- e. the MOF liaising more closely with revenue collecting departments to allow for feedback on the achievement of their respective revenue targets;
- f. adjusting electricity tariffs to bring them in line with generating costs, as in neighbouring countries.

On the expenditure, government's efforts will be aimed at limiting the growth in the wage bill. Consideration will be given to setting targets for reducing the number of staff; gradual elimination of automatic pay increases to civil servants; and working with the labour unions to introduce a pay system in line with performance. The work of the new Public Sector Reform Unit will inform these efforts and set parameters for the sustained policies in this area. In addition, the practice of allowing unbudgeted "below the line" expenditure to be brought into the budget only after long lags will be severely curtailed, and; a more rigorous criteria for the inclusion of projects in the government's capital projects list will be implemented.

The issues pertaining to the rest of the public sector include: (i) addressing the losses of the sugar industry, (ii) the need for greater accountability by the other state enterprises, and (iii) taking the necessary steps to ensure the viability of the social security system. It is recognized that the fiscal situation would continue to exhibit fragility because of the sugar industry losses. The huge losses of the sugar industry can severely undermine GSKN's attempts to achieve a sustainable fiscal position in the medium term. The closure of the sugar industry as recommended by the SSMC Redevelopment Committee will immediately slow the debt accumulation process. However, SKN recognizes that there are important issues involved in the closure of the industry, including the welfare of displaced workers, retirement payments, land utilization and environmental issues. SKN has sought technical assistance from the Food and Agricultural Organization (FAO), the Caribbean Development Bank (CDB) and the United Nations Economic Commission for Latin America (UNECLAC) to assist in making a decision on the future of the sugar industry. SKN is presently awaiting the findings from these missions.

B. DEBT MANAGEMENT STRATEGY

Debt management will be an important area of expenditure control for SKN in the medium term. The government will endeavour to contain and minimize the accumulation of debt and to rationalize the debt portfolio with a view to reduce debt service obligations. The MOF is undertaking a number of measures to achieve this goal including institutional reorganization and debt restructuring. GSKN will convert its existing portfolio of treasury bills into long term bonds and thereafter market the new bond issues through the Regional Government Securities Market (RGSM). Also, the Ministry of Finance will identify loans with high interest rates and seek to negotiate more favourable financing arrangements. Institutional reorganization at the MOF earlier this year included the transfer of the Debt Unit to the Treasury Department. The creation of the new Debt and Investment Unit will be under the supervision and control of the Accountant General. This unit will be responsible for (i) evaluating the current debt position and making recommendations for debt restructuring; (ii) analyzing and reviewing the loan portfolio on a systematic basis; and (iii) formulating a borrowing strategy. The Nevis Island Administration (NIA) has already established a Debt Management Committee to monitor and advise the Administration on debt issues.

C. INTERNATIONAL TRADE POLICY

Trade policy in the Federation continues to be influenced by the need to improve international competitiveness and the maintenance of a sustainable external account balance in the context of enhanced global competition and trade liberalization. The framework for policy objectives is dominated by the following major regional and global initiatives: the establishment of the CARICOM Single Market and Economy (CSME); CARICOM-EU Partnership Agreements; World Trade Organisation (WTO) rules and agreements and globalization trends. The major trade policy objectives of the Federation include:

- facilitation of the creation of the regional single market and economy;
- integration in the world economy;
- trade promotion, especially export and investment promotion;
- economic diversification into non-traditional areas and services; and
- private sector expansion and inclusion in the trade policy formulation process.

The Federation faces specific obligations with respect to implementing the agreements reached on liberalizing trade and harmonizing tariff arrangements under the CSME and the WTO, and the likely requirements under the Free Trade Area of the Americas (FTAA), of which negotiations are currently underway. The FTAA should be in place by 2005, necessitating the reduction and eventual removal of tariffs on hemispheric imports under transitional arrangements. These measures are likely to pose serious problems for uncompetitive producers as well as for government recurrent revenue. GSKN intends to put in place mechanisms to strengthen its institutional capacity to address the regional, hemispheric and global trade issues and their implications on the economy. These include:

- monitoring of international developments through effective market intelligence and research;
- participating in meetings at regional and international levels;
- consulting regularly with the private sector and NGOs to solicit views;
- contributing tangibly to regional positions on OECS/CARICOM and WTO trade and investment issues; and
- creating an enabling environment for investors.

St. Kitts and Nevis as a small developing economy will need to find the balance between

maintaining domestic production and achieving a smooth transition to a liberalized environment. Creative ways must be sought to encourage domestic producers to reduce costs, improve productive efficiency and flexibility and to increase their market shares. The private sector must speedily adapt to global trends in which preferential and guaranteed quotas are being eroded.

To date, actions taken by GSKN in the area of trade policy include:

- undertaking national consultations with the public and private sectors on the CSME;
- facilitating a trade policy review by the WTO in order to assess the transparency of trade policies, highlight areas of potential conflicts between national economic policies and WTO agreements, and to provide an opportunity to gauge the interest of SKN's trading partners in key aspects of the Federation's trade policy; and
- liberalized the telecommunications sector in an effort to boost competitiveness.

GSKN continues to be challenged by the rapidly changing global trading environment. Some of the major challenges which GSKN faces in the area of trade policy include:

- the emergence of liberalized and competitive regional, hemispheric and world trading regimes;
- the reduction in protected access to the EU market with the introduction of "Everything but Arms" (EBA) initiative;
- complying with the onerous requirements of WTO and other trade agreements;
- the need for regulatory and legislative changes in response to the OECD and FATF initiatives in the area of financial services. The 'blacklisting' of St. Kitts and Nevis has negatively impacted on the marketing and the flow of business to the sector;
- the demanding nature of negotiations at CARICOM, FTAA, WTO and ACP-EU levels, given the present inadequate level of resources (human and financial) at the Ministry of Trade;
- market access difficulties arising from technical barriers to trade and the general inability of exporters, especially micro producers, to meet standards and technical regulations; and
- the impact of reduced fiscal revenues of the proposed negotiations of the economic partnership agreements between the ACP and EU. The heavy reliance on tariffs for revenue tends to slow the trade liberalization process. The economic diversification programme becomes critical at this juncture.

In an effort to re-orient the economy to deal with the challenges posed by globalization and trade liberalization, GSKN intends to pursue the following initiatives:

- a. seek to diversify the economy in new areas of activity, particularly, services, and provide the enabling environment for the development of information technology, call centres and international financial services;
- b. liberalize the financial sector in an effort to boost competitiveness;
- c. continue to implement the Common External Tariff;
- d. participate in the CARICOM-Dominican Republic and CARICOM-Cuba free trade agreements, which will provide larger markets for exporters;
- e. provide input in the RNM negotiations;
- f. provide assistance to line ministries to help them understand international trade agreements through training provided under the OECS Trade Policy Project.;
- g. facilitate greater involvement of the private sector and civil society in meetings and training workshops on trade related issues;
- h. convene national consultations on the WTO Trade Related Aspects Intellectual Property Rights (TRIPS) Agreement to inform the public and private sector stakeholders on intellectual property rights;
- i. participate in the process of creating the CSME;
- j. pursue trade and investment promotion activities more aggressively in order to encourage domestic and attract foreign investment in all sectors, especially the service sectors;
- k. establish an investment and export promotion unit to engage in the international marketing of products and opportunities for investment. The unit will also assist exporters with information and strategies, facilitate participation in trade shows and fairs, initiate such fairs and shows to promote the goods and services produced in the Federation, provide closer liaison with the private sector and promote the interests of entrepreneurs;
- l. target support including concessionary loans and technical assistance to assist producers, who are likely to be seriously affected by trade liberalization; and
- m. increase its consultation and discussions with domestic producers with a view to providing the necessary assistance needed to overcome the problems they may face in positioning themselves to grasp the opportunities available in the era of globalization and trade liberalization.

D. MONETARY POLICY STRATEGY

Monetary policy of the ECCB as reflected in its mission statement is to maintain the stability of the EC dollar and the stability of the banking system in order to facilitate the balanced growth and development of the member states. The monetary policy objectives are intended to support the efforts of the member countries to foster national development by contributing to sustained economic growth, higher levels of employment and improved living standards. The achievement of monetary policy is premised on the preserving of confidence in the value of the EC dollar by providing a stable, low-inflation environment for economic decision-making. The framework for the operation of monetary policy sets out the following key objectives:

- (i) to regulate the availability of money and credit;
- (ii) to promote and maintain monetary stability;
- (iii) to promote credit and exchange conditions and a sound financial structure conducive to balanced growth and development of the economies of the participating governments; and
- (iv) to actively promote through means consistent with its other objectives the economic development of the governments.

Monetary policy of the ECCB is anchored in the following areas:

- a. The maintenance of a fixed exchange rate for the EC dollar with the US dollar, namely $EC\$2.70 = US\1.00 . The fixed exchange rate is used as a means to achieve price stability, a crucial precondition for sustained growth in economic activity.
- b. Reserve management: The fixed exchange rate policy requires that an adequate stock of international reserves be maintained to enable the ECCB to cope with seasonal fluctuations in the flow of foreign exchange earnings and short-term economic shocks. The reserves also serve to preserve confidence in the value of the currency. The ECCB is required by statute to maintain the level of external reserves in an amount not less than 60% of the value of currency in circulation and other demand liabilities.
- c. Discount rate: The policy has been to keep the discount rate above the inter-bank rate to dissuade the banks from borrowing from the Central Bank and to encourage them to make first use of the inter-bank market.

- d. The Development of the Interbank Market: The ECCB has reduced its role as an intermediary in this market in an attempt to foster the development of this market with market determined interest rates.
- e. Minimum Deposit Rate: The ECCB continued to regulate the minimum rate that commercial banks must offer on domestic deposits (currently 4%) in keeping with the policy to promote higher savings. The ECCB is currently assessing the possibility of changing this rate in the context of the movements in international interest rates as well as to further promote economic activity in member states.

The ECCB has set out a strategy of money and capital market development, which is designed to create a financial system that will raise the efficiency of intermediation and lower transaction costs both within and between the countries of the currency union. The major objective is to create a single financial space that will allow for the 'freer' play of market forces under an effective regulatory regime.

In support of this objective, the ECCB has embarked upon the following initiatives by developing companion institutions:

- (i) The Eastern Caribbean Home Mortgage Bank (ECHMB) was established in 1996 as a secondary mortgage bank for the eight member territories. The ECHMB was premised on promoting the development of local capital markets, regional financial integration as well as promoting affordable mortgage financing.
- (ii) The Eastern Caribbean Stock Exchange (established in 2001);
- (iii) The Regional Government Securities Market: (scheduled for 2002);
- (iv) The Eastern Caribbean Enterprise Fund; and
- (v) The Eastern Caribbean Unit Trust (scheduled for 2004);

E. PUBLIC SECTOR REFORM

Public sector reform is viewed as an important strategy for improving efficiency and effectiveness in the delivery of public services in the Federation. Components of the public service reform programme include the following:

- a. Establishment of a Co-ordinating and Policy Unit in the Office of the Prime Minister, to promote consistency in the policy initiatives of the various government agencies in an effort to improve the efficiency and responsiveness of government. This unit is

responsible for co-ordinating and monitoring the various government policies to ensure their prompt and effective implementation.

- b. Establishment of a Public Sector Reform Unit to reframe and modernize the public service by strengthening the monitoring, accounting and decision-making mechanism to respond effectively to the needs of users in a quickly changing environment. Some of the key outputs expected from the public service improvement process will include:
 - a new professional performance-lead public service culture;
 - an open and rational strategy and policy-making process;
 - a value chain analysis;
 - a restructured and reorganized public service;
 - internal cost analysis;
 - human resource development standards and plan;
 - a new public service act and regulations;
 - new financial instructions for the public service;
 - new procurement policies and rules;
 - a documented public service quality management system; and
 - a new public service system of performance verification and recognition.
- c. Instituting a programme for the closer monitoring of public corporations to ensure that they comply with pre-defined operational standards and financing targets.
- d. Plans to improve efficiency in a number of government enterprises, including electricity and water, by taking the necessary actions to allow them to operate on a more commercial basis.
- e. The introduction of cost recovery measures in the provision of public services, where privatization of those services is not deemed appropriate, as in the case of health care services.
- f. Improved Financial Management. The Financial Administration Act will be passed and implemented. This act will modernize systems of financial management and will also make provisions for further budgetary reforms. Budgetary reforms will be implemented to control the growth of expenditures and will include the following:
 - improvement in the procurement process;
 - more frequent audits of government department and agencies;

- improving the data base of personnel emoluments by implementing a superior software programme or by contracting the services overseas; and
- implementing an expenditure commitment system to ensure that cheques can only be issued if there are sufficient funds to cover purchase orders.

F. DISASTER PREPAREDNESS, MANAGEMENT AND MITIGATION

SKN sustained extensive damage to economic and other infrastructure (including roads, ports, housing, hotels, crops, etc.) by the passage of a number of hurricanes over the last five years. GSKN is cognizant that rehabilitation and reconstruction in the wake of natural disasters consume significant levels of financial resources thereby impacting negatively on the fiscal position as well as on the financing for new public-sector investment projects. Effective emergency response planning demands both persistent and consistent coordination and liaison among government agencies, response organizations, and community support organizations. GSKN has therefore created the St. Kitts and Nevis National Disaster Mitigation Council (NDMC) to formalize the institutional arrangements for disaster management and mitigation. The objectives of the NDMC are to:

- rationalise the post impact recovery programme;
- review sector proposals for disaster reconstruction and rehabilitation and to identify and recommend national priorities;
- identify opportunities in the reconstruction phase for incorporating mitigation techniques, measures and practices;
- coordinate government's programmes for vulnerability reduction;
- recommend Economic Preparedness Planning and Policy for Government; and
- review updates of disaster impacts on various sectors of the economy.

