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ST. KITTS-NEVIS COUNTRY SUPPLEMENT
TO THE
CARIBBEAN REGIONAL CDSS
1986 TO 1990



REGIONAL DEVELOPMENT OFFICE/CARIBBEAN
BRIDGETOWN, BARBADOS

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I. AID'S STRATEGY

A. OVERVIEW

1. Summary

The central problem in St. Kitts-Nevis' economic development is to overcome the burdens generated by shrinking demand and soft prices that are likely to continue to confront the sugar industry, the country's main foreign exchange earner and a major employer. St. Kitts continued to produce sugar after other islands had ceased to do so. Since 1975, sugar production has been operated as a parastatal. Since 1980, however, the industry has required subsidization and at the same time tax revenues from the sugar levy have vanished. The government has therefore been faced with the dilemma of trying to sustain foreign exchange earnings and employment by subsidizing an industry that places increasing strains on its own finances. The resulting current account budget deficits have been partially covered by reduced government capital expenditure. Government and private saving have been negative, so capital formation has been largely financed by foreign savings. The long-run consequences of continuing this policy would be worsening government finances and slower growth as government infrastructure expenditures shrank and as its increased borrowing competed with private capital needs. In order for the government to make a net positive contribution to long-term economic development, and to maintain the confidence of external donors, it must restore positive public and private savings and to take steps necessary to foster growth in non-sugar sectors.

Our strategy will be to facilitate the transition into a diversified economy by creating employment and foreign exchange earning opportunities in other sectors: tourism, high-value nontraditional agriculture, and small scale manufacturing. Given the size and importance of sugar to the economy, no single sector can bear the full burden of replacing the foreign exchange earning capacity and employment presently provided by sugar production. RDO/C will act to stimulate all three productive sectors, emphasizing interventions that will yield the highest probable impact in the shortest time. Sectoral interventions will be integrated with a policy dialogue agenda that emphasizes fiscal reform and rational land use management. RDO/C will not participate in the improvement of the sugar industry.

The short-term fiscal problem is to replace revenues lost by suspension of the sugar levy and to restore the revenue elasticity that was reduced by the 1980 elimination of the personal income tax. At the same time, the Government must maintain austerity in its current account expenditures in order to restore capital expenditures. RDO/C's strategy is to assist the Government in identifying and in addressing these problems through its Public Management and Policy Planning Project and to use conditionality in our major projects (e.g., the Southeast Peninsula road) to encourage the fiscal reforms that will lead to fiscal

solvency and enhanced government creditworthiness. Measures to improve government finances will have to be combined with measures to eliminate or substantially reduce deficits in the sugar industry during a period of transition out of sugar production.

Information currently available to RDO/C suggests that a phased reduction in sugar is feasible. In 1984, cost per pound was about 19 U.S. cents, with U.S. and U.K. prices at 20 and 17 cents. St. Kitts is in striking distance of eliminating sugar losses for that portion of its output. If unfolding evidence suggests that planned productivity improvements will not be sufficient to reduce sugar losses and thereby permit a gradual transition, RDO/C will need to reassess the Government's strategy of gradualism.

However, at present it appears that while diversification is imperative, sudden elimination of sugar production is not desirable. In the near term, the country has not the skill base, the experience, nor the established markets necessary to move quickly into other lines of production. The net loss of jobs and foreign exchange would therefore be unacceptably high. In the near term, the foundations for growth in the other sectors must be strengthened, along with government finances, while sustainable diversification gains momentum. The Government of St. Kitts-Nevis recognizes this dilemma.

Other donor assistance has focussed on small community level projects and on infrastructure. CIDA has recently provided funding for drilling and capping boreholes for water wells, and is expected to follow with wells and water distribution facilities. CDB may fund the new 3MW electric generator, while EDF has been funding activities to upgrade electricity distribution in the capital, Basseterre. The government has entered an arrangement with Cable and Wireless to undertake a major upgrading of the telephone system. The World Bank has recently indicated its intention to assist in the electricity sector. Donor programs are being drawn up during the Fall of 1985. The government is beginning preparations for a development plan. With an approved plan, government requests for infrastructure can be focussed to support their objectives in agriculture, industry and tourism. With major improvements in infrastructure now completed or under way, with the assistance of other donors, RDO/C will complement these efforts by focussing its strategy on fiscal reform, rational land use, and encouragement of private sector development in the productive sectors.

2. Tourism

The most likely sector in which AID can have a quick and major impact on employment and on foreign exchange earnings is tourism. This is because tourism is among the world's largest and fastest growing industries and by acting now St. Kitts-Nevis can exploit its natural advantages and establish its niche in this fast-growing market.

Successful development of tourism will require a sufficient number of rooms to attract block bookings and to justify regular service by major air carriers. Airline estimates place this number in the range of 1200-1400 rooms. St. Kitts-Nevis presently has about 740 hotel and guest rooms. While overall occupancy rates are still low, peak season occupancy was nearly 100 percent in the 1984-85 season. Attachment A projects a medium rate tourism growth at 8 percent annually until 1990. At these rates, mature levels of tourist visits would absorb 300 to 400 additional rooms. RDO/C expects the tourism sector strategy to result in: a 9 percent annual increase in tourism employment; an 8 percent annual growth in tourism; and a 10 percent annual increase in net foreign exchange that will reduce dependence on sugar.

The most effective way to accomplish this is to provide access to the Southeast Peninsula. The Government of St. Kitts-Nevis wants this because some of the most desirable potential tourist attractions and beaches in the country are on the Peninsula. Access to these presently inaccessible unique resources on the Peninsula will be a critical element in expanding the base for tourism and in competing effectively in the Caribbean market. It is seen as the best way to maximize the overall impact on the tourism sector because it will stimulate increased utilization of existing tourist facilities and further development of currently accessible sites while simultaneously providing opportunities for creating new facilities on the peninsula. RDO/C has responded to a request from the Government of St. Kitts by actively investigating the feasibility of, and assess the costs and benefits likely to accrue from, providing road access to the Southeast Peninsula area, and by assisting in the development of a land use plan and an environmental assessment. RDO/C will also play a catalytic role in a search for private investors to develop the tourist facilities on the Peninsula.

The importance placed by the government of St. Kitts-Nevis on the Southeast Peninsula road project has afforded an unparalleled opportunity for RDO/C to open a broad policy dialogue agenda that will complement our activities in other sectors. RDO/C has already begun a policy dialogue with the government. This dialogue has resulted in a Memorandum of Understanding which established certain quid pro quos in connection with AID financing of a road to the Southeast Peninsula. As stipulated in the Memorandum, Project Agreement negotiations are contingent upon: the Government presenting AID with a proposal for developing a national land use plan, the preparation of an Environmental Assessment, the establishment of a development council composed of both public and private sector interests to adopt and promote land use plans, and acceptance of AID assistance in carrying out an examination of the government's fiscal situation. Project approval will require knowledge of how water, electricity, and other infrastructure will be provided, including specific knowledge of other donor commitments and provision of Government resources. RDO/C therefore expects that additional benefits will accrue from the Peninsula road project in the form of fiscal and budgetary reforms that will lead to eventual balance in the government budget and a rational land use plan that will enhance the development of the agriculture and service sectors, while fostering sound environmental practices.

3. Agriculture

Agriculture presents the second opportunity for a significant AID impact. RDO/C is confident that production of high value crops is feasible and will provide opportunities for sustainable diversification of production away from sugar. The soils and climate of the country are favorable for the production of a wide variety of agricultural products. Groundwater resources are being developed and can be made available for irrigation. The tourist industry in several nearby islands provides an excellent market for a number of commodities. Regular air and container sea freight service make the United States a potential market. To fully exploit these opportunities, two obstacles must be overcome: lack of a small farmer tradition and shortage of market expertise. The first of these will be addressed through technical assistance which will enable small actual or potential producers to respond to new market incentives. The second will be accomplished by attracting enclave producers who will bring their marketing expertise with them, and from whom it can spread to other producers. In this context, the situation is ideal for the kind of quick-response technical assistance, private-sector driven agriculture that the High Impact Agriculture and Marketing Project (HIAMP) can generate. When this project is approved, RDO/C intends to exploit opportunities for appropriate high-impact interventions in St. Kitts-Nevis. In this effort, we will work to support and to encourage the activities of the private sector. Some entrepreneurial ventures already exist. For example, a group of private U.S. investors has already signed a joint venture agreement with the government for the production of Sea Island Cotton. RDO/C will use the resources of HIAMP to identify other opportunities for private investment in high value exportable agricultural produce, in winter vegetable production and in other areas.

RDO/C's strategy to encourage non-sugar production must also incorporate the development of a capacity for produce marketing. This capacity is to be created in conjunction with the development of enclave agriculture activities and must be an integral part of the private sector-led agricultural production and marketing activities supported by RDO/C. Enclave agricultural enterprises will take the lead in identifying markets for high value agricultural products. Demonstrated success in enclave production is expected to attract indigenous farmers into these product lines. In this way diversification of agriculture will spread out from its initial enclave base. RDO/C will provide technical assistance to supplement this process.

RDO/C expects efforts in private-sector-led agriculture to result in: a 5 percent annual decrease in sugar workers; a 3 percent increase in non-sugar agricultural employment; and a steady decrease in annual sugar output following a period of steady output during which the profit potential of other crops is being demonstrated. However, expanded tourism and agricultural transition on a scale necessary to employ all the labor that is presently devoted to sugar is not possible in the short term and must be supplemented by other activities. Even in the long term agriculture and tourism are unlikely to absorb all of the resources that will be released from sugar production.

4. Light Manufacturing

Additional diversification potential exists in light manufacturing. St. Kitts has been relatively successful in attracting private investment in enclave industry because of its open economy and stable government. Enclave manufacturers operate in garments, shoe production, electronics and data processing. However, performance of these industries has been uneven and more effort is needed to stimulate foreign and indigenous private investment. RDO/C's strategy is to encourage growth in manufacturing through investor search, through financing of industrial facilities, through management training, through credit and technical assistance to small scale enterprises, and through policy dialogue aimed at fostering a favorable investment climate.

RDO/C expects the manufacturing sector strategy to produce a 7 percent annual increase in non-sugar employment, a 7 percent rate of increase in non-sugar manufacturing and a 9 percent rate of growth in manufacturing exports.

5. Conclusion

While much of our strategy applies to both St. Kitts and Nevis, each has its own set of constraints and opportunities. In St. Kitts the strategy will be to assist the government in: identifying and correcting weaknesses in its fiscal system; supporting the establishment of private ventures that will identify, produce and market high-value agricultural crops for export to regional and international markets; satisfying the local market in vegetable crops; diversifying the country as a tourist destination and expanding the number of hotel rooms for effective mass marketing of the island; and enhancing an already positive investment climate for manufacturing firms. The major instruments for achieving these objectives will be the provision of technical assistance through the Public Management and Policy Planning Project; support for private sector agricultural ventures; small agricultural demonstration programs; taking a lead role in Southeast Peninsula development, including the construction of the Southeast Peninsula Road; and creation of an indigenous marketing capability. Dialogue on key policy issues will support our goals in these areas. Our positions on such issues are generally consistent with the direction in which the Government of St. Kitts is moving. They include: adoption of a land use policy which delineates the most effective use of the various land and environmental resources; an examination of the tax structure to assure that all appropriate incentives to investment have been considered; and the preparation of a Government development plan which prioritizes public sector investments.

Our strategy in Nevis will be: to encourage further privatization of some agro-processing companies; to encourage agriculture production for domestic consumption and to create the basis for local and foreign investment in private sector growth. The major instruments for achieving these objectives are improvements in transportation facilities, construction of small-scale surface water irrigation schemes, and

creation of an opportunity for cooperative investment. The policy agenda on Nevis will focus mainly on Government divestiture of its small agro-processing facilities.

This combination of investment and dialogue for St. Kitts and Nevis is intended to make an important contribution to a 3% annual growth in GDP and a 3% net decrease in unemployment, an improvement in land use and economic planning capability and improved government finances. A critical mass of hotel rooms and other accommodations must be available. It will also be necessary to: enhance the island as a tourist attraction, improve investment search efforts, and encourage development of trades supportive of the tourist industry. Table 1 is an overview of the RDO/C strategy considerations which form the basis for the sectoral discussions in Section B below. Table 2 lists major ongoing and future AID assistance to St. Kitts-Nevis.

Table 1
ST. KITTS-NEVIS STRATEGY SUMMARY
1986 - 1990

Goal of the AID Strategy:

To diversify the economy, increase foreign exchange earnings and employment and to promote broadly based economic growth through an expansion into non-sugar agriculture, tourism, and light manufacturing

Benchmarks:

- 3% annual growth in GDP
- 3% total decrease in unemployment
- 2.8% annual increase in employment
- 5.6% increase in exports

<u>Sectoral Strategies</u>		
<u>Agriculture</u>	<u>Tourism</u>	<u>Manufacturing</u>
<u>Objective:</u>	<u>Objective:</u>	<u>Objective:</u>
<ul style="list-style-type: none"> - Attract private investment to nontraditional ag - Identify and develop high value export crops - Create local vegetable market - Enhance Agricultural Marketing Capability 	<ul style="list-style-type: none"> - Facilitate private investment - Enhance attractiveness of islands as tourist destination 	<ul style="list-style-type: none"> - Diversify enclave industries - Improve local management - Remove disincentives to investment
<u>Benchmarks</u>	<u>Benchmarks</u>	<u>Benchmarks</u>
<ul style="list-style-type: none"> - 5% annual decrease in sugar workers - 3% annual increase in non-sugar employment - 0.5% annual growth in agriculture production - Decrease in sugar acreage 	<ul style="list-style-type: none"> - 9% annual increase in employment - 8% annual growth in tourism - 10% annual increase in net foreign exchange 	<ul style="list-style-type: none"> - 7% annual increase in non-sugar employment - 7% annual growth in non-sugar manufacturing - 9% annual growth in manufacturing exports
<u>Program Interventions</u>	<u>Program Interventions</u>	<u>Program Interventions</u>
<ul style="list-style-type: none"> - Foster investor search in High Impact Agriculture - Small Farmer Credit and Technical Assistance - Integrated Marketing System, Enclave expertise - Perishable Storage and Transportation Systems - Research and Extension - Nevis Feeder Roads 	<ul style="list-style-type: none"> - Environmental Management Study - Construction of Southeast Peninsula Road - Skills training - Small Business Credit and Technical Assistance - Revised Tax Legislation - Facilitate investor search - Food and Traffic Safety Program 	<ul style="list-style-type: none"> - Small Enterprise - Indigenous Marketing Capability Development - Credit and Technical Assistance - Technical Assistance for Nevis Cooperative Establishment - Management and Entrepreneurial Training - Family Planning Services - Reassessment of Tax Legislation - Financial Assistance to Build Factory
<u>Policy Agenda</u>	<u>Policy Agenda</u>	<u>Policy Agenda</u>
<ul style="list-style-type: none"> - Efficient Transition out of sugar - Government Policy and Planning - Land Use and Environmental Policy - Land/Agro-Processing Divestiture - Non-sugar Institutional Support 	<ul style="list-style-type: none"> - Taxation and Fiscal Reform - Land Use Planning and Environmental Policy - Government Policy and Planning - Investment Management Body 	<ul style="list-style-type: none"> - Incentives Affecting Investment - Land and Environmental Policy - Tax Structure Examination - Investor Promotion Body - Government Policy and Planning
<u>Constraints</u>	<u>Constraints</u>	<u>Constraints</u>
<ul style="list-style-type: none"> - Lack of small farm tradition and experience - Undeveloped market: knowledge/network - Poor transport out - Plantation mentality - Lack of prod knowledge - Insufficient availability of water - Insufficient feeder road access - No storage facilities - Lack of credit - Soil erosion 	<ul style="list-style-type: none"> - No access to best beaches - Insufficient rooms for high volume tourism - No market focus - Potential lack of trained workers - Poor access in Nevis - Lack of shopping - Lack of handicrafts - Need to import food - Little private sector investment - Delicate environment - Lack of direct market access 	<ul style="list-style-type: none"> - Poor transport out - No indigenous marketing capacity - Lack of entrepreneurial talent - Lack of management skill - Tax disincentives - Disorganized investment promotion - Insufficient electrical distribution - Public sector involvement - Teenage pregnancy

Table 2

MAJOR ONGOING AND FUTURE
AID ASSISTANCE TO ST. KITTS-NEVIS

I. AGRICULTURE CLUSTER

A. St. Kitts-Nevis Resource Management (538-0108), Project began September 30, 1984, with a PACD of 1987. AID's first bilateral project of \$2,000,000 with St. Kitts-Nevis is establishing appropriate soil and water management practices on agricultural land and strengthening the institutional capacity to maintain and extend these practices. Includes a small farmer demonstration component.

