

**Annex**

**St Kitts and Nevis — European Community**

**Country Strategy Paper  
and  
National Indicative Programme**

**for the period 2008 – 2013**

**(10th EDF)**

be MLD

The Government of Saint Kitts and Nevis and the European Commission hereby agree as follows:

- (1) The Government of St Kitts and Nevis, (represented by Mrs. Hilary Hazel, the National Authorising Officer,) and the European Commission, (represented by Mr. Amos Tincani and Mr. Valeriano Diaz, the Heads of the European Commission Delegation to Barbados and the Eastern Caribbean) hereinafter referred to as the Parties, held discussions in Basseterre and Bridgetown from March 2006 to June 2008 with a view to determining the general orientations for cooperation for the period 2008–2013.

During these discussions, the Country Strategy Paper and an Indicative Programme of Community Aid in favour of St Kitts and Nevis were drawn up in accordance with the provisions of Articles 2 and 4 of Annex IV to the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000, as revised in Luxembourg on 25 June 2005. These discussions complete the programming process in St Kitts and Nevis.

The Country Strategy Paper and the Indicative Programme are attached to the present document.

- (2) As regards the indicative programmable financial resources which the Community envisages to make available to St Kitts and Nevis for the period 2008-2013, an amount of €4.5.million is foreseen for the allocation referred to in Article 3(2)(a) of Annex IV of the ACP-EC Partnership Agreement (A-allocation) and of €0.2 million for the allocation referred to in Article 3(2)(b) (B-allocation). These allocations are not entitlements and may be revised by the Community, following the completion of mid-term and end-of-term reviews, in accordance with Article 5(7) of Annex IV of the ACP-EC Partnership Agreement.
- (3) The A-allocation is destined to cover macroeconomic support, sectoral policies, programmes and projects in support of the focal or non-focal areas of Community Assistance. The Indicative Programme under Part 2 concerns the resources of the A-allocation. It also takes into consideration financing from which St Kitts and Nevis benefits or could benefit under other Community resources. It does not pre-empt financing decisions by the Commission.
- (4) The B-allocation is destined to cover unforeseen needs such as emergency assistance where such support cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to mitigate adverse effects of instability in export earnings. The B-allocation shall be triggered according to specific mechanisms and procedures and therefore does not yet constitute a part of the Indicative Programme.
- (5) Resources can be committed within the framework of this Country Strategy Paper and Indicative Programme upon the entry into force of the 10th EDF multiannual financial framework for the period 2008-2013 of the revised ACP-EC Partnership but not before 1 January 2008. Financing decisions for projects and programmes can be taken by the European Commission at the request of the Government of St Kitts and Nevis within the limits of the A- and B-allocations referred to in this document. The relevant projects and programmes will be run in accordance with the rules and procedures laid down in the 10th EDF multiannual financial framework for the period 2008-2013. Financing decisions can also be taken on the basis of Article 15(4) in conjunction with Article 4(1)(d) of Annex IV to the ACP-EC Partnership Agreement for support to non-State actors or on the basis of Article 72(6) of the ACP-EC Partnership Agreement for humanitarian and emergency assistance funded from the B-allocations. Financing

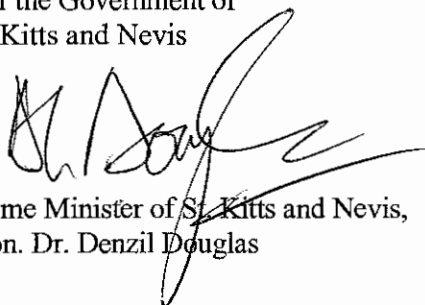
decisions shall be taken and implemented according to the rules and procedures laid down in the EC Council Regulations on the implementation of the 10th EDF and on the Financial Regulation applicable to the 10th EDF and in Annex IV to the ACP-EC Partnership Agreement.

- (6) The European Investment Bank may contribute to implementation of this Country Strategy Paper by operations financed from the Investment Facility and/or from its own resources, in accordance with paragraphs 2(c) and 3 of Annex Ib to the ACP-EC Partnership Agreement regarding the 10th EDF multi-annual financial framework for the period 2008-2013.
- (7) In accordance with Article 5 of Annex IV to the ACP-EC Partnership Agreement, the National Authorising Officer and the Head of Delegation shall undertake an annual operational review of the Indicative Programme and a mid-term and end-of-term review of the Country Strategy Paper and the Indicative Programme in the light of prevailing needs and performance.  
The mid-term review shall be undertaken in 2010 and the end-of-term review in 2012. Following the completion of the mid-term and end-of-term reviews, the Community may revise the resource allocation in the light of prevailing needs and performance.  
Without prejudice to Article 5(7) of Annex IV concerning reviews, the allocations may be increased in accordance with Article 3(5) of Annex IV in order to take account of special needs or exceptional performance.
- (8) The agreement of the two parties on this Country Strategy Paper and the National Indicative Programme, subject to the ratification and entry into force of the revised ACP-EC Partnership Agreement and the 10th EDF multi-annual financial framework for the period 2008-2013, shall be regarded as definitive within eight weeks of the date of the signature, unless either party communicates the contrary before the end of this period.

Done at Basseterre, St. Kitts, this 11<sup>th</sup> day of December 2008

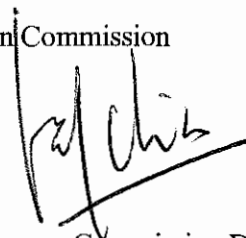
Signatures

For the Government of  
St Kitts and Nevis



Prime Minister of St. Kitts and Nevis,  
Hon. Dr. Denzil Douglas

For the European Commission



Head of the European Commission Delegation  
to Barbados and the Eastern Caribbean  
Mr. Valeriano Diaz

## LIST OF ACRONYMS

ACP	Africa, Caribbean, Pacific
ACS	Association of Caribbean States
BPOA	Barbados Programme of Action
CARICAD	Caribbean Centre for Development Administration
CARICOM	Caribbean Community
CARIFORUM	Caribbean Forum
CARTAC	Caribbean Regional Technical Assistance Centre
CBD	Convention on Biological Diversity
CDB	Caribbean Development Bank
CDE	Centre for the Development of Enterprise
CIDA	Canadian International Development Agency
CPA	Country Poverty Assessment
CRIP	Caribbean Regional Indicative Programme
CRNM	Caribbean Regional Negotiating Machinery
CSM	CARICOM Single Market
CSME	CARICOM Single Market and Economy
CSP(s)	Country Strategy Paper(s)
CTA	Centre for the Development of Agriculture
DFID	Department for International Development
DIPECHO	Disaster Preparedness Programme
DoE	Department of Environment
EC	European Commission
EC\$/ XCD	Eastern Caribbean Dollars
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
ECHO	European Commission Humanitarian Aid Office
ECLAC	Economic Commission for Latin America and the Caribbean
EDF	European Development Fund
EIB	European Investment Bank
EPA(s)	Economic Partnership Agreement(s)
EU	European Union
FA	Financing Agreement
FMO	Framework of Mutual Obligations
GDP	Gross Domestic Product
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
ICC	International Criminal Court
ICT	Information Communication Technology
IDB	Inter-American Development Bank
IFIs	International Financial Institutions
ILO	International Labour Organisation
IMF	International Monetary Fund
IOM	International Organisation for Migration
IWC	International Whaling Commission
LAC	Latin America and Caribbean
MDG(s)	Millennium Development Goal(s)
MOH	Ministry of Health
MTESP	Medium-Term Economic Strategy Paper
MTR	Mid-Term Review
NAO	National Authorising Officer

NIP	National Indicative Programme
NSA(s)	Non-State Actor(s)
OAS	Organisation of American States
OCT	Overseas Countries and Territories
OECD	Organisation for Economic Cooperation and Development
OECS	Organisation of Eastern Caribbean States
PPA	Participatory Poverty Assessment
PSD	Private Sector Development
PSIP	Public Sector Investment Programme
RDF	Regional Development Fund
RIP	Regional Indicative Programme
RSS	Regional Security System
RTA	Regional Technical Assistance
SALW	Small Arms and Light Weapons
SFA	Special Framework of Assistance
SIDS	Small Island Developing States
SKN	St Kitts and Nevis
SKNLP	St Kitts and Nevis Labour Party
TA	Technical Assistance
TCF	Technical Cooperation Facility
TRIPS	Total Revenue Integrated Processing System
TRTA	Trade Related Technical Assistance
UK	United Kingdom
UN	United Nations
UNCBD	United Nations Convention on Biological Diversity
UNCCD	United Nations Convention to Combat Desertification
UNCLOS	UN Convention on the Law of the Sea
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
US(A)	United States of America
USVI	United States Virgin Islands
USAID	United States Agency for International Development
WB	World Bank
WMD	Weapons Of Mass Destruction
WTO	World Trade Organisation

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## SUMMARY

The purpose of this Country Support Strategy is to provide a framework for EU assistance programmes in Saint Kitts and Nevis (SKN) under the 10th EDF. It outlines the current status of bilateral relations, provides a country diagnosis, summarises the Government's development agenda, reviews past and present EC cooperation, and concludes with the proposed EU response strategy and its corresponding indicative work programme.

SKN became independent from the UK in 1983 and has since maintained democracy. Nevis has considerable autonomy, with its own assembly and a semi-autonomous administration. The last federal elections took place on 25 October 2004, which returned the St Kitts and Nevis Labour Party (SKNLP) and Prime Minister Denzil Douglas to office for a third consecutive term. The central political event in the recent past was the decision to stop sugar production for export in view of the anticipated price cuts under the reform of the EU sugar regime and the mounting losses already incurred in previous years. SKN is a middle-income country with a small open economy. It has an area of 261 sq km; a population of 49 900 (EIU Country Report September 2007 estimate); and an estimated GDP per capita of US\$11 262 (at current market prices). Social indicators are good. Investment in education, housing and community development has been considerable over the years, yet there are growing pockets of poverty especially among vulnerable groups such as female-headed households, the elderly and children.

SKN has been historically dependent on the export of sugar, coupled with small-scale cotton cultivation and commercial production of fruit and vegetables in Nevis. From the late 1970s onward, the country started some light manufacturing, construction, and tourism, followed in the 1990s by offshore financial services, primarily in Nevis. There are also plans to diversify into ICT and other new technologies, but tourism has emerged as the main growth engine and is the principal source of employment and foreign exchange earnings. The economy registered positive growth throughout the 1980s and early 1990s. Lower growth in the late 1990s and 2000s was due to exogenous shocks reflecting both the extreme openness of the local economy and its vulnerability to natural disasters. SKN's fiscal position is weak. Debt problems have been exacerbated by persistent losses of the government sugar company. The major policy focus during the medium term will revolve around: strengthening public finances to generate savings to finance infrastructural investment and reduce borrowing; debt management initiatives; promoting economic diversification; accelerating the transition away from sugar production; and enhancing the prospects for sustained economic expansion. The SKN Adaptation Strategy is in line with EC Regulation No 266/2006 (Accompanying Measures for Sugar Protocol countries affected by the reform of the EU sugar regime). Under the 7th and 8th EDF approximately €5.6 million have been used to fund the rehabilitation and upgrading of hospitals, while 9th EDF funds have targeted human resource development in the area of ICT. SKN will benefit from the 2006-2013 Sugar Facility with a much higher level of funding than with the NIP allocation. The EC and the SKN Government propose to allocate 85% of the 10th EDF A-Envelope to 'Public Safety and Security' as the single focal sector in order to improve general governance conditions, with special attention to capacity building, training, and the provision of scholarship programmes for police and other security staff. The intervention is aimed at modernising services to ensure safety and security by developing human resources, building capacities and improving infrastructure. 10% will be reserved for a technical cooperation facility (TCF), particularly to support non-state actors (NSAs) and possibly to provide trade-related technical assistance (TRTA). The remaining 5% will be allocated to technical assistance to the NAO Office.

**PART I — STRATEGY PAPER**

*to be*



## **CHAPTER 1 — THE FRAMEWORK OF RELATIONS BETWEEN THE EC AND ST KITTS & NEVIS (SKN)**

### **1.1. General objectives of the EC's external policy**

In accordance with Article 177 of the Treaty Establishing the European Community, Community policy in the sphere of development cooperation is designed to foster:

- The sustainable economic and social development of the developing countries, and more particularly the most disadvantaged among them;
- The smooth and gradual integration of the developing countries into the world economy;
- The campaign against poverty in the developing countries

Europe should project a coherent role as a global partner, inspired by its core values in assuming regional responsibilities, promoting sustainable development, and contributing to civilian and strategic security

The European Union has developed a broad spectrum of external relations tools in the shape of the common trade policy, cooperation under bilateral and multilateral agreements, development cooperation, humanitarian aid and financial assistance as well as the external aspects of internal policies (energy, environment, transport, justice and home affairs, etc).

EU external action including the Common Foreign and Security policy, common trade policy and cooperation with third countries provides a framework both for integrating all EU instruments and for developing gradually a set of common actions based on common positions in the broader sphere of political relations.

Enlargement has entrusted the EU with even greater responsibilities, as a regional leader and as a global partner. It should therefore strengthen its capacity to promote human rights, democracy and the rule of law as well as its capacity to focus on the fight against poverty, both in its neighbourhood and through its multilateral and bilateral policies which are mainly aimed at sustainable development and political stability. Thus, the EU will achieve genuine coherence between its domestic and its external agendas, contributing thereby to global security and prosperity.

### **1.2. Strategic objectives of cooperation with St Kitts and Nevis**

The Treaty objectives are confirmed in Article 1 of the ACP-EU Partnership Agreement, signed in Cotonou on 23 June 2000 and revised in Luxembourg on 25 June 2005. The overarching objective of the Cotonou Agreement is to promote the development of a common strategic approach to poverty reduction, consistent with the objectives of sustainable development and the gradual integration of ACP countries into the world economy. Cooperation between the Community and Saint Kitts and Nevis will pursue these objectives, taking into account the fundamental principles set out in Article 2, in particular the encouragement of 'ownership' of the strategy by the country and populations concerned, and

the essential elements and fundamental element defined in Articles 9 and 11b of the Agreement.

While the Treaty and the Cotonou Agreement provide the legal basis for EC cooperation with ACP countries, the recently adopted European Consensus on Development sets the general policy framework at EU level. The primary and overarching objective of EU development policy is the eradication of poverty in the context of sustainable development, in line with the international agenda, and with particular attention to the Millennium Development Goals (MDGs). Human rights and good governance are recognised as other important objectives.

Better aid effectiveness is essential to achieving poverty eradication. The EU will therefore advance coordination, harmonisation and alignment. It will promote better donor complementarity by working towards joint multi-annual programming based on partner countries' strategies and processes, common implementation mechanisms, joint donor-wide missions, and the use of co-financing arrangements. The EU will take a lead role in implementing the Paris Declaration commitments on improving aid delivery and will capitalise on new Member States' experience to strengthen their role as donors.

Policy coherence for development will advance in a number of areas. The aim is for all EU non-aid policies to make a positive contribution to developing countries' efforts to attain the MDGs. The principle of concentration will guide the EC's country and regional programming. This means selecting a limited number of priority areas for action, through dialogue with partner countries, rather than spreading efforts over too many sectors. In this context the EC will be primarily active in the following nine areas, taking into account its comparative advantages in a number of these: trade and regional integration; the environment and the sustainable management of natural resources; infrastructure, communications and transport; water and energy; rural development, territorial planning, agriculture and food security; governance, democracy, human rights and support for economic and institutional reforms; conflict prevention and fragile states; human development; and social cohesion and employment.

The mainstreaming approach will be strengthened for the following cross-cutting issues: democracy, good governance, human rights, the rights of children and indigenous peoples; gender equality; environmental sustainability; and the fight against HIV/AIDS.

The European Union pays particular attention to the promotion of good governance in the tax, financial and judicial area, as a means to ensure sustainable financial and tax systems in a globalised economy.

Particular support will be given to facilitate reforms in Saint Kitts and Nevis to be developed in line with good tax governance principles, if so requested by the country.

Support to tackle HIV/AIDS as well as other important endemic health problems in the region is a priority for the Caribbean. To this end, the EU will continue to replenish the Global Fund to Fight AIDS, Tuberculosis and Malaria. In addition, the EC has produced a Communication on combating HIV/AIDS (COM(2005) 654 final).

In the regional context, the EU's political dialogue with the Caribbean is mainly through the joint ACP-EC institutions. The annual dialogue between CARIFORUM and the European Commission provides a further opportunity for discussing a wide range of issues of mutual

interest. Held every two years, the EU-LAC Summit is also a major opportunity for advancing EU-Caribbean political dialogue at the highest level and for addressing the evolving relationship between the Caribbean, its geographical neighbours and the EU.

The EC's '*renewed strategy*' towards Latin America and the Caribbean underlines the strong determination to strengthen the EU-LAC partnership. The strategy includes: stepping up political dialogue between the two regions; stimulating economic and commercial exchanges; encouraging regional integration; tackling inequality; and tailoring its development and aid policy more closely to real conditions in Latin America and the Caribbean. The 4th EU-Latin America/Caribbean Summit ('Strengthening the bi-regional strategic association', Vienna, 11-12 May 2006) made commitments to reinforcing cooperation on human rights, protection of the environment, the fight against drug trafficking and poverty.