The NDMC comprises representation from all public sector entities along with representation from the Chamber of Industry and Commerce, the Hotel and Tourism Association, Faith-Based Organizations, Non-Governmental Organizations and Community-Based Organization. The NDMC is divided into sub-groups along sectoral lines. Overall coordination with respect to response, assessment and recovery, is the responsibility of the National Emergency Management Agency (NEMA).

IV. STRATEGIES FOR ENHANCING SECTORAL SOURCES OF GROWTH

A. SERVICES

(i) TOURISM

The St. Kitts and Nevis tourism product is essentially the “sun, sea and sand” variant, which defines the Caribbean, but is differentiated from other regional destinations by the relatively undiscovered and undeveloped nature of its natural tourism resources. The two islands have different appeals, with St. Kitts attracting mainly the middle-income segment of the market and Nevis the wealthy segment. Tourism has been identified by the government as one of the main engines of growth. Consequently, GSKN has sought to provide an enabling environment for its development over the years. The economic importance of the tourism sector is reflected in its contribution to GDP, employment and foreign exchange earnings.

Over the past five years, the performance of the tourism sector in SKN was adversely influenced by the effects of hurricanes during the period 1995-1999, and economic slow-down in the US exacerbated by the terrorist attacks of September 2001. Stay-over arrivals which increased steadily in the early and mid 1990s, declined in the last three years. Stay-over arrivals peaked in 1998 at 93,190 and declined to 73,149 in 2000 and 70,565 in 2001. The trend in stay-over tourists over the last five years revealed that the US market contributed approximately 39% and the UK and Canadian destinations contributed 14% and 8% respectively. The vulnerability of the sector caused by the dominance of the US market was evident following the September 11, 2001 event in the United States, when there was an appreciable decline in stay-over tourist arrivals from the US. Yacht and cruise passenger arrivals increased markedly in the last two years from 95,577 in 1997 to 170,887 in 2000 and 259,134 in 2001. The cruise ship berthing facility at Port Zante, which was extensively damaged by hurricanes in 1998 and 1999, is presently under reconstruction and is expected to impact positively on the growth of cruise arrivals when completed.

Recent initiatives undertaken by GSKN to promote the continued development of the tourism sector include: (i) agreeing with and providing funds for the Caribbean Tourism Organisation (CTO) regional marketing initiative; (ii) the establishment of the alliance with US Airways for the

provision of direct air service from Pennsylvania; and (iii) the development of a five-year strategic plan for the sector.

There are a number of issues that continue to affect the performance of the sector including the following:

- insufficient scheduled air carriers offering direct airlift from major generating markets;
- the vulnerability of SKN to natural disasters. The frequent passage of major weather systems has extensively damaged infrastructure and disrupted cruise and land-based tourism;
- competition from other countries in the region offering tourism products similar to that of St. Kitts and Nevis;
- weak linkages between the tourism industry and the rest of the economy; and
- insufficient diversity in the generating markets.

GSKN's medium-term objective for the tourism sector is to improve the competitiveness of SKN as a tourism destination as a means of facilitating the expansion of the sector. GSKN will seek to maximize the sector's contribution to GDP, foreign exchange earnings and the employment creation potential. GSKN will seek to implement the following in an effort to address the issues/challenges affecting the tourism sector and achieve its objectives:

- a. develop a strategic marketing plan to guide short and long term marketing of destinations, promote SKN as a high quality destination, and to reduce the vulnerability of the industry to shocks emanating from any one market;
- b. enhance management of the tourism sector;
- c. improve airlift into the Federation;
- d. upgrade human resource development programmes in order to enhance product quality. The establishment of a Hospitality Training Institute will offer training to those persons desirous of pursuing a career in the hospitality industry;
- e. engage in product development to improve and diversify the tourism product and increase spending by visitors;
- f. foster greater linkages with other sectors to generate employment and income;
- g. enhance tourism awareness by introducing tourism education in schools;
- h. facilitate the expansion and upgrading of the tourism plant; and
- i. expand cruise facilities to attract more cruise lines

(ii) INTERNATIONAL FINANCIAL SERVICES

The international financial services sector has been identified by GSKN as the second major plank of its diversification strategy. The sector is important because it offers great potential for enhanced levels of economic growth, employment and foreign exchange earnings. Direct benefits accrue to the government in revenue from the registration of various companies, licenses and other fees and indirect benefits from the expenditure on goods and services, high quality employment, rental of office space and accommodation, construction and the spin-off effects from tourism, communications and the use of sophisticated technology. The authorities assign a very high priority to a clean image and good reputation in the jurisdictions of the Federation of SKN and NIA in the provision of quality world-class international financial services on an efficient and effective basis. The offshore financial services sector continued to register growth, albeit at a decelerating rate, in spite of the many challenges posed by international organizations. At end 2001, the number of International Business Companies (IBCs), Limited Liability Companies (LLCs) and International Exempt Trusts amounted to over 21,000, 4,700 and 2,700 respectively in SKN.

In recent years, the financial services sector was adversely affected by a variety of challenges emanating from the Financial Action Task Force (FATF) and the Organization for Economic Cooperation and Development (OECD). The June 2001 report of the FATF lists a number of small-island states, including the Federation of St. Kitts and Nevis, as being un-cooperative in the fight against money laundering. Likewise, the OECD in June 2000 blacklisted a number of named centers including St. Kitts and Nevis as tax havens that offer preferential tax regimes and confidentiality, deemed harmful to tax competition, and threatened to impose sanctions on these centers. In addition, financial advisories were issued, in July 2001, by the US Treasury and the Canadian government on the supervision and regulatory systems of SKN's financial sector. These advisories presented a serious threat to the financial system, in that some of the financial institutions faced the possibility of losing their corresponding banking relationship with banks in the developed countries. The issuance of the 'blacklist' and the advisories resulted in a slow-down in the number of new company registrations during 2000 and 2001.

In context of the challenges faced by the international financial services sector, the authorities established a Joint Task Force, comprising representatives from the Federal Government and NIA, to deal with the issues and to comprehensively address the weaknesses in the legislative and

regulatory mechanisms aimed at meeting international standards and removing SKN from the blacklists and advisories. During 2000 and 2001 the Federal Government and the NIA took measures to deal with the legislative deficiencies, which had been identified by the FATF, in order to strengthen the regulation and surveillance of the offshore financial services sector. The authorities have enacted various laws and regulations to counter money laundering and financial abuse as well as to provide greater autonomy to supervision and regulation of the financial system. Simultaneously, the authorities have strengthened institutional capacity to secure effective enforcement of the relevant laws and regulations.

The following are the legislative reforms enacted to counter money laundering as well as to strengthen the institutional capacity of supervisory institutions:

- The Financial Intelligence Unit Act, 2000, which established a Financial Intelligence Unit (FIU) empowered to cooperate at the international level with foreign counterparts in the exchange of information;
- The Proceeds of Crime Act, 2000, which criminalizes money laundering from all serious offences and mandates that a person convicted of a serious offence is not eligible to be licensed to conduct finance business in the Federation;
- The Financial Services Commission Act, 2000, which created a Financial Services Commission, to act as the ultimate regulatory body for financial services in the Federation;
- Anti-Money Laundering Regulations issued by the Minister, established identification procedures for new and continuing business relations and created a suspicious transaction reporting system;
- The Companies (Amendment) Act, 2001 (Federal Government), creates a bearer shares register mechanism whereby bearer certificates are to be registered at the office of the licensee. This licensee must maintain a record for each bearer certificate containing the following information: the name of the company issuing the bearer certificate, the identification number of the certificate, number of shares and the class of shares in the company, the identity of the bearer of the certificate (name, address, date of birth and detail of identification) and, where applicable, its beneficial owner;
- The Nevis Business Corporation (Amendment) Ordinance, 2001, which is similar to the Federal Government Companies (Amendment) Act;
- The Nevis Offshore Banking (Amendment) Ordinance 2001, which amended the principal Act giving the Eastern Caribbean Central Bank supervisory and regulatory

jurisdiction over the offshore banks in Nevis. Offshore banks are now required to provide the name, address or any other particulars of identification, as may be required by either the Minister or the Central Bank, of every shareholder of the company.

Effective January 2002 the NIA separated the financial services department into two departments: (i) the financial services development and marketing department, and (ii) the regulatory and supervisory department. These departments are housed in separate locations and have different functions and budget allocations. In March 2002, the Federal Government established a Marketing and Development Department to develop initiatives and promote the financial services sector in St. Kitts.

On March 6, 2002 the OECD issued a statement removing SKN from the list of un-cooperative jurisdictions listed as tax havens. As a result, SKN will now be included in the OECD's Global Forum to discuss the design of standards for the implementation of the commitments on transparency and effective exchange of information. Also, the FATF at their Plenary Meeting in Hong Kong in January/February, 2002 made a decision that the authorities of SKN had done enough work to be placed at the Implementation Stage, which represents the final stage before the removal from the list of non-cooperative countries and territories in the fight against money laundering. The Federation has since submitted an implementation plan and is well placed for the rest of the process, which includes an on-site examination by members of the FATF Review Group. At the end of the process, it is expected that when the FATF meets at the next plenary in June 2002, SKN will be removed from the list of non-cooperative countries and territories. The authorities have been working with the Caribbean Financial Action Task Force (CFATF), the International Monetary Fund (IMF) as well as other regional and international agencies to ensure that SKN has the regulatory regime and regulatory standards in keeping with international best practices.

The medium-term strategy for the sector includes the following:

- a. The Federal Government and the NIA have made the commitment to provide the necessary resources in terms of finance and staff for the effective and efficient supervision of the financial services sector. The authorities are also committed to the institutional strengthening of the regulatory bodies by assisting in (i) improving the data collection, processing and storage capabilities of the regulatory agencies, and

- (ii) coordinating and harmonizing the regulatory and supervisory regimes and practices on both islands to prevent regulatory arbitrage.
- b. The Financial Services Development and Marketing Department aims to ensure continued growth and success in the international financial services sector through the pursuit of the following objectives:
- to aggressively intensify marketing and promotion efforts aimed at increasing the market share of the SKN in the lucrative financial services industry by working together with service providers to chart the best course;
 - to increase public awareness of the sector on the islands by conducting seminars, mini-conferences, workshops and other initiatives with the goal of being consistent at the forefront of activities in the international financial services industry. It is intended that a publication of a monthly financial services newsletter will be produced for the dissemination of information on the financial services industry;
 - to solidify old markets and discover new financial markets;
 - to monitor new trends in international finance and taxation in an effort to institute new vehicles that may increase the competitive advantage of our jurisdiction; and
 - to enhance training and development within the government and private sector in an ever changing international economic and financial environment.
- c. The authorities intend to continuously strengthen the regulatory and supervision department in SKN in an effort to:
- ensure that SKN has a regulatory regime and regulatory standards in keeping with international best practices;
 - continuously monitor the legislation to ensure that it remains progressive and avant-garde and that the necessary legislation exists for all aspects of the off-shore sector permitted in the jurisdictions;
 - ensure that service providers operate within the regulations by conducting regular audits of their operations; and
 - ensure that staff is adequately trained and motivated to enable them to function efficiently in the financial services sector.

(iii) TELECOMMUNICATIONS AND INFORMATION TECHNOLOGY

The recent rapid advances in information technology and telecommunications on the global scene, and the vast number of opportunities within the sector for propelling economic growth and employment generation, have made the telecommunications industry one of the fastest growing industries in the global economy. In recognition of the importance of the telecommunications sector, GSKN has identified the telecommunications and information technology sector as the third major area in its diversification programme. The contribution of the telecommunications sector to real GDP in SKN averaged 9.7% over the period 1997-2001.

The major constraints facing the development of the telecommunication and information technology (IT) sector in SKN include (i) the lack of proper facilities to host operators in the informatics sector and (ii) the relatively high cost of telecommunications services. Recent initiatives by GSKN in the sector include (i) the establishment of call centers, which have created in excess of 400 jobs for citizens, (ii) the full liberalization of the telecommunications sector in May 2002 and (iii) plans to establish Information Technology parks. The government is committed to providing tax and fiscal incentives as a means of attracting a wide array of high technology entrepreneurs to the proposed IT parks. In addition, the government will provide tax and other concessions to local private entities interested in the construction of such buildings for the IT park.

GSKN implemented legislation that promoted competition in the telecommunications sector and provided for effective regulation of entrepreneurs in the sector. Cognizant of the important role that affordable and modern telecommunications services play in the development of the IT sector, GSKN joined with four other OECS governments, namely, St Lucia, St Vincent, Grenada and Dominica, to establish a regulatory body, the Eastern Caribbean Telecommunications Authority (ECTEL). The purposes of this Authority is to promote open entry, market liberalization and competition in the contracting states, provide uniform policies on a regional level of telecommunications and provide a harmonized regulatory regime and fair competitive practices. The signing of the ECTEL Agreement on April 7, 2001 provided for immediate liberalization of some services within the sector and full liberalization within 12 to 18 months.

GSKN is committed to develop the information technology and telecommunications sector as one of the pillars for sustained economic growth and employment generation and to provide the appropriate enabling environment to attract local and foreign direct investment in the sector.

Over the medium-term, GSKN intends to:

- a. establish IT parks to accommodate information and communications technology businesses;
- b. upgrade human capacity in IT through specialized training and enhancing the technology component of the education system;
- c. establish the appropriate legal and regulatory framework to facilitate the promotion of the Federation as a jurisdiction for information and communications technology (ICT) and electronic commerce (E-commerce), remove doubts about electronic transactions and build consumer confidence in E-commerce;
- d. provide ICT access to underprivileged persons in the society in order to ensure the population's access to ICT is expanded;
- e. raise the profile of ICT in the Federation in an effort to promote the use of ICT; and
- f. establish a wide area network for government.