B. High Impact Agricultural, Marketing and Production (538-0140), Project approval anticipated by March 1986, PACD 1993. This project will provide \$40,000,000 to the region and approximately \$5,000,000 to St. Kitts-Nevis to increase the contribution of the agricultural sector and agricultural enterprises to GDP. An agri-business investment advisor will be stationed in St. Kitts and a commercialization fund will be utilized to finance agri-business activity design, testing and broad market expansion.

C. Caribbean Agricultural Extension (538-0068), project began in 1983, PACD currently being extended to 1989. This project is improving regional extension services through the provision of technical assistance from MUCIA and the University of the West Indies. Commodities such as vehicles, farm implements, and communications equipment have been provided to both St. Kitts and Nevis.

D. Caribbean Agricultural Development and Research (538-0099), Project began in 1983, the current PACD is September 1988. This regional program stationed a research officer in St. Kitts who conducts field trials on vegetables crops, making use of CARDI's regional technological improvements.

II. PRIVATE SECTOR CLUSTER

A. Infrastructure for Productive Investment (538-0088), Project began in August 1984 with a PACD of 1987, this project is providing loan funds for the private sector construction of factory space in St. Kitts-Nevis. Currently one 20,000 square foot complex has been approved and another is being discussed. Under the previous Caribbean Development Facility and Employment Investment Promotion projects, the Caribbean Development Bank implemented factory shell construction in the amount of \$247,000 in St. Kitts.

B. Small Enterprise Assistance (538-0133), project approval anticipated in October 1985, PACD in 1991. The project will increase the ability of local entrepreneurs to establish small enterprises to produce and sell goods and services in St. Kitts.

C. Investment Promotion and Export Development (538-0119), Project began in 1984 with a PACD of 1987, this project and its predecessor 538-0042 have provided investment promotion assistance to St. Kitts-Nevis resulting in 5 new business starts and approximately 800 to 1,000 new employment opportunities.

D. Business Training (538-0087, 538-0073, 538-0043), these three regional projects are providing various levels of in-country training to members of the private business community.

E. Caribbean Financial Services Corporation (538-0084), begun in July 1983 with a PACD of 1989, this project established a private sector lending institution which is currently providing term financing to one agri-business (\$185,000) and one electronics (\$300,000) firm in St. Kitts.

III. INFRASTRUCTURE CLUSTER

A. Infrastructure Expansion and Maintenance Systems (538-0138), project approval anticipated March 1986 with a PACD of 1992. The project will be utilized to create an infrastructure environment which is conducive to investment and productive activity. In St. Kitts-Nevis this may result in road construction, harbor improvements, or utility improvements.

B. Basic Needs Trust Fund (538-0103), funds are provided through the Caribbean Development Bank, the original project provided \$1,250,000 to St. Kitts-Nevis for various improvements to social and economic infrastructure. The current project has \$1,000,000 of approved subprojects ready for construction.

C. Regional Alternative Energy Systems (538-0032), begun in 1979, this project will terminate in December 1985. St. Kitts was the recipient of an energy needs assessment under this CARICOM implemented project.

IV. PUBLIC MANAGEMENT AND INSTITUTIONAL DEVELOPMENT CLUSTER

A. Special Development Fund, sixty-one small community development projects have been financed since 1972 in the amount of \$540,260.

B. Participant Training (538-0014, 538-0622, 538-0087), since 1980, 39 long and short-term participants have been sent to United States and Caribbean institutions for training under three separate training projects.

C. Health Training (538-0055, 538-0027), through two regional projects which have been ongoing for the past five years, health technicians in St. Kitts-Nevis have received training in epidemiology, disease and laboratory surveillance, and health inspection.

D. Population and Family Planning (538-0039, 538-0116), under two regional projects which have been ongoing for the past three years, assistance has been provided to St. Kitts and Nevis for training of personnel, contraceptive supply, logistic system improvement, clinic renovations, equipment, youth outreach programs, contraceptive prevalence surveys, and family planning public education.

E. Regional Pharmaceuticals Management (538-0134), Project began in July 1985 with a PACD of 1990, this project is providing technical assistance and institutional support for development of a regional pooled pharmaceutical procurement system. St. Kitts will receive assistance in organizing their central medical stores, rehabilitating warehouses, mechanizing their drug procurement system and consolidating their purchases with other Eastern Caribbean islands.

F. Public Management and Policy Planning (538-0096), Project began in 1985 with a PACD of 1988. This project will provide technical assistance to assist Government in reviewing and revising policies which may be impeding national land use, business expansion, etc.

B. SECTORS

1. St. Kitts

a. Agriculture

St. Kitts had a viable sugar economy until the 1960s when the industry began a serious decline. While Nevis decided to stop producing sugar entirely at an earlier time, St. Kitts followed recommendations to consolidate the growing of sugar cane under one entity, the National Agricultural Corporation (NACO). Processing and marketing of sugar and molasses is carried out by the St. Kitts Sugar Manufacturing Corporation (SSMC). The plantation owners were not interested in continuing production and, in 1975 they agreed to sell the land to the Government. Both islands purchased some of the land from the previous owners but in St. Kitts the majority of land was tied up in a price debate for ten years, preventing tenure from passing to the Government and onward to non-sugar farmers. However, on March 29, 1985 the Government concluded a landmark agreement with the former owners for the sale of the disputed 20,000 acres of land at U.S.\$8,000,000 to be paid over the next five years. This turnover of such a large block of land creates a rare opportunity to structure future economic development in the context of rational land use planning. RDO/C will use this opportunity to work with the government to develop rational land use policy as one means of laying the foundations for economic diversification.

During the two years since independence, the Government has recognized that although in 1984 \$11.8 million in foreign exchange came from the sale of sugar and 25% of the country's work force was employed in the sugar industry, the local currency losses in production each year since 1980 have created a serious financial strain. Shrinking U.S. import quotas and soft world sugar prices suggest a bleak future for the industry. The bad fortunes of the sugar industry have been felt throughout the economy and long-term economic health will require a phased reduction in sugar production. Now that the land dispute has been settled, the Government of St. Kitts-Nevis is pursuing three major objectives for the agricultural sector: to increase employment opportunities in agriculture; to increase production of non-traditional crops; and to foster the production of cash crops to earn foreign exchange, while increasing linkages between agriculture and the other sectors, especially tourism.

Apprehensive about potential loss of foreign exchange, the government is moving to diversification on a phased basis. The strategy is to release acreage for other crops while maintaining sugar output in the interim through increased productivity by: better cutting techniques, limited introduction of mechanization, use of new varieties of cane, and irrigation. Opportunities for diversification within sugar are being studied, such as production of cane spirits and using bagasse to generate energy. An amalgamation of NACO and the St. Kitts Sugar Manufacturing Corporation (SSMC) is intended to reduce overhead and to increase efficiency.

In compliance with Policy Determination 71, RDO/C will not participate in an improvement in the sugar industry. However, the decision to decrease the acreage cultivated with sugar creates soil conservation, foreign exchange, employment, and land use concerns. RDO/C's strategy is to create development opportunities from these concerns. We have begun this strategy through our St. Kitts-Nevis Resource Management Project which will address soil conservation problems. Through new project design (i.e., High Impact Agriculture and Marketing Project) we will help establish alternative crop production systems. Through our tourism, manufacturing and agricultural activities we will contribute to creation of alternate foreign exchange sources and absorption of displaced employees of the sugar industry. Through policy dialogue we will urge that the land taken out of sugar and made available to private farmers and to private sector venturers is productively used.

The government is encouraging private sector agricultural production and marketing ventures in order to accelerate diversification. An agreement has been signed which creates a joint venture between the government and a group of U.S. investors for Sea Island cotton production and processing. Cotton acreage, 90 percent of which is now cane land, will expand from 1000 acres at the outset to 4000 by 1988. Discussions are also being held for similar joint ventures in the production and marketing of sweet peppers, tomatoes and asparagus. Government supported small scale development activities are being initiated to encourage production of cabbage, tomatoes, and other crops, in order to reduce the food import bill and to provide a base for penetration of regional markets. Livestock and milk production is also being encouraged. Preliminary work is being done to improve fisheries production. Mariculture development has begun with privately owned shrimp farms and the possibility of crab production.

RDO/C will actively support efforts to create a diversified agricultural base through production of non-sugar crops. This will include teaching soil conservation techniques critical to substituting vegetable crops for car and encouraging the use of the best agricultural land for vegetables. In the next five years we will encourage the production of crops for local consumption and crops for the export market. The basis for expanded crop production by small farmers has already been funded in the Lavington-Lynches component of the St. Kitts-Nevis Resource Management Project and in ATD's regional agricultural projects which focus on agricultural research, extension, and credit. The British Development Division is planning similar activities in the Sadler's-Harris district. Both efforts will be reaching fruition at a time when the tourist industry and the consequent demand for vegetable crops will be growing. Export crop expansion will be encouraged by RDO/C support to the government of St. Kitts-Nevis to attract enclave agriculture for both the production and marketing of high value crops and by providing the minimal infrastructure required for high value export production (e.g., irrigation, cooling and packing facilities).

Growth in agriculture in St. Kitts, as in the other Caribbean islands, is predicated on an output market. The small current production is being sent by light aircraft to the northern Caribbean islands which have no agricultural sector. RDO/C's strategy to encourage non-sugar

production must incorporate the development of a capacity for produce marketing. This capacity must be created in conjunction with the development of enclave agriculture activities and must be an integral part of the private sector-led agricultural production and marketing activities supported by RDO/C. Enclave agricultural enterprises will take the lead in identifying markets for high value agricultural products. RDO/C will provide technical assistance to supplement this effort.

b. Tourism

St. Kitts has approximately 540 of the country's 740 hotel and guest rooms. It is a beautiful volcanic island with predominantly black sand beaches which lack aesthetic appeal. The few white sand beaches now accessible are located on the Atlantic coast and are generally too dangerous for watersports. Like Nevis, St. Kitts serves a tourist market of wealthy older repeat guests. In 1984, approximately \$13 million of St. Kitts-Nevis' foreign exchange and 14% of the country's employment was attributed to tourism. While year-round hotel occupancy rates are low (30 percent), 1984-85 winter season rates reached nearly 100 percent. Preliminary indications based on worldwide tourism as well as recent improvements in the St. Kitts tourist industry are that 1985-86 may be the best year for tourism in St. Kitts-Nevis' history.

St. Kitts has concluded that expansion of tourism must play an important role in creating employment and in generating foreign exchange. In order for this to occur St. Kitts must have available sufficient hotel rooms to establish the island as a major tourist destination. In order for travel agents to assemble block bookings, and for international airlines to consider regular service to be warranted, a minimum critical mass of hotel rooms and other accommodations must be available. It will also be necessary to: enhance the island as a tourist attraction, improve investment search efforts, and encourage development of trades supportive of the tourist industry.

However, suitable sites combining available land and white sand beaches are limited in number. Some of the most desirable potential tourist attractions, as well as the white sand beaches, in St. Kitts are located on the peninsula. Much of the area is now virtually inaccessible except by foot, or by a hazardous and unpleasant vehicular trip. Providing access to the unique recreational resources of the peninsula will be a critical element in expanding the base for tourism, and in competing effectively in the Caribbean market. However, RDO/C is concerned that the multisectoral economic development of St. Kitts-Nevis occur in an environment of rational land use management, sound ecological management, and sound fiscal policy. In this context, RDO/C will further investigate the feasibility of, and assess the benefits likely to accrue from, providing access to the Southeast Peninsula area.

The Peninsula is known to have favorable environmental features. To insure preservation of sensitive wildlife habitat and simultaneously maximize utilization of the area as an attraction for tourists and Kittitians, a comprehensive environmental assessment and land use

management plan must be undertaken and appropriate legislation enforced. Likewise, development of resort areas along the Peninsula coast should be accomplished within the context of an appropriate land use plan. In addition to the environmental assessment, RDO/C will attempt, through policy dialogue and other avenues, to ensure that necessary conditions for the economic viability of the development are met. It is only in this way that orderly and environmentally sound development can be assured.

Peninsula development will require an array of infrastructural inputs in addition to the road. These include water, power, telecommunications, and an assortment of support facilities. It would not be prudent to proceed with the road project until financing for the other required infrastructure improvements has been identified. The August 7, 1985 Memorandum of Understanding with the Government of St. Kitts-Nevis, concerning the Southeast Peninsula penetration road, specifies that, "Project approval will require knowledge of how these services will be provided and funded, including specific knowledge of other donor commitments and provision of Government [of St. Kitts-Nevis] provided resources." Therefore RDO/C will cooperate with the Government of St. Kitts-Nevis in enlisting and coordinating the support of other donors to insure that these needs are met.

Taxation and fiscal reform is another policy issue which AID will address in conjunction with project design for the Southeast Peninsula. The land is presently owned by private individuals who stand to accrue windfall profits unless the Government either amends tax codes to provide for a tax on capital gains or land improvement, or alternately waives taxes if profits are reinvested in local development. While the Government believes such a tax is appropriate, both the government and AID consider this an opportunity for a reexamination of the entire tax structure as it affects business, industry, and the individual. The weak fiscal performance of the government of St. Kitts-Nevis in recent years indicates that a comprehensive review of the fiscal system is in order (and, indeed, the government has begun a reexamination of its taxes). The Memorandum of Understanding therefore specifies that, "In order to implement the development of the Peninsula, Government is willing to accept the assistance of AID in carrying out an examination of the Government's fiscal situation." RDO/C will recommend funding from the Public Management and Policy Planning Project to assist the Government in this effort.

In the near term, construction of the road and initiation of development of the peninsula will make some immediate contribution to employment. This will help carry St. Kitts over the three years until the full effects of the expansion of the tourist sector are felt. However, while an increase in rooms will result in new job opportunities, the population has not yet sufficiently developed the skills necessary to assume these tasks. RDO/C predicts an employment bottleneck as the hotel rooms are completed and the need increases for chambermaids, bartenders, gardeners, sports coordinators, accountants, receptionists, refrigeration and equipment mechanics, etc. Much training, of course, will be done by the hotel operators themselves. In addition, the mission, through its current human resources portfolio and the introduction of an expanded non-formal skills training

program, will continue to focus on the needs of the unemployed for training in skills appropriate to the expanding job opportunities.