The Commission's *Communication on an EU-Caribbean Partnership for Growth, Stability and Development* (March 2006) outlines the future policy for EU-Caribbean relations. Aiming to enhance the Caribbean's own reform and development agenda, the EU approach centres around: shaping a political partnership based on shared values; addressing economic and environmental opportunities and vulnerabilities; and promoting social cohesion and combating poverty. An EU-CARIFORUM sub-regional meeting that followed the EU-LAC Summit (13 May 2006) pledged to deepen cooperation in support of regional integration, social cohesion, and the development of human resources, addressing the impact of migration, terrorist threats, drug trafficking, organised crime, HIV/AIDS and economic and environmental challenges. Specifically, the EU and the Caribbean states have agreed to foster cooperation to address security threats, including the proliferation of weapons of mass destruction (WMD), illicit Small Arms and Light Weapons (SALW), and terrorism. The EU also undertook to consider supporting the Regional Development Fund for the Caribbean as a critical commitment to the restructuring and adjustment resulting from the upcoming establishment of the CARICOM Single Market and Economy (CSME).

The EU policy objective of *strengthening regional cooperation between the ACP States and its Overseas Countries and Territories (OCT) and Outermost Regions* is particularly important in the Caribbean, given the presence of several British and Dutch OCTs and three French Departments (DOMs). In recent years, the DOMs have considerably strengthened their relationship with OECS countries, in particular under the EU Interreg III-B Caribbean Programme and the Association of Caribbean States (ACS), although joint cooperation activities are still at an early stage of development. The Clovis Beaugard Conference (Martinique, 17-18 November 2005), gathering together for the first time the Caribbean DOMs and OCTs, CARIFORUM Member States, EU Member States (France, the Netherlands and the UK) and the European Commission, paved the way for strengthening regional cooperation between the DOMs, OCTs and the neighbouring Caribbean Countries, with a commitment to work in the areas of Trade and Investment, Interconnections, HIV/AIDS and Natural Disasters.

### **1.3. Main bilateral agreements**

St Kitts and Nevis has signed a Double Taxation Convention with the UK.

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## CHAPTER 2 — COUNTRY DIAGNOSIS

### 2.1. Analysis of the political, economic, social and environmental situation in St Kitts and Nevis

#### 2.1.1 Political and institutional situation

St Kitts and Nevis (SKN) is a federation consisting of two islands located in the Leeward Islands group of the Lesser Antillean segment of the Caribbean Archipelago, i.e. in the Eastern Caribbean. The two islands have a combined land area of 104 sq. miles (269 sq. km), with St Kitts the larger of the two. Both islands are volcanic in origin with central mountain ranges that dominate the landscape and radiate downward to the coasts. The settlement patterns in both islands consist of a series of small villages along the main coastal roads. The primary urban hubs in St Kitts are the capital, Basseterre, and the small towns of Sandy Point and Cayon. In Nevis the population is concentrated in the capital, Charlestown. At the time of the 2001 Census, the population of the country was 46 325, with 35 217 inhabitants in St Kitts and 11 108 in Nevis.

The country gained full independence from the United Kingdom in 1983 and has since maintained a Westminster-style democracy with the British monarch as titular Head of State, represented by a Governor General, and the Prime Minister leading the majority party in Parliament. Nevis has considerable autonomy and has its own island assembly (Nevis Island Assembly), a Premier, and a Deputy Governor-General, supported by a semi-autonomous Nevis Island Administration. The judicial system is modelled on British practice and procedure and its jurisprudence on English common law. The Royal St Kitts and Nevis police force has about 370 members.

St Kitts and Nevis has full adult suffrage and a history of free and fair elections, within a multi-party electoral system. The last federal elections were held on 25 October 2004, which returned the St Kitts and Nevis Labour Party (SKNLP) and Prime Minister Denzil Douglas to office for a third consecutive term, with a robust 7-1 majority over the main opposition party, the People's Action Movement. Monitoring bodies, CARICOM and the Commonwealth endorsed the results but made recommendations for improvements. Notwithstanding the generally satisfactory human rights situation in the country, it has not ratified or acceded to a number of essential international human rights conventions, such as the International Covenant on Civil and Political Rights, the International Covenant on Economic, Social and Cultural Rights and the Convention Against Torture and Other Cruel Inhuman or Degrading Treatment or Punishment. The European Union will therefore promote the ratification of all these instruments through political dialogue, along with the abolition of the still legally existing death penalty.

The central political event in the recent past was the Government's decision to stop sugar production for export in view of the anticipated price cuts under the reform of the EU sugar regime and the mounting losses already incurred in previous years. This decision won international praise, although concerns remain over the massive public debt. The Government

also announced a number of major new investments in the tourism sector, which has become the main focus of the country's development strategy.

A declaration of individual rights and freedoms is entrenched in the constitution of St Kitts and Nevis. In general, the country, which is a signatory to the Convention on the elimination of all forms of discrimination against women, and the Convention on the rights of the child, is not considered to have major problems with human rights or the protection of civil liberties. However, problems in several areas were reported in a 2005 US report on human rights<sup>1</sup>. Poor prison conditions, apparent intimidation of witnesses and jurors, government restrictions on opposition access to government-controlled media, and violence against women were the principal problems. St Kitts and Nevis has not signed the Rome Statute of the International Criminal Court.

Concerning public safety, an increasing number of crimes are being reported in St Kitts, including armed robbery, break-ins, sexual assault and burglary. While less crime is reported in Nevis, break-ins and burglary have affected foreign citizens there as well. This is of great concern to the Government, as tourism has become the main focus of the country's development strategy. It wishes to avoid an escalation of this trend, as has been seen in certain islands in the Caribbean, with negative consequences for tourism. The CARICOM Regional Task Force on Crime and Security commissioned a report on the proliferation of small arms and light weapons (SALW) in the Caribbean (CARICOM, 2002), which noted that there was a disturbing trend towards increased availability and use of small arms in St Kitts. Gun ownership is an outgrowth of the drug trade. In such an environment, which promotes the demand for weapons, reducing gun ownership is a difficult undertaking. Better gun registries, marking and tracking can help, as can improved gun interdiction in ports. A long-run and sustained reduction in the demand for guns, however, will hinge on progress in combating drugs.

The islands of the Eastern Caribbean form a significant transit zone for the passage of cocaine from South America en route to Europe and North America. Current estimates are that 70% of drugs trafficked are destined for Europe and 30% for North America. Significant quantities of marijuana are cultivated in St Vincent and the Grenadines for export to Barbados and the other islands in the Eastern Caribbean. Other islands have relatively insignificant levels of marijuana production for personal and local use. Drugs, most notably cocaine, both transit the sub-region and remain stockpiled in temporary storage, warehoused in remote islands within the chain. Drugs from St Kitts are transferred to Puerto Rico and the USVI.

SKN is party to the UN Vienna Convention (1988), the UN Convention against Transnational Organised Crime and its three protocols and the UN International Convention for the Suppression of the Financing of Terrorism. It has not signed the UN Convention against Corruption.

The two islands organise their financial structure separately, with most of the offshore activity concentrated in Nevis. Activity includes three internet gaming companies. Anti-money laundering legislation is in place — including the Proceeds of Crime Act, which criminalises money laundering. The St Kitts and Nevis Financial Services Commission regulates non-bank financial institutions and issues guidance on money laundering. Casinos are overseen by the SKN Gaming Board. The Financial Intelligence Unit (FIU) receives suspicious transaction

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<sup>1</sup> St Kitts & Nevis. Country Reports on Human Rights Practices — Released by the US Bureau of Democracy, Human Rights, and Labour, 2005

reports, with investigations undertaken by the police. The Federation was removed from the Financial Action Task Force (FATF) blacklist in 2002 and now meets none of the twenty-five (25) negative criteria required for inclusion on the list. St. Kitts and Nevis works very closely with FATF and the Caribbean Financial Action Task Force (CFATF) authorities to ensure that its anti-money laundering framework is continuously updated, and the Federation is expected to be the incoming Chair of the CFATF in 2008-2009.

On international matters, St Kitts and Nevis maintains diplomatic relations with the United Kingdom, France, the United States, Canada, Russia, Taiwan, Cuba and South Korea, as well as with many Latin American countries and neighbouring Eastern Caribbean states. It is a member of the Commonwealth, the United Nations and several of its specialised and related agencies, the World Bank and the International Monetary Fund, the Organisation of American States, the Organisation of Eastern Caribbean States, the Eastern Caribbean Regional Security System (RSS), the Caribbean Community (CARICOM) and the Association of Caribbean States (ACS). The Eastern Caribbean Central Bank is headquartered in St Kitts. SKN is the only OECS country together with St Vincent and the Grenadines — and since 2007 St Lucia — to recognise the Republic of China (Taiwan).

## **2.1.2 Economic and commercial situation<sup>2</sup>**

### *Regional context overview*

The six countries of the Eastern Caribbean (OECS) are at a critical juncture in their development. After three decades as independent states, they are struggling to find new sources of growth and to reduce vulnerability in a milieu characterised by increasing competition at global level, the ending of trade preferences, and declining donor resources. These challenges are coupled with internal fiscal imbalances and high debt ratios, and the inherent weaknesses as small island states. As the first decade of the 21st century enters its second half, all OECS countries are in the top fifteen of the world's most indebted (relative to GDP) emerging markets. The impressive gains in terms of social development over the last 30 years risk being eroded by the fiscal and debt circumstances and by the economic transformation that may be required to adapt to the external changing environment.

In addition, as small states, the six OECS countries face significant vulnerability to: external shocks, including natural disasters; limited economic diversification opportunities and high dependence on external trade; the high cost of public service provision due to diseconomies of scale; and limited capacity in the public and private sectors. In a few areas, however, these shortcomings are being successfully overcome through regional initiatives and projects.

In view of the above, five policy response areas are emerging as the most evident priorities for all OECS countries in the medium term. These are: fiscal consolidation / public sector reform; the regulatory environment for private sector development (PSD); the creation of a wider market and level playing field; skills development; and security enhancement (especially to cope with natural disasters).

Given the recent and dynamic emergence of the offshore financial services sector as an important area of financial activity, the Commission considers that the development of this

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<sup>2</sup> This chapter quotes the Government of St Kitts and Nevis 'Adaptation Strategy in Response to the new EU Sugar Regime, 2006 – 2013'. Quotations are indicated by quotation marks.

sector should go in parallel with the development of an appropriate regulatory framework based on principles of good governance in the financial and tax areas, so as to contribute to improving the sustainability of the financial and tax systems of sovereign countries, while reducing their potential vulnerability to exploitation by taxpayers abusing other countries' tax systems.

At present, there are approximately 15,000 international business companies (IBCs) and approximately 1050 trusts, with about 100 trust and company service providers. St Kitts has branches of four international banks and one indigenous bank, two credit unions, sixteen domestic insurance companies, four money remitters, and two casinos.

### *Saint Kitts and Nevis overview*

St Kitts and Nevis is a middle-income country with a small open economy. It has an area of 261 sq km; a population of 49,900 (2006 EIU estimate); a population density of close to 190 inhabitants per sq km; and an estimated GDP per capita of US\$11,262 (at current market prices). The relative position of St Kitts and Nevis within the OECS — around 7% of the total population, 13% of total GDP, and a territory that occupies 9% of the total area of the grouping — and in comparison with Barbados (around 14% of Barbados' GDP and 82% of GDP per capita at current market prices) highlights the relatively small size of the St Kitts and Nevis economy. But the income per capita of the citizens of St Kitts and Nevis is among the highest in the Eastern Caribbean (together with Barbados and Antigua & Barbuda).

The St Kitts and Nevis economy has been historically dependent on the export of sugar. This was accompanied by small-scale cotton cultivation and small-scale commercial production of fruit and vegetables in Nevis. However, from the late 1970s onward, the country has embarked on a policy of economic diversification that has led to the development of other economic activities such as light manufacturing, construction, and tourism, followed in the 1990s by a significant offshore financial services sector, primarily in Nevis. Although there are currently plans to continue to diversify, specifically into ICT and other new technology areas, tourism has now emerged as the main growth sector of the economy and is the principal source of employment and foreign exchange earnings.

### *Recent economic performance*

The economy of St Kitts and Nevis registered positive rates of growth throughout the 1980s and 1990s. However, growth rates were significantly lower for the latter half of that period and into the early 2000s. This was due to a series of exogenous shocks reflecting both the extreme openness of the local economy and its vulnerability to natural disasters.

During the early to mid-1990s, the economy was able to record real GDP growth of about 4.3% annually, which was interrupted in 1998 by Hurricane Georges, followed by Hurricanes Lenny and Jose in 1999. Post-hurricane reconstruction led to a temporary resumption of growth in 2000, up to 11 September 2001, but contributed to widening the fiscal deficit despite already high public indebtedness. Fiscal and debt problems have been exacerbated by the large and persistent losses of the government sugar company.

Real economic growth since 2003 (7.3% in 2004, 4.1% in 2005 and 4.5% in 2006) was driven mainly by the rapid expansion in tourism, construction, manufacturing, transport and communications. In contrast, the agriculture sector experienced a decline in 2005, due mainly to adverse weather conditions. The sugar industry, the core of St Kitts' economy for over 300 years, closed at the end of July 2005, was in recent years a major loss-making concern (annual losses of 3-4% of GDP) and accumulated debt of over 39% of GDP.

Economic performance in recent years has improved relative to the previous years, with continued economic growth, a narrowing of the current account deficit on the balance of payments, and modest improvement in the fiscal accounts.

#### *Structure and management of public finances*

The fiscal position of St Kitts and Nevis is weak despite marginal improvements over recent years. Fiscal balances have improved by more than 6% of GDP since 2004, yielding primary surpluses of 3.6% and 0.6% in 2005 and 2006, respectively. The current account deficit decreased from 7.1% in 2005 to 4.9% of GDP in 2006. In 2005 the increase in revenue was almost cancelled out by significant increases in current expenditure (of about 13.4%), particularly on goods, services and interest payments, resulting in only a marginal reduction in the primary fiscal deficit.

The total stock of public debt was EC\$2 120.3 million, equivalent to 183% of GDP, at the end of 2005. The growth of the debt over the period 2000-05 was due mainly to the weak financial performance of the public sector and the financing of the Government's capital programme. External debt declined by 3.6% to EC\$632.9 million, while domestic debt in contrast increased by 22% to EC\$1 299.6 million at the end of 2005. Expenditure related to the closure of the sugar industry, namely severance payments and related costs, accounts in large measure for the rise in domestic debt. The high level of public indebtedness imposes a significant burden in terms of debt servicing obligations. However, despite greater debt service obligations, the Government has always serviced its debt on a timely basis and has maintained strong relations with its creditors. The Government acknowledges that the high level of indebtedness will retard growth prospects and is taking steps to contain and minimise the accumulation of debt and to rationalise the debt portfolio to reduce debt service obligations.

Significant fiscal adjustment is required to attain the targets of a primary account fiscal surplus of 4% of GDP and an overall deficit of approximately 3% of GDP, as agreed as fiscal benchmarks for the Eastern Caribbean Currency Union. The debt servicing burden due to the high level of public debt will require significant improvements to the primary balance so that fiscal savings can be generated. While revenue performance has improved following the implementation of the Fiscal Stabilisation Programme, achieving fiscal consolidation will have to rely heavily on containing government expenditure. Strong fiscal management is needed in St Kitts and Nevis to achieve fiscal and debt sustainability.

#### *Trade policy and the external environment, in particular regional cooperation agreements and the EPA*

St Kitts and Nevis is a member of the OECS, the CARICOM and the Association of Caribbean States (ACS). The country's main trading partners are the OECS and CARICOM, the United States, Japan, and EU Member States. The main traded items are commodities, agricultural produce and beverages. It has concluded the CARIFORUM-EU negotiations on



an Economic Partnership Agreement (EPA) launched in 2004, and is also engaged in the FTAA and in the WTO negotiations (Doha Agenda).

The OECS countries have already achieved a high level of integration with a common judiciary, a common currency and central bank (the OECS countries together with Anguilla form the Eastern Caribbean Currency Union), joint foreign representation, a common directorate of civil aviation, common pharmaceutical procurement, telecommunications and banking regulation, and close collaboration in health, education and security matters. On 21 June 2006, the Heads of Government signed a Declaration of Intent to submit for ratification an Economic Union Treaty after one year of public debate.

In addition, the OECS countries joined the CARICOM Single Market and Economy (CSME) in July 2006 (Barbados, Belize, Guyana, Jamaica, Suriname and Trinidad and Tobago signed the CSM Agreement in February 2006). The OECS countries see the establishment of a Regional Development Fund and preferential and concessionary measures as an essential condition to allow them to participate meaningfully in the CSME. Under the Treaty of Chaguaramas establishing the CARICOM, the OECS countries are classified as Less Developed Countries (LDC) and are exempt from certain liberalisation obligations. In particular, Article 56 gives protection to certain designated sub-sectors vis-à-vis goods from other CARICOM countries. Both the LDC category and the related protection have been incorporated in Article 164 of the Revised Treaty of Chaguaramas establishing the CSME.