B. AGRICULTURE

SKN has a total cultivable land area of about 22,000 acres, of which about 13,000 are actually cropped. The climatic conditions are suitable for a wide variety of crops, but sugar cane occupies about 80% of the cropped area, in spite of its declining acreage since the early 1980's. The contribution of the agriculture sector to real GDP declined from 15.6% in 1980 to 5.0% in 2001. During this same period, the contribution of sugar cane fell from 9.2% to 2.1%, while that of other agriculture fell from 6.4% to 2.9%. Non-sugar agriculture consists largely of small farmers growing vegetables, root crops, and fruits mostly for subsistence, whilst the remainder is sold to the domestic market. Livestock production and fishing are becoming important activities. Over the last five years, the contribution to GDP of the crops, livestock and fisheries sub-sectors averaged 1.0%, 0.5% and 1.5% respectively. Apart from sugar production, there is no strong tradition of farming, and hence the country imports over 75% of its annual food consumption. Food importation has increased annually from \$50 million in 1991 to \$84 million in 2000. Most of the land in St. Kitts is state-owned². Under the 1991 Land Development Act, long-term leases of agricultural land for about 25-30 years are being approved in St. Kitts. In Nevis, 30% of the land is public-owned and the remainder is under freehold titles and long-term leases.

²GSKN acquired the sugar estates from the private owners in 1975, at which time the ownership of the land leased to the small farmers by the estates was also transferred to GSKN.

(i) SUGAR

The economy of St. Kitts was traditionally dominated by sugar production. Until 1975, the sugar industry in St. Kitts consisted of 53 private estates and one sugar factory. However, low world prices, low production yields and inefficiencies in operations resulted in financial difficulties, which prompted GSKN to take over the industry in 1975. Two government corporations – the National Agricultural Corporation (NACO) producing cane and the SSMC manufacturing and selling sugar – managed the industry until 1986, when the entire industry was brought under the stewardship of SSMC.

Today, the corporation is subdivided into four sections: Agriculture (responsible for the growing and transporting of sugarcane), Factory, Personnel and Finance. The growing of sugarcane is carried out on an estimated 9,913 acres of land. Although, there are no communities that subsist primarily on income from sugar, a few communities still have a significant number of persons employed in the sugar industry. The industry employs approximately 1,857 persons at the factory and field level.

Notwithstanding the above, a gradual economic diversification towards services - tourism and construction - has taken place since the mid-1970s reducing the importance of sugar in the economy. The rapid growth in tourism resulted in upward pressure on wages in the traditional labour intensive sectors of the economy, including sugar. In 2001, sugar accounted for 5% of GDP, and tourism has replaced sugar as the main foreign exchange earner. Within the agricultural sector, however, sugar cane is still the main crop and accounts for about 40% of agricultural GDP.

From the mid 1980s, the sugar industry experienced financial difficulties as a result of the concurrent effects of increased labour cost, lower sugar prices and high factory operating costs. These factors have crippled the sugar industry, as the cost of producing sugar exceeds the average selling price. This variance has led to significant financial losses and the consequent build-up of debt over the years. Although the industry is currently not viable, sugar cane cultivation provides certain environmental benefits. The effectiveness of sugar cane in minimizing the extent of soil erosion and surface run off were apparent during hurricanes Luis, Marilyn, Georges and Lenny.

Given the difficulties facing the sugar industry, and in light of the threat of further erosion of the industry as a result of increasing trade liberalization, GSKN received technical assistance from

the World Bank to undertake a study of the sugar industry before deciding on its future. International consultants conducted the study and a comprehensive report was provided in May 1999. The report concluded that the future of the sugar industry in St. Kitts was bleak and sugar production is not considered viable. Following the consultants' report, the government organized its own review and consultation with stakeholders regarding the future of the industry. The findings of these consultations are documented in the "Report on the Way Forward for the Sugar Industry".

A special committee – St. Kitts Sugar Manufacturing Redevelopment Committee (SRC) was also established and was charged with the task of submitting its recommendations, based on the findings of four sub-committees, namely, the Joint Finance Committee, the Diversification Committee, the Land Use Committee and the SSMC Retirement Committee. The SRC presented its recommendations in August 2001 and urged the government to close the sugar industry possibly by the year 2002 but not later than 2003. The main reason for the early closure was the severe financial situation of the industry. Recommendations were also made to support the diversification of the economy through more effective distribution and management of land, and to strengthen agricultural support services for enhancing the development of non-sugar agriculture. The SRC also suggested that timely arrangements be made for severance payments to workers and for retraining them in new skills to facilitate their future employment in gainful activities. Following the presentation of the SRC's report to Cabinet, GSKN took the following initiatives to better inform the decision to be made about the future of the industry:

- a. requested and received technical assistance from the Food and Agriculture Organization (FAO) and the Caribbean Development Bank (CDB) in the preparation of an agricultural diversification project; and
- b. requested and received assistance from the United Nations Economic Commission for Latin America (UNECLAC) to conduct a social audit of SSMC workers.

It is expected that the government will make a decision on the future of the sugar industry after considering the reports from the above missions.

(ii) NON-SUGAR AGRICULTURE

GSKN's policy in the area of non-sugar agriculture is to increase the production of crops, livestock and fisheries products through the development of farmers and fishers in a competitive environment. Over the medium-term Government will seek to:

- increase the output of crops, livestock and fisheries products by 50%;
- develop and implement a comprehensive marketing programme for agriculture and fisheries produce;
- strengthen the programme of services to farmers and fishers in a manner that is commensurate with their demands;
- develop and recommend an integrated programme of land use and control, consistent with sustainable development of natural resources and the conservation of the environment to meet market demand for agriculture and fisheries produce;
- develop creative funding approaches; and
- investigate the development of mixed farming systems as a viable option for improved farming productivity and profitability.

Crop production, mainly vegetable and fruit production, is carried out mainly under rain-fed conditions on farms ranging from 1 to 25 acres. Thus, supply usually varies with rainfall, which results in an oversupply during the first three to four months of the year and shortages during the remaining months. Consequently, large quantities of vegetables are imported to meet local demand, which contributes to the existing high food import bill.

Given the uncertain future of the sugar industry, increased emphasis is being placed on crop farming as part of GSKN's overall agricultural diversification programme. Vegetables, root crops and fruits are being promoted with good expected returns to reduce the high food import bill. However, the crops sub-sector continues to experience cyclic production because of the lack of water for irrigation purposes. Farmers are still too dependent on rainfall, and this presents inadequate production throughout the year. The insecurity of land tenure has also been cited as one of the constraints preventing farmers from producing their full capacity. In addition, the increasing frequency of hurricanes, seasonal high levels of pests and diseases, infrequent extension contacts, the small domestic market and poor harvest handling practices have all influenced this cyclic pattern of production.

In an effort to fully address these problems, increase domestic food production and increase foreign exchange savings, GSKN intends to:

- a. facilitate the establishment of four irrigated farm settlements for vegetable production in order to extend the period of production for the major vegetables from four to six months, and facilitate the establishment of two economic sized unit farms (13 acres) for fruit and tree crop production.
- b. train farmers in good agricultural practices, post harvest handling and marketing of selected crops;
- c. provide training to commercial farmers in an effort to develop a business approach to farming;
- d. encourage more persons to become involved in farming;
- e. facilitate the establishment of farmers organizations;
- f. extend the period in which farmers are able to produce vegetables under rainfed farming by making water available for supplemental irrigation;
- g. strengthen technology generation, extension and transfer; and
- h. promote the further development and optimum functioning of the marketing unit at the Department of Agriculture.

Livestock production has been restricted due to the limited access to land and difficulties to access the local market. The long standing tradition of raising livestock as a part-time activity has continued to adversely affect the development of commercial farms. Other problems experienced by the livestock sub-sector include the rearing of animals beyond their optimum marketable weight, resulting in flock/herd sizes beyond the carrying capacity of the pastures. Dog attacks during the night have also been a major deterrent particularly for small ruminants.

Following the implementation of the Caribbean Amblyomma Programme, the Tropical Bont Tick, and its associated disease Dermatophilosis have been successfully controlled, and SKN has obtained provisional tick free status. The successful control of the Tropical Bont Tick resulted in an increase in the livestock population and beef output during the 1996 to 2000 period. Nonetheless, livestock production continues to be constrained by:

- absence of market-led livestock production systems;
- insufficient number of small ruminants;
- insufficient lands allocated to livestock production;
- high incidence of dog attacks;

- low management and husbandry skills of livestock farmers;
- inadequate and poorly managed livestock input store;
- farmer's inability to access available credit;
- part-time nature of livestock farming; and
- inadequate animal health unit.

Over the medium term Government will seek to increase and market more locally produced meats, thereby increasing the contribution of the livestock sub-sector to GDP. More specifically, GSKN intends to:

- a. establish ten 172-acre commercial beef farms;
- b. promote the formation of livestock associations/co-operatives;
- c. conduct training for livestock farmers and introduce annual training for abattoir staff;
- d. provide an efficient and expanded animal health care service;
- e. further upgrade abattoir facilities and expand services offered; and
- f. establish an effective dog control programme.

Fisheries in St. Kitts and Nevis is mainly artisanal, and most full-time fishers operate about 3 - 4 trips per week in boats ranging from 3.6m to over 9.1m. The majority of the fishing vessels are between 4.9m to 6.1m. Annual fish landings increased from 267,071 (kg) in 1996 to 357,901 in 2001.

With the increase in tourism related activity such as scuba diving which takes place within the coral reefs and traditional fishing areas, increased emphasis of fisheries management has been placed on the utilization of under exploited fishery resources and on the sustainable use of the traditional fishery resource such as reef fish.

The major constraints plaguing the fishing industry are:

- lack of proper berthing facilities;
- lack of adequately sized boats with appropriate gear and equipment that are suitable for the targeted fishery;
- fishers unwillingness to spend longer periods at sea;
- limited human and financial resources and capability to effectively undertake monitoring, surveillance and law enforcement;

- lack of appropriate resources for research; and
- over-fishing of inshore fishing areas;

In order to ensure that fishers are provided with the necessary technical advice and other services that will optimize the harvesting of fishery resources in a sustainable manner, GSKN intends to:

- a. construct a new Fisheries Complex in Basseterre. The construction which is now underway in Basseterre will address some of the constraints faced by the fishing industry, as well as assist in the further development of the fishing industry and diversification of the national economy. The Complex when completed will have all the necessary amenities for the processing, storage and sale of fish, and will also address the lack of proper berthing facilities
- b. facilitate and/or provide regular training to fishers to promote the development and use of appropriate fishing gear and practices in order to increase production and improve sanitary conditions;
- c. establish a Fishery Advisory Committee to advise the Minister of Agriculture, Fisheries, Cooperatives, Lands and Housing on fisheries management and development;
- d. promote co-management of marine resources through the involvement of stakeholders;
- e. develop an effective monitoring, surveillance and enforcement programme;
- f. promote scientific research;
- g. preserve the traditional methods for the harvesting of inshore pelagics;
- h. arrest the depletion of conch habitats; and
- i. prevent the landing of lobsters with eggs and undersized lobsters.

Additionally, the construction of a new Fisheries Complex now underway in Basseterre will address some of the constraints faced by the fishing industry, as well as assist in the further development of the fishing industry.

C. INDUSTRY

(i) MANUFACTURING

The manufacturing sector, consists mainly of export-oriented firms specializing in the production of garments, electronic components, and electrical fixtures, and small enterprises producing food, beverages, clothing, boat building, furniture and other wood products primarily for domestic market. Of importance also is sugar refining as it constitutes a major portion of activity in the manufacturing sector. In addition to generating employment and foreign exchange, the manufacturing sector contributes about 11.5% on average to real GDP.

GSKN acknowledges the importance of having a sustainable manufacturing sector, and has therefore, dedicate its efforts towards attaining substantial domestic production levels in the manufacturing sector, and to managing the timely development of a dynamic, diversified, integrated consumer sensitive market. The government is also committed to creating a diversified economy in which light manufacturing and information technology would play vital roles. GSKN is in the process of developing a new Business Park to accommodate IT businesses.

GSKN has the intention of maintaining profitable domestic markets while at the same time opening doors to foreign investment. Over the next three years GSKN hopes to take action by:

- a. facilitating the creation of employment in high tech and light manufacturing;
- b. enhancing the attractiveness of investment incentives; and
- c. constructing a new 20 acre Business Park at Conaree catering to high tech centers and light manufacturing.

(ii) CONSTRUCTION

The construction sector continues to play a key role in generating economic activity in the Federation. There is significant activity underway in the construction sector for both residential and non residential developments. In recent years the industry has taken on new significance as an important source of employment and as a net contributor to the GDP. Over the period 1996 - 2001, this sector's contribution to real GDP averaged 15.7%. It is expected that the performance of the sector will continue over the medium term. The projection is based on construction activities that are ongoing and those that are to scheduled to commence shortly. Some major ongoing projects include the J.N. France Hospital Development Project, the Basseterre Fisheries Complex at New Town, the Marriot Hotel at Frigate Bay; the Clarence Fitzroy Bryant College

(CFBC) Hospitality Unit, the St. Pauls Sporting Complex and the Road Improvement and Maintenance Project in Nevis. Projects to be started shortly include the construction of shelters and the Emergency Operations Center (EOC) under the Emergency Recovery and Disaster Management Project (ERDMP). There is will be some activity commencing shortly under the Affordable Housing Program.