With the completion of the road and development of the peninsula, the need will arise for an expansion of those businesses normally associated with the tourist trade. These include car rental agencies, watersports shops, boutiques, etc. While most of these opportunities are ideally suited to the small business-person, the need for business advice and credit will be critical. The proposed Small Enterprise Assistance Project will address this need.

c. Manufacturing

The manufacturing sector of St. Kitts has experienced rapid but uneven growth in recent years. Currently the sector contributes approximately \$7 million in foreign exchange earnings and employs approximately 20% of the labor force in semi-skilled jobs. Existing operations involve two industries: electronics and apparel. Within the electronics industry, companies are involved in wire-winding and transformer production as either wholly owned subsidiaries of foreign concerns or contractors serving a single major client. Within the apparel industry, companies are involved in assembly operations and are also linked with one client. There is a need to diversify both the customer base of existing firms and the types of companies establishing operations in St. Kitts.

AID has developed, through three years of operation under the Caribbean Basin Initiative Implementation Plan, several private investment projects which will be active in addressing the needs in the manufacturing sector over the next three to four year period: the Investment Promotion and Export Development Project provides investor search services; Infrastructure for Productive Investment provides loans for factory shell construction by the private sector; Regional Development Training II and the Caribbean Association of Industry and Commerce provide managerial training; and the National Development Foundations and the proposed Small Enterprise Assistance Project will provide credit and technical assistance to small indigenous companies. These projects service both islands and provide the majority of assistance needed at this time. There are however a few discrete activities which AID should pursue to strengthen the position of private investment.

The private sector in St. Kitts is one of the best organized and most active in the Eastern Caribbean. The involvement of the private sector, combined with the current assistance package, has created a manufacturing sector which requires diversification and fine-tuning rather than a major overhaul. There are three areas in which the sector could be improved: the investor processing system needs to be streamlined to focus the application and approval process toward one organization composed of a combination of public and private sector representatives; the tax policy needs to be reexamined to assure that there are no inadvertent disincentives to investment; and, in the manufacturing sector, as in agriculture and tourism, there is a need to facilitate an investor search effort. RDO/C will continue to use the resources of its Project Development Assistance Program to facilitate private sector development (See Table 2).

AID's strategy for impacting these "soft" areas of the private sector portfolio is to enter into dialogue on these issues in conjunction with our dialogue in the other productive sectors: tax incentives for investment will be addressed when we discuss the tax implications of the Southeast Peninsula Road; when we discuss land use and the environment, we will encourage the Industrial Development Corporation in its efforts to handle industrial zoning, regulation, and investor processing. During discussions of the Memorandum of Understanding, the RDO/C Director emphasized AID's concern over the role of the private sector. Since those discussions, the Government has requested PDAP assistance in structuring the creation of an IDC.

2. Nevis

a. Agriculture

Although Nevis is primarily a smallholder agricultural society of approximately 3400 farmers, over 5,000 acres of this tiny 36 square mile island is held by the government. Currently, under the USAID funded St. Kitts-Nevis Resource Management Project, a Land Unit has been established to improve former estate lands, the soil of which is drought-prone clay, studded with volcanic boulders. The Nevis Island Administration is also in the process of selling and leasing acreage to individuals and cooperatives.

Agricultural cooperatives thrive in Nevis, because of historical circumstances and because of the subsistence economy where most people are cash poor. There is a high level of women's participation in agricultural cooperatives. It is estimated that over 50 percent of Nevisian farmers are women, while women comprise 80 percent of co-op membership. Several aspects of the government-sponsored integrated agricultural development program, such as agro-processing, fisheries, and beef production, are designed to meet the needs of cooperatives.

The primary constraints to any agricultural production in Nevis are small size, the lack of water, the presence of boulders in fields, lack of access to fields, and soil erosion. CIDA and AID programs for Nevis will be addressing these constraints over the next three years. The Canadianwell-drilling operation is a long-range program aimed at assessing and extracting groundwater resources. AID is addressing the immediate need for water through the St. Kitts-Nevis Resource Management Project which is designed to locate and capture surface water for small irrigation schemes. The provision of a bulldozer and the production of a soil conservation and watershed management manual will help to preserve the soil and water resources. Additionally, the AID funded Caribbean Agricultural Extension Project and the Caribbean Agricultural Research and Development Project are having a positive impact in Nevis and the Department of Agriculture is actively working with farmers, encouraging them to produce for domestic consumption.

AID's longer range strategy for agriculture in Nevis is to provide road access to terrain which is easier to farm and to

continue support for the activities begun under the above programs. This strategy should enable the Nevisian farmers to produce enough vegetables to meet their domestic requirements on a year-round basis.

b. Tourism

Nevis has golden sand beaches on the Caribbean Sea. It has about 200 hotel and guest rooms to serve a tourist market of wealthy older repeat guests. The consensus among business persons and government in Nevis is that for the short to medium term, steady expansion of tourist-related activities such as restaurants, water sports, and handicrafts will offer job possibilities for young Nevisians entering the labor market. The USAID funded Small Enterprise Assistance Project will provide much-needed training, technical assistance and credit to small and medium-size enterprises seeking to establish tourist-related businesses. In the long term the sandy beaches of Nevis may also be developed for tourism.

Nevis has long term potential for tourism development, especially with development of the nearby Southeast Peninsula of St. Kitts. However, Nevis is presently content with minor hotel expansion and serving a resident winter elite clientele.

c. Manufacturing

The business sector of Nevis is largely mercantile and primarily comprised of branches of Kittitian firms. There are also growing numbers of tourist and service establishments. The manufacturing sector is miniscule and is composed of a few up-scale-market fashion designers, a cottage industry of female smockers of children's clothes and several cooperatives engaged in handicrafts, agro-processing of local fruits, and pottery. There is also a small number of electronics firms whose production is limited to what can be transported off the island in small boxes. An inadequate runway at the airport and insufficient facilities at the port in Charlestown hinder industrial development. In order to attract manufacturing companies and to expand the export of locally produced products, Nevis may require upgrading of its transportation and handling facilities. RDO/C will examine the need for improvements in port facilities which would reduce congestion, reduce turnaround time and thereby lower costs. When manufacturing companies wish to establish in Nevis, there may be a need for a new electrical transmission and distribution system to serve outlying areas.

AID's strategy in manufacturing in Nevis is to encourage further privatization of agro-processing companies owned by some individuals and cooperatives as well as to facilitate foreign private investment. Support of the local private sector will occur through programs such as the Small Enterprise Assistance Project (SEAP) which will improve managerial and entrepreneurial skills as well as provide credit and specific technical assistance. Additionally, cooperative efforts will be encouraged and improved through OPG assistance by the Cooperative League of the U.S.A.

II. KEY DEVELOPMENT OPPORTUNITIES, CONSTRAINTS AND POLICY ISSUES

RDO/C has chosen the selected strategy because of the unique opportunities presented by the economy of St. Kitts-Nevis two years after independence. These opportunities are as follows:

A. DEVELOPMENT OPPORTUNITIES

1. Agriculture

The Government of St. Kitts-Nevis in their planning documents indicates that its agricultural development objectives are to increase the yields from sugarcane through improved methods of cultivation, to reach a significant level of self-sufficiency in some food-supplies, and to increase production of cash crops for export. Currently 70 percent of the food requirement is imported and the import bill for these items is 45 percent of export earnings. The Government is fully aware of the major foreign exchange impact which can be achieved through savings in this expenditure category and is looking for ways to increase production of vegetables, fruit crops, cotton and oilseed, and to develop livestock and fisheries industries. Transition away from sugar monoculture cannot be accomplished in one bold stroke. Alternative employment-generating activities must be introduced in non-traditional agriculture and in manufacturing and tourism. Lack of an independent small-farmer tradition, and accompanying experience with diversified agriculture, will also necessitate a more deliberate, and carefully planned transition.

Large-scale agricultural interventions are generally not appropriate to the country. However, the country is ideally suited for the kind of quick-response technical assistance, private-sector driven agriculture that the High Impact Agriculture and Marketing Project is intended to generate. When this project is approved, RDO/C intends to identify opportunities for appropriate high-impact interventions in St. Kitts-Nevis. A group of private U.S. investors has already signed a joint venture agreement with the government for the production of Sea Island Cotton. RDO/C will use the resources of the High Impact Agriculture and Marketing Project to identify other opportunities for private investment in high value exportable agricultural produce. Opportunities exist in winter vegetable production and in other areas.

RDO/C is confident that as the country moves away from sugar and successfully produces other crops, exportation of high value crops will be feasible. The soils and climate of the country are favorable for the production of a wide variety of agricultural products; groundwater resources are being developed and can be made available for irrigation; the tourist industry in several nearby islands provides an excellent market for a number of commodities; and regular air and container sea freight service make the United States a potential market.

The recent resolution of the land ownership issue and the completion of a land use study, a sugar efficiency study, and a non-sugar agriculture study have paved the way for the agriculture strategy that

RDO/C is recommending. The country is poised to take its first steps toward diversification and the donor community is in a position to encourage them to establish a solid crop production capability by placing agricultural enterprises in locations which will maximize their potential to produce abundantly, and to build linkages to U.S. and neighboring markets.

RDO/C is cognizant of the opportunity to improve agricultural production in Nevis by providing assistance to the various types of agricultural cooperatives. Assistance in cooperative finance and management, marketing, and technical assistance in agriculture and animal husbandry will be available through an OPG to the Cooperative League of the U.S.A. and through SEAP.

2. Tourism

As one part of a multisectoral development strategy, tourism offers the promise of a near-term enhancement of the foreign exchange earning and the employment generating capacities of the islands. The sector already has some foundation upon which to build. St. Kitts-Nevis has an international airport capable of landing 747 jets. It also has several tourist attractions which are unique to the Caribbean: Brimstone Hill is a completely restored British Fort; Nevis is a day trip excursion; and the mountains on both St. Kitts and Nevis provide excellent hiking opportunities. Tourist attractions such as bird sanctuaries can be incorporated into peninsula development plans in order to take advantage of an environment which is unique to the Caribbean. However, until now, the country has been unable to fully exploit its potential in the tourist market because there is insufficient access to the most attractive beaches. In conjunction with the provision of financing for the road, will facilitate an investor search aimed at catalyzing the private-sector-led development of attractive and environmentally sound recreational opportunities on the peninsula.

3. Manufacturing

St. Kitts has been relatively successful at attracting private investment in enclave industry because of the openness of its economy and the stability of the government. Enclave manufacturers are concentrated in garments and shoe production, electronics and data processing activities. However, there have been wide fluctuations in performance in these industries and hence their contribution to employment and GDP. These problems are due to exogenous factors. In garments there were problems with the CARICOM market, and in electronics difficulties in obtaining contract work from the U.S.

Furthermore, the country must compete with the other Eastern Caribbean islands which are becoming increasingly successful at attracting investors. The Government of St. Kitts must therefore work with the private sector to enhance the ability to attract investors. In addition to manufacturing, efforts should include development of an active commercial sector capable of retailing domestically as well as

marketing abroad. This indigenous capacity can be encouraged if the investment climate is positive. RDO/C can support the development of both sophisticated outside investment and local entrepreneurs through its policy and funding strategy for St. Kitts.

After several decades of declining population due to out-migration, and with an economy based on subsistence gardens and remittances, there is serious need to find new sources of employment for those now entering the labor force. In the past, lack of access to capital and inadequate infrastructure have hampered indigenous investment in manufacturing. Opportunities remain limited, but Nevis has scope for expanding small scale operations in agro-processing of local fruits and vegetables, some garment manufacturing, and in handicrafts and pottery works.

B. KEY DEVELOPMENT CONSTRAINTS

1. Fiscal Performance and National Savings..

Government fiscal performance has weakened in recent years. Budgets have been adversely affected by loss of revenues which can be traced largely to suspension of revenues from the sugar levy, and by increased expenditures, especially on public sector salaries. Current account deficits increased sharply between 1980 and 1981, leveling at about EC\$9 million in each of the past three years. Growth in overall deficits has been constrained somewhat by reductions in government capital expenditures. In recent years, the government has been a net contributor to the sugar industry. Negative government saving has been accompanied by high private consumption. The result has been an overall negative domestic savings rate. Capital formation has therefore been financed by foreign savings. The ability of the government to contribute positively to development through financing construction of supportive infrastructure and in other ways, will be hampered until public finances are improved. It will be necessary for the government to take actions designed to restore positive domestic public and private savings. This will entail some fiscal austerity on the part of the government, rationalization of the sugar industry to the extent needed to generate surpluses, and measures, perhaps including luxury or higher consumption taxes, phased reintroduction of the personal income tax, or other broad-based tax or other measures that will restrain private consumption and restore positive private savings.

The government is aware of this situation and has taken preliminary steps to address it. Proposals are now being developed for some modifications in the tax system, perhaps including revenue enhancing measures, but details have not yet been announced.

2. Government

The Government of St. Kitts-Nevis is young and, like those of all the Eastern Caribbean islands, thinly staffed. There are Ministers for each department but an insufficient number of qualified permanent secretaries and few mid-level professionals. Since independence, St. Kitts-Nevis has been assisted by the donor community in gathering the technical information which would serve as a basis for development policy decisions. Lack of staff and time has prevented this information from being transformed into a series of development priorities or policies.

While policy indecision has prevented the Government from making some of the same errors its sister countries have made, it has created a situation where decisions are reactive and often do not conform with any guideline or overall policy. The lack of a development plan also prevents the Government from prioritizing investment decisions and weighing the recurrent cost implications of its public sector investment program. The inability to finalize a policy prevents the Government from delegating the implementation of investor search or peninsula development programs to joint public/private sector bodies.

3. Market Information

In each of the productive sectors there is a need to connect the capacity of St. Kitts-Nevis with the resources of the United States, Canada and Europe. In tourism the country has recently been trying to market its services through a half-time representative in New York City. In manufacturing, the country is postured to respond mainly to companies which appear on their doorstep. The country has a participant in the New York based and AID-funded UNIDO Caribbean Investment Promotion Service project. With the exception of the AID-funded PDAP advisor, the only other aggressive marketing of St. Kitts-Nevis as a location for industry is done by a few private businesses. In agriculture, due to the unreliability of the supply of food crops, the marketing corporation does not market produce. Exported, non-sugar crops are sold by private farmers who charter light aircraft or small boats to transport commodities to St. Martin or St. Croix.

In all three sectors, St. Kitts-Nevis lacks sufficient ability to go to the market place, determine their niche and connect with the people/organizations who can utilize their services/products. It is imperative that, over the longer term, the private sector in St. Kitts-Nevis develop its own marketing experts and informational databases.

4. Lack of an Independent Farmer Tradition

Agriculture has been nearly synonymous with sugar plantation monoculture. Agricultural laborers have therefore typically been wage-earners rather than independent farmers. As a consequence, there are few agricultural entrepreneurs who can be expected to quickly move into non-traditional crops. Farm workers lack the managerial skills and experience with alternative crops that are required to make the transition to a more diversified agriculture. RDO/C will attempt to address this problem in two ways. The first is through the provision of technical assistance aimed at facilitating the introduction of new crops. Secondly, in the early stages of agricultural diversification, it will be necessary to rely to a large extent on enclave agriculture ("farm shells"), financed either by foreign investment or by joint ventures, to determine what crops can be grown, what markets are available, and where potential profit centers lie. Subsequently, it is hoped that with some technical assistance, indigenous producers will be attracted into the lines of production that have proven successful.