The EU and the African, Caribbean and Pacific countries (ACP) have been working to put in place new Economic Partnership Agreements (EPAs) by the start of 2008. The EPAs aim for the progressive and asymmetric removal of barriers to trade and enhanced cooperation in all areas related to trade. They also aim to provide an open, transparent and predictable framework for goods and services to circulate freely, as well as to promote incoming investment, thus increasing the competitiveness of the ACP.

On 16 December 2007, the European Commission initialled a comprehensive EPA with Saint Kitts and Nevis and the other CARIFORUM countries (CARICOM plus the Dominican Republic) covering all areas under negotiation.

The general approach is to build on and reinforce regional integration in the Caribbean (market building) and, in subsequent market opening, to use asymmetric flexibility in favour of the Caribbean in terms of product coverage and periods for tariff elimination, thereby helping to promote sustained wealth creation and development.

#### *Medium-term economic prospects and assessment of the reform process*

The sugar industry played a crucial multifunctional role in the social and economic development of St Kitts and Nevis despite its poor financial performance in recent years. The closure of the sugar industry presents a multiplicity of challenges relating to fiscal, financial, environmental, economic and social issues, in view of: the small size of the economy; the relative importance of the sugar industry in ensuring rural stability in social and economic terms; weak fiscal performance and the high level of public sector indebtedness; and the level of resources (both financial and human) needed for economic and social transformation. However, these challenges can provide an opportunity to reconfigure the economy of St Kitts and Nevis to make it more productive and competitive, leading to a major transformation in

society, as the Government prepares to implement an economy-wide Adaptation Strategy and Action Plan.

The medium-term economic prospects in St Kitts and Nevis appear optimistic, with an annual average growth rate of 3.5% expected over the next few years, despite the many challenges including: the phasing out of sugar production; high public sector indebtedness; weak fiscal performance and vulnerabilities to economic shocks; and natural hazards. A number of issues will have to be addressed following the closure of the sugar industry. These concerns include management of the industry's debt, land management issues, social protection issues, environmental management concerns, creation of alternative employment opportunities for former sugar workers, and creating viable alternative programmes for the use of the sugar industry's assets (e.g., the co-generation of electricity, ethanol production, rum distillation, etc).

The major policy focus during the medium term will revolve around the following issues: strengthening public finances to generate savings to finance infrastructure investment and to reduce borrowing; debt management initiatives to reduce the debt stock and debt servicing obligations; promoting economic diversification in order to reduce vulnerability to external shocks; accelerating the transition away from sugar production and enhancing the prospects for sustained economic expansion. Additional policy attention will be devoted to enhancing the competitiveness of the St Kitts and Nevis economy, to enable it to cope with the effects of globalisation and trade liberalisation, and to meeting the requirements of the ongoing process of regional integration.

### **2.1.3 Social situation, including decent work and employment**

According to the 2007/2008 UNDP Human Development Report, St Kitts and Nevis is ranked 54th among 177 countries on the basis of adult literacy, school enrolment, life expectancy at birth, and per capita GDP. Despite the high level of investment in social sectors such as education, housing and community development, however, there are growing pockets of poverty in St Kitts and Nevis, especially among vulnerable groups such as female-headed households, the elderly and children. Although the Government has implemented several social and economic development programmes to alleviate and reduce poverty, it recognises that several gaps exist. Interventions specifically targeting the poor and vulnerable need to be further developed, especially in the wake of the closure of the sugar industry. In this regard, a Steering Committee was established in 2004 with the aim of developing a National Poverty Reduction Strategy and Action Plan. The Government is planning to develop this Strategy in 2008 on the basis of the findings of the ongoing Country Poverty Assessment. St Kitts and Nevis also faces the challenge of an ageing population with increasing age-dependency rates, which are expected to put pressure on Government budgets and on the existing public national insurance scheme. Gender issues and children's rights need to be more thoroughly addressed at various levels, as women and children are likely to be particularly vulnerable to the security problems and as women are not well represented in decision-making positions.

#### *Education*

The present system of education guarantees universal access to all children of school age. However, many in the current work force have not had the opportunities to obtain the education and training required in more dynamic areas of the employment market. According to the Country Poverty Assessment Report, 55% of the poor on the labour market do not

possess any educational qualification. Adult and continuing education is essential, especially in the light of the rapid technological transformations taking place at global level and more specifically the advances in information technology. The Government has set out the future orientation of education policy in St Kitts and Nevis in its comprehensive Long Term Education Plan 1998-2011. The plan establishes clear goals and objectives for the education system as a whole and for each sub-sector, identifying targets and strategies, programmes and projects, implementation schedules, costs and sources of financing, and the structures for implementing the proposed plan.

### *Health*

Over the period 1995-1998, the Government instituted a health reform programme, although the sector continues to face numerous challenges, including high rates of infant and neonatal mortality, a high incidence of teenage pregnancy, the re-emergence of tuberculosis alongside the threat of HIV/AIDS, and scarce resources in both the private and public sectors. The Government has placed special emphasis on primary health care services, particularly those targeting the prevention of illness and the promotion of healthy lifestyles.

Health reform measures have been adopted to ensure better utilisation of resources, to improve the capacity to deliver quality health services, and reorient the health sector towards primary health care. The two main hospitals and several of the existing health centres have been refurbished. Equipment on both islands has been upgraded to provide mammography and ultrasound services. The Ministry of Health's (MOH) recurrent expenditure has almost doubled. Much emphasis is placed on HIV/AIDS, health promotion, data collection and utilisation, surveillance, environmental health, and disaster preparedness programmes. An emergency medical service, a modernised and fully equipped eye clinic, an intensive care unit, and a tele-health service, with tele-radiology and continuing medical education components, have also been established.

The MOH is responsible for implementing Government policies and three of its programmes: Policy Development and Information Management; Community-Based Health Services; and Institution-Based Health Services. Nevis has a great deal of autonomy in health matters at local level.

### *Social protection*

The development of a comprehensive social infrastructure in St Kitts and Nevis started in the mid-1960s and continues to the present. The focus of social development initiatives in the early years was primarily on education, health and social security. The first planned housing estates were also built during this period. Upgrading of the entire social architecture of the country continued, including provision of water and sanitation, health services, education and housing, resulting in improvements in the quality of life and general welfare of citizens in all segments of society. Social development policies and programmes have had considerable success, as reflected in the improved quality and accessibility of education, health care, sporting and recreational facilities, housing, electricity and potable water.

During the last 15 years, however, the improvements in human and social development have been threatened by the adverse economic and social impact of a series of hurricanes and deteriorating terms of trade. The closure of the sugar industry in July 2005 presents yet another serious challenge to the sustainability of the country's human development. The

anticipated social impact of the closure has served to refocus attention on the importance of strengthening social policies, programmes and activities. In particular, it has highlighted the need to provide a social safety net for the most vulnerable, prioritising former workers of the sugar industry.

### *Employment*

In the labour market, wages and salaries in the public sector increased by an average 3% in 2005 compared with a government wage increase of 10% in 2004. Complete data on employment in SKN was not available for the year. Employment in the civil service was restricted by the relative freeze in employment (except in critical positions), by attrition and by tighter control of the wage register through computerisation of the wage records of non-established workers. The closure of the sugar industry made approximately 1 200 workers redundant in the second half of the year.

### *Rural Development*

The implications of diversification from the sugar sector are highlighted under section 3.3. These represent a major challenge not just for the future development of the economy but also in relation to social harmony.

## **2.1.4 Environmental situation**

Biological resources in St Kitts and Nevis, as in the other small OECS islands, are under pressure from economic interests (tourism, agriculture and fisheries) and factors such as the concentration of population and the high frequency of disasters. The further degradation of natural resources greatly influences the prospects of the country for social and economic development.

Climate change is already having significant and serious impacts on developing countries. These impacts will increase over years and decades to come and are projected to include wide-scale flooding, increased risk of epidemics and famine due to water contamination and loss of arable land and, significantly for the island nations such as Saint Kitts and Nevis, an increase in extreme weather events such as hurricanes. Projected sea level rise will affect coastal areas. Climate change is a threat to development and diminishes the chances of achieving the Millennium Development Goals. In this context, adaptation to climate change becomes a pre-condition for sustainable development.

In this context, Disaster Risk Reduction is a very important element of EU cooperation in the Caribbean, where tropical storms cause enormous human sufferings and economic damage. Assistance to Government and civil society's efforts to prevent, prepare for and mitigate the impact of natural disasters shall therefore be mainstreamed into all areas of EDF intervention.

SKN has certain obligations under a number of multilateral environmental agreements. These include the United Nations Convention on Biological Diversity (CBD), the United Nations Framework Convention on Climate Change (UNFCCC), and the United Nations Convention to Combat Desertification (UNCCD).

## **2.1.5 St Kitts and Nevis in the international context**

St Kitts and Nevis maintains diplomatic relations with the United Kingdom, France, the United States, Canada, Taiwan, Cuba and South Korea, as well as with many Latin American countries and neighbouring Eastern Caribbean states. It is a member of the Commonwealth, the United Nations and several of its specialised and related agencies, the World Bank and the International Monetary Fund, the Organisation of American States, the Organisation of Eastern Caribbean States, the Eastern Caribbean Regional Security System (RSS), the Caribbean Community and Common Market (CARICOM) and the Association of Caribbean States (ACS). The Eastern Caribbean Central Bank is headquartered in St Kitts.

It is an active member of the Organisation of Eastern Caribbean States (OECS), and shares a common currency and common judiciary system with the other six full OECS members and Anguilla (Eastern Caribbean Currency Union). On 21 June 2006, the Heads of Government signed a Declaration of Intent to submit for ratification an Economic Union Treaty after one year of public debate. The new Economic Union Treaty will replace the Treaty of Basseterre, which established the OECS in 1981. The new Treaty provides for an Executive Commission with supranational powers and a full single market with the four freedoms.

It is also a Member of the Caribbean Community (CARICOM), which is in the process of establishing a single market and economy, including not only a fully functioning common market but also the harmonisation of macroeconomic policies and eventual monetary integration.

SKN is also a member of the Association of Caribbean States (ACS), which was established as a mechanism for consultation, cooperation and concerted action, and brings together all the countries of the Caribbean Basin (the Central American countries, CARICOM, Cuba, the Dominican Republic, Colombia, Mexico and Venezuela) with an overall population of some 200 million. Together, they have pledged to strengthen cooperation in trade, tourism, transport, natural disasters, the environment, language training, and cultural cooperation.

SKN is a member of the International Whaling Commission. At the 58th IWC Annual Meeting in June 2006, member countries adopted the 'St Kitts Declaration', against the whale hunting moratorium and in favour of restoring the IWC's original whale stocks management mandate. The Declaration was sponsored by all OECS countries.

Another important factor in the international context is migration, which constitutes the major force contributing to population change in St Kitts and Nevis. The country has reached the final stages of the demographic transition, with low fertility and mortality rates. Emigration from St Kitts and Nevis decreased from -9.8 migrants/1000 population in 1990 to about -8.3 migrants/1000 people in 2003. The main destinations for emigration are the British Virgin Islands, the UK and the USA. The OECS Economic Union is expected to further influence intra-regional migration flows. The loss of the skilled labour force needed for economic growth is a challenge for the OECS countries experiencing heavy emigration.

Saint Kitts and Nevis is a participating partner in the OECD Global Forum on Taxation, aiming to establishing a level playing field for the global economy by implementing agreed principles of transparency and exchange of information for tax purposes. It participated in the last meeting held in Melbourne on 15-16 November 2005, notably by contributing to the factual assessment of its tax system.

## 2.2. Poverty reduction analysis<sup>3</sup>

According to the UNDP 2007/2008 Human Development Index, St Kitts and Nevis is ranked highest among member countries of the OECS and at number three in the entire Caribbean and Latin American region (after Barbados and the Bahamas). But since the mid-1990s, improvements in human and social development have been threatened by the adverse economic and social impact of a series of hurricanes and deteriorating terms of trade. The closure of the sugar industry in July 2005 represents another serious challenge to the human development of the country.

The 2001 Country Poverty Assessment Report (CPA) highlights the characteristics of poverty in both St Kitts and Nevis. A new Country Poverty Assessment (CPA) is currently being conducted and is due to be completed by early 2008. The 2001 CPA revealed that 30.5% (almost 1 in 3 persons) in St Kitts were classified as poor with an indigent population of 11%. The corresponding figures for Nevis were a poverty level of 32% and an indigent population of 17%. Unlike other Caribbean countries, poverty in SKN is not associated with high unemployment. The phenomenon of the working poor is a significant factor in the analysis of poverty in the two islands. While the majority of the population of working age are employed, a large number of these individuals receive low levels of pay. According to the 2001 CPA, as many as 58.8% of the poor within the workforce did not possess any educational qualification. Despite a literacy rate of 98% and a sustained level of investment in the education sector over the years, it is apparent that a significant proportion of the workforce have not benefited from the advances in the areas of education and training.

Several of the features characterising the poor are shared by ex-sugar workers, who may also fall within the former category. The characteristics of ex-sugar workers match those of the more vulnerable group identified in the CPA, mainly female heads of household in elementary occupations with a large number of dependants. Yet other factors that may be influencing the poverty rate are household vulnerability and consumption volatility, due primarily to deteriorating terms of trade and macroeconomic shocks.

As emphasised in the Government's Sugar Adaptation Strategy, the reduction of poverty, the promotion of social inclusion and increasing the living standards of all, in particular ex-sugar workers, young people, the elderly, children, the unemployed and the underemployed, will be priority areas for social development. A specific concern is the escalation in the level of criminal activity particularly among young people. The Government is therefore currently preparing a National Poverty Reduction Strategy and Action Plan that will set out a comprehensive framework for addressing poverty in St Kitts and Nevis. A second CPA is currently being conducted in order to update the existing information on poverty in the country. In the meantime, St Kitts and Nevis has taken important steps towards an effective social protection system, with the following main objectives:

- Strengthening social assistance
- Increasing the capacity of social development agencies to ensure the effectiveness of assistance programmes
- Improving the effectiveness and efficiency of training programmes
- Improving access to health care services

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<sup>3</sup> This chapter is based mainly on the analysis in the St Kitts and Nevis Government's Sugar Adaptation Strategy, 2006-2013.

- Strengthening labour markets to ensure productivity and competitiveness
- Improving access to employment covered by social insurance.

### **2.3. The development strategy of St Kitts and Nevis**

The sugar industry and the development of its concomitant plantation system have determined the socio-cultural and economic environment of St Kitts and Nevis for the past three hundred and fifty years. St Kitts and Nevis was the last sugar monoculture in the Eastern Caribbean. Faced with a sugar industry that was finding it increasingly difficult to earn a profit, the Government embarked on a programme to diversify the agricultural sector and stimulate the development of other sectors of the economy. The St Kitts and Nevis Adaptation Strategy is in line with the objectives of EC Regulation No 266/2006 establishing accompanying measures for Sugar Protocol countries affected by the reform of the EU sugar regime. This instrument was created to promote the economic diversification of sugar-dependent areas and to address the broader impacts of the adaptation process, for example as regards employment and social services, land use and environmental restoration, the energy sector, research and innovation, and macroeconomic stability.

The Government's development objectives and economic strategy are articulated in its draft Medium-Term Economic Strategy Paper 2005-2008. The challenges posed by globalisation, trade liberalisation, reduced aid flows, and regional integration are to be addressed through a programme of economic restructuring and transformation.

The objectives of the economic restructuring and transformation programme are to: protect the economic and social gains of recent decades; re-orient the economy to become competitive and develop the lucrative tourism industry; and promote sustainable economic development. The policy focus in the medium term is on: creating a more enabling macroeconomic environment for attracting private investment; supporting key productive sectors for sustained growth; promoting greater economic diversification; and continued emphasis on social development, particularly poverty reduction, education, health, public safety and housing.

The Government has acknowledged that further improvements in fiscal performance and achieving debt sustainability will be critical to enhancing growth prospects and creating the fiscal policy space necessary to respond effectively to economic shocks.

As tourism is central to the islands' economic development, lawmakers in St Kitts and Nevis are getting tougher on crime and are expected to approve longer prison sentences for those convicted of attempted murder, shooting or wounding and inflicting bodily harm on others. The Offences Against the Person (Amendment) Bill 2008 aims to increase from 10 to 25 years the sentence which may be imposed on any person who is convicted of attempted murder, to increase from 10 to 20 years the sentence which may be imposed on any person convicted of shooting or other grievous bodily harm, and to increase from two to seven years the sentence for any person convicted of inflicting bodily harm with or without a weapon.

In tandem with these efforts, the European Union will promote the ratification of a number of international conventions in the area of safety and security through political dialogue. St Kitts and Nevis is a party to the UN Vienna Convention (1988), the UN Convention against Transnational Organised Crime and its three protocols and the UN International Convention for the Suppression of the Financing of Terrorism. However, it has not signed the UN



Convention against Corruption, nor has it ratified a number of essential international human rights conventions, such as the International Covenant on Civil and Political Rights.