V. CROSS-CUTTING ISSUES

A. SUPPORTING INFRASTRUCTURE

Economic development is partly contingent on adequate infrastructure, and infrastructure development largely depends on appropriate maintenance scheduling and planning. Electricity, water and transportation requirements are determined by the level of development taking place. In St. Kitts, the present demand for potable water is estimated at 5.3 million gallons per day (MGD), while the production capacity is 5 MGD. Presently, 67% of the domestic water supply for St. Kitts is from ground water. However, given the level of development taking place, particularly the ongoing expansion in tourism, the planned diversification of the agricultural sector and the projected increase in residential housing, the Water Services Department will have to conduct more exploration in order to increase supply to satisfy future demand.

The following key issues have been identified :

- the need to update the legislation to reflect present circumstances;
- the need to reorient water management practices to reflect the increased significance of ground water relative to surface water;
- the potential impact of eco-tourism and other developments on the quality of the water resources; and
- the need to computerize the water production and distribution network in order to facilitate improved maintenance and management.

GSKN is committed to ensuring sustainable development of the Federation's water resources. To this end, over the medium term, GSKN will:

- a. implement measures to control and minimize the wastage of water;
- b. conduct exploration in an effort to increase the water supply; and
- c. seek to computerize the production and distribution system.

St. Kitts has a total of 36 MW of installed electricity capacity to meet expected peak demand of 18MW. The generating capacity was expanded by 14MW over the last three years, with the commissioning of two new generating sets. Consideration is being given to installing some

20 miles of 34KV transmission line to reinforce the electricity supply in St. Kitts. A study of alternatives for Electrical Distribution in the Federation was completed under the World Bank funded ERDMP.

GSKN's key objective for the electricity sector is to provide a reliable supply of electricity to all customers. In pursuit of its objective, GSKN intends to:

- a. expand the electricity generating capacity in an effort to meet expected future demands;
- b. rehabilitate the main over head distribution lines; and
- c. reinforce the underground distribution systems in Basseterre and the Frigate Bay tourism area by installing additional circuits.

The infrastructure and service upgrade processes are ongoing and it is projected that by 2005, the institutions that manage public infrastructure, namely the Public Works Department (PWD), the Electricity and the Water Services Departments will improve performance and reliability. Reconstruction work at Port Zante is nearing completion and it is expected that the cruise facility will be ready for the 2002/2003 winter season. The Air and Sea Port Authority, under the WB funded OECS Emergency Recovery Project, will be undertaking the fencing of facilities and upgrade of security mechanisms in St. Kitts and Nevis as a measure to increase security. Work is to commence shortly.

B. PHYSICAL PLANNING AND DEVELOPMENT CONTROL

In 2000, GSKN passed the Development Control and Planning Act 2000 into law. The Physical Planning Division of the Planning Unit, the implementing agency of the new planning legislation serves as secretariat to the recently installed Development Control and Planning Board. The regulatory framework with respect to land development is managed by the Physical Planning Division.

The act sets out to ensure that there is the orderly and progressive development of land and protection of the environment. It sets the context for the development of a National Physical Development Plan and a National Land Policy. All development proposals are to be reviewed by the Development Control and Planning Board through its secretariat. It is expected that the new approach to physical planning and development control will greater facilitate integrated

development planning. The new physical planning policy is expected to guide the economic development process. The new planning legislation is only applicable to St. Kitts. Nevis is currently developing its own legislation based on the OECS model.

C. REGULATORY AND INCENTIVE FRAMEWORK

GSKN recognizes the importance of an appropriate macroeconomic policy framework to attract private investment and to achieve sustainable economic growth. Such a framework takes into account the exchange, trade, and monetary arrangements to enhance the country's international competitiveness, consistent with its membership of WTO, CARICOM, the OECS and the ECCB.

GSKN has sought to make the tax regime more favourable to private sector development by reducing in phases the corporation tax rate from 40% - 35% over the period 1998 - 2002. GSKN is also intent on consolidating and simplifying the tax system with assistance from the IMF, the OECS, UNDP and CDB with the aim of comprehensively reforming the tax system towards efficient revenue generation.

Private investment is promoted through fiscal incentives under the Fiscal Incentives Act. Duty exemptions are also granted under the Hotel Ordinance Act and under discretionary power granted to Parliament. GSKN is committed to:

- a. reviewing the incentive scheme, with a view to making it more performance related and including tax incentives for training;
- b. ensuring that small hotels enjoy benefits similar to those which are currently available to their larger counterparts;
- c. revising its fiscal incentives scheme in order to encourage local investors in new import competitive business enterprises including manufacturing, tourism-related services, data processing, and business and financial services; and
- d. proclaiming a policy for small business development that will ensure a "level playing field" for local entrepreneurs who are being stimulated and encouraged to lead the creation of vital commercial linkages between tourism and the other productive sectors of the economy.

In March 2000 the Ministry of Commerce and Consumer Affairs replaced the Ministry of Industry and shares the portfolio with Tourism, ostensibly as a means of expediting and

orchestrating local business development with the main engine of economic growth, the tourist industry.

The continued development of the regulatory framework is aided by timely discussions between the private sector, mainly through its Chamber of Industry and Commerce (CIC) and GSKN. These discussions inform the GSKN's programme of ongoing support to local enterprises in their efforts to successfully contend with the challenges of the new business environment resulting mainly from SKN's membership in the CSME and WTO.

SKN's international position, as reflected by changes in the real effective exchange rate, continues to be dominated by movements of the US dollar vis-à-vis the currencies of its main trading partners. GSKN recognizes that fiscal policy, including public sector wage policy must be sustainable, and the need for wage increases to be commensurate with increases in productivity so that SKN's international competitiveness is enhanced. GSKN is working with its CARICOM partners to ensure that trade taxes are maintained at levels that sustain SKN's international competitiveness and adequately support domestic business development.

D. SMALL AND MEDIUM ENTERPRISES

The contribution of Small and Medium Enterprises (SME) to economic development should not be underestimated. The SME sector is a major contributor to economic productivity and is a key factor in creating the necessary linkages between the main productive sectors. Initiatives are forthcoming to formulate and implement pro-market, legal, policy and institutional frameworks for the sector. Government has employed a number of measures to add some degree of formality to the informal sector, such as the provision of accommodation for vendors and the provision of micro credit. This move has created a more tranquil area of operation for vendors and their clients. At the same time the level of street congestion has been reduced, especially around the banking district in Basseterre. The GSKN in the medium term will facilitate the complete removal of informal sector operators from the streets of Basseterre into more suitable accommodation. Additionally, the GSKN is seeking assistance from UNECLAC and CDB in the preparation of a Small Business Development Policy that will seek to increase the role of small and medium size enterprises in the Federation.

The Consumer Affairs Bill is expected to be submitted before the National Assembly shortly. Once adopted, the legislation will enhance the effectiveness of the Ministry of Commerce and Consumer Affairs in the fulfillment of its mandate. The Ministry will continue to explore all opportunities to attract investors in the areas of manufacturing, tourism development and agro-based enterprises. In an effort to facilitate the further development of SMEs, GSKN intends to:

- a. create the appropriate enabling environment in order to facilitate the development of vibrant and competitive SMEs; and
- b. strengthen the Small Enterprise Development Unit (SEDU).

E. ENVIRONMENT

Sustainable development is an important part for the engine for economic growth and development for small island developing states. GSKN is wholly committed to a development thrust that hinges on the pillars of sound environmental practices. The recent implementation of the Development Control and Planning Act 2000 complements the National Conservation and Environmental Protection Act 1987 as a gauge towards integrated development planning. Part IV section 26 of the new planning legislation requires that environmental impact assessments be carried out for all development projects likely to have a significant impact on the local environment. Despite this, there is still the need for the design and implementation of appropriate legislation to address land degradation, watershed and coastal zone management.

Over the medium-term, GSKN will seek to:

- a. reduce current and potential environmental degradation;
- b. reduce the adverse environmental effects of current and future economic development;
- c. educate and raise awareness on current and potential environmental issues; and
- d. raise the profiles of the available alternative sources of energy.

In pursuit of its objectives GSKN will implement projects/programmes to address the following areas:

Land Degradation

A soil conservation programme will be developed to address the most vulnerable areas. An audit of activities that lead to land degradation and an evaluation of the type and extent of land degradation will be carried out. Appropriate measures will be employed to address the problem.

Watershed/Forestry Management

This project will seek to broaden the scope of the Wingfield Watershed Project by conducting an assessment of the major watersheds. The main goal of this project will be to reduce degradation in the Phillips Watershed. The project will involve protection and mapping of the Phillips Watershed. A watershed management plan for the area will also be developed. It is hoped that the area will become a community-based eco-tourism attraction.

Coastal Area Management

This project will involve a study to evaluate the feasibility of importing beach sand as oppose to the present practice of beach sand mining. This project will also look at the rehabilitation of two important bathing beaches on the islands that have been undergoing severe erosion.

Energy Conservation

The project will explore alternative ways of supplying power. The introduction of economic incentives for the renewable energy sector, particularly solar energy, will also be explored. Emphasis will be placed on energy conservation in residential and commercial sectors.

Additionally, GSKN recognizes that public involvement is a critical component of the environmental management thrust. Thus, as part of its short-term strategy, the Department of Environment will develop a public education/outreach strategy to promote consensus among the citizenry on the need to properly manage the resources of the country.

The issue of solid waste management is being aggressively addressed by the government. The commencement of operation by the Solid Waste Management Corporation and the preparation of the regulatory framework by way of the Solid Waste Management Bill, is open indication of Government's commitment to attack environmental degradation on all fronts. The medium term objectives and strategy outlined in the previous MTESP remain. They include:

- the promotion of sound environmental practices through public education and enforcement of regulations;

- adherence to all international environmental conventions to which the Federation of St. Kitts and Nevis is a signatory to;
- the introduction of environmental studies in school curriculum;
- the institutionalization of greater capacities at the Department of Environment; and
- the preparation and updating of contingency plans to effectively deal with environmental matters.

F. SECURITY

GSKN has a National Security Plan that integrates in operational terms the Security Forces, the National Emergency Management Agency and the Fire and Rescue Services, in times of national disaster and/or emergency. SKN is also a member of the Regional Security System (RSS), a sub-regional security arrangement, covering the OECS countries and Barbados, which provides a coordinated response to any threat to national security both internal and external.

Although they are inevitably linked and have a significant overlap, it is important to distinguish between internal and external security concerns. Internal security refers to the activities within the country of the law enforcement agencies, which include the coastguard, immigration and customs services as well as the police. The activities of these agencies are designed to ensure that the local population and bona fide visitors can go about their legitimate business in peace and safety. External security issues on the other hand, relate to security threats originating outside of the country, and usually with a supra-national element. The September 11th 2001 terrorist attacks on the USA demonstrate the convergence of internal and external security and the importance of maintaining strong operational links between the two.

The September 11th terrorist attack in this hemisphere and on the world's major superpower has led inevitably to a re-evaluation of priorities and a tightening of security, particularly in relation to travellers en route and at ports of entry. A World Bank evaluation mission in November 2001 to countries in the Organisation of Eastern Caribbean States (OECS), including St. Kitts and Nevis, concluded that the September 11th events had a devastating impact on the tourist industry of these islands and consequently on their capacity to implement the increased security arrangements that are now indispensable in the post September 11th world. Consequently, between December 2001 and January 2002 the World Bank commissioned an 'Assessment of

Security Needs at Airports and Maritime Passenger Terminals in OECS Countries in the Post-September 11, 2001 Environment'. This involved reviewing security systems and equipment needs in order to ensure compliance with new International Maritime Organization (IMO) and International Civil Aviation Organization (ICAO) standards. The outcome has been the development of an Emergency Recovery Project to implement the required improvements with total project costs of US\$5.2 million, 85% of which consists of a World Bank loan of US\$4.4 million. Since both national and regional security arrangements already exist, the basic infrastructure has been flexible enough to accommodate the necessary changes. The major impact in the period 2003 – 2005 will therefore be felt through increased debt servicing charges rather than in any significant organisational adjustments.

(i) INTERNAL SECURITY

With regard to St. Kitts and Nevis, the current major internal security issues are the increase in petty crimes, mainly, burglaries, the beginning of incidents of violent crime and the development of drug related crime. It is recognised that many of these internal security problems are a consequence of growing disparities between the town and the countryside, between the poor and relatively affluent in-comers, whether visitors or more permanent settlers. The development and growth of tourism leading to an increase in the size of the population to be policed as well as in the range and sophistication of the crimes committed, also magnify the demands on the law enforcement agencies. These together provide the criminally inclined with opportunities which did not exist before.

In the period 2003 – 2005 it is expected that these trends will continue and will intensify. The refining/redefining of the tourism product and the restructuring of the agricultural sector are two parallel events that will be impacting on human and social development over the next three years. These, combined with adjustments arising from the inevitable progression in regional integration e.g. free movement of capital and labour, are likely to have some effect on the social fabric of the islands thereby requiring strategic and sensitive policing. In response to this, there are plans to upgrade and redevelop existing and new neighbourhood police stations specifically in Sandy Point, Dieppe Bay, Tabernacle and the Frigate Bay tourist enclave in St. Kitts and at Newcastle in Nevis. While this expansion points to an increase in personnel, there are also plans to provide the general law enforcement agencies with more new technology (both equipment and training) in the medium-term, to assist them to face the challenges of this new era.

(ii) EXTERNAL SECURITY

Prior to the September 11th 2001 terrorist attacks on the USA, the main threat to the external security of the population and travellers was seen as resulting from the activities of international criminal cartels using the islands, as a transshipment point for illegal drugs coming primarily from South and Central America and destined for the major markets of North America and Europe. SKN has a very high maritime vulnerability due to its geographical location and island topography, hence illegal drug smuggling continues to pose a major threat. This is, however, a Caribbean-wide problem extending from Trinidad in the south, to the Bahamas in the north. There are many national, sub-regional and regional strategies for inter-agency and maritime counter-drug cooperation, which remain the best way of dealing with what will be a persistent problem well into the foreseeable future.