5. Credit and Technical Assistance

As a result of years of operation as a plantation economy where ownership of productive resources was held by a few, St. Kitts has no history of small farmer credit. As a result of limited experience with tourism, there are few businesses servicing this sector. If an economic diversification program is to be successful, there is a need to develop small-scale productive enterprises. This development will require both credit and technical assistance, both of which are available through the new SEA Project. The tourism strategy will create a need for entrepreneurs who want to begin sports, recreation, or service businesses. These ventures will not occur on a timely basis unless assistance is provided to guide potential small investors through the feasibility studies and organizational phases necessary to borrow money and establish their operations.

6. Infrastructure

In order to achieve an acceptable level of economic growth and diversification in its productive sectors, St. Kitts-Nevis must assure that adequate infrastructure, and systems to maintain them, are in place. RDO/C will review and assess infrastructural inputs planned by other donors and, in conjunction with those donors, plan and consider funding additional improvements.

a. Water

St. Kitts-Nevis has adequate but not abundant water resources. Because the islands are small, they trap only limited amounts of moisture from rising easterly tradewinds. Most fresh water is obtained from natural springs or from shallow aquifers. Porous soils and high rates of evapo-transpiration further restrict the formation of perennial streams. Although existing supplies in St. Kitts are adequate for domestic consumption, capacity has not been developed to meet the needs of the growing productive sectors, especially agriculture. Nevis experiences problems with storage, pumping and distribution. CIDA has initiated a two-phase water development program on both islands. In the first phase a groundwater exploration project has begun but is not progressing as rapidly as anticipated. Phase Two will consist of a well development and institutional improvement program. The government is presently seeking sources of external funding for further well development.

b. Power

While electric generating capacity is adequate to meet present average demand when equipment is operating properly, the generators are old. Peak capacity approximately matches peak demand. Future growth in tourism, manufacturing and housing will further tax the system. Consideration should be given to upgrading the system. Some donor assistance has already been given in the form of a new generator for Nevis and studies of means to reduce line losses and to expand the system. St. Kitts expects to have a new 3MW generator on line by 1989, which they hope will be financed by CDB. The World Bank has recently suggested that the government give serious consideration to establishing a separate and autonomous utility authority, which would increase efficiency in the power, telecommunications, and water sectors by permitting economies of scale in administrative function. The World Bank has indicated its intention to assist in the electricity sector.

Since the World Bank report was issued, St. Kitts-Nevis has begun work on a state-of-the-art telecommunications system. St. Kitts and Nevis Telecommunications Ltd. (Skantel), a joint venture between the Government and Cable and Wireless, took over domestic and international telecommunications from the Government Telephone Department and Cable and Wireless, respectively, On October 1, 1985. The new company will institute a \$10 million modernization program that will double the number of telephones to local subscribers, will add data transfer, telex and other capabilities, and have capacity to meet local needs for twenty years. RDO/C will utilize the findings of various studies of the utilities sector in assessing its policy dialogue agenda and the need for possible infrastructure interventions.

c. Roads

The existing road system in St. Kitts-Nevis has been adequate to meet the traditional social and productive sector needs of the islands. A single circumferential road on each island, with few radials, provided adequate access to what was a sugar monoculture, which was also served by a small, dedicated railway. However, as the islands' economic base shifts away from monoculture, the road network will need to shift to meet new needs. While major shifts in agriculture, which could require an upgraded feeder road network, are still in the future, the tourism sector has reached the point where new road construction may have a substantial impact. A road which will allow access to the Southeast Peninsula would be an essential element in an integrated package of infrastructure and private investment that would enhance the tourism sector.

C. POLICY DIALOGUE AGENDA

The importance placed by the government of St. Kitts-Nevis on the Southeast Peninsula Road project has afforded an unparalleled opportunity for RDO/C to open a broad policy dialogue agenda. Based on an earlier draft of the CDSS, RDO/C began a policy dialogue with the government in July, 1985. This dialogue manifested itself in a Memorandum of Understanding which established certain quid pro quos. These encompassed: environmental and land use planning; a development authority; tax and fiscal examination; and development planning. Specifically, Project Agreement negotiations are contingent upon: the Government presenting AID with a proposal for developing a national land use plan, the preparation of an Environmental Assessment, the establishment of a development council composed of both public and private sector interests to adopt and promote land use plans, and acceptance of AID assistance in carrying out an examination of the government's fiscal situation.

If these quid pro quos cannot be satisfied, RDO/C would consider other ways of enhancing the Peninsula in order to make St. Kitts-Nevis a more attractive tourist destination.

1. Taxation and Fiscal Reform.

RDO/C has taken the opportunity to use discussions of the Southeast Peninsula to reach agreement in principal with the government on AID assistance in carrying out an examination of the Government's fiscal situation under the Public Management and Policy Planning Project.

The Government of St. Kitts-Nevis has been changing its tax policy during the past two years and has, on a case-by-case basis, created some interesting tax policies. It eliminated a personal income tax, replacing it with a consumption tax and it has begun a system of land revaluation which is intended to result in an adjustment to the land tax base. There are other tax policies which on the surface seem useful and others which seem less so, but no integrated tax study has yet been carried out.

Two tax issues, land improvement and business investment, will have an impact on the developmental objectives pursued over the next five years. The land on the Southeast Peninsula, which is owned by approximately fifteen private blocks, will become extremely valuable once the road has been built. A portion of this windfall capital gain must be recouped to enable the government to finance infrastructure for the development of the Peninsula, and elsewhere. The Memorandum of Understanding with the Government specifies that alternative proposals for capturing some of the capital gain be presented by the government of St. Kitts-Nevis at the earliest possible date. AID has suggested using the services of the Public Management and Policy Planning Project to hire tax examination specialists to propose options for assessing and capturing improvements in land value. Secondly, the

taxes which are applied to local business and industry must be reviewed to assure that they do not pose inappropriate disincentives to investment. CASC commissioned an assessment of regional business taxes which is now underway. Our work will build on the results of that study. In order to replace the revenue shortfall induced by the interruption of the sugar levy, it may be necessary for the government to examine alternative means of raising revenue, and means of containing current expenditures.

2. Efficient Transition out of Sugar

The Government's strategy is to attempt to temporarily maintain employment and foreign exchange earnings from sugar by reducing acreage while increasing productivity. Some productivity-enhancing measures would be more costly than others. RDO/C will continue to follow this process and in its policy dialogue will encourage transitional measures which are cost effective, and do not exacerbate the Government's financial burdens. RDO/C will work with BDD, which is spearheading this effort.

3. Land Use

The Government of St. Kitts-Nevis is at a critical point in deciding on the appropriate use of its various land resources. With the recent sugar estate settlement, agricultural land will be free for sale or lease to farmers. The ability to now sell or lease the land provides the opportunity for access to fields at the lower reaches which would provide access to water for irrigation, access to roads for transportation, field supervision to prevent theft, freedom from crop depredation by monkeys, and less acidic soil composition. With the construction of the Southeast Peninsula Road, an additional 17% of the country's land mass would be made available for use in tourism, farming or industry. RDO/C will take the lead in attempting to assure that decisions regarding the utilization of the peninsula should be based on the environmental tolerances of the land and marine resources as well as on the immediate productive capacity of each parcel.

The critical issue in the decision on land use is the ability to gather data and formulate a policy in the near future. There is a very narrow window of opportunity when the Government can act positively rather than reactively. If that opportunity is lost, land use practices will develop which will create additional development constraints (e.g. improper irrigation, fertilization and soil conservation practices). RDO/C will utilize its project planning process to gather the information necessary to help formulate a policy and to then utilize its leverage to have a land use and environmental policy enacted prior to construction of the peninsula access road. The government has now made an informal request for AID to provide the technical assistance required to synthesize four studies and to formulate a country-wide Land Use Management Plan.

4. Government Policy and Planning

With donor financing playing the major role in new capital investment, it is critical that the government establish a development plan in conjunction with major donors who are expected to finance the program. In the absence of such a development plan, funding for one component of what must be a larger program (e.g. increasing nontraditional agricultural exports, or bringing the Southeast Peninsula into the tourism market) may not result in the establishment of the priorities, commitments, and funding required to successfully complete these multi-donor programs. The overall direction provided by such a plan will also encourage the Government to enact policy recommendations in support of their development priorities.

AID will offer the Public Management and Policy Planning Project as a resource for assisting in the development of a meaningful and well thought-out plan for achieving the goals of self-sustaining economic growth. With the generation of such a plan, well-grounded in the political realities of the two islands, developing strategies for future growth led by private sector development will be far more assured. The recent return to St. Kitts-Nevis of two highly qualified officials in the planning staff has greatly increased the government's planning capability. Work on a 5-year plan is scheduled to begin soon. An offer from the Interagency Resident Mission (IARM) to assist in development planning is also pending.

5. Private Sector Growth

While St. Kitts-Nevis has been effective in mobilizing private direct investment, still more is needed to secure future economic growth. Issues of foreign ownership versus domestic investment incentives, tax structures, and licensing and approval procedures for new investment projects merit further discussion. Now that an Industrial Development Corporation has been agreed upon, we expect that the Government will be even more active in encouraging the private sector. RDO/C will use policy dialogue to encourage the Government to act in the interest of domestic and foreign private investment and will support this effort through activities of the IPED, IPIP, and SEAP projects.

ST. KITTS-NEVIS
ECONOMIC ANALYSIS

I. RECENT PERFORMANCE

A. Production, Income and Employment

Table 1 presents Gross Domestic Product (GDP) by sectors between 1980 and 1984 for St. Kitts-Nevis. The 2.3 percent growth at constant factor cost masks traumas which occurred in 1983, with major losses of earnings from sugar exports, the failure of two manufacturing enterprises, and the loss of tourism earnings from a hotel fire. These events reflect the small scale of economic activities in the two-island nation of St. Kitts-Nevis, and the potential for a small number of events to have dramatic influences on the economy.

Sugar has been dominant on St. Kitts during this century, still contributing 15 percent of GDP in 1984. The continuation of sugar production long after its demise in other Caribbean nation islands is a testimony to the relative efficiency of production. Sugar on St. Kitts, reflected in two Government-owned enterprises, is close to breaking even, perhaps being profitable given the protected markets of the United Kingdom and the United States. During the prior four years, prices, quotas, and production fell, which is reflected in the 5 percent annual decline in sugarcane value added and the 2.8 percent annual decline in sugar manufacturing reflected as percentages of GDP. During this period, manufacturing output also declined. GDP growth was fueled by increases in commerce, transport and communications (reflecting the completion of Government-provided infrastructure projects) and tourism sectors. The Government sector is 20 percent of GDP, with productive responsibilities, outside of utilities, only for the sugar industry.

All sectors, excluding Government, had positive growth in 1984, the first such occurrence in the past five years. Real growth was a negative 2.4 percent in 1983, while increasing 3 percent in real terms in 1984. GDP per capita at market prices was estimated to be \$1,463 in 1984.

Employment estimates by sector are shown in Table 2. Published data are not consistent, but the labor force in 1984 is approximately 16,300, with 13,000 employed, creating an unemployment rate of 19 percent. The sugar industry employs 25 percent of all workers with manufacturing, Government, and other services each providing 16 percent of total employment. Despite its modest contribution to GDP (3.3 %), tourism currently employs 14 percent of the workforce with an annual growth rate in employment of 6.5 percent between 1980 and 1984. The total labor force is estimated to be growing at 2.2 percent per year during the 10 year period between 1980 and 1990, reflecting diminishing potential for emigration which has kept population increase low or negative in the immediate past.

B. Consumption, Savings and Investment

Since 1980, St. Kitts-Nevis has consumed significantly more than it produces each year, with gross domestic expenditures averaging 129 percent of GDP over the past four years. Table 3 presents the data available for 1984, reflecting negative domestic savings of Eastern Caribbean dollars 26.3 million*. Adding investment of EC\$13.5 million creates a resource gap of nearly EC\$40 million, financed primarily by private transfers (remittances) from abroad and private direct investment. The accounts suggest that the private sector in St. Kitts-Nevis is consuming more than it produces domestically, using the proceeds from remittances to pay for the difference. This tendency is further exacerbated by the imbalance in the current account of the public sector. The financing of deficits has not incurred significant foreign debt and the service burden was only one percent of GDP in 1984 and two percent of foreign exchange earnings.

C. The External Sector

The resource gap reflects both domestic imbalance between production/saving and consumption/investment and the imbalance of trade, which on current account is in deficit by E.C.\$38.9 million. Table 4 presents the balance of payments for 1984. Export earnings fell by 4.4 percent per year from 1980, reflecting the decline of both sugar and manufacturing sales overseas. Tourism was the largest foreign exchange earnings (from domestic exports and tourism), sugar/molasses accounted for 39 percent and manufacturing 23 percent in 1984. Table 5 provides the details of the composition of domestic exports and tourism receipts and payments.

For continued increases in GDP in St. Kitts-Nevis, the export sectors must lead. Tourism and manufacturing offer strong potential, while sugar is a problematical contributor to a growth strategy. Estimates of potential contributions to export growth reflecting AID-funded support are considered in Section III.

D. Public Sector Finances

The Public Sector consists of the Federation of St. Kitts-Nevis and five public enterprises: two comprising the production of sugar cane and the manufacture of sugar, the National Agricultural Corporation (NACO) and the St. Kitts Sugar Manufacturing Corporation (SSMC); the Port Authority, the Frigate Bay Development Corporation and the Central Marketing Corporation. Public utilities are treated as Departments within the federal Government budget. Table 6 presents the consolidated accounts for these enterprises in 1984.

Current expenditures exceed current revenues. The current account balance is negative E.C.\$1.7 million, saved from a double-digit deficit by the surplus in the social security scheme of E.C.\$9.4

* Current exchange rate is US\$1.00 = EC\$2.70

million. The deficit in the two sugar parastatals was E.C.\$ 3.6 million dollars. The remaining state enterprises, in aggregate, broke even. The capital account, which includes the development budget for new infrastructure, is financed largely from foreign grants and concessionary loans.

St. Kitts-Nevis is making the best of a bad situation by drawing on social security receipts to finance current expenditures. All donors agree with Government representatives that this practice is a short-run solution to a damaging sugar industry situation. As recently as 1980, sugar contributed 23 percent of current revenue to the public budget. Returning the sugar industry to a net contributor to current revenue would help right the imbalance in the current account.

Government wages are 45.4 percent of current expenditures, 84 percent of current tax revenues. The tax system is under current scrutiny for revision, with an active Chamber of Commerce recommending revisions which would assist both domestic and foreign investors. The income tax has been discontinued and new taxes plus positive sugar profits have not yet made up the difference in Government revenues. As in other small island countries in the Caribbean, foreign trade bears the brunt of revenue collections for the federal Government.

The Government of St. Kitts-Nevis, acting in concert with major donors and the World Bank, has established an investment program for the next three years which will increase the capital budget by US\$31 million dollars, to be financed primarily by grants or concessionary loans. New public sector investment spending (excluding ongoing projects) is programmed at EC\$57.8 million, a significant increase over past expenditures. Tourism spending will account for 44 percent of the new investment, with a major sewage project planned for Frigate Bay. The remaining categories are: power, 10.7 percent; industry, 11.7 percent (support to industrial estates); agriculture 8.7 percent; and education 18.5 percent. The public sector investment program is dependent upon securing donor funding since external financing is projected to cover 90 percent of all new capital projects.