## **2.4. Analysis of the viability of current policies and the medium-term challenges**

The medium-term economic prospects in St Kitts and Nevis appear optimistic despite the many challenges, including the phasing out of sugar production, high public sector indebtedness, weak fiscal performance and vulnerabilities to economic shocks and natural hazards. A number of issues will have to be addressed following the closure of the sugar industry. These include: management of the industry's debt; land management; social protection; environmental management; creation of alternative employment opportunities for former sugar workers; and creating viable alternative programmes for the use of the sugar industry's assets (e.g. the co-generation of electricity, ethanol production, rum distillation, etc).

The outlook for the tourism sector is promising, with investment planned in a number of large projects by the private sector. The construction sector is also expected to grow. Fiscal performance is projected to improve contingent upon implementation of a successful fiscal reform programme by the Government and strengthening of the fiscal stabilisation programme. The burdensome debt overhang will remain for an extended period and will present a major challenge in attaining fiscal stability in the medium term. A reduction in the high public sector debt will be necessary to achieve the desired economic performance in the medium term in relation to both economic growth and fiscal performance.

The Government is aware of the challenges in terms of macro-economic management in the forthcoming period and is addressing these through its SATAP programme. Recent IMF Article IV missions have stressed the need for fiscal adjustment to restrain debt growth and enhance macroeconomic stability.

## **CHAPTER III — OVERVIEW OF PAST AND PRESENT EC COOPERATION, COMPLEMENTARITY AND CONSISTENCY**

### **3.1. Overview of past and present EC cooperation (lessons learned)**

Under the 7th and 8th EDF, approximately €5.6 million have been used to fund the rehabilitation and upgrading of the St Kitts and Nevis hospitals, while 9th EDF funds have targeted human resource development in the area of ICT.

St Kitts and Nevis originally benefited from a 9th EDF allocation of €3.4 million under the A-envelope and €0.6 million under the B-envelope. Following transfers from funds left over from previous EDF allocations, the amount of the A-envelope is now €6.69 million.

The Delegation has agreed with the NAO to use the remaining funds for a new project in the area of IT, education and skills development, in accordance with the addendum to the NIP approved following the 9th EDF mid-term review. The Government has commissioned a study to assess how to effectively commit these funds in this new project, which would also



absorb any possible decommitments from the ongoing education project. Consequently, a decision was taken in 2007 to use €2.6 million for a new project on Information and Communication Technology for Improving Education, Diversification and Competitiveness.

St Kitts and Nevis will benefit from the 2006-2013 Sugar Facility with much more funding than under the NIP allocation. The E.C. Response Strategy 2006-2013, the Accompanying Measures for Sugar Protocol Countries (AMSP) 2006, and the Multi-annual Indicative Programme were developed after approval of the National Adaptation Strategy (NAS) 2006-2013 developed by the Government of St. Kitts and Nevis (GoSKN) in 2006. To date, the 2007 Annual Action Plan (AAP) has been approved in the amount of €10.457 million and the 2006 Sugar Facility Funds (Institutional Strengthening for Social & Economic Development) has been approved for €2.845 million. GoSKN and the EC Delegation are working together to finalize the AAP for 2008.

### **3.1.1. Focal sectors (and macroeconomic support)**

#### *9th EDF €3.4 million — Focal Sector: Human Resources Development*

As stipulated in the NIP, 85% of the A-envelope is for the education sector with special emphasis on skills development in the area of information technology, focusing in particular on adults.

The Financing Agreement for the programme, in the amount of €3.18m, was signed in December 2003 and implementation commenced during the first quarter of 2004 with the launch of the tender for international technical assistance. The programme has been slow in achieving its objectives, mainly because of poor performance by the international technical assistance recruited for the project, as well as weak implementation capacity in the NAO office, combined with limited responses to tenders under EDF procedures. Despite the slow progress, much of the groundwork for some of the major activities was completed in the last quarter of 2005. The Project Steering Committee, supported by the six working groups, made an effort to move the project forward in 2006 through a reorganisation to focus on more realistic and achievable objectives and the decommitment of funds for activities that cannot now be undertaken within the planned timeframe. With a funding of €2.6 million, using MTR and Flex funds as well as decommitted funds, the new Information and Communication project will further help in the rationalisation of activities.

#### *8th EDF-NIP €3.0 million and 7th EDF-NIP €2.5 million — Focal Sector: Health Sector Development*

Under Lomé IV and Lomé IVa, health was identified as the focal sector and 90% of the NIP funds were allocated for that period (7th and 8th EDF). The amount of the Financing Agreement was €5.6 million. The main objective, to improve the capital stock of the health sector, was achieved through the rehabilitation and extension of the two main hospitals in SKN, the J.N. France Hospital in Basseterre and St Kitts and the Alexandra Hospital in Charlestown. The project was successfully completed and all uncommitted funds allocated to the 9th EDF NIP.

#### *Effective implementation of current operations*

Up until the 9th EDF Mid-Term Review, cooperation with St Kitts and Nevis had yielded satisfactory results. However, as described above, there were significant delays in the implementation of the 9th EDF project.

New strategies were put in place in 2006 so as to ensure that at least 75% of the allocated funds were utilised from the current project. At the same time the Government commissioned a feasibility study for the utilisation of funds derived from the MTR exercise and any uncommitted funds from the current project. It is believed that with a redefined focus on ICT, education and competitiveness, the new intervention will fit in better with the country's overall social and economic agenda while creating synergies with the diversification strategy, also in line with the St Kitts and Nevis Adaptation Strategy.

One of the key lessons learned has been that it is difficult for a small administration to cope with the implementation of traditional projects. As a consequence, the 2007 sugar allocation is being implemented through budget support within the government system. The implementation mode for the focal sector of the 10th EDF has therefore been left open at present in order to judge if budget support would be a more effective implementation vehicle than a project approach.

#### *The use of resources set aside for Non-State Actors*

During the MTR 'in-country-meeting' of December 2004 and with the aim of strengthening civil society involvement in the EU/SKN development partnership, it was agreed that an NSA (non-state actor) advisory panel, representative of SKN civil society, would be established by the SKN Government after close consultation between the EC Delegation in Barbados and the National Authorising Officer. The panel would provide a forum for tripartite dialogue, information and consultation on development cooperation between the EU and St Kitts & Nevis.

In the second half of 2005, a team of international consultants assisted the Government and the Delegation with the mapping of NSAs in St Kitts and Nevis and the selection of members of the panel.

A Memorandum of Understanding and Operating Guidelines establishing an NSA Panel were signed on 26 July 2006 and the Panel was consulted for the 10th EFD Programming at that stage.

Limited resources were set aside for NSAs under the TCF of the 9th EDF, and further support is planned under the TCF in the 10th EDF.

### **3.1.2 Projects and programmes outside focal sectors**

*9th EDF:* About 15% (€0.5 m) of the original A-allocation is to be used for studies, audits and technical support under the Technical Cooperation Facility (TCF). The Financing Agreement was signed in April 2004. Approximately 35% of these funds have been used up to date. Parts of the funds have been used to assist the Government in drawing up its Sugar Adaptation Strategy.

### 3.1.3 Utilisation of B-Envelope

Following the Mid-Term Review exercise, it was decided to maintain the €0.6 million allocation for the B-envelope (to cover unforeseen needs such as emergency assistance where such support cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to mitigate the adverse effects of instability in export earnings), as established in the original 9th EDF Country Strategy Paper and the National Indicative Programme. These funds are still available.

### 3.1.4 Other instruments

#### *Caribbean Regional Indicative Programmes (CRIP-EDF)*

SKN, a member of CARICOM/CARIFORUM, is a beneficiary of the many regional programmes funded through the EDF. The 7th EDF RIP had a global envelope of €105 million, while the 8th EDF RIP had €90 million available. The focal sector for support under the 9th EDF RIP will be regional economic integration and integration within the world economy, for which an envelope of €57 million is available.

Through the regional OECS Tertiary Education Level Project, support has been provided to the Clarence Fitzroy Byrant College to strengthen its capacity through the provision of new physical facilities and funding for the introduction of a greater range of courses. The Nevis airport extension project also received support from 7th EDF regional funds to the tune of €2.2 million in an effort to increase tourist arrivals in Nevis by accommodating larger aircraft. The 9th EDF Caribbean Regional Trade and Private Sector Development Programme has an OECS-specific component implemented by the OECS Export Development Unit.

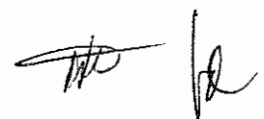
#### *Support from all-ACP funds (EDF)*

The EC approved the €50 million all-ACP Trade.Com programme in August 2003, which aims to reinforce analytical and research capacity for trade policy formulation by providing immediate assistance for ongoing negotiations and promoting activities for institutional support. A specific project ('Hubs and Spokes') has been designed for the Caribbean region, which was initiated in 2004. Under this project the OECS Secretariat benefits from the services of a Trade Policy Adviser, soon to be assisted by a Trade Policy Analyst, and complementary Trade Experts in some OECS countries.

The OECS has received funding (€280 000) for the establishment of an OECS Representation Facility in Geneva to follow up WTO matters, under the €10 million WTO Support Facility, as well as for capacity building to support the preparation of the EPA (€350 000), under the €20 million EPA Support Facility. The Caribbean Regional Negotiating Machinery (CRNM) has also received support (€857 652) from the EPA Support Facility. In addition, the NAO Office benefited from financial and contractual procedures training (a 9th EDF scheme) in Barbados in January 2005, under an All-ACP programme started in 2004.

#### *Thematic budget lines (EC budget)*

St Kitts and Nevis is a beneficiary of the EU/ACP sugar protocol. While the theoretical advantage for SKN under the sugar protocol was estimated at €5.8 million (difference between the guaranteed quota price and average world market prices), the average cost of



production was in practice above the EU intervention price. The subsidy provided by the Government to the sugar sector was estimated to be about 3% of GDP.

In response to the reform of the EU sugar regime and in keeping with the 'Action plan for accompanying measures for Sugar Protocol countries affected by the reform of the EU sugar regime' (document SEC(2005) 61 of 17 January 2005) and Regulation (EC) No 266/2006 of 15 February 2006 establishing accompanying measures, the SKN Government completed a comprehensive multi-annual adaptation strategy in April 2006. SKN's 2006 allocation amounts to €2 845 000, and is intended to support: i) the strengthening of Government planning and coordination mechanisms and the establishment of an institutional framework for managing the adaptation process; and ii) Community empowerment and private sector development to meet the social and community needs of ex-sugar workers and the community as a whole and to create conditions for business development.

The 2007 allocation amounts to €10 457 000 and is intended: (i) to support macroeconomic reform for a more stable macroeconomic environment; (ii) to support PFM reform to enhance the efficiency, effectiveness and accountability of public financial management systems; (iii) to promote private sector development through diversification of the production base and increased productivity; and (iv) to support social transformation through improved poverty reduction planning and policies, human capital development, and protection of the poorest and most vulnerable groups.

In May 2003 the EC approved a project for a UK NGO from budget line B7-701 (Human Rights Development) to further restrict implementation of the death penalty in the Commonwealth Caribbean, with a view to its eventual abolition. No projects benefiting St Kitts and Nevis were approved under the thematic budget lines in 2005.

#### *European Commission Humanitarian Aid Office (ECHO)*

The European Commission's Humanitarian Aid Office (ECHO) launched its first Disaster Preparedness (DIPECHO) Programme for the Caribbean in 1998, making available some €12 million for activities to prepare the most vulnerable communities and mitigate against disaster and also, to a lesser degree, for disaster prevention. The 4th DIPECHO plan for the Caribbean was approved by the EC in 2003 and its projects were completed during 2004-2005.

During the year 2005, an external evaluation was carried out to assess the impact and relevance of the DIPECHO programme in the region, and its main conclusions were that it had an important impact, particularly for the most vulnerable communities, and should be further supported. ECHO followed most of the conclusions and launched its 5th DIPECHO Action for an amount of €3.5 million, covering activities in the whole Caribbean region, but particularly in Haiti, Cuba, Dominican Republic, Jamaica, St Kitts and Nevis, St Lucia and St Vincent and the Grenadines. The projects to be implemented under this Action started in 2005 with a duration of 15 months.

In June 2005, a decision was taken to grant €500.000 to support the Red Cross in the Caribbean through the International Federation of the Red Cross to strengthen its preparedness to respond to disasters. This project includes the training of personnel in evaluation and response mechanisms in water and sanitation, telecommunications, damage assessments and other components. This project should have a direct impact in the Eastern

Caribbean countries through their national Red Cross Societies. The project was due to end in mid-2006 and was to be followed by an external evaluation.

#### *European Investment Bank (EIB)*

The outstanding EIB loan portfolio for operations in St Kitts and Nevis amounted to EUR 4.0m by the end of 2007, on signatures of EUR 9.6m. These were all operations under the Lomé agreement and include a programme of support for the upgrade of the electricity supply and a €2 million loan for Nevis Airport. In 2000, a global loan of €4 million on risk capital resources (Lomé IV bis) was made available to the Development Bank of St Kitts and Nevis for the financing of productive investments from small and medium sized enterprises in the industrial, agro-industrial, transport and service sectors by means of loan and (quasi-) equity participations, and for the financing of investments in human capital by means of student loans related to those sectors. EIB is currently looking at project opportunities in the tourism sector.

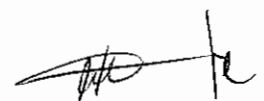
Amongst the various projects that the Bank is currently pursuing is the development of global loan structures with financial intermediaries in the commercial sector that have a broad reach throughout the Eastern Caribbean. Three projects under this heading were signed in 2005: Caribbean Development Bank Global Loan III EUR 40 million, Clico Investment Bank Global Loan EUR 20 million and DFL IX EUR 7 million. All these facilities can be used throughout the Caribbean ACPs. Additionally the Bank supports the micro finance sector through Caribbean Microfinance Limited, which has subsidiaries in Grenada and Saint Lucia. Consideration is being given to extending regional financing for SMEs with further global loans, and support for a dedicated SME financing facility promoted by the ECCB.

#### *Centre for the Development of Enterprise (CDE)*

The CDE supports private sector development by providing non-financial services to ACP companies and businesses and support for joint initiatives set up by economic operators from the EU and the ACP States. In the OECS region the CDE supports private sector development through sector programmes in construction and mining, agro-processing, wood, herbal medicines and tourism. Over the period 1999-2005, CDE assisted a total of 69 projects in the OECS region, involving 103 interventions at a total cost of €719 035, of which €517.376 was contributed by the CDE. SKN benefited from 5 interventions for a total amount of €65 475.

The PROINVEST programme, financed by EDF all-ACP funds and managed by the CDE, aims to increase Caribbean/Europe investment. It has a fund of €110 million over 5 years to support private sector development in the ACP countries. By the end of 2005, the programme had committed €5.373.679 to activities in the Caribbean, of which €2.212.817 was committed during the course of 2005, to support individual company business plans, public-private sector dialogue, company match-making activities, and institutional services for business development.

#### *Centre for the Development of Agriculture (CTA)*



The CTA supports the development of both the policy and institutional capacities and communication management capacities of agricultural and rural development organisations in ACP countries. It assists organisations in formulating and implementing policies and programmes to reduce poverty, promote sustainable food security and preserve natural resources. In 2005, the Eastern Caribbean states benefited from CTA support for agricultural and rural development in the Caribbean at both regional and national level. Activities at regional level were in collaboration with CARDI (CTA's Regional Branch Office for the Caribbean) and IICA. At national level, activities targeted the public and non-public sector and were implemented through direct partnership arrangements between the CTA and the relevant institutions.

### **3.2 Information on the programmes of the Member States and other donors (complementarity)**

The EC, with grants, and the Caribbean Development Bank (CDB), mainly with loans, are the only two institutions that provide comprehensive coverage and a significant level of assistance to the OECS countries. All other bilateral and multilateral donors and institutions have small programmes, generally at regional or sub-regional (OECS) level.

The UK continues to provide significant support to the Commonwealth Caribbean (currently amounting to £10.5 million for 2005-06). The DFID's current strategy within the region emphasises working with and through regional institutions. Its programmes focus on three broad themes: economic management and public service delivery; trade, competitiveness and economic integration; and HIV/AIDS, crime and violence. In addition the UK has provided significant bilateral debt relief to the Caribbean over recent years through the Commonwealth Debt Initiative.

The activities of CIDA, DFID, UN agencies, USAID and the World Bank in the Eastern Caribbean are largely conducted on the basis of sub-regional strategies. The principal areas receiving support from these agencies are regional strategic objectives such as institutional support, including support for the Regional Negotiating Machinery (RNM) (which represents CARICOM members in international trade negotiations), HIV/AIDS programmes, environment programmes, social recovery through economic diversification and job creation, emergency reconstruction and disaster mitigation, increased efficiency and fairness of legal systems, telecommunications reform, and the development of primary and secondary education.

St Kitts and Nevis also receives technical assistance through the Caribbean Regional Technical Assistance Centre (CARTAC), a regional resource based in Barbados, which provides technical assistance and training in core areas of economic and financial management at the request of its participating countries. CARTAC operates like a UNDP project and is funded by all major donors (the largest share being provided by CIDA), including the EC.