Post September 11th, the strategic location of the Caribbean sub-region vis-à-vis its powerful superpower North American neighbour exposed new areas of vulnerability for small island countries like SKN. The recognition by the US that the Caribbean, encompassing US territories like the USVI and Puerto Rico, and a major US tourist destination, constitutes its 'third border' has raised the stakes with regard to the external security of the region. The response over the next three years in addition to The World Bank funded security improvements, referred to earlier, must be the continued strengthening of the coordination and cooperation arrangements that already exist and which coincide with the expanding circles of integration starting with the OECS and CARICOM and extending into the FTAA, which is due to come into being in 2005. The reality is that countries like SKN, totally constrained by small size and limited resources when faced with transnational crimes like drug trafficking and terrorism, have relied and must continue to rely on strategic alliances with larger friendly countries to mitigate such threats.

VI HUMAN DEVELOPMENT AND SOCIAL SERVICES

A. EDUCATION

GSKN recognizes the role of education as the basic tool for the development of society and to combat poverty efficiently. Consequently, in an effort to assist government in its commitment and recognition, the education system has been enhanced through provision of free education to primary school and universal access to the secondary level. Facilities offered for free medical attention, free text books and assistance with uniforms for poor families are all geared towards increasing the literacy rate to 98% by the end of the period.

The Long Term Education Plan (“Learning and Growing”, 1998) broadly formalizes the education strategy of St. Kitts and Nevis covering the period 1998 – 2011. The strategies for the next five years include recommendations to:

- enhance school access in rural areas, particularly at the secondary level;
- improve the quality of teaching and learning, particularly in the delivery of science and technology curriculum at all levels;
- continue improvement of the learning environment at all levels – early childhood to tertiary – through the provision of better facilities for teaching and learning, better trained teachers in specialist areas, and curricula and programmes to prepare students for coping in a technological society;
- improve interaction between the schools and colleges and the world of work, through curriculum reform and teacher-training initiatives in Technical and Vocational Education and Training (TVET);
- improve the capacity of schools to provide for the needs and interests of youths; and
- upgrade the planning, management and information processing capabilities in the Education System.

Under the CDB – funded Basic Education Project, curriculum reform and assessment activities at the primary level are continuing. Such activities are being harmonised with the reform initiatives at the OECS Education Reform Unit (OERU). The World Bank funded (Secondary) Education Development Project will seek to improve the efficiency of the education system through better allocation and utilization of both physical and human resources.

Every effort will be made to improve the student-teacher ratio in secondary schools by redeployment of teachers wherever possible. Teacher appraisal systems and teacher-training initiatives will be closely related to curriculum reform initiatives, including initiatives in Science and Technology. Curriculum reform efforts will also be closely linked with other curriculum development activities occurring in the system, including reforms associated with programmes for special needs children, the new National Certificate of Educational Competency (NCEC)³ and efforts to improve classroom assessment practices.

The education strategy over the medium-term will therefore seek to :

- a. expand the Early Childhood facilities and programmes in rural communities, including curriculum development, teacher education and parenting initiatives;
- b. reform the curriculum, and improve assessment practices and professional development of teachers at the primary level, particularly in the integration of IT in the curriculum;
- c. improve the learning environment in all schools through school expansion and refurbishing works, as well as a through a programme of proactive maintenance;
- d. reform the education sector, particularly at the secondary level, through: increased access and equity, improved quality of teaching and learning, and more efficient management and governance;
- e. promote school-based improvement projects based on school development plans, as well as, extra-curricular activities in secondary schools, selected and run by students to generate greater interest in school among youths;
- f. upgrade the national examinations procedures for secondary school leavers;
- g. upgrade the Advanced Vocational Education Centre (AVEC) and the CFBC to deliver a higher level of training in the area of ICT;
- h. improve the effectiveness and efficiency of the CFBC to better enable the institution to meet national needs and engage in cost recovery schemes;
- i. expand teacher-training programmes at the CFBC, Division of Teacher Education to cater for training of teachers in a variety of programmes;

³The (NCEC) is aimed at providing all students in the third and fourth forms with a programme of education and training that will enable them to achieve competencies relevant to employment opportunities, continuation of further education in both academic and vocational areas, and help them to adopt to situations that may assist their welfare.

- j. increase school-community collaboration through improved and more effective and efficient Parent-Teacher Associations and private-sector partnerships; and
- k. expand Adult Education Programmes in Rural Communities.

B. HEALTH

GSKN recognizes the link between health and economic and social development of the country. The government continued its efforts to reform the health sector and increased the resource inputs to this sector over the period of 1995 - 2001. Improvements in the health infrastructure and delivery services provided by the public hospitals and health centres are evident. Further, initial rehabilitation work has been completed on five (5) of the eleven (11) health centres throughout St. Kitts. Significant sums have been invested to procure equipment for the hospitals, as well as the network of health centres. The equipment is intended to improve the diagnostic as well as management capabilities of the health care providers. Additionally, several services including Ophthalmic, Dental Health Promotion, Primary Health and Laboratory have been expanded, resulting in enhanced access for the populace.

As a result of the damage caused by Hurricane Georges in 1998, the number of hospital beds per 1,000 population declined to 3.73. However, by 2000 this ratio increased to 6.09 following major rehabilitation and reconstruction work at the main hospital in St. Kitts. The infant mortality rate declined from 27.75 per 1,000 population to 14.32 between 1998 and 2000. Over the same period, the neonatal mortality rate fell to 10.74 from 21.97 per 1,000 population. Life expectancy averaged 67.84 for males, and 71.33 for females over the 1996-2000 period. Basic health indicators for 1999 and 2000 show the following:

Indicators (per 1000 population) unless otherwise specified	1999	2000
Mortality Rate	9.84	8.81
Life Expectancy		
Immunization coverage (%)	100	100
Aids Cases	5	1
Doctors	1.8	1.14
Nurses	5.09	5.57
Hospital Beds	4.69	6.09

Source: Health Information Unit

Although the country enjoys 100% immunization coverage, there remains other challenging issues such as the high infant mortality rate, communicable and non communicable diseases, the current threat of HIV/AIDS, specifically its impact on the age cohort 15 – 29 years; and the extent to which implementation of the Strategic Plan for the National Response to HIV/AIDS will result in significant reduction in the incidence of the disease. GSKN is committed to improving the health situation and continues its efforts to ensure the people a quality and affordable health service.

The main objective of the Ministry of Health is to ensure the greatest possible improvement in the health and quality of lives for all citizens by:

- a. recognizing that all citizens should have opportunities to attain their health potential irrespective of age, gender, socio-economic status or place of residence;
- b. strengthening institutional capacity and upgrading human resources;
- c. channeling resources where needs are greatest;
- d. building a health system that is clinically and economically sustainable and responsive to a population with a changing epidemiological profile; and
- e. seeking to maximize the clinical and cost effectiveness of services to secure the greatest benefit from the resources available.

When this objective is achieved it will ensure improvements in the following priority areas: health systems and human resource development, family health, food and nutrition, chronic non-communicable diseases as well as environmental health.

The medium-term strategy for the health sector includes the continuation of health sector reform, focusing on measures leading to better utilization of limited resources, and the creation of an enabling environment to facilitate an enhanced capacity to deliver health services. These are in addition to attempts to re-orient the health system resulting in a re-focus of the sector on primary health care.

Renovation, construction and expansion of the health care infrastructure are slated to continue, with an emphasis on effecting improvements to the network of health centres. Notwithstanding this, the Ministry of Health will vigorously pursue efforts to complete construction of the main referral hospital, as well as the two cottage hospitals on St. Kitts.

Further, efforts to ensure improved health care infrastructure will be complemented by a simultaneous emphasis on facilitating training and skill development of the human capital deployed at all levels of the sector.

A cadre of trained and appropriately skilled personnel is essential to pursue the medium term strategy of strengthening the system for disease surveillance and implementing health promotion as the principal vehicle in a national effort to combat the spread of communicable and non-communicable diseases.

The main projects and other initiatives in the health sector include the continued rehabilitation, re-construction of the J.N. France Hospital, the main referral centre.

New initiatives include the addition of an Intensive Care Unit, an Emergency Medical Service, in addition to the establishment of an in-service department to provide on going continuing education/training for all health care providers.

The changing Epidemiology profile evident by morbidity and mortality data, suggest that communicable and non-communicable diseases including cancers, diabetes, cardiovascular, and acute respiratory conditions pose a significant challenge to the continued capacity of the system to respond.

Further, continued development and improvements of the health system to respond to the challenges will be impacted by the availability of the necessary finances for the actual delivery of

health services, sustainability, and investments to strengthen institutional capacity, including a focus on skill development, as well as building a solid research and information base to guide decision making.

Other strategic issues or initiatives which are important include continued attempts to effect appropriate regulatory and/or legislative changes, with particular emphasis on environmental health, mental health, governance of the sector, in addition to the imperative of strengthening institutional capacity for regulation and enforcement in health.

Issues pertaining to quality assurance in personal and population – based health services in addition to the extent to which the Ministry of Health can increase social participation in health are areas for further consideration.

C. HOUSING AND SHELTER

The National Housing Corporation (NHC) works with other public sector entities to develop dynamic and healthy communities. The broad policy towards housing and shelter seeks to characterize social relations by ensuring that shelter, equity, accessibility, satisfaction and the environment are highly considered.

As part of the medium term strategy towards the continued growth and sustainable development of the housing sector, GSKN will continue to:

- a. ensure that there is a continued flow of inputs mainly through capital investment (land allocation);
- b. establish appropriate conditions that would permit the private sector to play a greater role in the supply of affordable housing;
- c. implement measures to reduce the cost of housing and to ensure that there is a replacement of stock;
- d. ensure that proposals for affordable housing are reviewed in a timely manner; and
- e. ensure that proper standards are met in the home building/construction industry.

D. POVERTY REDUCTION

During the latter part of 1999 and the beginning of 2000, a Country Poverty Assessment (CPA) was conducted in the Federation with funding provided by the Caribbean Development Bank and the Government. The main purpose of the CPA was to determine, among other things, the characteristics, extent, geographic concentration, severity and causes of poverty, analyze the impact of social and economic policies on poverty, and assess the effectiveness of existing responses by the government institutions.

The three main components of the study were: (i) a Survey of Living Conditions (SLC); (ii) a Community Situational Analysis (CSA) and (iii) an Institutional Analysis (IA). The survey revealed that 30% of total population in St. Kitts is poor, while 11% are found to be extremely poor or indigent. In Nevis, 32% of the total population are poor and 17% of the total population are extremely poor. With regard to sex, gender and age, it was revealed that women and children are the most vulnerable groups. Unemployment among women was found to be a profound concern. Lack of education or functional illiteracy among males and females was identified as one of the major causes of poverty. The study indicated that the existence and level of poverty varied according to community.

GSKN's policy objective with respect to poverty is to empower the poor and make them self reliant through enhancing their capacity to meet challenges of the social and economic environment and to reduce the impact of poverty. Priority will be given to most vulnerable groups. During the preparation of the policy, steps will be taken to ensure gender perspective. The policy will look at a long-term strategy to address the issues of poverty. The Poverty Alleviation Programme is expected to improve the quality of life of the people and build a healthy environment for the nation.

Cognizant of the potential negative effects of poverty on macroeconomic growth and stability, the government has been intensifying its efforts to alleviate poverty in the Federation. Already there are a number of existing programmes to address areas of various concern related to poverty operated by various ministries, particularly the Ministry of Social Development, Community and Gender Affairs. The programmes currently being implemented by the Ministry of Social Development, Community and Gender Affairs are: Assistance for Fire Victims, School Uniform Assistance, Food Package, Home Care for the Elderly, Medical Assistance, Leadership and

Assertiveness Training, Teen Empowerment, Entrepreneurial Training, Drug Prevention Activities and Career Guidance, among other things.

While these programmes proved to be effective in improving the existing poverty situation and addressing some of the poverty issues, it has been realized that isolated programmes will not be able to adequately address the present situation and leave a sustainable impact on the society. The need for a more targeted intervention focusing on the vulnerable communities or groups of people is therefore recognized. Consequently, based on the Poverty Assessment Report, Government has initiated work on the formulation of a Poverty Reduction Strategy. Government's initiatives in this area are expected to receive support from international and regional agencies such as UNDP, UNECLAC and CDB. The UNECLAC model of the National Human Development Agenda (NHDA) has been identified as the framework to start the process of developing a National Poverty Reduction Strategy. NHDA is a social policy that will be developed through the participation of government and civil society. It is a community-oriented approach to human development involving participation of all stakeholders and allowing them to set goals, objectives and targets. The approach to poverty alleviation will be multisectoral.

Although specific programmes for the Poverty Reduction Strategy have not yet been formulated, it is envisaged that some of the above mentioned current initiatives undertaken by the Ministry of Social Development, Community and Gender Affairs will form part of this strategy, since these are already addressing some aspects of poverty.

It is anticipated that the Ministry of Finance, Development and Planning and the Ministry of Social Development, Community, and Gender Affairs will take the lead role in implementing and monitoring the programme and projects which will form a part of the new strategy, together with the close coordination and cooperation of other line Ministries. In its effort to reduce the extent of poverty and improve the quality of life in the country, the programme will try to address the following areas:

- macroeconomic growth policy;
- redistribution of resources in more equitable manner;
- strengthening of public, private and community based organizations to enhance human resource capacity;

- empowerment of the communities with special emphasis on the issues of vulnerable groups; and
- improved social services and social safety net programmes.