II. MAJOR FACTORS WHICH WILL AFFECT FUTURE ECONOMIC GROWTH

A. Integrating Donor and Government Objectives, Priorities and Funding Support

The Government of St. Kitts-Nevis does not have a development plan. The capital investment budget is a listing of projects which seek external funding. With donor financing playing the major role in new capital investment, it is critical that the Government establish a development plan in conjunction with the Caribbean Development Bank (CDB), Canadian International Development Agency (CIDA), the British Development Division (BDD) and AID. These four major donors represent the vast majority of externally available resources, with the World Bank contributing through the CDB.

A master development plan, thrashed out in debate, with an agreed set of priorities and objectives, is critical for the accomplishment of rapid economic objectives for St. Kitts-Nevis. Included in RDO/C's proposed initiatives are interventions in tourism, agriculture and manufacturing, all sectors with ongoing Government and donor-funded projects. In the absence of such a development plan, funding for one component of what must be a larger program, such as increasing non-traditional agricultural exports, or bringing the Southeast Peninsula into the tourism market, may not result in the establishment of the priorities, commitments, and level of funding required to successfully complete these multi-donor programs. In addition, policy dialogue will be less effective if there is no structured forum in which to propose development strategies and policy initiatives of special interest to AID, with the potential for combined support from other donors.

B. Revitalizing the Sugar Industry

This is not a target for AID intervention, but a necessary subject for the Government to be supported by the BDD, which has long been contributing to the rationalization of the traditional sugar industry. Recent studies by Bookers, funded by the BDD, have recommended means for the modernization of sugar production, both in the fields and in the Government's one refinery. Success in sugar depends upon continuing access to the UK and US sugar markets, where prices, though volatile, are three to four times the spot world market price. The United States has declining demand for cane sugar due to the lower cost of corn syrup and a general reduction in sugar consumption per capita. Since the US quota is a residual of demand not satisfied by domestic production, the market for St. Kitts' sugar can be expected to steadily diminish over the next five years.

However, sugar production can be made more efficient. With 1984 costs per pound on St. Kitts estimated to be \$.19, and prices in the U.S. estimated at \$.20 and in the U.K. at \$.17, St. Kitts is within striking distance of a profitable sugar industry. Significant increases in both yields and labor productivity have occurred in the last 10 years. With a modernization program supported by other donors which increases yields per acre, and a reduced demand in protected markets, some of the excellent sugar estate land will be freed for production of non-sugar crops. Since one of the RDO/C's interventions is to assist in the establishment of non-traditional crops, success in increasing sugar profitability while reducing the acres under sugar cane production rank with a solution to the land tenure issue as critical for success.

There are marginal lands on St. Kitts which have been used for non-sugar agriculture. With the release of high-value sugar estate lands (40 acres of which have already been promised for the St. Kitts-Nevis Resource Management Project) and land titling which provides private incentives for longer-term agricultural investments, the basis for future growth in the non-traditional agricultural sector will be secure. There is the possibility that St. Kitts will exit from sugar production much more rapidly than projected, for example, if market prices fall or production costs cannot be reduced. This would call for increased and accelerated support for export-earning agricultural alternatives.

C. Building Incentives for Private Sector Growth

St. Kitts-Nevis has been effective in mobilizing private direct investment totalling US\$21 million over the past five years, US\$13.6 million in sales of a Government-financed hotel. But much more is needed in the future to secure growth. There are issues of tax incentives and holidays, liberally granted in some instances, foreign ownership versus domestic investment incentives, new and revised tax structures and the licensing and approval procedures required for new capital investment projects. St. Kitts-Nevis will need to compete against other Eastern Caribbean island nations as well as those closer and more accessible to the United States. The Government decision-making process has been pragmatic but very deliberate. If the growth objectives projected in the following section are to be met, the Government is going to be required to act in the interest of private investment, foreign and domestic. Since AID, among all donors, is likely to be the most directly supportive of development led by the private sector, it suggests the use of policy dialogue and expert technical assistance to help stimulate the Government into action. There apparently is no difference of opinion in general; the Government supports private initiatives and does not plan to engage in new competing enterprises. But the time has come for action. This subject will need to be high on RDO/C's agenda for policy dialogue.

D. Reaching the High-Value Tourism Market

St. Kitts has what is rapidly becoming a unique natural resource, land which has remained unspoiled by human settlement. The Southeast Peninsula is inaccessible and unpopulated. Its salt water marshes are home to undisturbed wild birds and animals. Correctly undertaken, this area could be developed in its natural state, appealing to environmentally conscious, well endowed tourists. Similar environments located off the southern Atlantic coast have proven to be high-value developments, drawing far more income for the area, and the developer, than average tourist facilities.

This argues for an integrated and comprehensive approach to development of the Southeast Peninsula, one directed by a Government office under the auspices of the strategic development plan mentioned above. Once the master plan is accepted, the departments or offices of the individual Government agencies could proceed with identified and approved projects. Investors would understand that the Government's commitment to a 10 year program would hold through successive political leaders. There is a major natural resource awaiting careful and controlled development on the peninsula in St. Kitts. It could well become the country's most significant foreign exchange earner.

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III. ECONOMIC PROJECTIONS TO 1990

A. Increasing Gross Domestic Product

The projections in this section assume the successful implementation of the described RDO/C strategy, continuation of other donor efforts ongoing and planned, and the rationalization of the sugar industry with other donor funding which has not yet been subscribed. The benchmarks are thus not AID-specific, but reflective of all donor and St. Kitts-Nevis efforts in a concerted march toward economic achievement.

Beginning with the 1984 baseline year, the projections in Table 7 are established as realistic targets for St. Kitts-Nevis, in sector growth rates at constant factor cost over the next six years.

Overall growth in GDP is estimated at 3 percent per year through 1990, a conclusion supported by the first Article IV consultation of the IMF. A World Bank mission in 1984 estimated GDP growth at 3.7 percent from 1985-89 and 3.9 percent from 1990-95, under a somewhat more optimistic set of assumptions. Our analysis suggests that sugar exports at prices above production costs will decline from the 1984 estimated total of 31,000 long tons, to a 1990 total of 25,800 long tons. The U.S. sugar quota for St. Kitts was reduced 25 percent for the 1985 crop. CARICOM will face a 28 percent reduction from 1985-85 levels in its 1985-85 quota. This recent experience suggests that at best 10,000 long tons may be the limit of the U.S. market. The U.K. takes 14,000 long tons at prices which are under current production cost. The preferred solution for maximum economic growth is to reduce operating costs by eliminating marginal sugar production, increasing capital intensity and reducing output to fit the protected, high-value markets. In the projections in Table 7, both cane production and manufactured sugar value added is estimated to decline by 3 percent per year between 1984 and 1990.

To overcome this predicted reduction in sugar-related GDP, non-traditional agricultural crops, non-sugar manufacturing, and tourism must provide the impetus for growth. Since RDO/C's strategy recommends substantial inputs in each leading growth sector, the opportunities are there for significant annual increases. Should the Southeast Peninsula become a reality during the next six years, the addition of 400 high-quality hotel rooms and supporting services would justify a prediction of an 8 percent annual growth to the base of 600 hotel rooms now in operation. If the three leading sectors contribute as planned, then local commerce, construction, transport and communications will all share in the high-level of capital project development included in the investment plan. Should the targets be reached, the sugar industry will fall from 11.9 percent of GDP (at current prices) to 8.4 percent of GDP in 1990; diversification of the economy with a reduction of dependence upon traditional agriculture will have taken place. We believe the benchmarks as shown in Table 7 are optimistic but attainable, appropriate to serve as measures of the success of RDO/C's plan to mobilize AID and other donor resources in support of a private sector growth strategy for St. Kitts-Nevis.

B. Predicted Employment Gains

Should the GDP targets be reached, there will be employment gains. Table 8 suggests the probable increases by sector. Employment in the sugar industry is estimated to fall by 826 workers, reflecting not only a declining share of GDP, but increased labor productivity as modernization takes place. Non-sugar agriculture is estimated to have significant underemployment, and thus new workers are added at half the growth rate of contribution to GDP. Non-sugar manufacturing and tourism provide the major employment increases in the period 1985 through 1990, in tandem with significant increases in value added. Tourism employment is estimated to be in a ratio of three workers per hotel room. Should high-value tourism be attracted to the Southeast Peninsula, this figure could be substantially higher. The remaining sectors were assumed to grow at their annual GDP increase, suggesting no obvious productivity gains or losses.

Under the assumptions as stated, employment grows by 2,432 workers in six years, sufficient to reduce the unemployment rate to 16 percent. Should historical trends be used for estimating emigration rather than the conservative estimates of a 2.2 percent per year growth in the labor force, unemployment could be substantially reduced below 15 percent.

C. Export Gains

Export growth will lead economic growth, increasing at rates which exceed the positive changes in GDP. Table 9 presents estimates of export changes, led by tourism receipts and non-sugar manufacturing. Small increases in modern sector exports more than compensate for reduced sugar sales abroad. The resource gap is narrowed by 1990, but remains financed primarily by private transfers.

TABLE 1
GDP BY SECTOR OF ORIGIN
(EC\$ millions)

Constant 1977 Factor Prices

<u>SECTOR</u>	<u>1980</u>	<u>%</u>	<u>1984 (est)</u>	<u>%</u>	<u>ANNUAL GROWTH %</u>
<u>Agriculture</u>	16.6	20.4	14.8	16.6	- 2.8
Ag. Crops	(2.0)	(2.5)	(1.3)	(1.5)	-10.0
Sugar Cane	(8.4)	(10.3)	(6.9)	(7.7)	- 4.8
Livestock	(2.2)	(2.7)	(2.2)	(2.5)	0
Fishing	(3.9)	(4.8)	(4.3)	(4.8)	1.03
Forestry	(0.1)	(0.1)	(0.1)	(0.1)	0
<u>Mining</u>	0.2	0.2	0.2	0.2	0
<u>Manufacturing</u>	13.5	16.6	12.6	14.2	- 1.8
Sugar	(7.3)	(9.0)	(6.4)	(7.2)	- 2.8
Other	(6.2)	(7.6)	(6.2)	(7.0)	0
<u>Construction</u>	7.7	9.5	8.4	9.5	2.3
<u>Utilities</u>	0.9	1.1	1.0	1.1	2.8
<u>Commerce</u>	7.4	9.1	9.9	11.1	7.5
<u>Tourism</u>	2.6	3.2	2.9	3.3	2.9
<u>Government</u>	15.4	19.0	17.4	19.6	3.2
<u>Transport & Communication</u>	6.9	8.5	9.8	11.0	8.3
<u>Other Services</u>	13.6	16.8	15.5	17.4	3.5
<u>Residual</u>	-3.6	-4.4	-3.6	-4.0	
GDP at 1977 Factor Cost	81.2	100.0	88.9	100.0	2.3
GDP at Factor Cost in Current Prices	105.4	100.0	148.6	100.0	9.0
GDP at Market Prices	133.1	100.0	174.7	100.0	7.7
GDP Per Capita at Market Prices US\$	1138.0		1463.0		

Notes: IMF, Recent Economic Developments for St. Christopher and Nevis, January 4, 1985, tables 19 and 21, Statistical Appendix. Population from the Population Reference Bureau, PRB Occasional Series: The Caribbean, St. Kitts/Nevis: Yesterday, Today and Tomorrow.

TABLE 2
EMPLOYMENT BY SECTOR

<u>SECTOR</u>	<u>1980</u>	<u>% of Employed</u>	<u>1984</u>	<u>% of Employed</u>	<u>ANNUAL GROWTH %</u>
<u>Agriculture</u>	4168	32.8	3800	28.9	- 2.3
<u>Sugar</u>	(3324)	26.2	(2800)	(21.3)	- 4.6
<u>Non-Sugar</u>	(844)	6.7	(1000)	(7.6)	4.5
<u>Manufacturing</u>	2784	22.0	2629	20.0	- 1.5
<u>Sugar</u>	(655)	5.2	(500)	(3.8)	- 6.5
<u>Non-Sugar</u>	(2129)	16.8	(2129)	(16.2)	0
<u>Construction</u>	560	4.4	613	4.7	2.3
<u>Tourism</u>	1402	11.1	1800	13.7	6.5
<u>Government</u>	1869	14.7	2120	16.1	3.2
<u>Other Services</u>	1895	14.9	2175	16.6	3.5
<u>Employed</u>	12678	100.0	13137	100.0	1.1
<u>Labor Force</u>	14915		16271		2.2
<u>Unemployment Rate</u>		15.0		19.0	

Notes:

1. Labor force taken from ILO calculations reported in Population Reference Bureau (PRB) Occasional Series: The Caribbean, St. Kitts/Nevis, Yesterday, Today and Tomorrow. Labor force growth rate calculated at 2.2 percent between 1980 and 1990, reflections diminished emigration prospects, PRB scenario B, table C, page 16.
2. Employment by sector 1980 converted in direct proportion from World Bank Statistics, Report No. 4744-CRG, St. Kitts and Nevis Economic Memorandum, October 28, 1983, to total PRB labor force minus 15 percent estimated unemployment.
3. Projections for 1984 correspond to changing shares of GDP except for employment in the sugar industry, which is declining faster than its declining contribution to GDP, non-sugar agriculture which serves as the employer of last resort, and tourism where three employees per hotel room is accepted as an Eastern Caribbean standard.

TABLE 3
CONSUMPTION, SAVINGS AND INVESTMENT AND BALANCE OF TRADE
(EC\$ millions)

1984

<u>Gross Domestic Production</u> (Market Prices)	<u>174.7</u>
Consumption	201.0
Public Sector	(36.6)
Private Sector	(164.4)
Savings (Domestic)	- 26.3
[S = GDP-C]	
Investment	13.5
Public Sector	(10.9)
Private Sector	(2.6)
Resource Gap	39.8
Financed by:	
Private transfers from abroad	21.9
Private Direct Investment	12.4
Official Transfer	3.8
Official Borrowing	1.7
Total Financing	<u>39.8</u>

Notes: Adapted from IMF report of January, 1985 tables 13 and 16.

TABLE 4
BALANCE OF PAYMENTS
(EC\$ millions)

	<u>1980</u>	<u>1984 (Est)</u>	<u>ANNUAL GROWTH %</u>
Exports	65.6	54.8	- 4.4
Imports	<u>121.0</u>	<u>118.5</u>	- 0.5
Balance of Trade	<u>-55.4</u>	<u>-63.7</u>	
Net Service Balance (Tourism)+Interest+ ECCB+Other Services	18.4	24.8	7.0
Current Account Balance	-37	-38.9	
Financed by:			
Private Transfers		21.9	
Private Direct Investment		12.4	
Official Transfers		3.8	
Official Borrowing		<u>1.7</u>	
Total Financing		<u>39.8</u>	

Notes: Adapted from IMF Report of January 4, 1985, table 41,
calculated from US Dollars.