The donor community present in the Eastern Caribbean region has agreed to work through 'Coordination Groups', under the umbrella of UNDP, in order to address specific areas of concern and those requiring immediate action. Groups have been established in the following areas: disaster management, climate change and environmental management (led by CIDA); governance and ICT (led by DFID); poverty and social sector development (led by UNDP);

and trade & private sector (formerly led by the EC Delegation in Barbados, but to be merged with the CRNM Donor Coordination Group).

The World Bank and UNDP have introduced an on-line tool to support donor coordination: the Red Book On-line ([www.redbookonline.net](http://www.redbookonline.net)), an on-line database containing projects funded by donors in the Eastern Caribbean, as well as relevant documents (Strategy Papers, Article IV Consultations, Studies, etc.). Once this tool has been finalised it will be widened to the whole Caribbean.

While the EC Delegation has good relationships with all donors and works particularly closely with the DFID, World Bank and IMF, especially in the programming of budget support programmes (including co-financing with the World Bank and DFID in this area), donor coordination so far has been on a limited ad-hoc basis. There is therefore a need for more systematic policy and operational coordination in the Eastern Caribbean. The coordination of policy-based assistance is a major challenge, given the relatively limited role of the World Bank and IMF in OECS countries. It is hoped that operational cooperation will be launched with the CDB through a memorandum of understanding and a contribution agreement (subject to an institutional and financial audit). The EIB opened its Regional Representative Office in Martinique in May 2007 to help develop stronger links with Caribbean government authorities and multilaterals such as the World Bank group and to support the strengthening of synergies with the other actors of European development cooperation in the Caribbean region: the European Commission through its local delegations, and also the Bank's partners in the European Development Financing Institutions (EDFIs) group.

Donor dialogue has recently improved around the OECS Economic Union debate and the various donors' Country Strategy Papers exercise. (The Delegation has been consulted on the new programming strategies of the World Bank, the IDB, the CDB and UNDP, and vice-versa). There is scope for more structured cooperation, which could be built on:

- the upgrading/scaling up of viable, small pilot projects that some donors implement
- systematic sharing of the significant analytic work
- harmonisation of individual donor CSPs
- complementary interventions by grant donors (EC) and lenders (IDB, CDB, EIB) with the use of co-financing, where feasible
- a working form of donor cooperation on budget support.

### **3.3 Other EC policies**

In an increasingly interdependent and globalised world, a major objective of EU development policy is to assist developing countries to cope better with the globalisation process. EU cooperation will be primarily oriented towards ensuring that the full CSME and the development-oriented EU-CARIFORUM Economic Partnership Agreement (EPA) enter into force by January 2008 (see point 2.1.2 above). Through the establishment of the EPA, the EU is seeking to help the Caribbean ACP partners to seize the opportunities offered by the new global challenges and to address transitional costs, by combining trade relations with very substantial economic and development cooperation support.

Following the closure of the sugar industry, the challenge facing SKN in the rural areas is to significantly increase agricultural production in a sustainable manner through the

transformation of the sector to satisfy local demand and the demand for exports. In its adaptation strategy, the Government proposes to focus on the development of commercial farms in both crop and livestock production. Production will be market-led with special emphasis on 'commercialising' farmers in an attempt to transform the sector into a competitive industry. Attention will be given to the development of commercial farms so as to meet market opportunities for crop and livestock products. The development and strengthening of farmer groups will also be an area of focus, while the working relationship with stakeholder groups will be further enhanced. The Marketing Unit will be further developed to respond to market opportunities and the needs of purchasers and producers. An Agricultural Strategic Plan for the period 2005-2009 has been prepared by the Government to guide the development of the sector.

The main thrust of the St Kitts and Nevis agricultural strategy is attaining food security, raising rural incomes, providing secure employment options, and saving foreign exchange. However, agricultural diversification has to be considered as part of a holistic development policy to improve the quality of life of all citizens, with special attention to those who have lost their livelihoods and well-being due to the closure of the sugar industry. The agricultural sector has the potential to assist with job creation and income generation, particularly for those ex-sugar workers who have indicated their desire and intention to continue to work in agriculture. The employment opportunities are intended to encourage agro-business enterprises through agro-tourism initiatives, agro-processing and export market development.

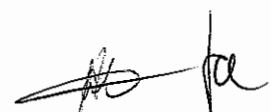
In the light of their close relationship, the UK and the Caribbean meet every two years to jointly discuss key issues of concern between the region and the UK. The 5th UK-Caribbean Forum (Barbados, 26-28 April 2006) discussed the impact of EU sugar regime reform on the Caribbean, the need for human resource development, capacity building in legal drafting, further debt relief and support for the CSME-RDF, and national and regional security issues ahead of the 2007 ICC Cricket World Cup.

### **3.4 Description of the political dialogue between the EC and St Kitts and Nevis**

The EU's political dialogue with the Caribbean is mainly via the joint ACP-EC institutions, in particular the Council of Ministers and the Joint Assembly, which includes members of parliament of the signatory states. At regional level, the yearly dialogue between CARIFORUM and the European Commission provides an opportunity to discuss a wide range of issues of mutual interest.

Under Article 8 of the Cotonou Partnership Agreement, a political dialogue between the EC and Member State representatives on the one hand and SKN Government representatives on the other was conducted for the first time during the MTR in December 2004. Topics discussed included the move towards an EU foreign policy, drugs and drugs-related crime, regional security and the role of the Regional Security System (RSS), regional integration, the CSME and the ICC.

A further opportunity for political dialogue was provided by the EU-Caribbean Programming Seminar held in Santo Domingo in April 2006, at which Commissioner Michel was present. A new round of political dialogue took place during the end-of-term review of the 9th EDF in 2006 and 2007.



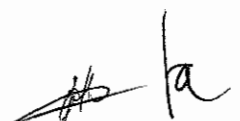


### **3.5 Description of the state of the partnership with St Kitts and Nevis and progress towards harmonisation**

In Barbados and the OECS countries, only two Member States are present on the ground and have cooperation programmes, namely the UK, in the shape of the DFID, and France. Most DFID programmes are of a regional nature (CARICOM-wide). DFID has very few bilateral programmes in the OECS (Dominica and Grenada), which are limited to addressing strategic issues such as fiscal and public sector reform. As regards France, it has a rather limited cooperation programme, since the OECS countries are no longer part of the *Zone de Solidarité Prioritaire*, so it therefore funds only very minor ad hoc activities in this region.

There is regular consultation, sharing of information and very good cooperation with these Member States, for instance with the DFID on the Sugar Adaptation Strategies and Country Macroeconomic Assessments. The DFID funded some related studies and a Caribbean Sugar Workshop in April 2006.

Opportunities for consultation were offered to all EU Member States present in the region. On 20 June 2006, in St Kitts, the Delegation held an important consultation session on the 10th EDF Programming in Barbados and the OECS countries, with the attendance of the seven NAOs and all major donors and agencies, in which the UK and France participated.



## CHAPTER 4 — RESPONSE STRATEGY

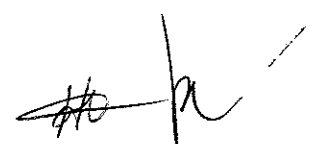
Based on the analyses in the previous chapters, the EC response strategy has been formulated taking into consideration the following aspects:

- the articulation by the Government of the draft 'Medium-Term Economic Strategy Paper: 2005-2008', which focuses on: creating a more enabling macroeconomic environment for attracting private investment; supporting key productive sectors for sustained growth, in particular tourism; promoting greater economic diversification; and a continued emphasis on social development, particularly on public safety, poverty reduction, education, health, and housing;
- the commitment by the Government to attain a balance between social and economic development and its concern at the increased level of criminal activity, particularly among young people, given its potential to undermine the quality of life for all and its negative impact on the investment climate for industries such as tourism;
- the sectors already covered by past and ongoing EC cooperation and to be covered under the Sugar Adaptation Strategy, as well as through cooperation with other development partners;
- the need to ensure complementarity between intervention under the NIP and the support provided under the Caribbean Regional Indicative Programme (to focus on regional integration & TRTA, ICT & transport, tertiary education, HIV/AIDS, the environment / natural disasters, security: crime and drugs, support for IMPACS), as well as to ensure that the NIP is 'integration-friendly'. As drug-trafficking and money laundering are just as much regional as national problems, this is particularly critical. Coordination with related regional bodies is therefore important, as is the exchange of information with them and government agencies in the other countries of the region.
- the objectives of the new EU Development Policy as defined in the EU Consensus for Development and in the Communication on an EU-Caribbean Partnership for Growth, Stability and Development, and the comparative advantages of the EC as a provider of foreign aid; and
- the need for a more effective donor policy and operational coordination around the country's home-grown policies and strategies to ensure full ownership of the interventions funded by donors.

### 4.1. Focal Sector: Safety and Security

It is proposed that the A-envelope be concentrated on Safety and Security as the single focal sector of the EC country strategy for St Kitts and Nevis, with special attention to capacity building, training, and the provision of scholarship programmes for police and other security staff.

The justification for this strategic choice is as follows:



## Situational Analysis of Crime in St. Kitts and Nevis

The expansion of St. Kitts and Nevis' economy has required a natural expansion in the size and capability of the national security forces. Increase in the housing stock, decentralization of commercial activity, and development of the hospitality industry have considerably broadened the area of focus of these forces. One of the main objectives of the Government is the provision of affordable housing for its citizens, an undertaking that will require a commitment on behalf of the police force to maintain visibility in these areas. Newly expanded developments in the Whitegate area for example, accompanied by growing commercial activity, have led to an increase in the population in the northerly end of St. Kitts. Similar types of developments are occurring in Nevis. Development in such areas necessitates the increased presence and surveillance of the security forces, especially in light of the proximity to open borders. This is also true of the South East Peninsula on St. Kitts, where a number of hotels and resorts are currently undergoing construction.

The recent closure of the Sugar Industry has equally daunting implications for national security priorities. Deserted cane fields have provided a haven for criminals to commit covert crimes such as arson, drug cultivation, assault, robbery and rape. This further stretches the already sparse resources of the security forces as they keep vigil to detect criminal elements desirous of taking advantage of these secluded areas.

An increase in the number of people visiting St. Kitts and Nevis has also broadened the scope of national security issues faced by the Federation. Tourism, though essential for the development of the economy, has brought accompanying negative effects. Statistics indicate that during the peak tourism season of November to April, the average monthly number of visitor arrivals to St. Kitts and Nevis is approximately 46,000 - almost equivalent to the local population of just over 50,000. This includes both stay-over and cruise ship visitors, with approximately 2% of stay-over visitors remaining within the Federation for longer than one year for the purpose of university study. The average monthly number of visitor arrivals to the Federation during the off-season months of May to October is approximately 11,300.

These statistics reflect that, at any given time, the number of people present within the Federation is significantly above the local population. These visitors are an additional serviceable group for the national security agencies and hence place further strain on inadequate resources. Visitor involvement in crime has also been noted to include offences such as possession and importation of controlled drugs, possession and importation of firearms and ammunition, solicitation of prostitution, and money laundering.

The criminal element brought to the Federation through deportation has also been of growing concern to the Government and people of St. Kitts and Nevis. This has indeed been a source of concern for the entire Caribbean region, where increases in certain crimes can be directly linked to this phenomenon. The impact of deportations on the Caribbean region has been so adverse that CARICOM leaders raised this as a key issue with U.S. President George W. Bush, Secretary of State Condoleezza Rice and congressional leaders, during the Conference on the Caribbean in Washington, D.C. in June 2007. A recent CARICOM study<sup>4</sup> shows that, of the thousands of criminals deported to the Caribbean region annually, approximately 57% are deported for drug offences, 6% for possession of illegal firearms and 2% for murder. The

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<sup>4</sup> *"Deportees in Latin America and the Caribbean"* AnnMarie Barnes Ph.D., presented to the United States Congress Subcommittee on The Western Hemisphere, July 24<sup>th</sup>, 2007.

study also revealed that the United States was responsible for over 75% of all deportations to the region.

The effect of deportation of criminals to a relatively small, cohesive society such as that of St. Kitts and Nevis is immeasurable. The majority of criminals deported to the Federation have not only been stripped of their material possessions, but often have very weak or no family connections remaining in St. Kitts and Nevis when they return. They have learnt their criminal behaviour whilst living abroad and have little allegiance to the land of their birth and even less respect for the existing economic or social climate. It is not surprising therefore, that local authorities have been able to link a recent upsurge in gang activity to the growing number of deported criminals residing in the Federation. Deportee involvement has been mapped not only in the direct commission of crimes, but also indirectly through conspiracy.

Over the past few years the Federation has experienced intolerable levels of crime and violence with potentially severe consequences, particularly in light of the small size of the population, and the unfamiliarity with the nature of crimes committed. The upsurge in crime has included major offences such as armed robbery and assault, shooting with intent, murder and attempted murder, with the common denominator being the use of illegal firearms. The phenomena of gangs and extortion have been the most recent criminal behaviours added to this list. Accompanying these local crimes has been trans-national organized crimes such as drug trafficking, trafficking in illicit firearms, and illegal immigration. The foreign influence in these crimes can be seen in the increased sophistication of the criminals as well as the preponderance of advanced devices and weaponry being discovered by security forces.

Consumption of drugs and alcohol continues to fuel the commission of such crimes. In 2006, the National Council on Drug Abuse Prevention (NACDAP) in St. Kitts and Nevis, in collaboration with the Organization of American States (OAS), conducted a survey of a group of 2,100 teenagers aged 15 to 19 years. The survey showed that, during the course of their lifetime, 66% of the respondents had consumed alcohol, 14% had used marijuana, and 35% had used some illegal substance. The change in the frequency of certain crimes committed within the Federation is displayed in the table below:

<b>Percentage Increase or Decrease in Crime Over Base Year 2004</b>			
<b>Crime</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Murder	-27%	55%	45%
Wounding (Including Shooting Incidents)	2%	11%	26%
Possession of Firearms	100%	75%	150%
Robbery	73%	42%	129%
House Breaking With Larceny	20%	26%	33%

**National Response to Crime:**

The rise in crime has created a precarious environment in which several sectors of society have been threatened. The Government views a society based on the rule of law as necessary not only to maintain the quality of life of local citizens, but also to encourage tourism, to sustain investor confidence and private sector-led growth, and to foster the overall competitiveness of the Federation's economy. Furthermore, the enhancement of an accommodative environment for increased economic activity is crucial towards the alleviation of poverty. The Government realizes that an uncontrolled criminal environment can potentially reverse many years of social and economic progress made in the Federation.

A call for remedial action with regard to the Federation's law enforcement agencies is based, in large measure, on the fact that law enforcement officers have lacked the capacity to detect, prevent and solve a significant percentage of the crime committed. The solve rate for certain crimes committed between 2004 and 2007 is outlined in the table below:

<b>Percentage of Crimes Solved Between 2004 and 2007</b>				
<b>Crime</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Murder	100%	25%	41%	43%
Wounding (Including Shooting Incidents)	82%	80%	73%	73%
Robbery	37%	33%	24%	22%
House Breaking With Larceny	6%	10%	9%	7%

Investigations reveal that law enforcement agencies lack the resources and training, particularly in the area of forensic science, to effectively manage crime scenes and to arrive at conclusive findings as required. The above table displays that the local police force has not had great success in solving crimes which require a higher level of investigative ability, for example murder, robbery, and house breaking/larceny. The police force instead depends largely on the collection of fingerprinting evidence and evidence given by witnesses in their efforts to solve crime. Both types of evidence have become increasingly difficult to attain, as criminals employ the use of gloves and witnesses have become more uncooperative. The advanced nature of crime will necessitate more advanced methods and technology by the police force. The Federation currently has arrangements with forensic laboratories in Jamaica, Trinidad, Barbados and the United States by which additional evidence can be processed. However, this arrangement is inefficient due to long waiting periods between the commission of a crime and receipt of the forensic results. Due to the lengthy waiting periods, court cases are usually backlogged and evidence often suffers depletion. Increasingly, the foreign labs are unable to assist due to the backlog of evidence in their own countries. The same problems of lack of equipment and training are hindering the operations of law enforcement agencies that are policing the Federation's borders.

It has been observed that the approaches and tactics being used are, for the most part, anachronistic - dating back to systems and procedures characteristic of the Federation's colonial past. In the mean time, the criminals have moved ahead with seemingly more sophisticated methods and, in some cases, are attempting to challenge the efficacy of the current security system.

The Government is committed to ensuring that law enforcement agencies are exposed to requisite training to build their capacity, so that they develop the necessary skills to impact our national efforts at reducing crime. Focus must be placed on areas such as (i) crime scene management and forensic analysis (ii) crime detection and prevention skills (iii) intelligence gathering and information sharing techniques (iv) community policing (v) border security and (vi) cyber crime. The Government also recognizes that an aggressive human resource development drive must be accompanied by the provision of necessary equipment and infrastructure to enable law enforcement agencies to properly execute their mission. The local private sector has responded commendably in this regard by donating vital equipment and vehicles in an effort to assist the security forces.