VII. PROGRAM SUMMARY AND BUDGETARY IMPLICATIONS

A. REVIEW OF THE PUBLIC SECTOR INVESTMENT PROGRAMME (PSIP) 2000 - 2002

The Public Sector Investment Programme (PSIP) is along with other fiscal and monetary instruments one of Government's major tools for influencing the development and shape of the economy. Analyses of past, current and planned capital expenditure therefore reveal not only the level and rate of economic growth and leading growth sectors over time, but more importantly, the direction and emphasis of Government policy. In the case of a small, open and vulnerable economy like that of SKN, the PSIP also documents the significant role of the external sector, manifested directly through the impact of earnings from exports and the price of major imports on Government's revenue; as well as indirectly through the influence of foreign direct investment and the policy objectives of aid donors and international lending agencies.

During the three-year period 2000 – 2002, an average of 87.5% per annum of public sector investment funds originated from foreign sources; of this, loans made up approximately 60.3% and grants 27.2%. Government revenue accounted for the rest or some 12.4% of the total PSIP. This marked a significant and welcome shift in the relative contribution of loans, grants and revenue compared with the 1998/1999 period, with grants up from 8%, and loans and revenue down from 74% and 18% respectively. The dependence on foreign investment increased slightly over the 2000 – 2002 period, however, given the structure and size of the local economy, small year on year shifts in total incoming funds are less important than the breakdown between categories such as grants and loans, and sectoral shares.

In St. Kitts and Nevis the pattern of public sector investment has been significantly influenced by uncontrollable external events such as the frequency and destructive force of hurricanes, which after years of relative calm, became almost an annual event from 1995 onward. In the mid to late 1990's the pattern of capital investment reflected the necessity to repair and in some instances totally reconstruct the country's basic economic infrastructure as a matter of urgency after the

passage of five devastating hurricanes, culminating with Hurricane Lenny in 1999. Government's capital investment programmes for the period up to 1999 and beyond therefore reflect this influence throughout all sectors of the economy, but are particularly pronounced in the Economic Infrastructure sector which is a fairly accurate gauge of the impact of these exogenous shocks on the local economy. The increases in PSIP as a percentage of GDP over the same period may also have been as a consequence of the same phenomenon.

The volume of Economic Infrastructure investment peaked in 1999 and started levelling off from 2000. The sector had been particularly buoyant as a leading growth sector benefiting from a heady mix of both public and private sector investment in tourism and housing development over the past 20 years. With regard to the PSIP during the period 2000 - 2002 the most significant trend was therefore, its relative sectoral decline as Government investment in Economic Infrastructure moved from a high of 68% of the total PSIP in 1998 to just 27.5% of PSIP in 2002. The decline of investment in this area may, however have been more apparent than real, for looking at the figures over the five year period 1998 - 2002, apart from the unusually high value in 1999, (almost 50% more than in 1998 and 55% more than in 2000), the absolute value of infrastructural investment has been fairly constant at around EC\$20-25 million per annum. The earlier sectoral increases had merely registered the effect of both the diversion of resources from other sectors and the injection of new capital to assist with post hurricane reconstruction.

Correspondingly, investment in Social Services (Education, Health and Community Affairs, Housing /Lands) increased steadily over the same period in both relative and absolute terms rising from EC\$5.8 million or just over 17% of PSIP in 1998 to almost EC\$28 million representing 45.2% of PSIP in 2001. Moreover, this investment in Social Services appears to have had a greater grant aid content than had been the case more recently and may explain the shift between loans and grants noted earlier. Most notable of the significant projects completed in this period are the J N France and Alexandra Hospitals Redevelopment project; the construction and upgrading of 4 multi-function community centres/hurricane shelters; the completion of the retro-fitting of 7 schools in SKN; and both the renovation and development of new low and medium income houses.

Investment in all other sectors also increased steadily over the 2000 - 2002 period, although when the figures are scrutinised by service sectors it is clear that from 2000 onwards some areas were simply catching up, regaining resources that had been diverted to deal with the infrastructural

damage caused by the preceding years' hurricanes. This is quite evident when the level of capital expenditure is analysed for a sector like Public Administration. The dip in both dollar value and percentage share of investment in the sector in 1999 may have been due to the reprioritization of projects which were then brought on stream in succeeding years thus leading to the very high value in 2002. On the other hand, the year on year variation in expenditure in this and some other sectors may simply be a manifestation of some form of budgetary rigidity.

B. STRUCTURE OF THE PSIP 2003 – 2005

The structure and performance of the PSIP over the next three-year period 2003 -2005, will continue to be largely influenced by the external economic environment. There are local economic circumstances that specifically inhibit the generation of more domestic investment funds. The level of forgone taxes required to encourage foreign direct investment particularly circumscribes government revenue. Closer regional integration and WTO rules regarding the removal of tariff barriers also have a deleterious effect on the volume of revenue generated. On the other hand, closer integration and economic convergence within a free-trade union like CARICOM should eventually lead to greater harmonisation and a lessening of these competitive incentives. This is however, still somewhat off, and certainly not expected to be a fully functioning system over the next three years.

It is therefore not desirable at this time that the ratio of foreign to domestic investment should alter much as this could critically affect Government's ability to support the growth and development of the productive sectors of the economy through the implementation of strategic projects. Yet it has been predicted that there will be a slowdown in the world economy, specifically in the developed economies on which SKN depends for development aid. Although this is to be offset somewhat by increased growth in developing economies, it is a very specific group which are set to benefit, namely those developing countries which are producing so called 'dynamic products' whose manufacture is based on the use of advanced technology. SKN is not yet a member of this elite group. The structure of the PSIP could therefore be considerably altered if these predictions hold true or worsen in the next three-year period.

In spite of the caveats posed by the above analysis it is still important to consider the major PSIP projects that should be coming on stream in 2003-2005, and the extent to which they will

reinforce the already observable reorientation of the economy from primary production to service mode.

The Government plans to invest just under EC\$120 million over the period 2003 - 2005. Of this amount it is expected that approximately 97% will be raised externally, of which 79% will be in the form of loans and 18% will be grant aid, leaving just over 2% to be raised from Government revenue. There will be continuing high level investment in the Social Services sector with Education taking the lead from Health which had dominated the 2000 - 2002 period with the Hospital infrastructure project, the major part of which is due to be completed in 2002.

In keeping with the emphasis on a developing a knowledge rich cadre of economic agents to support trade in services, investment in education will be a significant feature of the 2003-2005 PSIP. The Education sector will be benefiting from at least two major projects - one EU grant aided, the other World Bank funded and both designed to ensure that human and social development keep pace with economic development particularly in the new technology/services sectors of the economy. The Community and Social Development areas will continue to grow over this period but it is expected that most if not all of the investment in this sector will be grant aided.

2003 - 2005 should see the beginning of considerable public sector investment in Economic Services primarily agriculture and tourism. As part of a major reconstruction of the agricultural sector, the implementation of the Non-Sugar Agriculture (NSA) projects should at least have been started by the middle of this period. The development of NSA is expected to generate new investment in manufacturing, specifically in the area of agro-processing, which is an indispensable adjunct to success in mixed small-scale farming. Planned tourist expansion could also have the same effect through an increase in more locally produced inputs for the industry. As all these developments will be dependent on the nature and pace of change in the agricultural sector (not to mention the economic performance of SKN's major export markets), no significant movement is expected in Manufacturing before the post-2005 period.

In general, public investment in the Economic Infrastructure sector in the 2003 -2005 period, will demonstrate more directly a determined Government policy to steer the economy's transformation into service-led growth. This is quite obvious in the major planned projects for this sector which are: Industrial Park Expansion, which is the development of a business park to

accommodate information technology (IT) businesses; OECS Telecommunication Reform – a project to introduce more competition into telecommunications and internet services that will eventually result in lower prices and increased access to new technology; and the Island Ring Main project – yet another reinforcing element in the services oriented strategy, ensuring more reliable and efficient energy generation.

Government's investment in tourism will also continue to be manifested primarily, in activity in the Economic Infrastructure sector, which should experience some positive spin offs as agricultural projects begin to kick in towards the end of this medium term period. The steady, ongoing investment in this sector to a large extent underscores that the structural shift in the economy as heralded by the increased investment in service related (e.g. tourism) plant and infrastructure is no mere flash in the pan, but soundly based constituting a real break with the past.

C. MANAGEMENT OF THE PSIP

Management of the PSIP can be viewed in two different ways: the first is management of the process; the other is management of the actual investment portfolio, that is the PSIP. The two schemas are linked but while one is an organisational issue, the other is policy driven.

In SKN an organisational structure to manage and coordinate the PSIP process exists at the centre of the public administration service. Although this structure is relatively sound it requires a high degree of cooperation from the line/service areas in order to function well. This requirement is all the more crucial because of the need to compensate for the limits of specialisation due to the lack of depth in human resources that is a feature of public administration in small countries. The GSKN recognises that this is an inherent weakness in the system that it must find creative ways in overcoming in this medium term period.

An ongoing commitment to training and continuous improvement in project management skills remains the cornerstone of the PSIP management development programme. Additionally, during the 2003 - 2005 period consideration will be given as to whether and how line ministry arrangements in this area should be adjusted in order to improve and maximise project management resources and skills. It is also expected that planned civil service reforms will lead

to efficiency gains in this area and assist in consolidating the project management changes that are necessary to support macroeconomic stability.

The PSIP portfolio, like any other has to be managed so as to minimise losses and maximise gains. The main difference between the typical public and private sector portfolio is the explicit political and social aims underpinning investment decisions in the public sector. In SKN portfolio management is also circumscribed by the fact that investment funds are predominantly of foreign origin. This does not, however, mean that everything is predetermined. There is still some room to manoeuvre particularly at the level of deciding the right sectoral mix between the three constituents of the portfolio, namely Government revenue, loans, and grants.

One of the essential requirements of portfolio management is the integration of the PSIP into the annual financial management and decision-making processes of government, in order to ensure that government's investment programme both reflects and supports expressed policy goals and is in line with the overall budgetary strategy that is being pursued. During the 2000 - 2002 period significant progress has been made in this regard through a process of PSIP project prioritisation that is now an integral part of the annual round of budget preparations.

The procedure is pivoted around the monthly PSIP Operations Committee meetings that are convened throughout the year. These meetings have the dual function of both monitoring/coordinating the current capital programme as well as identifying projects that could be included in the PSIP in the next fiscal year. At the beginning of the budget preparation process each line ministry is allocated an indicative capital budget that defines the financial parameters within which projects must be prioritised. A prioritisation exercise, where each capital project is ranked in order of priority using criteria based on a combination of sector development aims and national budgetary constraints, is then undertaken. The quarterly PSIP Coordination Committee meetings provide additional oversight and an interrogation procedure designed to encourage the most senior officials to take responsibility for the capital programme.

GSKN has made creditable progress in the 2000 - 2002 period in managing the PSIP process and although there is room for improvement at the margins, the major challenge for the next period, 2003 - 2005, will be that of extending and further embedding the principles of portfolio management in order to achieve a still closer convergence between fiscal imperatives, policy aims and final outcomes.

ANNEX

MEDIUM TERM POLICY MATRIX

Policy Areas and Issues	Objectives	Action Plans	Timing
<p>Fiscal Policy</p>	<p>To return to a sustainable fiscal position through a programme of fiscal consolidation. Some of the key targets include:</p> <ul style="list-style-type: none"> (i) reducing the central government deficit by 4 percentage points to 8½% of GDP in 2002; (ii) achieving a small overall surplus and government saving of about 5½ % of GDP by 2005, and; (iii) reducing the central government debt from 97% of GDP in 2002 to 76% by 2006. 	<ul style="list-style-type: none"> • strengthen the legal framework to address the deficiencies in tax assessment, collection, and penalties; • replace the specific tax on alcohol, tobacco, and fuels with an ad valorem excise tax; • update the property register and property valuations to ensure an adequate base for the property tax collections; • closer monitoring of existing tax exemptions, with a view to eliminating those which are no longer warranted; • the MOF liaising more closely with revenue collecting departments to allow for feedback on the achievement of their respective revenue targets; • adjust electricity tariffs to bring them in line with generating costs; • reduce the size of civil service; • gradually eliminate the system of automatic pay increases to civil servants; and • working with the labour unions to introduce a performance based pay system. 	<p>Ongoing</p> <p>Ongoing</p> <p>Ongoing</p>

Policy Areas and Issues	Objectives	Action Plans	Timing
<p>Debt Management</p>	<p>To contain and minimize the accumulation of debt and rationalize the debt portfolio with a view to reducing debt service obligations.</p>	<ul style="list-style-type: none"> • convert existing portfolio of treasury bills into long term bonds; and • seek to negotiate more favourable financing arrangements for existing loans with high interest rates. 	
<p>International Trade Policy</p>	<p>Upgrade the Debt Management capacity and capability.</p> <p>To ensure integration into the world economy.</p> <p>To improve the trade and investment climate in order to attract new investment.</p> <p>To mobilise private sector and NGO participation in trade policy making.</p>	<ul style="list-style-type: none"> • create a new Debt and Investment Unit within the Treasury Department. • participate fully in negotiations for regional and international trading arrangements; • short-term training in trade negotiating areas; • reestablish export promotion unit or trade promotion unit to assist with promotion and marketing activities; and • seek financial assistance from international community. • Enhance communication with private sector through seminars and consultations. 	<p>2002</p> <p>2003 - 2005</p> <p>2003</p> <p>2003</p> <p>2003 - 2005</p>