TABLE 5
EXPORTS AND TOURISM FOREIGN EXCHANGE EARNINGS
(EC\$ millions)

<u>DOMESTIC EXPORTS</u>	<u>1980</u>	<u>%</u>	<u>1984 (est)</u>	<u>%</u>	<u>ANNUAL GROWTH %</u>
<u>Sugar/Molasses</u>	40.2	48.2	31.9	39.1	- 5.5
<u>Manufactures</u>	21.9	26.3	18.9	23.2	- 3.6
Beverages	(.5)	(0.6)	(2.7)	(3.3)	
Clothing	(4.9)	(5.9)	(5.1)	(6.2)	
Footware	(9.7)	(11.6)	(4.3)	(5.3)	
Electrical Machinery and Appliances	(5.4)	(6.5)	(5.1)	(6.3)	
Other	(1.4)	(1.7)	(1.7)	(2.1)	
<u>Other plus Stamps</u>	<u>1.9</u>	2.3	<u>1.35</u>	1.7	- 7.0
<u>Re-Exports</u>	<u>1.6</u>	1.9	<u>2.7</u>	3.3	14.0
<u>Total Domestic Exports</u>	<u>65.6</u>	<u>78.7</u>	<u>54.9</u>	67.3	- 4.3
<u>Tourism (Net)</u>	17.8	21.3	26.7	32.7	10.8
Receipts	(22.1)	(26.5)	(35.9)	(44.0)	
Payments	(-4.6)	(-5.5)	(-9.2)	(-11.3)	
<u>Total Foreign Exchange Earnings from Domestic Exports and Tourism</u>	83.4	100.0	81.6	100.0	- 0.5

Notes: Domestic exports calculated from IMF report of January 4, 1985, table 42. Tourism (travel) calculated from table 41, statistical appendix. EC\$ converted from U.S. Dollar figures in original tables.

TABLE 6
PUBLIC SECTOR BUDGET
(EC\$ millions)

	<u>1984 (Est)</u>	<u>Jan-June, 1985</u>
<u>Current Revenue</u>	61.3	31.0
Government	(51.9)	(31.0)
Surplus of Social Security Scheme	(9.4)	----
<u>Current Expenditure</u>	63.0	
Government	(60.8)	(26.1)
Deficit of Parastatals	(2.2)*	
<u>Current Account Balance</u>	- 1.7	
<u>Capital Receipts</u>	3.0	10.8
<u>Capital Expenditures</u>	-10.9	-12.0
<u>Capital Account Balance</u>	- 7.9	-1.2
<u>Overall Balance</u>	- 9.6	
<u>Financed by:</u>		
Foreign Grants	3.7	0.4
Net External Borrowing	5.8	0.2
Net Domestic Borrowing	0.6	
Net Change in Foreign Assets	- 0.5	
Transfer in	9.6	

Notes: Adapted from IMF Staff Report for the 1984 Article IV Consultation, December 21, 1984, table 2. Partial 1985 data from Government of St. Kitts-Nevis.

* Includes EC\$1.3 million in Government transfers

TABLE 7
ECONOMIC PROJECTIONS TO 1990
GDP IN 1984 FACTOR PRICES
(EC\$ millions)

<u>SECTOR</u>	<u>1984</u>	<u>%</u>	<u>1990</u>	<u>%</u>	<u>ANNUAL GROWTH %</u>
<u>Agriculture</u>	25.6	17.2	26.5	14.9	0.5
Ag. Crops	(2.0)	(1.3)	(2.8)	(1.6)	6.0
Sugar Cane	(10.0)	(6.7)	(8.3)	(4.7)	- 3.0
Livestock	(3.9)	(2.6)	(4.7)	(2.6)	3.0
Fishing	(9.6)	(6.5)	(10.6)	(6.0)	2.0
Forestry	(0.1)	(0.1)	(0.1)	(0.1)	2.0
<u>Mining</u>	0.3	0.2	0.3	0.2	2.0
<u>Manufacturing</u>	19.8	13.3	24.5	13.8	3.6
Sugar	(7.8)	(5.2)	(6.5)	(3.7)	- 3.0
Other	(12.0)	(8.1)	(18.0)	(10.1)	7.0
<u>Construction</u>	12.3	8.3	14.7	8.3	3.0
<u>Utilities</u>	1.7	1.1	2.0	1.1	3.0
<u>Commerce</u>	16.9	11.4	22.6	12.7	5.0
<u>Tourism</u>	5.1	3.4	8.1	4.6	8.0
<u>Government</u>	28.3	19.0	31.9	18.0	2.0
<u>Transport & Communication</u>	19.4	13.1	24.5	13.8	4.0
<u>Other Services</u>	25.6	17.2	28.8	16.2	2.0
<u>Residual</u>	-6.4	-4.2	-6.4	-3.6	0
GDP at Factor Cost in Current Prices	148.6	100.0	177.5	100.0	3.0

Notes: GDP at factor cost in current prices from the IMF January 4, 1985 Report, table 19, statistical appendix.

TABLE 8
EMPLOYMENT PROJECTIONS TO 1990

<u>SECTOR</u>	<u>1980</u>	<u>% of Employed</u>	<u>1984</u>	<u>% of Employed</u>	<u>ANNUAL GROWTH %</u>
<u>Agriculture</u>	3800	28.9	3242	20.8	- 2.5
Sugar	(2800)	21.3	(2058)	(13.2)	- 5.0
Non-Sugar	(1000)	7.6	(1194)	(7.7)	3.0
<u>Manufacturing</u>	2629	20.0	3611	23.2	6.8
Sugar	(500)	3.8	(416)	(2.7)	- 3.0
Non-Sugar	(2129)	16.2	(3195)	(20.3)	7.0
<u>Construction</u>	613	4.7	732	4.7	3.0
<u>Tourism</u>	1800	13.7	3000	19.3	9.0
<u>Government</u>	2120	16.1	2387	15.3	2.0
<u>Other Services</u>	<u>2175</u>	<u>16.6</u>	<u>2597</u>	<u>16.7</u>	<u>3.0</u>
<u>Employed</u>	13137	100.0	15569	100.0	2.8
<u>Labor Force</u>	16271		18540		2.2
<u>Unemployment Rate</u>		19.0		16.0	

Notes: 1984 Employment Estimates from Table 2. Sector, total employed and labor force estimates are subject to significant variation in published literature.

TABLE 9
BALANCE OF TRADE PROJECTIONS TO 1990
(EC\$ millions)
Constant 1984 Prices

<u>DOMESTIC EXPORTS</u>	<u>1984(est.)</u>	<u>%</u>	<u>1990 (est)</u>	<u>%</u>	<u>ANNUAL GROWTH %</u>
<u>Sugar/Molasses</u>	31.9	39.1	26.6	23.7	- 3.0
<u>Manufactures</u>	18.2	23.2	31.7	28.3	9.0
<u>Others plus Stamps</u>	1.4	1.7	1.7	1.5	3.0
<u>Re-Exports</u>	2.7	3.3	4.8	4.3	10.0
<u>Total Domestic Exports</u>	54.9	67.3	64.8	57.8	2.8
<u>Tourism (Net)</u>	26.7	32.7	47.3	42.2	10.0
Total Foreign Exchange From Domestic Exports and Tourism	81.6	100.0	112.1	100.0	5.6

ST. KITTS-NEVIS
PRIVATE SECTOR PROFILE

I. Overview

The private sector in St. Kitts-Nevis is fairly dynamic by West Indian standards and is aggressively pursuing diversification out of plantation agriculture to investments in both manufacturing and tourism. The private sector, despite natural competitions and traditional social cleavages, appears to be united in vigorously articulating its needs and in collaborating with Government to achieve them. The Government of St. Kitts-Nevis appears to be private sector oriented and willing to establish policies which facilitate private sector growth. Removal of infrastructural constraints, the strengthening of private sector institutions and developing marketing expertise are priorities of private sector development in the planning period.

II. Private Sector Institutions

The private sector organizations of St. Kitts-Nevis are characterized as dynamic and forward looking by most observers of OECS states. The voice of the private sector in St. Kitts is unified in the Chamber of Industry and Commerce which has succeeded in developing a good working relationship with the Government as well as involving the private sector in important development forums such as agricultural marketing intelligence, training needs and their relationship to the formal education system and CARICOM economic issues. The Chamber of Industry and Commerce has also been more successful in St. Kitts-Nevis than in other OECS islands in bringing together disparate social groupings and traditional competitors in a forum for cooperation.

Credit unions and cooperatives are important private sector entities in Nevis. The Nevis Cooperative Credit Union Society has over 1,000 members and is a community based organization utilizing the talents of the leadership of the island, including the Premier. Additionally all of the cooperatives in Nevis are members of the Nevis Credit Union League. There is much scope here for integrated development projects utilizing the capital and human resources of the indigenous community.

III. Characteristics of the Private Sector in 1985

The private sector in St. Kitts is currently undergoing a transformation from agro-industrial enterprises reflecting the sugar plantation base of the economy to a diversified productive base incorporating nontraditional agriculture, tourism, manufacturing and services. In this process we see both the expansion of long established firms into new areas of investment as well as the introduction of new Kittitian entrepreneurs. Despite the small size of St. Kitts and Nevis there appears to be scope for new actors and enterprises and the situation is more dynamic and fluid than in many other OECS states.

Historically, the private sector was controlled by an elite group of agro-commercial families. While many of these family firms are still in existence and are expanding with the growth of the Kittitian economy, the social climate has changed and there is greater scope for participation by Afro-Kittitians in all aspects of private sector enterprise. However, it is important to note that the old elite have built-in advantages disproportionate to their numbers and therefore conscious attention will have to be given to mitigating the constraints of small enterprises if equity issues are not to surface.

A. Manufacturing

The manufacturing sector in St. Kitts and Nevis, particularly in St. Kitts, has been intentionally developed with a view to diversifying the economic base and expanding employment opportunities. In 1984, this sector contributed EC\$12.6 million to GDP and provided 20 percent of total employment. Expansion of the manufacturing sector to accommodate the transition out of sugar in St. Kitts has become critical and this will remain a priority throughout the planning period.

Government, through explicit policy initiatives, has been successful in attracting enclave industries to both St. Kitts and Nevis. Enclave manufacturers are concentrated in garments and shoe production, electronics and data processing activities. However, there have been wide fluctuations in performance in these industries and hence their contribution to employment and GDP. These problems are due to exogenous factors. In garments there were problems with the CARICOM market, and in electronics difficulties in obtaining contract work from the U.S.

Local entrepreneurs are also engaged in manufacturing in St. Kitts and Nevis. In the main their enterprises are smaller in size, employing up to twenty-five employees, and their production activities are more diverse. They include furniture, pottery, boat building, metal processing, food and beverages, as well as garments and electronics (see Table 1). While there is some emphasis on import substitution, local manufacturers appear to be cognizant of the limitations of the domestic market and are not hesitant to produce for export. Medium to long term financing remains a problem for local investors as is provision of factory space. These are issues presently engaging the attention of Government.

The other primary manufacturing activity in St. Kitts is the St. Kitts Sugar Manufacturing Corporation which employs between 500-800 people during crop time. The industry has suffered consistent losses for the last five years due to the vicissitudes of sugar prices and the increasing unprofitability of growing and extracting sugar in St. Kitts. Sugar production declined from 40,000 tons in 1977 to 27,000 tons in 1983. 1985 production should witness a further reduction. The continuous projected decline in sugar manufacture throughout the planning period puts further pressure on the other sub-sectors in manufacturing to take up the slack created by sugar.

B. Commerce and Trade

The commercial sectors of both St. Kitts and Nevis are microcosms of the larger West Indian scene, but they are so small that there is not much scope for expansion in the traditional distribution sectors. Less than ten firms dominate trading activities in St. Kitts, for example, and their sphere of investment encompasses commission agencies, retail trade, insurance companies, shipping and air freight services. As the needs of the economy have changed from plantation capital stock to industrial and service goods, they have simply expanded their import stock to meet the need.

Areas of growth in the last five years have occurred in agricultural marketing which has provided one of the few areas for new entrepreneurial activity. Kittitians are developing good trading links with the U.S. Virgin islands and other Leewards Islands. Agricultural diversification efforts coupled with the introduction of marketing intelligence offers scope for limited expansion of this sub-sector and is being actively encouraged by both Government and the Chamber of Commerce.

C. Small Enterprise

Small enterprise development in St. Kitts and Nevis is a critical area of development for the country. Due to their extreme smallness of size, neither island can realistically survive economically if the entire economy is predicated on one industry whether sugar or enclave manufacturing. Small business development in St. Kitts has been more dynamic than in Nevis where the constraints are so severe that co-operative endeavors seem a partial solution.

There are approximately 1400 small businesses in St. Kitts and Nevis and they are engaged in a wide range of activities. These include agribusiness, light manufacturing and services. In agribusiness there are a number of bakers and egg producers, in light manufacturing a number of furniture makers and shoe manufacturers, while services includes a multiplicity of enterprises ranging from taxi services and beauticians to mechanics and contractors. As yet, there are few direct linkages to the larger manufacturing enterprises but some links to tourism and agriculture.

Small enterprise development has begun to receive institutional support through the creation of a National Development Foundation and the formation of a Small Business Association. In Nevis, the Cooperative Credit Union has operated as an important source of credit and technical assistance. At the present time there appears to be a feeling among sections of the small business community that their particular needs are not being sufficiently addressed either by Government or by the Chamber of Commerce. However, there is an ongoing dialogue and the creation of an NDF will go some way to meeting the needs of microbusinesses. The medium-size firm with growth potential still faces problems in achieving "take off" and here is where assistance will be targeted.

D. Tourism

Tourism development in St. Kitts and Nevis has been steady despite a number of constraints, notably transport difficulties in reaching the two destinations. Year round occupancy rates are low (30%), but Government has been successful in attracting cruise ships to St. Kitts and has established a craft center close to the port at Basseterre. Presently, there are 740 hotel rooms in St. Kitts and Nevis; 540 in St. Kitts and 200 in Nevis; each island has approximately eight hotels. St. Kitts has a more diversified tourist plant with one large complex at Frigate Bay, two medium size hotels and a small number of exclusive hotels, while Nevis has concentrated on upmarket resorts located in old plantation houses catering to an older clientele.

Ancillary tourist business opportunities are presently limited in both St. Kitts and Nevis. Some employment is available in craft production and sale, taxi services and water excursions, but with the exception of Royal St. Kitts, and Pinney's Beach in Nevis there are no beach resorts and therefore, little scope for water sports and other activities associated with beach resort life. Nevis, particularly, has opportunities for tourist expansion as the island has a number of excellent beaches which could be developed. Tourism employment in St. Kitts and Nevis is estimated to be about 13% of the employed labor force, and most of this is direct employment in hotels and restaurants.

IV. Prospects for the Private Sector by 1990

Prospects for continued private sector expansion at fairly high growth rates seem likely in St. Kitts and less so in Nevis. We are projecting an annual average growth rate of 6.8% in manufacturing, 3% in non-sugar agriculture, 3% in construction, 9% in tourism and 3% in other services. These projections are based on several assumptions which include aspects of the world economy, Government policy and specific donor interventions. The most important are:

- . Government decision to establish an Industrial Development Corporation and PDAP's technical assistance in investor search, institutional development and specific assistance to local private sector development particularly in Nevis.
- . release of sugar land for private sector development of small and medium size farms engaged in vegetable production.
- . structuring a marketing system for the productive sectors, including building expertise in marketing intelligence.

- . expansion into new product lines in manufacturing by both local and foreign investors.
- . Government policy changes in incentives, taxes on businesses and corporations.
- . better provision of long and medium term credit for domestic investment, with specific targets to small enterprise development.
- . infrastructural improvements including construction of factory space under IPIP, improvements in electricity and telephone service, the opening of the Southeast Peninsula in St. Kitts to development, expansion of port facilities in Nevis.
- . development of training modules targetted specifically to industrial workers and self-employment in key supportive services to agriculture, manufacturing and tourism.