#### International Support

The Government's strategy of providing training and equipment to law enforcement agencies has been complemented by support from international partners. The Government has received support from international agencies and Governments such as the Canadian International Development Agency (CIDA) which has provided financial assistance for the training of police officers, the Republic of China on Taiwan (ROC) which has provided vehicles and equipment, the Federal Bureau of Investigations (FBI) in the United States which has assisted in the solving of major crimes and the analysis of forensic evidence, and the Organization of American States (OAS) which has facilitated training in the areas of border and tourism security. The Federation currently has an arrangement with the Mexican Government by which the construction of two (2) police stations is being financed. St. Kitts and Nevis also benefits from the transfer of information and intelligence through its collaboration with the International Criminal Police Organization (INTERPOL), the United Nations Office on Drugs and Crime (UNODC), and the International Organization for Migration (IOM).

#### Youth and Rehabilitation

The Government is also committed to addressing the problems faced by youth 'at risk'. The recent rise in the trafficking of illegal drugs and firearms has enveloped a significant portion of delinquent young persons. Participation in many of the major crimes has increased substantially for persons under the age of 30, which can be linked to an increased presence of gangs within the Federation. There is a firm commitment by the Government to pursue innovative approaches geared not only to prosecution and incarceration, but also to the rehabilitation of offenders, particularly juveniles and young adults. The Government approach calls on the wider community to help combat crime not only directly, but through community and individual outreach work which targets 'at-risk' youth. The Ministry of Social Development, Community and Gender Affairs, in collaboration with the Ministry of Education, is currently undertaking the Caribbean Development Bank (CDB) financed "Child Development Project," which focuses not only on the construction of a Co-ed Juvenile Centre, but also on the development of an in-house curriculum to aid in the rehabilitation of juvenile offenders. This facility is considered critical in ensuring that 'at risk' youth are not engulfed in a predominantly adult prison population. The Co-ed Juvenile Centre will provide quality

treatment and child development services to residents, including counselling and legal services and family outreach and reintegration services. In parallel, "Men and Women in Schools" is a recently developed initiative introduced by the Ministry of National Security and the Ministry of Education which will utilize the service and time of concerned adult volunteers to (i) improve behaviour in schools (ii) reduce the appeal of gangs amongst youth (iii) provide teachers with non-intrusive support (iv) let affected young people know that there are responsible nationals interested in assisting them.

### The Penitentiary System

The complex in Basseterre, St. Kitts, which adjoins the Basseterre Police Station and Her Majesty's Prison was built in 1840 and is a key indicator of the Federation's colonial past. The prison component, in particular, has become a primary source of concern to local authorities.

The recent increase in crime has added significant numbers to the prison population, which further contributes to an already overcrowded situation. This puts a serious toll on the limited resources and staff while at the same time reducing the overall level of security. Compounding this is the inadequate condition of the facility which includes dilapidating structures, inoperable equipment and weakening walls.

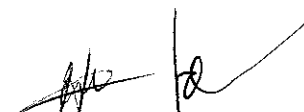
In recent years, the prison's rehabilitation programme has become constrained by its physical limitations. Rehabilitative activities which once included some secondary school level classes, as well as vocational training in areas such as carpentry, are now permanently stalled due to unavailability of space. However, prisoners continue to benefit from counselling services. While the prison population has steadily risen over the past decade, the average age of the prisoners has declined. This further concerns the Government as it views the rehabilitation of young prisoners as necessary towards preventing future anti-social behaviour.

The limitations of St. Kitts and Nevis' main prison have prompted the Government to seek proposals for the financing and construction of a new and modern correctional facility. To date, one proposal has been received and is currently being reviewed. The construction of a state-of-the-art prison facility falls in line with Government's overall strategy of modernizing the entire security system.

### Combatting Drug Use

The Government, through the NACDAP, is committed to implementing the following strategies to combat drug use in the Federation:

- (i) Approve a national anti-drug plan
- (ii) Accede to the United Nations Convention Against Corruption, 2003
- (iii) Establish a centralized office at national level for the purpose of compiling and co-ordinating drug related statistics and other drug related information
- (iv) Provide specialized training for officials involved in demand reduction programmes
- (v) Establish guidelines or regulations on standards of care for drug abuse treatment
- (vi) Develop a mechanism to monitor and prevent the diversion of pharmaceutical products applicable to health professionals and entities



- (vii) Carry out research and training activities related to the prevention and control of illicit traffic of pharmaceutical products and other drugs via the internet, which will enable the country to identify its regulatory and operative needs
- (viii) Implement administrative measures to ensure an effective control to prevent the diversion of pharmaceutical products
- (ix) Approve and enact the bill to control chemical substances consistent with the United Nation Convention Against Trafficking
- (x) Develop and deliver specialized training courses or briefings for law enforcement, security, prosecutors, customs and judicial officers to address the illicit drug trafficking problem

### The Judicial System

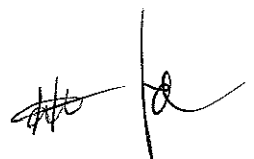
The Federation's judicial system was inherited from the British Anglo-Saxon system and is based upon English Common Law. This is reflected by the fact that the Federation's final court of appeals is Her Majesty's Privy Council in London, United Kingdom.

St. Kitts & Nevis' judicial system also falls under the jurisdiction of the Eastern Caribbean Supreme Court (ECSC) and it is at this level that most reforms are made. One such recent reform within the Federation has been the use of Alternative Dispute Resolution (ADR) in the form of Mediation as an alternative to court proceedings. Future initiatives of the ECSC are expected to include the integration of the Eastern Caribbean Magistrate and High Court systems, in an effort to completely sever the link between the Magistrate Court and the executive government.

The court system in St. Kitts and Nevis operates under the auspices of the Ministry of Justice and Legal Affairs and is separate from the law enforcement system which is managed by the Ministry of National Security. The Government is currently revising its laws in an effort to keep pace with the sophistication of criminals, and to reflect the current crime environment. This revision is expected to incorporate stiffer penalties for violent and gun-related crimes, measures to ensure witness protection, and specific legislation to include 'digital evidence' in the prosecution of criminals. In 2005, St. Kitts and Nevis opened a Legal Aid Clinic to allow ordinary citizens greater access to legal advice and information.

### Regulation of the Financial Sector

St. Kitts and Nevis regulates its financial services sector through the Financial Services Commission (FSC), which holds regulatory offices in both islands, and tracks suspicious financial activity through the Financial Intelligence Unit (FIU). The Federation was removed from the Financial Action Task Force (FATF) blacklist in 2002 and now meets none of the twenty-five (25) negative criteria required for inclusion on the list. St. Kitts and Nevis works very closely with FATF and the Caribbean Financial Action Task Force (CFATF) authorities to ensure that its anti-money laundering framework is continuously updated, and the Federation is expected to be the incoming Chair of the CFATF in 2008-2009.





## Regional Initiatives

The Federation is a member of a number of regional bodies set up by the Caribbean Community (CARICOM), including the Council of Ministers of National Security, the Implementing Agency for Crime and Security (IMPACS) and the Joint Regional Communications Centre (JRCC). These agencies seek to strengthen the regional response to crime through the implementation of networking and information sharing initiatives such as the Regional Information Management System (RIMS), the Regional Integrated Ballistics Information Network (RIBIN), the CARICOM Maritime and Airspace Security Cooperation Agreement, and the Arrest Warrant Treaty. Building on regional initiatives implemented during the ICC Cricket World Cup in 2007, the JRCC continues to record information on intra-regional movement of people through the Advanced Passenger Information System (APIS) while the implementation of an Advanced Cargo Information System (ACIS) is expected in the near future. Discussions continue regarding the Common CARICOM Visa (CCV), the CARICOM Travel Card and the Single Domestic Space. St. Kitts and Nevis also benefits from security training and support through its continued membership in the Regional Security System (RSS) of the OECS and Barbados.

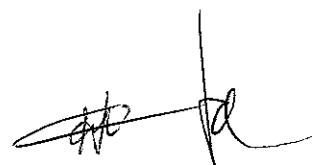
## Addressing the Problem of Deportation

At the 13<sup>th</sup> Special Meeting of CARICOM in April 2008, Heads of Government agreed<sup>5</sup>:

- (i) to pursue negotiation of standardised agreements/MOUs with United States of America, the United Kingdom, Canada and other states;
- (ii) that such Agreements/MOUs should provide, inter alia, for
  - (a) adequate notification periods;
  - (b) the settlement of personal affairs prior to deportation of long-term residents;
  - (c) complete dossiers, including criminal antecedents and medical records where applicable;
  - (d) appropriate arrangements to reduce the financial burden on deported persons, and on receiving countries;
  - (e) support for programmes designed to aid the rehabilitation and reintegration of deported persons in the Region;
- (iii) to the establishment of a mandatory requirement for the enforcement of monitoring orders where persons are deported in relation to convictions for specified major offences;
- (iv) to the development of an information-sharing protocol to guide the transfer and dissemination of information related to deported persons between relevant law enforcement authorities throughout the Region;
- (v) to collaboration in the establishment of transition centres in each country to facilitate short-term stays for deported persons without shelter and/or familial support.

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<sup>5</sup> [www.caricom.org](http://www.caricom.org) ; Communications; Statements from CARICOM meetings; Press release 75/2008; April 5<sup>th</sup>, 2008.



## **European Commission Support**

The European Commission (EC), as the most important donor in St Kitts and Nevis, is in a privileged position to provide assistance to capacity building for the public sector in relation to safety and security. Government's perspective is that EDF funds will support existing security initiatives by providing increased focus on training, the provision of scholarship programmes for police and other security staff, and the modernization of security agencies. Support from the EC will complement Government's current efforts funded with its own resources, private sector investment, and external assistance.

While the enormity of the changes required in the safety and security sector is evident, the Government believes that the implementation of a pre-feasibility study would greatly assist in determining the way forward and the most effective use of EDF funds.

It is therefore proposed to dedicate 85% of the A-envelope under the 10th EDF to a Safety and Security Improvement Programme to support initiatives undertaken by the Government of St Kitts and Nevis in this area.

The overall objective of the programme is to improve safety conditions in St Kitts and Nevis in order to ensure a stable environment for sustainable growth and investment. The specific objective is to support the enhancement and modernisation of services aimed at ensuring safety and security, by developing human resources, building capacities and enhancing relevant services and infrastructure.

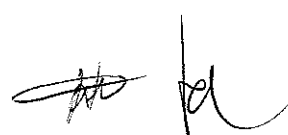
The consistency of this strategic choice with the current policies pursued by the Government is evident. Specifically, one of the major concerns in a country with a very low population and where international tourism constitutes the main source of revenue and employment is the increase in violent crime. The Government assigns the primary responsibility for criminality to the growing number of drug traffickers and other offenders who return to the country after having interacted with gangs in the United States and other countries. Consequently, improving safety and security has moved to the top of the Government's development agenda.

A decision on the mode of delivery for this EC assistance under the 10th EDF will be taken at a later stage, in the light of experience with the current assistance using the project approach and budget support.

Possible risks primarily involve changes in Government priorities over the five years that the programme is expected to last and a deterioration in the current macro-economic policy environment. There is a clear link between increased crime and the narcotics trade, but the latter is notoriously difficult to combat. Money laundering is also linked to the narcotics trade and represents a particular challenge if it is to be controlled effectively. There is no point in strengthening and training the forces of law and order if there are gaps in legislation which prevent fully effective policing. Support for the focal sector should therefore be conditional on the development of accompanying legislative measures in the safety and security sector and the signing of international conventions such the UN Convention against Corruption.

## **4.2. Non-Focal Sector 1: Technical Cooperation Facility**

10% of the A-envelope will be allocated to the Technical Cooperation Facility, in particular to support non-state actors and possibly to provide trade-related technical assistance.



The overall objective of the TCF is to support the implementation of the NIP and other relevant ad-hoc activities as needs emerge. The specific objective is to provide rapid financing for i) Technical Assistance; ii) Training Support and Capacity Building; and iii) Conferences and Seminars.

It is already envisaged that part of the funds under the TCF could be allocated to the following interventions:

- Support for Non-State Actors (NSAs), notably through the consolidation of an NSA Forum, as an important instrument for enhancing dialogue among the Government, the EU, the private sector and civil society organisations. NSAs can benefit from the three main areas of intervention of the TCF. The participatory approach of NSAs at all levels in a country's development is one of the fundamental principles of the Cotonou Agreement. NSAs are to be encouraged to take part in the design, implementation and review of national development strategies.
- Trade-Related Technical Assistance. As noted earlier, organisational capacities and resources in OECS countries are inadequate to cover the different trade negotiating theatres in which they are involved, as many of the ministries are very small with limited technical capacity. The Government would therefore benefit from technical assistance in this area, in particular to meet specific needs linked to the follow-up of international trade negotiations, including the EU-CARIFORUM Economic Partnership Agreements, and the establishment of the Caribbean Single Market and the OECS Economic Union.

#### **4.3. Non-Focal Sector 2: Technical Assistance to the NAO**

5% of the A-envelope will be allocated to Support to the NAO Office.

The objective is to provide technical assistance to the NAO Office in order to ensure the efficient management and coordination of EC (not only EDF) funds and to guarantee an increased implementation rate in future.

Past and present cooperation has shown the utmost importance of the need to provide the NAO Office with the necessary human resources to ensure more effective, efficient and rapid implementation of EU-funded projects. This is all the more so given that the NAO Office will have to manage funds several times the amount of the NIP under the Sugar Facility.

There is also provision for technical assistance, to the extent requested and necessary, in order to promote good governance in the tax area, e.g. by providing studies and other expertise or through capacity building for the administrations or authorities concerned.

**PART 2 — NATIONAL INDICATIVE PROGRAMME**

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## 1. Indicative Programme

### 1.1. Introduction

On the basis of the cooperation strategy presented in Part I and in accordance with Article 4 of Annex IV to the Cotonou Agreement, the Indicative Programme has been drawn up as a set of tables showing the intervention framework for each sector, the financial programming timetable and a detailed schedule of activities for all listed programmes over a rolling three-year period.

Amounts mentioned in this chapter indicate the overall breakdown of funds between the focal sector(s), macro-economic support and other programmes. The breakdown may be adjusted in the light of the operational, mid-term, final or ad hoc reviews. However, for any adjustment resulting in a substantial change to the structure of the response strategy, a formal decision in the form of an addendum to the strategy document will be required.

### 1.2. Financial instruments

#### 1.2.1. 10th EDF, A-envelope, €4.5 million

This envelope will cover long-term programmable development operations under the strategy, in particular:

Focal Sector: Safety and Security. This allocation is intended to cover the long-term development activities identified in the response strategy. It will absorb €3.825.000, which represents approximately 85% of the total funds made available by the EC under the 10th EDF.

Non-Focal Sector 1: Technical Cooperation Facility (TCF), in particular to support Non-State Actors and to provide Trade-Related Technical Assistance. This will take up €450.000, which represents approximately 10% of the total.

Non-Focal Sector 2: Technical Assistance to the NAO Office, to ensure the efficient management and coordination of EC (not only EDF) funds and to guarantee an increased implementation rate in future. This will require €225.000, or approximately 5% of the total.

#### 1.2.2. 10th EDF, B-envelope, €0.2 million

This envelope will cover unforeseen needs such as emergency assistance where such assistance cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to mitigate the adverse effects of instability in export earnings. In accordance with Article 3(5) of Annex IV to the Cotonou Agreement, this amount may, if necessary, be increased in the light of the operational or ad hoc reviews.

#### 1.2.3. Investment Facility

In addition to the financial instruments mentioned above, of which the A-envelope is the main programmable basis for the NIP, the 10th EDF also includes an Investment Facility, which is

an instrument managed by the European Investment Bank. The Investment Facility is not part of the NIP. Some specific activities may be supported by the Centre for the Development of Enterprise (CDE) and the Centre for the Development of Agriculture (CTA).

#### **1.2.4. Caribbean Regional Indicative programme (CRIP)**

The 10th EDF Caribbean Regional Indicative Programme will cover long-term programmable development operations under the regional strategy for the Caribbean Forum (CARIFORUM). The allocation is not part of the Indicative Programme, but will clearly have repercussions at national level since the main intervention sector under the CRIP will focus on support for regional integration.

#### **1.2.5. Other financial instruments**

Specific activities may be supported by external actions funded from the general budget of the European Community, to be carried out under the financial framework for 2007-2013, subject to special procedure and availability of funds, and from the own resources of the EIB. Actions funded by the general budget include, among others, programmes funded under the Development Cooperation Instrument, such as the thematic programmes 'Investing in People', 'Non-State Actors in Development', 'Migration and Asylum', 'Environment and Sustainable Management of Natural Resources' and 'Food Security', and the programme of Accompanying Measures for ACP Sugar Protocol countries, as well as actions funded from other instruments such as the Stability Instrument, the European Instrument for Democracy and Human Rights or the Instrument for Humanitarian and Emergency Assistance. Calls for proposals for these instruments are made annually since 2007. Legal entities from St. Kitts and Nevis can also participate in international scientific and technological cooperation across the entire 7th Research Framework Programme (2007-2013). St. Kitts and Nevis government and other actors should also consider using more systematically research results in the public domain.