Policy Areas and Issues	Objectives	Action Plans	Timing
<p>Public Sector Reform</p>	<p>To improve efficiency and effectiveness in the delivery of public services in the Federation.</p>	<ul style="list-style-type: none"> • establish a Co-ordinating and Policy Unit in the Office of the Prime Minister; • establish of a Public Sector Reform Unit • institute a programme for the closer monitoring of public corporations; • take the necessary actions to allow government enterprises to operate on a more commercial basis; • introduce cost recovery measures in the provision of public services, where privatization of those services is not deemed appropriate, as in the case of health care services; and • introduce the Financial Administration Act. 	
<p>Tourism</p>	<p>To improve the competitiveness of SKN as a tourism destination as a means of facilitating the expansion of the sector and to maximize the sector's contribution to GDP, foreign exchange earnings and employment creation.</p>	<ul style="list-style-type: none"> • develop a strategic marketing plan; • enhance management of the tourism sector; • improve airlift into the Federation; • upgrade human resource development programmes in order to enhance product quality; • establishing a Hospitality Training Institute; • engage in product development to improve and diversify the tourism product and increase spending by visitors; • foster greater linkages with other sectors to generate employment and income; • enhance tourism awareness by introducing tourism education in schools; • facilitate the expansion and upgrading of the tourism plant; and • expand cruise facilities to attract more cruise lines 	<p>Ongoing Ongoing 2002 2002 Ongoing</p>

Policy Areas and Issues	Objectives	Action Plans	Timing
<p>Telecommunications and Technology</p>	<p>To develop the information technology and telecommunications sector as one of the pillars for sustained economic growth and employment generation and to provide the appropriate enabling environment to attract local and foreign direct investment in the sector.</p>	<ul style="list-style-type: none"> • establish IT parks to accommodate information and communications technology businesses; • upgrade human capacity in IT through specialized training and enhance the technology component of the education system; • establish the appropriate legal and regulatory framework to facilitate the promotion of the Federation as a jurisdiction for information and communications technology (ICT) and electronic commerce (E-commerce), remove doubts about electronic transactions and build consumer confidence in E-commerce; • provide ICT access to underprivileged persons in the society in order to ensure the population's access to ICT is expanded; • raise the profile of ICT in the Federation in an effort to promote the use of ICT by (I) establishing a National Association for IT Practitioners (NAITP) and organizing an Annual ICT Trade Show to exhibit the latest in ICT products and services; • establish a wide area network for government. 	<p>Ongoing</p> <p>2003 - 2004</p> <p>2003</p> <p>2003</p>

Policy Areas and Issues	Objectives	Action Plans	Timing
<p>Non-Sugar Agriculture</p>	<p>To increase the production of crops, livestock and fisheries products through the development of farmers and fishers in a competitive environment.</p>	<p>Crops:</p> <ul style="list-style-type: none"> • facilitate the establishment of four irrigated farm settlements for vegetable production and two economic sized unit farms (13 acres) for fruit and tree crop production; • train farmers in good agricultural practices, post harvest handling and marketing of selected crops; • provide training to commercial farmers in an effort to develop a business approach to farming; • encourage more persons to become involved in farming; • facilitate the establishment of farmers organizations; • strengthen technology generation, extension and transfer; and • promote the further development and optimum functioning of the marketing unit at the Department of Agriculture. <p>Livestock:</p> <ul style="list-style-type: none"> • establish ten 172-acre commercial beef farms; • promote the formation of livestock associations/co-operatives; • conduct training for livestock farmers and introduce annual training for abattoir staff; • provide an efficient and expanded animal health care service; • further upgrade abattoir facilities and expand services offered; and • establish an effective dog control programme. 	

Policy Areas and Issues	Objectives	Action Plans	Timing
<p>Non-Sugar Agriculture contd.</p>		<p>Fisheries:</p> <ul style="list-style-type: none"> • facilitate and/or provide regular training to fishers; • establish a Fishery Advisory Committee; • promote co-management of marine resources through the involvement of stakeholders; • develop an effective monitoring, surveillance and enforcement programme; • promote scientific research; • preserve the traditional methods for the harvesting of inshore pelagics; • arrest the depletion of conch habitats; and • prevent the landing of lobsters with eggs and undersized lobsters. 	
<p>Manufacturing</p>	<p>To increase the role of the manufacturing sector in the further diversification of the economy.</p>	<ul style="list-style-type: none"> • facilitate the creation of employment in high tech and light manufacturing; • enhance the attractiveness of investment incentives; and • construct a new 20 acre Business Park at Conaree catering to high tech centers and light manufacturing. 	
<p>Water</p>	<p>To ensure sustainable development of the Federation's water resources.</p>	<ul style="list-style-type: none"> • implement measures to control and minimize the wastage of water; • conduct exploration in an effort to increase the water supply; and • computerize the production and distribution system. 	

Policy Areas and Issues	Objectives	Action Plans	Timing
Electricity	To provide a reliable supply of electricity.	<ul style="list-style-type: none"> • expand the electricity generating capacity in an effort to meet expected future demands; • rehabilitate the main over head distribution lines; and • reinforce the underground distribution systems in Basseferre and the Frigate Bay tourism area by installing additional circuits. 	
Environment Land Degradation	To reduce current land degradation.	<ul style="list-style-type: none"> • enact legislation to address land degradation issues; • develop a public awareness strategy to sensitize the public about land degradation issues. 	2003 2003
Forestry / Watershed Management	To protect watershed areas.	<ul style="list-style-type: none"> • establish new protected watershed areas; • expand Watershed Management Project to include new areas. 	2003 - 2005
Coastal Management Zone	To reduce coastal degradation.	<ul style="list-style-type: none"> • develop beach rehabilitation projects in the Friars and Frigate Bay areas; • establish moratorium on beach sand mining. 	2003 - 2005 2005
Energy Conservation	To encourage the use of alternative sources of energy.	<ul style="list-style-type: none"> • introduce economic incentives for energy saving devices; • develop pilot renewable energy project. 	2004 2004 - 2005

Policy Areas and Issues	Objectives	Action Plans	Timing
<p>Education</p>	<p>To initiate curriculum reform for early childhood, primary level, special education and lower secondary level.</p> <p>To promote Information and Communication Technology in schools</p> <p>To improve the quality of secondary education and improve access and equity at the secondary level.</p> <p>To improve management of education and governance in schools.</p> <p>To provide and improve library facilities in rural communities.</p>	<ul style="list-style-type: none"> • develop, pilot and implement revised curriculum guides in core subject areas; and • develop guidelines and resource materials for science and technology in schools. • upgrade computer labs in schools; and • train teachers to integrate computer technology in the curriculum. • implement programs to increase the proportion of students achieving passes in at least 5 CXC subjects from 44.6% to 50%.; • construct a new secondary school; and • introduce cafeterias in secondary schools in St. Kitts. • seek to increase the proportion of non-salary recurrent expenditure out of total recurrent expenditure from 5% to 9 %; • implement measures to increase pupil: teacher ratio from 12.6:1 to 15:1. • procure equipment and software for the expansion of the Education Management Information System (EMIS); and • network schools and provide EMIS training for principals and education officials • provide library facilities in all primary schools; and • construct four (4) public libraries in selected rural areas. 	<p>2002 - 2005</p> <p>2002 - 2005</p> <p>Ongoing</p> <p>2002 - 2005</p> <p>2002 - 2004</p> <p>2002 - 2004</p>

Policy Areas and Issues	Objectives	Action Plans	Timing
<p>Education contd.</p>	<p>To promote quality teaching and learning at secondary level.</p> <p>To upgrade Technical and Vocational Education and Training (TVET).</p> <p>To expand Adult Education programmes in ICT.</p>	<ul style="list-style-type: none"> • develop curriculum for Forms 1-3 and provide resource materials; • train teachers in priority subject areas; • establish a Teacher Appraisal System; to be piloted and evaluated; • establish Learning Resource Centers; • rehabilitate selected learning spaces, including Science and IT labs • elaboration of programmes for disadvantaged “at-risk” youths; and • provide support services, including remedial reading and mathematics programmes. <ul style="list-style-type: none"> • develop a curriculum at AVEC, which is harmonized with that at CFBC; • improve the physical facilities AVEC and CFBC; and • procure resource materials and equipment for both institutions. <ul style="list-style-type: none"> • upgrade the ICT facilities at CFBC and AVEC; and • utilize the computer labs in primary schools to deliver ICT training to adults. 	<p>Ongoing</p> <p>Ongoing</p>

Policy Areas and Issues	Objectives	Action Plans	Timing
<p>Education contd.</p>	<p>To expand the teacher education programmes at the CFBC.</p>	<ul style="list-style-type: none"> • introduce a programme in collaboration with the University of the West Indies (UWI) to train untrained graduate teachers; • introduce a programme to train technical teachers in collaboration with the University of Technology (UTECH), Jamaica); • introduce an annual Induction Programme for new/prospective teachers; and • implement a programme to train early childhood teachers, Special Education teachers and introduce the B. Ed. Programme. 	

Policy Areas and Issues	Objectives	Action Plans	Timing
<p>Health</p> <p>Physical Infrastructure</p> <p>Disease Surveillance</p> <p>Chronic Communicable and Non-communicable Diseases</p>	<p>To upgrade the physical infrastructure throughout the health sector.</p> <p>To develop appropriate mechanisms to assess health systems to enhance decision-making development of better policies, strategies and programmes. To implement appropriate mechanisms to monitor, evaluate and analyze health status.</p> <p>To implement through a National Health Plan, programmes to reduce incidence of chronic communicable and non-communicable diseases, focusing on HIV/AIDS, diabetes and hypertension.</p>	<ul style="list-style-type: none"> • identify and prioritize physical infrastructure to be developed in phases, focusing attention initially at the hospital level, and then the community level; • secure necessary funding to effect improvement to the physical infrastructure throughout the sector. • assess the current capacity of the National System for disease surveillance; • determine gaps, and prioritize needs to inform specific improvements; • develop the necessary proposals to ensure funding for the system disease surveillance; and • train and/or retrain staff to utilize the system implemented • undertake appropriate research, and surveillance to define areas of focus; • undertake necessary consultations to inform the development of National Health Plan; • develop appropriate programmes e.g. National Response to HIV/AIDS for area of focus; • train/re-train health care providers; • effect improvements to health centres so that they are more equipped to deliver primary health care; and • evaluate efficacy of National Health Plan. 	<p>Ongoing</p> <p>2003 - 2005</p> <p>2003 - 2005</p>

Policy Areas and Issues	Objectives	Action Plans	Timing
<p>Health contd.</p> <p>Sustainable Financing of the Health Sector</p>	<p>To implement the appropriate mechanisms to finance the health sector, focusing on a National Health Insurance Scheme, and cost recovery where feasible.</p>	<ul style="list-style-type: none"> • commission the necessary study to determine feasibility of a National Health Insurance Scheme; • consult with stakeholders to determine acceptability; • effect appropriate administrative, regulatory and/or legislative changes to facilitate implementation of financing options; and • implement financing options. 	<p>2003 - 2005</p>
<p>Poverty Reduction</p>	<p>To empower the poor and make them self reliant through enhancing their capacity to meet challenges of the social and economic environment, and to reduce the impact of poverty.</p>	<ul style="list-style-type: none"> • establish a Poverty Reduction Steering Committee; • train community representatives and conduct consultation programmes at community level and national level to identify problems; • prepare poverty reduction policy and strategy through negotiation and consultation; • organize seminars, workshops, meetings and use mass media to sensitize the public; and • prepare and implement projects targeted at reducing the incidence and impact of poverty. 	

TABLE A1
SELECTED DEMOGRAPHIC AND SOCIAL INDICATORS

	1996	1997	1998	1999	2000
Population	42,280	40,740	40,130	42,460	40,410
Males	21,290	20,550	20,230	21,360	20,400
Females	20,990	20,190	19,900	21,100	20,010
Rate of natural increase (per 1,000)	8.54	11.83	11.84	10.50	11.90
Infant mortality rate (per 1,000)	24.01	22.86	27.75	12.73	14.32
Neonatal mortality rate (per 1,000)	19.21	20.57	21.97	12.70	10.74
Crude birth rates (per 1,000)	19.70	21.48	21.55	20.35	20.74
Crude death rates (per 1,000)	11.16	9.65	9.72	9.84	8.83
Life expectancy at birth (per 1,000)					
Male	68.23	67.67	68.21	68.02	67.08
Female	71.61	71.10	70.66	71.88	71.41
Safe drinking water coverage	100%	100%	100%	100%	100%
Immunization coverage	100%	100%	100%	100%	100%
Doctors (per 1,000)	1.13	1.17	1.14	1.08	1.14
Nurses (per 1,000)	4.87	4.93	5.05	5.08	5.57
Hospital beds (per 1,000)	6.33	5.98	3.73	4.68	6.09
Student enrollment in schools	1996/97	1997/98	1998/99	1999/20	2000/01
Public schools	10,721	10,505	10,440	10,318	10,328
Primary	6,063	5,957	5,912	5,822	5,835
Secondary	4,700	4,548	4,528	4,496	4,493
Private schools	1,029	1,311	1,149	1,164	1,105
Tertiary	494	997	891	891	1,235
Literacy rate	98%	98%	98%	98%	98%

Source: St. Kitts and Nevis Authorities

TABLE A2
GDP BY ECONOMIC ACTIVITY AT FACTOR COST
IN CURRENT PRICES (EC MILLION)