With these interventions the private sector in St. Kitts would be more diversified than it presently is with the growth of a few entrepreneurs involved in marketing vegetables to the tourist sector and other tourist destinations such as St. Martin and St. Eustatius; expansion of tourist accommodations to over 1200 rooms. Direct employment should amount to over 2500 persons and opportunities for tourist related activities including small enterprisas should employ another 500. Manufacturing opportunities for local investors will be created in agro-processing, perhaps in joint ventures and in sub-contracting for the export market. Foreign investment in manufacturing will continue to be important and to employ the highest percentage of the industrial labor force.

In Nevis, the small size and infrastructure constraints will mean that growth will be incremental in most sectors. Specifically, there will be moderate expansion of tourist facilities. In agriculture AID and BDD interventions will result in moderate growth in livestock production, while manufacturing will exhibit more significant growth predicated on the establishment of at least five new firms employing about 25 persons each, and the successful establishment of an abattoir and coconut processing plant owned and operated by snareholders on a cooperative basis.

ST. KITTS-NEVIS
LIST OF CURRENT INDUSTRIES

<u>NAME</u>	<u>EMPLOYEES</u>	<u>MARKETS</u>	<u>OWNERSHIP</u>
<u>Garment</u>			
Caribbean Shoe Mfg.	89	Regional	Regional including CDB
Caribee Clothes	50	Export	Foreign (USA)
Caribelle Batik	50	Local/Export	Foreign (UK)
Golden Rock Industries	N/A	Export	Local
Jude Enterpriese	5	Local/Export	Foreign (Trinidad)
St. Kitts Apparel	115	Local/Export	Foreign (USA)
Sun Island Clothes	114	Local/Regional	Foreign
Tradewinds Ltd.	25	Export	Foreign (USA)
Wellington Ltd.	247	Export	Foreign: Bestform (USA)
<u>Electronics</u>			
CA-EN Electronics Ltd.	10		Foreign
Caribbean Magnetics	25	Export	Local
Electrofab	113	Export	Labor contractor for Vernatron -
Kirpalani's Electronics Ltd. (St Kitts)	60-80	Export	Kirpalani's Ltd., Trinidad
K-Tronics	17	Export	K-Tronics - USA
Nevis Industries	200	Export	USA
Qualitek	16	Export	Foreign - Trinidad
St. Kitts Enterprises	123	Export	Foreign - USA
T.S.I. (Transducer Systems, Inc.)	82	Export	Foreign - USA
<u>Boat/Auto Parts & Repair</u>			
Courtesy Garage	6	Local	Local
David Huggins	7	Local	Local
St. Kitts Boat Building	6	Local	Local
<u>Construction Materials</u>			
Arthur Jeffers	6	Local	Local
Franks Metal Craft	6	Local	Local
Gipels Ltd. (Nevis)	6	Local	Local
St. Kitts Masonry Products	12	Local/Regional	Local
Zephaniah Liburd (Nevis)	5	Local	Local
<u>Food & Beverage</u>			
Christamux	15	Export	Foreign - UK
Nevis Bottlers Ltd.	10	Local	Local
Ocean Cold Storage	11	Local	Local/Foreign - UK
St. Kitts Bottling Co.	59	Local	Local
St. Kitts Breweries Ltd.	65	Local	Local
St. Kitts Dairies Ltd.	17	Local	Local
St. Kitts Food Products	10	Local	Local
St. Kitts Sugar Manuf. Corporation	530-830	Local/Export	Local
<u>Furniture</u>			
Anthony Evelyn	10	Local	Local
Cyril Fredericks	4	Local	Local
Mr. F. Harris	3	Local	Local
George Warner	6	Local	Local
<u>Gas & Fuel</u>			
St. Kitts Gases	9	Regional	Foreign - USA
<u>Handicraft</u>			
Craft House (Nevis)	10	Local	Local
<u>Miscellaneous</u>			
Key Universal	86	Export/Regional	Foreign - USA
CA-EN	130	USA	USA

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ST. KITTS-NEVIS
POLITICAL, SOCIAL AND INSTITUTIONAL ANALYSES

I. Political Setting

The newly independent state of St. Kitts-Nevis is a precarious union of two islands, historically distrustful of one another. The two islands have been involved in federal arrangements since the 1870's: first in the Leeward Islands Federation which included Antigua, Barbuda, Montserrat and Anguilla; and more recently, with an Associated State comprised of St. Kitts, Nevis and Anguilla which ended with Anguilla's secession in 1967. The difficulty of federal arrangements and the history of secessionist politics remain a shadowy presence in the present relationship, which is largely operable only because of the political alliance formed in 1980 between the People's Action Movement (PAM) of St. Kitts and the Nevis Reformation Party (NRP).

In 1984 the coalition secured a resounding victory over the St. Kitts Labor Party which gave the Government of Dr. Kennedy Simmonds a clear mandate for the next five years. This electoral victory can be seen both as a present commitment by the population to a unified state and as consensus with the economic policies of the PAM-NRP Government which have focused on diversification into manufacturing and tourism. The sugar issue remains a thorny political question as the popular base of the St. Kitts Labour Party is the trade union representing sugar workers, the St. Kitts Trades and Labour Union. Thus the economic problems posed by divestiture from sugar are compounded by social and political issues.

Although the present regime seems committed to economic diversification and a strong role for the private sector, the leaders are new to public service and have yet to gain both the skill of administering an independent state and the confidence that goes with that expertise. There is little long range planning; the administration is still caught up in the problems of establishing the framework of an independent state. However, the economic problems they face, compounded by the serious constraints imposed by size, mean that there is not a long grace period for adjustment.

II. Social Setting

A. Demographic Profile

According to the 1980 census, the population of St. Kitts-Nevis was 43,309; 33,881 persons in St. Kitts and 9,428 in Nevis. This shows a decline of some 3.5% over 1970 reflecting a historical pattern whereby positive natural increase is equaled, and in some years, exceeded by emigration. Between 1970 and 1980 some 8,000 persons are estimated to have permanently emigrated from St. Kitts and Nevis. Emigration is an important feature of social life in St. Kitts-Nevis reflected in the low numbers of working age (particularly in the age cohorts from 25-60) and corresponding shifts in fertility. In 1980 the median age was twenty, while the proportion of the population under

fifteen fell from 48.7% in 1970 to 37% in 1980, which is considered quite low by Third World standards.

Although the population has stabilized, there are problems of unemployment in the twin island state. In St. Kitts virtual plantation monoculture has meant that a high proportion of the labor force, both male and female, are seasonally employed at relatively low wages. Approximately 25% of the labor force are employed as estate workers. As sugar has become less and less profitable, the numbers employed both full-time and seasonal have dropped, creating chronic underemployment and leading to a stream of out migration. The decline in sugar has to a certain extent been met by increases in employment opportunities, particularly for women, in tourism and manufacturing. A 1984 sectoral breakdown of the labor force is included in Table 2 to Attachment A.

From this we can see that agriculture, although declining, continues to employ a significantly large number of people, more than any other sector. However, during the five year planning period, it can be expected that increasing numbers of plantation workers will be displaced. Not all of them will be able to, or will want to, continue working on their own account in agriculture. These numbers displaced will be joined annually by 1,000 school leavers, seeking employment for the first time. Present unemployment in St. Kitts-Nevis is estimated by the statistical planning unit to be about 19%. In order to begin to redress the un/underemployment situation, approximately 2,400 jobs need to be created in the next five years to keep pace with new entrants and reduce the present rate of unemployment to 16%.

In addition to new jobs created in tourism and in manufacturing, attention will have to be given to finding alternate employment for estate and sugar factory workers. In St. Kitts, a high proportion of sugar workers are men and women over forty years who will have difficulty adjusting to a work environment outside of agriculture. They are also accustomed to returning to their own production after the sugar harvest and to having access to NACO land for their own production. Skilled labor including accountants, clerks, factory operatives will be more easily able to make the transition to other sectors. Estate superintendents and managers may be likely candidates for medium size farmers, although most of their agricultural wisdom is found in sugar production. This question of manpower development and retrainability is of critical importance in any assessment of constraints affecting economic development in St. Kitts over the next ten years.

Nevis does not share this problem. Nevis' manpower requirements are more common to that of the rest of the region and involve making the necessary changes in both the formal education curriculum and in non-formal skills training that reflect potential need for service workers, industrial operators, and own account farmers.

B. Agricultural Systems and Land Use Patterns

1. St. Kitts

Agricultural systems in St. Kitts are an outgrowth of the plantation system established in the seventeenth century. St. Kitts holds the distinction of being the first sugar plantation society in the West Indies. For over 350 years the economies of sugar, and the culture and society its production entails, have determined the social and economic features of the island down to the present day. Land use patterns, for example, to a large extent are a continuing product of sugar monoculture as reflected in the dominance of large plantations owned by a minority. Non-sugar agriculture is cultivated on the most marginal land by the majority of the population.

However, since 1975 when the Government of St. Kitts took over administration of all sugar estates, creating the National Agricultural Corporation (NACO), an acceleration in the decline of the plantation system has occurred. With the settlement of the price debate over estates sold to the Government, transfer of property to private ownership and expansion of the non-sugar sector can be expected to occur fairly rapidly once the mechanisms for transfer are put into place.

Transfer of ownership from the traditional plantocratic elite to the State and hence to the majority of the population would occasion a social revolution. Both the divestiture out of sugar and the break-up of estates are fraught with economic difficulties related to questions of viable acreage, domestic absorptive capacity, credit opportunities for small farmers, etc. However, as the process out of sugar will be gradual, there is scope for constructive intervention.

Present small farm systems in St. Kitts can be divided into three types: 1) estate workers who garden both small plots for home consumption, and acreage allocated by NACO for home and cash cropping; 2) part-time farmers who have been successful in extracting themselves from estate labor for most of the year except during crop time; and 3) full-time farmers who are a minority of farmers and who typically cultivate from two to five acres of mixed produce for the domestic market and for export to St. Croix or St. Martin.

When assessing the potential for small farm cash cropping for the domestic market, it appears that there is scope for expanding the holdings of present full-time farmers who are constrained by lack of access to arable land. Many of these will need greater technical assistance to raise productivity and they will require long and short-term credit for purchase of land and inputs. There are also a small number of part-time farmers who would engage in farming full-time if they could gain access both to more land and to more arable and flat land suitable for intense commercial cultivation.

2. Nevis

Unlike St. Kitts, sugar became less profitable in Nevis and by mid-nineteenth century land tenure and land use patterns changed from estate monoculture to sharecropping and ultimately the development of a smallholder system of agriculture. Sugar gradually became less dominant and ceased being produced in the 1950's. Smallholders are engaged largely in subsistence agriculture and market gardening for St. Kitts. Cotton has been reintroduced as the main cash crop; and small livestock production has also become a staple.

The population of Nevis has been steadily declining since 1981. Nearly a century of migration coupled with the decline of estate agriculture has produced a more egalitarian society than St. Kitts. Nearly everyone in Nevis has access to land; however, much land is leased from the Government. Through estate abandonment Government acquired 15 estates of over some 5,000 acres, about eight of which are considered suitable for settlement.

Land use and land tenure are important issues in Nevis as they are in St. Kitts. Approximately 45% of all holdings in Nevis are one acre or less; and 10% of all holdings are comprised of landless farmers. Approximately 1500 acres of Government owned land is rented to individual farmers and to cooperatives. Agricultural cooperatives and a cooperative credit union movement thrive on Nevis as a factor of village society and economy and as an attempt to grapple with the problems facing farmers, particularly lack of credit, inputs and limited arable land.

An important feature of Nevisian agriculture and the cooperative movement is the large numbers of women involved. It is estimated that over 50% of Nevisian farmers are women, and nearly 80% of cooperative members are women. Women are thus an important segment of the small farm system in Nevis and mention is made of their particular problems as single heads of households who are also farmers.

C. The Problems of Women Workers

The expansion of the manufacturing and service sectors in St. Kitts-Nevis has created both opportunities and problems for women workers. Women form the adult majority of the population of Basseterre and its environs. Migration patterns over the years have exacerbated stresses on family structures. Over 50% of families are female headed and a high percentage are dependent on remittances, which are often in the form of food and clothing and account for a significant portion of their annual income. Women bear children early, teenage pregnancy (15-19) accounts for 28% of all births and over 50% of all first births.

Opportunities for women to find employment in manufacturing and tourism and escape the drudgery of sugar field labor has resulted in unprecedented numbers of young women migrating to Basseterre. Those who

live in parishes contiguous to the capital town commute daily to jobs, which although often seasonal, pay higher wages than field labor.

Enclave manufacturers in garments and electronics employ a disproportionately higher number of women than men in St. Kitts, as they do throughout the world. Wages are lower for women than for men, and turnover is high due to pregnancy and child care problems. Those women from the countryside face the largest problems, as most day care public and private centers are located in Basseterre. Transport which is readily available throughout the island facilitates working in town, but long working hours can pose problems for young single mothers. There are presently no day care centers on industrial estates. In fact, there are virtually no facilities on industrial estates, including health clinics. Productivity is affected by the lack of these services and their provision would go some way to mitigating unequitable tendencies in these types of industrial activities. Examination of the possibilities for private sector financed health, family planning and day care modules to enhance the welfare of women workers is an area of concern to both AID and the Government of St. Kitts-Nevis.

III. Institutional Analysis

A. Overview

Despite their small size, both St. Kitts and Nevis support a plethora of public and private sector organizations involved in national development efforts. In the case of the public sector, the usual heavy overhead of Governmental agencies and statutory bodies is compounded by the duplication of ministries in Nevis. The Department of Nevis has established a separate administrative apparatus for the island. Given the constraints imposed by size - that is, lack of skilled personnel, managers and technocrats, small capital base, and high overheads - duplication of such efforts is quite costly for the twin state. Nevertheless, in the immediate future, this appears to be the prevailing scenario.

With respect to the private sector, both islands have Chambers of Commerce, Hotel Associations, Credit Unions and Co-operatives. In all cases, they exist as distinct entities, but collaborate for particular events and fora. For islands of their size the private sector organizations, particularly the St. Kitts Chamber of Industry and Commerce, are well organized and staffed by adequately trained and highly motivated personnel.

B. Public Sector

Ministries in St. Kitts and Nevis are organized according to the British colonial administrative pattern which prevailed prior to independence in 1983. Although each island has discrete ministries, budget allocations for both islands are held by the Central Government in

St. Kitts. The federal arrangement continues to cause misgivings between the two islands, as Government officials in Nevis chafe at the inordinate delays caused by lengthy bureaucratic procedures which affect their current expenditure.

In addition to the bureaucratic problems posed by a federal arrangement there are a number of constraints faced by all ministries and Government bodies: (1) serious shortage of funds to carry out Government programs; too much is allocated to personal emoluments; (2) shortage of trained technical personnel, particularly in the Economic Planning Unit and the Ministry of Agriculture, Lands, Housing and Development. Departure of key personnel has seriously affected these departments' ability to carry out their portfolios; (3) little experience in sectoral planning. The latter is a problem occasioned by St. Kitts-Nevis recent independence and is reflected in the lack of well developed procedures and guidelines as well as developmental institutions, such as an IDC.