For the Sugar Protocol countries benefiting from the Accompanying Measures, the actions envisaged under these measures will be a very important complement to the EDF funds; in the case of SKN the corresponding amounts will be even several times more important.

#### **1.2.6. Monitoring and evaluation**

The monitoring of results and the evaluation of the impact of individual activities (programmes, projects, sectors) under this CSP will be undertaken in line with the technical and administrative provisions attached to each individual Financial Agreement prepared to implement this CSP.

The results and impact of the Community's cooperation with St Kitts and Nevis through the NIP and through other external actions funded by the general budget of the European Community will be assessed by means of an independent external evaluation. This country-level evaluation may be undertaken jointly with EU Member States and possibly also with other donor agencies.

### 1.3. Focal Sector: Safety and Security

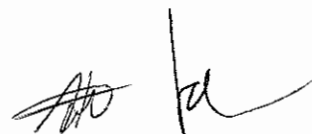
An indicative amount of €3.825.000 will be set aside for intervention in this Focal Sector, specifically the implementation of a Safety and Security Improvement Programme.

The overall objective of the programme is to improve safety conditions in St Kitts and Nevis in order to ensure a stable environment for sustainable growth and investment. The specific objective is to support the enhancement and modernisation of services aimed at ensuring safety and security, by developing human resources, building capacities and enhancing relevant services and infrastructure.

Although the programme focuses on safety and security, it forms an integral part of the modernisation and reform of an area of the public sector that needs to be restructured to meet the challenges of a modern independent state.

The proposed intervention will cover the following aspects:

- (a) Capacity building and human resource development in the security sector, i.e. to
  - (i) upgrade the curriculum used by the police training school;
  - (ii) review recruitment and staffing policies with a view to attracting more graduates into the police force;
  - (iii) design and implement a formal system for the continued identification and implementation of skills development programmes, using local, regional and international training facilities;
  - (iv) facilitate training for senior and middle managers in the areas of public administration and management, criminology, legal studies, security, forensic science and computer technology;
  - (v) develop areas of special expertise by facilitating specialised training at recognised regional and international institutions.
  
- (b) Development and modernisation of security services (including infrastructure and ICT), i.e. to
  - (i) upgrade police stations, the police training school and coastguard facilities;
  - (ii) construct new facilities across the islands to ensure full policing of new and underserved communities;
  - (iii) integrate the use of appropriate technology to improve the general efficiency of the police and to facilitate proper recording, checking and tracking of criminal activities, including those perpetrated by deportees;
  - (iv) install appropriate closed circuit television systems with electronic surveillance in strategic areas;
  - (v) introduce essential modern crime fighting services, such as detoxification, and improve the detection and solving of crime;
  - (vi) establish a Neighbourhood Watch Programme in all communities on both islands to operate in conjunction with (iv) above.
  
- (c) Active participation and collaboration in regional and international security-related initiatives, such as the Eastern Caribbean Regional Security System.



It is expected that these main areas of intervention will be further elaborated at the feasibility stage.

A decision on the mode of delivery for this EC assistance under the 10th EDF will be taken at a later stage, in the light of experience with the current assistance using the project approach and budget support.

The main sector policy measures to be taken by the Government as a contribution to the implementation of the response strategy in this field involve:

- (a) Implementing measures to achieve recurrent account surpluses over the period of the programme;
- (d) Implementing cash management and commitment controls in line ministries;
- (e) Strengthening its institutional capacity to collect, record and analyse economic and financial data;
- (f) Reinforcing institutional mechanisms within the NAO Office, to allow for an increased implementation rate in future and more efficient management of EC (not only EDF) funds.

Commitments by the Government to ensure the mainstreaming of cross-cutting issues:

- *Environmental measures*: As tourism is considered to be the future lifeblood of the country's economy the protection of the environment is fundamental in order to preserve the quality of services. The Government will reinforce institutional mechanisms to improve compliance with environmental regulations as part of its efforts to improve governance.
- *Gender equality*: As part of the programme to modernise and reform the public sector and tighten expenditure controls in line ministries and departments, equal opportunities for women will be guaranteed.

#### **1.4. General budget support**

The indicative programme does not provide for general budget support, although the mode of support for the focal sector has yet to be decided. However, in the light of changing needs, it may be decided to reallocate funds from other points in the NIP to this type of support. Such a decision can be taken in the form of a specific agreement between the Chief Authorising Officer and the National Authorising Officer or within the context of an operational, mid-term, final or ad hoc review.

#### **1.5. Other programmes**

##### *Technical Cooperation Facility*

An indicative amount of €450.000 will be set aside for the Technical Cooperation Facility (TCF), in particular to support non-state actors (NSAs) and to provide Trade-Related Technical Assistance.





The overall objective of the TCF is to support the implementation of the NIP and other relevant ad-hoc activities as needs emerge. The specific objective is to provide rapid financing for i) Technical Assistance; ii) Training Support and Capacity Building; iii) Conferences and Seminars; and iv) to promote the use of results from scientific and technological cooperation as well as other relevant Community programmes to increase the synergies across the entire range of cooperation possibilities.

It is already envisaged that part of the funds under the TCF will be allocated to support Non-State Actors, in particular for the identification/establishment and consolidation of an NSA Forum as an important instrument for enhancing dialogue among the Government, the EU, the private sector and civil society organisations. NSAs can benefit from the three main areas of intervention of the TCF. The participatory approach of NSAs at all levels in a country's development is one of the fundamental principles of the Cotonou Agreement. NSAs are to be encouraged to take part in the design, implementation and review of national development strategies. The intervention would aim to strengthen the capacities of NSAs in order to support their involvement in policy dialogue within the country, especially for small organisations with the capacity to reach and represent vulnerable or isolated groups of the population, and to allow them to play a more meaningful role on the national scene. This would focus mainly on strengthening the internal structure and organisation of NSAs, broadening their networks, improving their management and setting up sustainable fund-raising mechanisms. Monitoring mechanisms to assess the quality of involvement will also be introduced. Support to Non State Actors may cover activities including, inter alia, capacity building, advocacy, research, awareness raising, monitoring and delivery of services to the population. In supporting Non State Actors, the EC may make use of Article 15 (4) which allows it to be the Contracting Authority. An amount of €30.000 shall be made available for that purpose.

Similarly, TDF funds may be allocated to Trade-Related Technical Assistance. Organisational capacities and resources in OECS countries are inadequate to cover the different trade negotiating theatres in which they are involved, as many of the ministries are very small with limited technical capacity. The Government would therefore benefit from technical assistance in this area.

The main measures to be taken by the Government as a contribution to the implementation of the response strategy in the non-focal areas will concern:

- *NSAs*, to identify/establish an NSA Forum, widely representative of civil society, which should become a legitimate interlocutor within a tri-partite dialogue with the Government and the EU and to facilitate the establishment and functioning of an institutional framework for consultation with civil society on national issues;
- *TRTA*, to ensure adequate staffing to cover trade negotiations in different fora, in particular for the EU-CARIFORUM EPA, and a continued commitment to regional integration and the conclusion of international trade negotiations.

There is also provision for Technical Assistance, to the extent necessary and requested, to promote good governance in the tax area. This could include the provision of studies, targeted activities and capacity building to facilitate increased compliance with the principles of good governance in the tax area.

*Support to the NAO*

An indicative amount of €225.000 will be set aside for providing Support to the NAO Office. The objective is to provide technical assistance to the NAO Office in order to ensure the efficient management and coordination of EC (not only EDF) funds and to guarantee an increased implementation rate in future. Past and present cooperation has shown the utmost importance of the need to provide the NAO Office with the necessary human resources to ensure more effective, efficient and rapid implementation of EU-funded projects. Furthermore, the NAO Office will have to manage funds several times the amount of the NIP under the Sugar Facility. This allocation for Technical Assistance (TA) to the NAO Office will also be complemented from funds under the Sugar Facility.

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## 1.6. Intervention framework & performance indicators

### 1.6.1. Focal Sector — Safety and Security

	Intervention Logic	Objectively Verifiable Indicators	Sources of Verification	Assumptions
<b>Overall Objectives</b>	To improve safety conditions in St Kitts and Nevis in order to ensure a stable environment for sustainable growth and investment	Crime rate reduction Increase in investment Increase in tourist arrivals	Ministry of National Security Ministry of Finance Ministry of Tourism	Police mission statement is continuously enforced
<b>Programme Purpose</b>	To support the enhancement and modernisation of services aimed at ensuring safety and security, by developing human resources, building capacities and enhancing relevant services and infrastructure	Improved quality of police services Increase in resolved crime cases  Improved general public satisfaction with safety conditions in the country and police services	Police Force data Programme records Crime reduction statistics Opinion polls	Government maintains determination to improve public safety conditions  Security policy management is effective
<b>Results</b>	<p>Capacity Building and HRD</p> <ul style="list-style-type: none"> <li>- Police training school curriculum upgraded</li> <li>- Recruitment and staffing policies reviewed</li> <li>- Formal system in place for continued identification and implementation of skills development programmes</li> <li>- Training in public administration and management, criminology, legal studies, security, forensic science and computer technology</li> <li>- Specialised training at recognised regional and international institutions</li> </ul> <p>Development and modernisation of security services</p> <ul style="list-style-type: none"> <li>- Police stations, police training school and coastguard facilities upgraded</li> <li>- New facilities in underserved communities</li> <li>- Appropriate and modern IT introduced</li> <li>- Electronic surveillance installed in strategic areas</li> </ul> <ul style="list-style-type: none"> <li>- Introduction of essential modern crime-fighting services, such as detoxification; improvement in the detection and solving of crime</li> <li>- Neighbourhood Watch Programme set up</li> </ul> <p>Active collaboration in regional and international security-related initiatives</p>	<p>Curriculum upgraded Policies reviewed System in place</p> <p>Number of training courses held</p> <p>Number of agents attending foreign specialised training</p> <p>Number of facilities upgraded</p> <p>Number of facilities built New IT systems introduced Number of areas benefiting from electronic surveillance Number of modern crime-fighting services introduced NWP set up and functioning</p> <p>Collaboration pursued</p>	Project Reports	<p>Government's continued commitment to the development of public safety conditions</p> <p>Police force commitment to deliver improved services</p>

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## 1.7. Indicative timetable for commitments and disbursements

### 1.7.1. Indicative timetable of global commitments

	Indicative allocation	2008		2009		2010→	
		1	2	1	2	1	2
<b>1<sup>st</sup> FOCAL SECTOR — Security and Safety</b>	<b>€3.825m</b>						
- Safety and Security Improvement Programme	€3.825m						
<b>NON-FOCAL SECTORS</b>	<b>€0.675m</b>						
- Technical cooperation facility	€0.450m						
- Support to the NAO Office	€0.225m						
<b>Total commitments:</b>	<b>€4.5m</b>						
<b>Total cumulative commitments:</b>	<b>€4.5m</b>						

### 1.7.2. Indicative timetable of disbursements

	Indicative allocation	2008		2009		2010→	
		1	2	1	2	1	2
<b>1<sup>ST</sup> FOCAL SECTOR — Security and Safety</b>	<b>€3.825m</b>						
- Safety and Security Improvement Programme	€3.825m		0.5		1.0		1.0
<b>NON-FOCAL SECTORS</b>	<b>€0.675m</b>						
- Technical cooperation facility	€0.450m		0.1		0.1		0.1
- Support to the NAO Office	€0.225m		0.1				0.1
<b>Total commitments:</b>	<b>€4.5m</b>		<b>0.7</b>		<b>1.1</b>		<b>1.2</b>
<b>Total cumulative commitments:</b>	<b>€4.5m</b>		<b>0.7</b>		<b>1.8</b>		<b>3.0</b>

## 1.8. Schedule of activities

1 <sup>st</sup> FOCAL AREA (...€m)	Indicative allocation	2008				2009				2010→			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	
- Safety and Security Improvement Programme (Activities to be determined by a pre-feasibility study)	€3.825m				FS*	FP	FD	□	□	□	□	□	
NON-FOCAL AREAS (...€m)		2008				2009				2010→			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
- Technical cooperation facility	€0.450m			FP	FD	□	□	□	□	□	□	□	
TAF – (Expertise required including: fees, living allowances and reimbursable expenses)	€0.265m												
TSPP – (including Supplies and equipment, rental of premises and incidental expenditures)	€0.086m												



## APPENDIXES

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## APPENDIX 1 — 'Country at a glance' table

### A. TABLE OF MACROECONOMIC INDICATORS

Source: World Bank OECs Country Assistance Strategy 2007-2011

Indicator	Actual			Estimate			Projected			
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
stock of net imputed official reserves	49	60	70	68	74	78	81	81	82	82
capital expenditures	10,3	8,4	13,9	6,9	8,2	8,6	8,2	6,2	5,6	5,6
grants	0,8	0,5	3,0	0,6	1,6	0,9	2,6	1,7	0,0	0,0
cap revenues	0,3	0,4	0,7	0,2	0,2	0,2	0,2	0,2	0,2	0,2
tot reven			35	33	35	40	39	37	37	37
current revenues			31,1	32,3	33,6	38,5	35,8	34,9	36,5	36,6
Tot expenditur			53	42	44	45	42	39	38	38
net lending			5,4	1,4	1,4	0,7	0,0	0,0	0,0	0,0
capital expenditure			13,9	6,9	8,2	8,6	8,2	6,2	5,6	5,6
current expenditure			33,7	33,6	34,3	35,4	34,0	33,0	32,6	32,5
<b>National accounts (as % of GDP)</b>										
Gross domestic product <sup>b</sup>	100	100	100	100	100	100	100	100	100	100
Agriculture	2,7	3,1	3,4	3,0	3,0	2,9	2,6	2,5	2,4	2,4
Industry	26,8	28,5	26,8	25,4	26,9	26,4	26,2	26,5	26,4	26,4
Services	70,5	68,4	69,8	71,6	70,1	70,7	71,2	71,0	71,2	71,2
Total Consumption	80	69	81	75	68	71	71	70	70	71
Gross domestic fixed investment	50	54	48	47	48	43	42	41	40	38
Government investment	10,3	8,4	13,9	6,9	8,2	8,6	8,2	6,2	5,6	5,6
Private investment	39,2	45,4	33,8	40,2	39,7	34,4	33,8	34,8	33,9	32,4
Exports (GNFS) <sup>b</sup>	46	46	44	47	52	54	53	54	55	56
Imports (GNFS)	75	69	72	69	68	67	66	65	64	64
Gross domestic savings	21	31	19	25	32	29	29	30	30	30
Gross national savings <sup>d</sup>	30	25	11	18	24	23	22	21	20	20
<b>Memorandum items</b>										
Gross domestic product	330	345	355	369	397	421	442	467	492	516
(US\$ million at current prices)										
GNI per capita (US\$, Atlas method)	6610	6420	6370	6860	7600					
<b>Real annual growth rates (%)</b>										
Gross domestic product at factor cost	6,5	1,7	-0,3	0,6	4,0	3,6	1,9	3,4	3,9	4,0
Real annual per capita growth rates (% calculated from 1977 prices)										
Gross domestic product at market prices	5,7	0,9	-1,1	-0,2	3,2	2,8	1,1	2,6	3,1	3,2
<b>Balance of Payments (US\$ millions)</b>										
Trade Balance	-121	-112	-113	-118	-127	-130	-137	-140	-146	-151
Exports (GNFS) <sup>c</sup>	150	160	155	174	207	225	233	251	269	288
Merchandise Exports FOB	52	55	64	63	68	72	68	73	77	82
Imports (GNFS) <sup>c</sup>	247	238	257	256	271	283	290	302	317	332
Merchandise Imports FOB	173	167	178	180	195	202	206	213	223	233
Services Balance	24	34	10	36	63	73	80	89	98	107
Tourism receipts	58	62	56	73	91	102	111	121	131	141
Resource balance	-97	-78	-103	-82	-64	-57	-57	-51	-48	-44
Net current transfers	63	18	16	17	18	18	18	17	17	17
Current account balance	-65	-100	-131	-109	-95	-92	-95	-94	-94	-93
Net private foreign direct investment	96	88	80	51	54	56	63	59	62	65
Long-term loans (net)	10	62	44	43	22	6	9	6	4	3
Other capital (net, incl. errors & omissions)	-34	-73	-110	-83	-89	-74	-81	-73	-73	-75
Change in reserves <sup>e</sup>	-7	23	117	98	109	105	104	101	100	100
<b>Memorandum items</b>										
Resource balance (% of GDP)	-29,5	-22,7	-29,0	-22,2	-16,0	-13,6	-12,9	-11,0	-9,7	-8,5
<b>Public finance (as % of GDP at market prices)<sup>f</sup></b>										
Total revenue and grants	29,9	29,0	34,8	33,1	35,4	39,6	38,6	36,8	36,7	36,8
Total expenditure and net-lending	44,3	41,4	53,0	41,9	43,9	44,7	42,2	39,2	38,2	38,1
Central government overall balance	-14,4	-12,4	-18,2	-8,9	-8,5	-5,1	-3,6	-2,4	-1,5	-1,4
Capital expenditure	10,3	8,4	13,9	6,9	8,2	8,6	8,2	6,2	5,6	5,6
Primary balance	-9,5	-6,7	-11,2	-1,2	-0,5	3,3	5,4	6,8	7,7	7,8
<b>Monetary indicators</b>										
M2/GDP	87,4	85,4	87,8	90,6	98,1	..	..	..	..	..
Growth of M2 (%)	27,9	2,3	6,4	6,9	16,4	..	..	..	..	..
Consumer price index (% change, eop)	3,1	2,6	1,8	2,3	2,3	2,0	2,0	2,0	2,0	2,0

a. Projections for 2005-09 are based on an adjustment scenario including the closure of the St. Kitts Sugar Manufacturing Company and the transfer of sugar lands to its creditors in 2006.

b. GDP at factor cost

c. "GNFS" denotes "goods and nonfactor services."

d. Includes net unrequited transfers excluding official capital grants.

e. Includes use of IMF resources.

f. Combined accounts of the Federal government of St. Kitts and Nevis and the Nevis Island Administration.

g. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

## St. Kitts and Nevis - Key Exposure Indicators

Indicator	Actual			Estimate			Projected			
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total debt outstanding and disbursed (TDO) (US\$m) <sup>a</sup>	401,1	483,3	570,2	625,5	676,7	713,1	592,7	598,9	601,3	603,4
Debt and debt service indicators (%)										
TDO/XGS <sup>b</sup>	267,5	302,8	369,0	359,7	326,6	316,4	254,3	238,3	223,4	209,3
TDO/GDP	121,7	140,2	160,5	169,4	170,5	169,3	134,0	128,2	122,2	117,0
IBRD exposure indicators (%)										
IBRD TDO (US\$m) <sup>d</sup>	4,51	6,59	8,67	11,89	13,20	16,3	17,7	18,6	18,6	17,5
IDA TDO (US\$m) <sup>d</sup>	1,44	1,36	1,43	1,53	1,55	1,31	0,95	0,59	0,17	0,00
IFC (US\$m)										
Loans	..	..	..	..	..	..	..	..	..	..
Equity and quasi-equity /c	..	..	..	..	..	..	..	..	..	..
MIGA										
MIGA guarantees (US\$m)	..	..	..	..	..	..	..	..	..	..