SECTOR	1997	1998	1999	2000	2001 ^P
Agriculture	34.63	27.16	22.87	20.93	23.30
Sugarcane	16.33	9.35	5.56	5.47	6.15
Crops (other)	6.49	5.08	5.61	5.52	5.34
Livestock	3.04	3.44	2.93	2.13	3.04
Forestry	0.42	0.44	0.45	0.46	0.47
Fishing	8.35	8.85	8.32	7.35	8.30
Mining & Quarrying	1.98	2.16	2.34	3.11	2.50
Manufacturing	65.02	64.31	72.02	79.62	72.06
Sugar	12.54	8.01	7.28	6.66	8.30
Other	52.48	56.30	64.74	72.96	63.76
Electricity & Water	12.16	12.78	12.94	17.05	17.68
Electricity	8.76	9.36	9.31	10.9	11.38
Water	3.40	3.42	3.63	6.15	6.30
Construction	69.82	79.85	94.27	122.7	140.33
Wholesale & Retail Trade	91.64	99.29	106.49	105.29	109.65
Hotels & Restaurants	59.25	60.58	54.77	42.81	45.42
Transport	46.9	47.16	50.23	56.32	57.98
Road Transport	23.07	21.96	21.06	24.67	29.50
Sea Transport	16.91	18.43	20.91	22.91	19.87
Air Transport	6.92	6.77	8.26	8.74	8.61
Communications	48.74	49.29	47.59	46.58	48.46
Cable & Wireless	47.33	47.74	45.95	44.41	46.59
Post Office	1.41	1.55	1.64	2.17	1.87
Banks & Insurance	82.73	89.09	95.76	118.10	117.62
Banks	66.52	73.58	79.49	100.37	99.52
Insurance	16.21	15.51	16.27	17.73	18.10
Real Estate & Housing	19.58	17.31	19.16	20.29	21.63
Government Services	110.93	121.95	131.52	148.33	152.19
Other Services	27.17	27.41	30.15	32.92	34.62
Less Imputed Service Charge	45.48	46.30	46.77	47.51	47.10
TOTAL	625.07	652.04	693.34	766.54	796.34
GROWTH RATE	12.46	4.31	6.33	10.56	3.89

Source: St. Kitts Statistical Division / ECCB
p - provisional

TABLE A3
GDP BY ECONOMIC ACTIVITY AT FACTOR COST
IN CONSTANT PRICES (1990) PRICES (EC MILLION)

Sector	1997	1998	1999	2000	2001 ^P
Agriculture	33.96	30.00	27.28	24.96	27.74
Sugarcane	16.85	13.26	10.87	10.40	11.69
Crops (other)	5.78	4.53	5.08	5.00	4.76
Livestock	2.81	3.18	2.80	1.96	2.76
Forestry	0.41	0.43	0.44	0.45	0.46
Fishing	8.11	8.60	8.09	7.15	8.07
Mining & Quarrying	1.93	2.11	2.28	3.04	2.45
Manufacturing	57.32	56.81	61.34	68.28	62.22
Sugar	11.72	9.32	6.73	6.84	8.53
Other	45.60	47.49	54.61	61.44	53.69
Electricity & Water	8.70	9.25	9.15	10.16	10.56
Electricity	6.26	6.80	6.65	7.78	8.12
Water	2.44	2.45	2.50	2.38	2.44
Construction	66.24	70.88	79.84	103.16	107.56
Wholesale & Retail Trade	72.25	75.27	78.07	75.57	77.16
Hotels & Restaurants	34.70	35.48	31.02	23.75	24.68
Transport	39.02	38.84	39.51	42.65	44.39
Road Transport	19.23	18.31	17.56	20.57	24.60
Sea Transport	13.68	14.55	16.02	16.59	14.39
Air Transport	6.11	5.98	5.93	5.49	5.40
Communications	48.36	48.80	53.70	54.08	56.63
Cable & Wireless	47.33	47.74	52.56	52.97	55.57
Post Office	1.03	1.06	1.14	1.11	1.06
Banks & Insurance	61.20	61.16	63.25	70.57	69.91
Banks	49.32	49.96	52.57	59.74	59.23
Insurance	11.88	11.20	10.68	10.83	10.68
Real Estate & Housing	15.10	12.84	13.87	14.70	15.36
Government Services	76.03	79.61	81.77	83.84	86.02
Other Services	21.17	20.53	21.35	22.20	22.87
Less Imputed Service Charge	39.69	40.21	42.31	48.08	47.67
TOTAL	496.29	501.37	520.12	548.88	559.88
Growth Rate	7.33	1.02	3.74	5.53	2.00

Source: St. Kitts Statistical Division / ECCB
p - provisional

**TABLE A4
BALANCE OF PAYMENTS**

	1997	1998	1999	2000	2001 ^P
CURRENT ACCOUNT	-166.48	-112.01	-226.74	-169.62	-279.62
GOODS AND SERVICES	-150.98	-116.64	-205.34	-260.03	-242.07
1. Goods	-230.76	-233.78	-243.63	-320.65	-306.11
Merchandise	-233.38	-240.14	-245.16	-326.06	-311.45
Store and Bunkers	2.62	6.36	1.53	5.41	5.34
Non-Factor Services	79.78	117.14	38.29	60.62	64.04
Transportation	-50.14	-50.13	-56.83	-56.33	-55.38
Travel	177.69	188.63	164.34	134.11	142.24
Insurance	-11.06	-6.52	-14.73	-14.40	-14.34
Other Business Services	-31.42	-10.34	-51.52	-2.18	-9.30
Government Services	-5.29	-4.50	-2.97	-0.58	0.82
Factor Services	-56.23	-68.49	-76.74	-78.74	-90.81
Compensation of Employees	-6.41	-0.80	-0.01	-5.75	-5.41
Investment Income	-49.82	-67.69	-76.73	-72.99	-85.40
Direct Investment	-45.18	-57.48	-60.00	-57.26	-59.35
Portfolio Investment	0.39	-1.36	-2.28	1.24	-18.04
Other Investment	-5.03	-8.85	-14.45	-16.97	-8.01
Current Transfers	40.73	73.12	55.34	169.15	53.26
General Government	-5.03	-2.03	-0.83	-4.00	0.84
Other Sectors	45.76	75.15	56.17	173.15	52.42
CAPITAL AND FINANCIAL ACCOUNT	141.41	147.22	316.20	210.76	303.62
CAPITAL ACCOUNT	11.26	22.27	15.68	33.05	38.26
Capital Transfers	11.26	22.27	15.68	33.05	38.26
Acquisition & Disposal of Non-Produced, Non-Fin. Assets	0.00	0.00	0.00	0.00	0.00
FINANCIAL ACCOUNT	130.15	124.95	300.52	177.71	265.36
Direct Investment	53.11	86.20	155.89	259.78	223.75
Portfolio Investment	41.70	6.06	38.65	16.52	95.09
Other Investment	35.34	32.69	105.98	-98.59	-53.48
Public Sector Long Term Loans	88.81	41.75	40.04	-17.42	13.06
Other Public Sector Capital	0.00	0.00	1.50	0.00	0.00
Commercial Banks	-46.69	-6.52	83.24	-64.77	-55.28
Other	2.12	7.15	6.09	12.60	14.07
ERRORS AND OMISSIONS	34.94	-5.33	-82.12	-52.90	6.07
OVERALL BALANCE	9.87	29.88	7.34	-11.76	30.07
FINANCING	-9.87	-29.88	-7.34	11.76	-30.07
Change in SDR Holdings	0.00	0.00	0.00	0.00	0.00
Change in Reserve Position with the IMF	0.00	5.95	-0.16	0.03	0.00
Change in Government Foreign Assets	-0.86	-6.87	0.10	-0.11	0.23
Change in Imputed Reserves	-9.01	-28.96	-7.28	11.84	-30.30

Source: St. Kitts Statistical Division / ECCB
p - provisional

TABLE A5
VISITORS ARRIVALS BY CATEGORY

Year	Stay-Overs	Excursionists	Total Air Arrivals	Yacht & Cruise Ship	Total Arrivals
1997	88,297	3,298	91,595	95,577	187,172
1998	93,190	2,783	95,973	151,475	247,448
1999	84,002	3,006	87,008	139,338	226,346
2000	73,149	3,201	76,350	170,887	247,237
2001	70,565	3,662	74,227	259,134	333,361

Source: St. Kitts Statistical Division

TABLE A6
VISITOR ARRIVALS BY COUNTRY OF USUAL RESIDENCE

COUNTRY	1997	1998	1999	2000	2001
U.S.A.	39,158	40,597	35,570	23,996	26,317
United Kingdom	10,209	13,204	13,470	12,963	8,972
Other Europe	3,517	2,544	2,765	1,730	717
Canada	8,774	7,686	5,989	5,486	5,383
O.E.C.S.	6,950	7,049	6,257	6,990	8,265
Other CARICOM	4,535	4,411	4,339	5,741	4,917
Netherlands Antilles	4,593	4,415	4,073	4,373	4,100
U.S.V.I.	6,870	7,105	6,282	5,990	5,581
Other	6,989	8,962	8,263	9,081	9,975
TOTAL	91,595	95,973	87,008	76,350	74,227

Source: St. Kitts Statistical Division

Table A7
ST. KITTS & NEVIS DISAGGREGATED SECTORAL SUMMARY OF PSIP

SECTORS	1998	1999	2000	2001	2002	2003	2004	2005
	(EC\$'000)							
ECONOMIC SERVICES								
Agriculture	1,199	1,012	2,360	6,405	9,389	10,929	2,228	838
Tourism	145	53	301	6,405	9,229	10,419	1,207	328
Manufacturing	404	0	2,059	0	160	510	1,021	510
	650	959	0	0	0	0	0	0
ECONOMIC INFRASTRUCTURE								
Transportation & Communication	22,859	34,238	20,037	20,862	20,348	15,892	20,907	8,912
Energy	18,987	5,848	18,468	18,231	10,594	6,707	8,333	2,425
Water & Sewerage	582	26,000	-	-	3,410	7,184	10,228	5,614
	3,290	2,390	1,569	2,631	6,344	2,001	2,346	873
SOCIAL SERVICES								
Education	5,768	14,033	18,098	27,928	29,213	20,078	17,582	6,479
Health & Community Affairs	2,554	6,522	10,675	9,048	18,874	14,562	16,675	6,338
Housing /Lands	1,397	4,032	4,782	18,093	8,559	3,391	832	66
	1,817	3,479	2,641	787	1,780	2,125	75	75
GENERAL ADMINISTRATION								
Public Administration	3,843	1,977	3,775	4,811	14,980	2,982	1,921	600
	3,843	1,977	3,775	4,811	14,980	2,982	1,921	600
TOTAL PSIP	33,669	51,260	44,270	61,739	73,930	49,881	42,638	16,829

SECTORS	As a Percentage of PSIP							
	1998	1999	2000	2001	2002	2003	2004	2005
ECONOMIC SERVICES								
Agriculture	3.6	2.0	5.3	10.4	12.7	21.9	5.2	5.0
Tourism	0.4	0.1	0.7	10.4	12.5	20.9	2.8	1.9
Manufacturing	1.2	0.0	4.7	0.0	0.2	1.0	2.4	3.0
	1.9	1.9	0.0	0.0	0.0	0.0	0.0	0.0
ECONOMIC INFRASTRUCTURE								
Transportation & Communication	67.9	66.8	45.3	33.8	27.5	31.9	49.0	53.0
Energy	56.4	11.4	41.7	29.5	14.3	13.4	19.5	14.4
Water & Sewerage	1.7	50.7	0.0	0.0	4.6	14.4	24.0	33.4
	9.8	4.7	3.5	4.3	8.6	4.0	5.5	5.2
SOCIAL SERVICES								
Education	17.1	27.4	40.9	45.2	39.5	40.3	41.2	38.5
Health & Community Affairs	7.6	12.7	24.1	14.7	25.5	29.2	39.1	37.7
Housing /Lands	4.1	7.9	10.8	29.3	11.6	6.8	2.0	0.4
	5.4	6.8	6.0	1.3	2.4	4.3	0.2	0.4
GENERAL ADMINISTRATION								
Public Administration	11.4	3.9	8.5	7.8	20.3	6.0	4.5	3.6
	11.4	3.9	8.5	7.8	20.3	6.0	4.5	3.6

Source: Ministry of Finance, Development and Planning (Planning Unit), NIA

TABLE A8
ST. KITTS & NEVIS DISAGGREGATED SECTORAL SUMMARY OF PSIP
 As a Percentage of GDP at Current Market Prices

SECTORS	1998	1999	2000	2001	2002	2003	2004	2005
	Actual	Actual	Actual	Revised	Estimated	Projected	Projected	Projected
ECONOMIC SERVICES	0.2	0.1	0.3	0.7	1.0	1.1	0.2	0.1
Agriculture	0.0	0.0	0.0	0.7	1.0	1.1	0.1	0.0
Tourism	0.1	0.0	0.2	0.0	0.0	0.1	0.1	0.0
Manufacturing	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
ECONOMIC INFRASTRUCTURE	2.9	4.2	2.2	2.2	2.2	1.6	1.9	0.8
Transportation & Communication	2.4	0.7	2.1	2.0	1.2	0.7	0.8	0.2
Energy	0.1	3.2	0.0	0.0	0.4	0.7	1.0	0.5
Water & Sewerage	0.4	0.3	0.2	0.3	0.7	0.2	0.2	0.1
SOCIAL SERVICES	0.7	1.7	2.0	3.0	3.2	2.0	1.6	0.6
Education	0.3	0.8	1.2	1.0	2.1	1.5	1.6	0.6
Health & Community Affairs	0.2	0.5	0.5	2.0	0.9	0.3	0.1	0.0
Housing /Lands	0.2	0.4	0.3	0.1	0.2	0.2	0.0	0.0
GENERAL ADMINISTRATION	0.5	0.2	0.4	0.5	1.6	0.3	0.2	0.1
Public Administration	0.5	0.2	0.4	0.5	1.6	0.3	0.2	0.1
TOTAL PSIP	4.3	6.2	5.0	6.7	8.1	5.0	4.0	1.5

Source: Ministry of Finance, Development and Planning (Planning Unit); N I A