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ST. KITTS-NEVIS
OTHER DONOR ASSISTANCE

Donor assistance to St. Kitts-Nevis has focussed primarily on small community level projects. This is the result of; dependence on the British until September 1983, the small size of the country, and the need for studies as a prerequisite to major project planning.

British assistance has focussed mainly on agriculture. In 1983 the BDD financed a major tick eradication program, building cattle dips and instructing farmers in livestock management. BDD also financed the Booker's sugar and non-sugar studies. These studies were the predecessor's to a BDD commitment of major support to both the sugar and non-sugar sectors in St. Kitts. These commitments have not been forthcoming because the two Governments are still debating the results of the studies and the most appropriate use of BDD financial resources.

Canadian funding has been provided during the past two years for a water exploration program. The CIDA program, which has consisted of drilling and capping boreholes on both St. Kitts and Nevis, is expected to be followed by a second phase that will commission the wells for water distribution to domestic users.

The European Development Fund has provided funding during 1985 for upgrading electricity distribution for the capital, Basseterre, and for small scale water development projects on Nevis.

Eight months ago, the World Bank began an early examination of infrastructure requirements in St. Kitts. Since that time, the Government has entered into an arrangement with Cable and Wireless to upgrade the telephone system and with various other donors to add to the electricity supply on both islands.

All donors will be planning their 1986 programs for St. Kitts-Nevis during the fall of 1985. They have only been approached for small project funding which seems to be a function of the lack of a structured development plan and an organized planning unit. Hopefully, with the return of the two principal planning officers and the completion of an approved development plan, the Government can focus their requests on the infrastructure requirements necessary to support their major agricultural, industrial, and tourism plans.

MEMORANDUM OF UNDERSTANDING

BETWEEN

THE UNITED STATES OF AMERICA

ACTING THROUGH

THE AGENCY FOR INTERNATIONAL DEVELOPMENT (AID)

AND

THE GOVERNMENT OF ST. CHRISTOPHER AND NEVIS (GOVERNMENT)

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I. Introduction

The Government of Saint Christopher and Nevis has requested that AID finance an 18 foot wide penetration road into the Southeast Peninsula, from Frigate Bay to Majors Bay. Following the Government's request, in April 1985 AID sought to determine the technical and economic soundness of proceeding with project design through three brief consultancies;

1. David Lashley & Partners, Consulting and Structural Engineers, provided an updated cost estimate for constructing the Southeast Peninsula Road based on engineering documents prepared by Roughton & Partners of London. Lashley estimates that construction by a U.S. contractor would cost approximately \$5.5 million but also recommends minor revisions in design.
2. Preinvest, Inc., a design, management and evaluation firm, conducted a review of previous studies to determine the potential economic uses of the Peninsula and highlight the critical issues for design. Preinvest concluded that there are numerous potential tourism uses but that the issues of; (a) land use and management, (b) cost recovery for government investment, and (c) public and private sector coordination had to be resolved.
3. Jeanne Beekhuis & Co., a development economics firm, conducted an analysis of the tourism potential of St. Kitts. Beekhuis concluded that the maximum value of the Peninsula lies in its ability to broaden the island of St. Kitts as a tourism destination.

II. AID's Design Approach

AID's Regional Development Strategy Statement provides for funding of projects which will strengthen the productive sectors of an island's economy. Tourism as a productive sector is new to AID but is considered a valuable industry for increasing foreign exchange earnings and job opportunities. St. Kitts is an island with greater tourism potential than is now being realized. Predesign analysis indicates that providing access to the Southeast Peninsula will strengthen and diversify the island of St. Kitts as a tourism product, providing more things for visitors to see and do and encouraging longer stays. The excellence of the resource on the Peninsula can be expected to produce economic returns in the form of; increased occupancy at existing and proposed hotels throughout the island, increased cruise ship visits and increased cruise visitor spending, and, added investor interest in St. Kitts tourism superstructure. However, these returns are contingent upon preserving the value of the Peninsula as an enjoyable site for day visitors. These returns can also be achieved with minimum investment in hotels on the Peninsula and AID expects no need for Government investment in tourist establishments.

AID is now prepared to enter into its normal project design process and if that process indicates that the project is financially, economically, environmentally, technically, socially and administratively sound, AID will be prepared, subject to the availability of funds and mutual agreement of the parties, to negotiate a Project Agreement with the Government. The purpose of

this memorandum of understanding is to clarify and agree upon the major issues to be addressed during design and to discuss the resources which will be available to resolve the issues. These items are presented in the following order; A. Environmental and Land Use Planning, B. Development Authority, C. Tax Examination, and, D. Development Planning.

A. Environmental and Land Use Planning

1. Land Use Planning

A large percentage of the land on St. Kitts has not yet reached its potential as a productive resource. In addition to the 4500 acres of inaccessible land on the Peninsula, there is a vast quantity of agricultural land which will become available for sale to private farmers once the payment details of the sugarlands debt are settled. In order for this potentially productive resource to achieve maximum results for the economy of St. Kitts, it is essential that a land use plan be developed which will delineate the most environmentally sound and economical use of land as agricultural, industrial, housing, or commercial locations.

The Government and the Interagency Resident Mission commissioned a land use study in 1984 which provided soils classification information for all of St. Kitts except the Peninsula. AID would welcome the opportunity to assist the Government to finalize the land use planning process by financing a team to examine the land requirements of St. Kitts and to recommend the best use of resources for each of these applications given the quality, the location, and the competing requirements of both sugar and non-sugar agricultural land, housing requirements, transportation, sewage and water, industrial needs and commercial desires. Prior to final construction contract negotiations for the Southeast Peninsula Road Project, AID requests that the Government present us with a proposal for developing a national land use plan for St. Kitts and provide us with a letter of request for funding if AID resources will be requested to do the plan.

2. Environmental Assessment Requirements

AID regulations require that before any project is authorized an examination of the possible environmental effects of that project be done. A series of steps or procedures laid out by U.S. law (22 CFR Part 216) must be followed, each of which require concomitant studies and approval. The end result, it is hoped, would be an environmental protection plan agreed upon in principle by AID and the Government. The purpose of such a plan is to ensure the ultimate success of the investment made with U.S. taxpayer dollars as well as to assure that long-term benefits accrue to the host country. For example, penetration road projects worldwide have had a checkered history of positive and negative effects on the environment into or through which a road passes. Negative effects include: aggravation of soil erosion, loss of vegetative cover due to increased logging or charcoal production, and uncontrolled or spontaneous development of the area resulting in increased pollution, land mismanagement, and loss of recreational and wildlife values. AID's concern is to reduce to a minimum the negative impacts of the construction of the Peninsula Road and to preserve the environment which makes the Peninsula of such value to St. Kitts.

a. The Process

In terms of AID's systematic approach to ensure protection of the Peninsula the following steps must be taken:

- i. Initial Environmental Examination (IEE): essentially a scoping of issues exercise to identify problematic areas and recommend a future course of action for the Agency to follow; IEE was completed by Dr. James Talbot, AID's environmental coordinator for the Caribbean.
- ii. Environmental Assessment (EA): detailed identification, measurement, interpretation, prediction, and/or communication of impacts to the host country and AID; will be conducted over a three-week period as early as September if the contracting process is completed in a timely manner.
- iii. Land Use/Management Plan (LUMP): final study in support of road development for purposes of (a) outlining options for sensitive areas, i.e., areas critical to the maintenance of recreational, wildlife or fisheries values on the Peninsula, (b) delineating suitability or sustainability of development areas under various designated uses, (c) communicating such alternatives to decision-makers at various levels; will be conducted over a four-week period following the environmental assessment.

Once these requirements are met, discussed and approved by AID and the Government, the Chief Environmental Officer for AID can approve the implementation of the project. Concurrently, engineering, economic, social, and financial analyses will be conducted culminating in a comprehensive "Project Paper" (PP) which, when approved, will enable AID and the Government to begin negotiations on a "Project Agreement" (PROAG) to begin road construction/project implementation.

b. The Logistics

AID will utilize Project Design funds to pay for a team of specialists to conduct the environmental assessment and land use management plan. The funds for these studies will be granted to the Government and the Government will contract with a qualified firm to supply the requisite services. Although the contract team is expected to include both U.S. and West Indian specialists, it is critically important that the interests of the people of St. Kitts be represented. Therefore, three residents of St. Kitts; one who owns land on the Peninsula and two others with skills similar to those required of the team members (i.e. environmental, planning, civil engineering) should be assigned to advise the contract team regarding the socio-economic implications of the Peninsula Development. These Kittitian advisors will be responsible for critiquing the contract team's work, in writing, prior to AID's approval of the environmental work and negotiations on the Project Agreement.

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B. Development Council

The environmental studies will result in alternative suggestions for land-use management which must be discussed and agreed upon in some forum which recognizes the varying interests of those wishing to utilize the Peninsula. Effective and timely land-use management will require the establishment of an entity that can adopt and promote land-use plans, react to changing conditions, and fairly represent the commercial, private and public interests in dealing with prospective developers and foreign tourism interests.

A condition precedent to disbursement under the proposed project agreement for the road would require the establishment of a body composed of both public and private sector interests. The definition and parameters of authority for such a body should be prepared concurrently with the environmental studies so as to avoid delays in financing if a Project Agreement is signed. The task of preparing draft authorities may be incorporated into the Land Use Management Plan contract if the Government so desires.

C. Tax Examination

AID policy is to support development through improved economic growth. Growth comes from increased investment and production which is generated for the most part in the private sector. AID and other donors are concerned that regional taxation policies may be an impediment to improved economic performance among private sector productive enterprises. At the same time, AID recognizes the difficulties of balancing public sector budgets and the need to collect revenues through taxes. Yet taxation of business interests can be a self-defeating exercise if the private sector is taxed to the point that there are no incentives to increasing production, thereby increasing jobs and investments.

Interest in this issue is always at the forefront of Ministries of Finance, the World Bank, donor organizations, and regional bodies like CAIC and the Economic Affairs Secretariat. AID is interested in combining the interests of these groups to provide the Government with the facility to critically examine their fiscal structure to determine the various options for generating revenue to support both recurrent and capital project expenditures without penalizing the productive sector of the economy. ~~Prior to signing a project agreement for the Southeast Peninsula Road, AID will expect the Government to have planned for a comprehensive examination of their fiscal situation.~~

Taxation as it affects the interests of landowners on the Peninsula must be addressed prior to signing a project agreement. The penetration road into the Peninsula will increase the value of the land on the Peninsula and will also result in an opportunity for investment in productive activities such as tourism related services. While the road and ancillary services (water, electricity, etc.) will be public sector initiated, the land improvement will accrue to private owners. There is a need for the Government to examine private sector oriented methods for recapturing some of the profits in a manner which will further develop the country of St. Kitts-Nevis. Alternative proposals, prepared by the Government, in this regard should be presented at the earliest possible date.

QMA
in order to implement the development of the Peninsula, the Government is willing to accept the assistance of AID in carrying out any necessary examinations of the Government's financial situation.

QMA

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Possible methods for accomplishing this sharing of benefits are (1) a land improvement tax, or (2) a tax incentive for land owners to buy shares in development operations on the Peninsula. The Government may wish to request assistance through AID's Public Management and Policy Planning Project to hire tax examination specialists to propose options for assessing and capturing improvements in land value.

D. Development Planning

In that, donor financing plays a major role in new capital investment in St. Kitts, it is critical that the Government establish a development strategy in conjunction with major donors who are expected to finance the program. In the absence of such a development plan, funding for one component of what must be a larger program (e.g. increasing nontraditional agricultural exports, or bringing the Southeast Peninsula into the tourism market) may not result in the establishment of the priorities, commitments, and funding required to successfully complete these multi-donor programs.

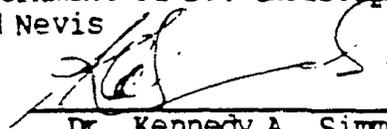
In the specific case of development of the Southeast Peninsula, there will be a requirement for not only a penetration road, but also electricity, water, sewage disposal, and telephone services. Provision of these services will be costly and may require coordination with designs for construction of the road. Project approval will require knowledge of how these services will be provided and funded, including specific knowledge of other donor commitments and provision of Government provided resources.

AID suggests utilization of the resources of the Public Management and Policy Planning Project to assist in the development of a meaningful and well thought out plan for achieving the goals of self-sustaining economic growth. With the generation of such a plan, well-grounded in the political realities of the St. Kitts and Nevis, developing strategies for future growth led by private sector development will be far more assured.

III. Design Counterpart

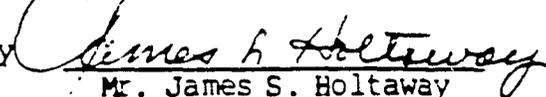
The design process discussed above will require the processing of paper and the direction of technical consultants. In order to have a clear and timely flow of information the following persons are named as contact persons; 1.) For USAID, Kimberly Finan and, 2.) For St. Kitts, Aubrey Hart. These persons will coordinate documents which can only be approved by the USAID Mission Director and the Prime Minister of St. Kitts.

Signed for the
Government of St. Christopher
and Nevis

by 
Dr. Kennedy A. Simmonds
Prime Minister

Date 7th August 1985.

Signed for the
Agency for International
Development

by 
Mr. James S. Holtaway
Director

Date August 7, 1985

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DESIGN SCHEDULE

<u>ACTIVITY</u>	<u>RESPONSIBILITY</u>	<u>DATE</u>
1. Sign Memorandum of Understanding	AID and Government	August 7
2. Sign Limited Scope Grant Agreement for EA & LUMP	AID and Government	August 7
3. Assign Kitchellian advisors to contract team	Government	August 7
4. Request waiver from AID for non-competitive contracting	Government	August 8
5. Approve waiver	AID	August 8
6. Discuss draft contract for environmental studies with firm	Government	August 9
7. Execute contract	Government	August 23
8. Environmental Assessment (EA) begins	Contractor	September 15
9. Environmental Assessment (EA) ends	Contractor	October 15
10. Feedback to EA	Government	October 20
11. Execute Amendment to Limited Scope Grant Agreement	AID	October 31
12. Execute Contract Amendment	Government	October 31
13. Discussion of plans for Peninsula utilities with donors completed	Government	October 30
14. Land Use Management Plan (LUMP) begun	Contractor	November 1
15. Land Use Management Plan (LUMP) ends	Contractor	November 30
16. Draft authorities for Development Council completed	Government	November 30
17. Draft Peninsula land tax scheme completed	Government	November 30
18. PIO/T for IOC to prepare final design and IFR completed	AID	November 30
19. AID Project Paper begins	AID (Gov't info required)	December 1
20. Feedback to LUMP	Government	December 7
21. IOC to prepare final design and IFR executed	AID/W	December 21
22. Integrated Development Plan finalized	Government	December 23
23. Land Use Planning Request presented	Government	December 23
24. Fiscal analysis plan prepared	Government	December 23
25. AID Project Paper finished	AID (Gov't info required)	January 15
26. IFR for final design and construction contract completed	IOC contractor	January 31
27. Sign Project Agreement	Government and AID	February 10
28. IFR issued	AID	February 14
29. Construction bid documents received	Proposer to Government	March 31
30. Initial Conditions Precedent Satisfied	Government	March 31
31. Construction bid documents evaluated	Government	April 15
32. Construction Contract signed	Government	May 1
33. Construction Begins	Construction Contractor	June 1

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COUNTRY DEVELOPMENT STRATEGY STATEMENT