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.

b. "XGS" denotes exports of goods and services, including workers' remittances.

c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.

d. Includes present value of guarantees.

e. Includes equity and quasi-equity types of both loan and equity instruments.

## B. Table of indicators for the MDGs

	1990	1994	1997	2000	2003	2004	2005
<b>Goal 1: Eradicate extreme poverty and hunger</b>							
Income share held by lowest 20%	..	..	..	..	..	..	..
Malnutrition prevalence, weight for age (% of children under 5)	..	..	..	..	..	..	..
Poverty gap at \$1 a day (PPP) (%)	..	..	..	..	..	..	..
Poverty headcount ratio at \$1 a day (PPP) (% of population)	..	..	..	..	..	..	..
Poverty headcount ratio at national poverty line (% of population)	..	..	..	..	..	..	..
Prevalence of undernourishment (% of population)	..	..	19	..	11	11	10.0
<b>Goal 2: Achieve universal primary education</b>							
Literacy rate, youth total (% of people ages 15-24)	..	..	..	..	..	..	..
Persistence to grade 5, total (% of cohort)	..	..	..	87	..	..	..
Primary completion rate, total (% of relevant age group)	..	..	..	119.0	107.5	114.3	..
School enrolment, primary (% net)	..	..	..	..	..	..	93.0
<b>Goal 3: Promote gender equality and empower women</b>							
Proportion of seats held by women in national parliament (%)	7.0	..	13.0	13.0	13.0	13.0	13.0
Ratio of girls to boys in primary and secondary education (%)	..	..	..	..	..	..	..
Ratio of young literate females to males (% ages 15-24)	..	..	..	..	..	..	..
Share of women employed in the non-agricultural sector (% of total non-agricultural employment)	..	..	..	..	..	..	..
<b>Goal 4: Reduce child mortality</b>							
Immunisation, measles (% of children aged 12-23 months)	99.0	99.0	97.0	99.0	98.0	98.0	99.0
Mortality rate, infant (per 1 000 live births)	..	..	..	..	..	..	..
Mortality rate, under-5 (per 1 000)	..	..	..	..	..	..	..
<b>Goal 5: Improve maternal health</b>							
Births attended by skilled health staff (% of total)	..	..	..	..	..	..	..
Maternal mortality ratio (modelled estimate, per 100 000 live births)	..	..	..	..	..	..	..
<b>Goal 6: Combat HIV/AIDS, malaria, and other diseases</b>							
Children orphaned by HIV/AIDS	..	..	..	..	..	..	..
Contraceptive prevalence (% of women ages 15-49)	..	..	..	..	..	..	..
Incidence of tuberculosis (per 100 000 people)	13.6	..	..	..	..	10.7	..
Prevalence of HIV, female (% ages 15-24)	..	..	..	..	..	..	..
Prevalence of HIV, total (% of population ages 15-49)	..	..	..	..	..	..	..
Tuberculosis cases detected under DOTS (%)	..	..	..	0.0	48.6	..	-
<b>Goal 7: Ensure environmental sustainability</b>							
CO2 emissions (metric tons per capita)	1.6	2.1	2.5	2.3	2.4	..	..
Forest area (% of land area)	14	..	..	14	..	..	14.7
GDP per unit of energy use (constant 2000 PPP \$ per kg of oil equivalent)	..	..	..	..	..	..	..
Improved sanitation facilities (% of population with access)	96	..	..	..	96	..	..
Improved water source (% of population with access)	99	..	..	..	99	..	100.0
Nationally protected areas (% of total land area)	..	..	..	..	..	..	..
<b>Goal 8: Develop a global partnership for development</b>							
Aid per capita (current US\$)	193.5	114.1	177.5	88.3	-2.4	-2.3	..
Debt service (PPG and IMF only, % of exports of G&S, excl. workers' remittances)	3	5	5	13	24	..	22.8
Fixed line and mobile phone subscribers (per 1 000 people)	231.1	..	426.8	521.8	610.1	744.9	745.0
Internet users (per 1 000 people)	0.0	..	24.5	61.0	214.1	..	214.0
Personal computers (per 1 000 people)	..	..	..	158.1	214.1	234.1	234.0
Total debt service (% of exports of goods, services and	3	5	5	13	24	..	10.6

	1990	1994	1997	2000	2003	2004	2005
income)							
Unemployment, youth female (% of female labour force ages 15-24)	..	..	..	..	..	..	..
Unemployment, youth male (% of male labour force ages 15-24)	..	..	..	..	..	..	..
Unemployment, youth total (% of total labour force ages 15-24)	..	..	..	..	..	..	..
<b>Other</b>							
Fertility rate, total (births per woman)	2.7	..	2.4	2.2	2.1	2.1	2.1
GNI per capita, Atlas method (current US\$)	3610.0	5010.0	6000.0	6530.0	6980.0	6980.0	7 840.0
GNI, Atlas method (current US\$) (billions)	0.2	0.2	0.2	0.3	0.3	0.3	0.3
Gross capital formation (% of GDP)	55.4	38.1	44.0	49.5	54.5	54.5	..
Life expectancy at birth, total (years)	67.2	..	70.0	70.8	71.3	..	70.0
Literacy rate, adult total (% of people ages 15 and above)	..	..	..	..	..	..	..
Population, total (millions)	..	..	..	0.4	0.4	0.5	0.5
Trade (% of GDP)	134.9	119.2	124.1	121.0	113.4	112.4	..

Source: World Development Indicators database, April 2006; Latest figures: World Development Report 2007/2008

## APPENDIX 2 — Donor matrix

Development Partner	Thematic Areas																
	Private Sector	Financial Sector	Energy	Infrastructure/Transport	Trade	Agriculture & Rural Dev.	Health	Education	Environment	Tourism	Water & Sanitation	Social Protection	Public Sector	Judicial & Legal Reform	Capacity/Inst. Building	Disaster Management	Security & Stability
CDB		X				X	X	X				X	X	X	X	X	
CIDA	X				X				X				X		X	X	
DFID		X			X	X	X	X				X	X				
European Union	X			X	X	X	X	X		X	X	X			X	X	X
France							X					X			X		
Japan	X								X							X	
Kuwait				X													
OAS			X		X			X	X	X		X				X	
Taiwan, China													X				X
UNDP	X	X				X		X	X			X	X		X	X	
USAID	X	X					X							X		X	X
World Bank		X	X	X	X		X	X	X		X	X	X		X	X	X

### **APPENDIX 3 — Executive summary of the Country Environmental Profile**

St Kitts and Nevis made a determined start on the road to sustainable development even before the Earth Summit in 1992. In 1987, it enacted a National Conservation and Environmental Protection Act, a comprehensive piece of environmental legislation for the protection and management of natural resources as an integral part of the country's development. The Earth Summit in 1992 and the Small Island Developing States (SIDS) Barbados Programme of Action (BPOA) of 1994 thus served to support the existing national framework for sustainable development. Since then, several sustainable development initiatives have been promoted as part of the planning process, in particular:

- the National Conservation Commission
- the National Environmental Action Plan
- the National Medium Term Economic Strategy
- the Integrated Strategic Development Plan
- the National Physical Development Plan

The Department of Environment (DoE) in the Ministry of Health and Environment is the lead government agency with overall responsibility for the development and coordination of policies and programmes to protect the natural environment of St Kitts and Nevis. However, while the creation of the DoE was intended to centralise the administration of environmental affairs within Government, there is, and has always been, a network of governmental and non-governmental organisations with specific areas of interest and/or responsibility for sustainable environmental development and management.

In addition to the DoE, the Ministry of Agriculture, Cooperatives, Fisheries, Lands and Housing, the Planning Unit, the Department of Health within the Ministry of Health and Environment, the Ministry of Public Works, Utilities, Transport and Posts, the Ministry of Tourism, the Ministry of Education, the Ministry of Justice and Legal Affairs, the Solid Waste Management Corporation, the National Emergency Management Agency (NEMA), and their counterparts at local government level, i.e. in the Nevis Island Administration, all have important roles in natural resource management and development. There are also a number of national NGOs and public corporations, such as the St Christopher Heritage Society, the Nevis Historical and Conservation Society, the St Kitts Sugar Manufacturing Corporation (SSMC), and the Brimstone Hill Fortress National Park Society, which have essential roles in environmental management.

## APPENDIX 4 — Country migration profile

The International Organisation for Migration (IOM) is in the process of implementing with the OAS a regional programme on migration management in 13 Caribbean countries (Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Dominican Republic, Guyana, Haiti, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Suriname, Trinidad and Tobago). Results should be made available between 2006 and 2007. The availability of statistics has been identified as a serious weakness in the region and IOM and ECLAC are planning to implement a capacity building programme within this area.

CARICOM is also currently conducting a study on migration in the Caribbean, which is intended to identify trends and explain why people in the region migrate. The study follows the release of a United Nations report, which shows a rapid increase in world migration. The report, which should be published by the end of 2006, is expected to pay particular attention to the migration of teachers and nurses from the region, which has left regional educational and health institutions in deep problems.

As the region is predominantly maritime, migration has been a significant characteristic in Caribbean history, with a great deal going on informally. Three main flows of irregular migration are noted in the region today: illegal entry into the Caribbean from other regions, notably China and Latin America, using it as a transit point; illegal emigration from the Caribbean to North America and Europe; and intra-regional migration within the Caribbean from poor to rich countries. Regulating migration faces several barriers in the island states. First, many of the countries are dependent on high flows of visitors to their territories as tourism is their primary export, and it is difficult to ensure that all those entering do not overstay. Second, the vast majority of borders are coastal, spread over a myriad of small islands. Though the US Coast Guard offers a number of Caribbean states joint interdiction services, monitoring these porous borders requires huge resources that are not available in the region.

Though there has traditionally been a considerable amount of intra-Caribbean movement, the impact of globalisation has contributed to a rise in migration, and female migration in particular. Many migrants come from poor or working-class circumstances, crossing borders or moving to cities in search of opportunities that will help improve their socioeconomic status. Others may migrate due to the devastation caused by conflict or natural disasters, to join family members or friends, or to seek out better educational opportunities.

The net migration rate for St Kitts and Nevis was estimated in 2006 at -4.7 migrant(s)/1 000 population (Source: TheWorld FactBook).

## **APPENDIX 5 — CSP drafting process: particular attention to involvement of NSAs and local authorities**

A first round of consultations between the EC and the Government of Saint Kitts and Nevis took place in April 2006 (Seminar in Santo Domingo) in the presence of Commissioner Michel, who stressed the importance attached to public sector reform and private sector development and to the link between regional and national programming.

With specific reference to non-state actors (NSAs), during the MTR ‘in-country-meeting’ of December 2004 and with the aim of strengthening civil society involvement in the EU/SKN development partnership, it was agreed that an NSA advisory panel, representative of St Kitts and Nevis civil society, would be established by the Government of St Kitts and Nevis. The panel would provide a forum for tripartite dialogue, information and consultation on development cooperation between the EU and St Kitts and Nevis. In the second half of 2005, a team of international consultants assisted the Government and the Delegation with the mapping of NSAs in St Kitts and Nevis and the selection of members of the Panel. However, the Government very recently indicated that it would prefer to use the existing mechanism for consulting with civil society (the Economic and Social Partners Forum) in order to avoid duplication.

In May 2006, a team of international consultants was recruited in order to facilitate consultations and dialogue among stakeholders in the phase of drafting the Country Strategy Paper (CSP) and the National Indicative Programme (NIP). The process included a first round of meetings with the NAO and relevant government officials, aiming to provide the government with a comprehensive overview of the planning and main elements of the programming exercise, and also to gain insight into national priorities, strategies and plans as well as national orientations for the 10th EDF.

During the drafting of the St Kitts and Nevis CSP and NIP, a Programming Regional Workshop was held at the end of June 2006, involving all NAOs of the seven Eastern Caribbean countries for which the EC Delegation in Barbados is responsible (i.e. Antigua & Barbuda, Barbados, Dominica, Grenada, St Lucia, St Kitts and Nevis, St Vincent and the Grenadines), and representatives of the donors active in the region (CIDA, CDB, CARTAC, ECCB, EIB, French Cooperation, IDB, IMF, OECS, DFID, UNDP, USAID and the World Bank). The workshop aimed to discuss in a comprehensive forum the 10th EDF programming exercise, the main priority reforms at regional level and for each country concerned, and the possibility for synergies and coordination between the countries in their priorities for cooperation with the EU and other donors.

This exchange was followed by further in-country consultations, involving both government and non-state actors, in order to present the 10th EDF programming exercise and discuss programming orientations for St Kitts and Nevis. This aimed to ensure the dynamic participation of all key St Kitts and Nevis stakeholders in the programming exercise and ensure that the Economic and Social Partners Forum can be used in future as the mechanism for consultation with civil society within the framework of cooperation between the EU and St Kitts.



## **APPENDIX 6 — The harmonisation road map (where there is one)**

Refer to paragraph 3.5 in the main document

## APPENDIX 7 — Table of partner country positions in relation to key international conventions

### HUMAN RIGHTS — MAIN GLOBAL CONVENTIONS

Convention	St Kitts and Nevis status
Convention on the Prevention and Punishment of the Crime of Genocide	----
Agreement establishing the Fund for the Development of the Indigenous Peoples of Latin America and the Caribbean	----
International Covenant on Economic, Social and Cultural Rights (CESCR)	----
International Covenant on Civil and Political Rights (CCPR)	----
Optional Protocol to the International Covenant on Civil and Political Rights (CCPR-OP1)	----
Second Optional Protocol to the International Covenant on Civil and Political Rights, aimed at the abolition of the death penalty (CCPR-OP2-DP)	----
International Convention on the Elimination of All Forms of Racial Discrimination (CERD)	12 Nov 2006
Convention on the Elimination of All Forms of Discrimination against Women (CEDAW)	25 May 85 a
Optional Protocol to the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW-OP)	20 Apr 2006
Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment (CAT)	----
Convention on the Rights of the Child (CRC)	02 Sep 90
Optional Protocol to the Convention on the Rights of the Child (CRC-OP-AC)	----
Optional Protocol to the Convention on the Rights of the Child (CRC-OP-SC)	----
International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families (MWC)	----

The dates listed refer to the date of ratification, unless followed by an 'a', which signifies accession; 'd', which signifies succession; 's', which signifies signature only

**ILO CONVENTIONS (SOURCE: ILOLEX — 2. 6. 2006)**

*Saint Kitts and Nevis* has ratified 9 instruments

Convention	Ratification date	Status
C29 Forced Labour Convention, 1930	12/10/2000	ratified
C87 Freedom of Association and Protection of the Right to Organise Convention, 1948	25/08/2000	ratified
C98 Right to Organise and Collective Bargaining Convention, 1949	04/09/2000	ratified
C100 Equal Remuneration Convention, 1951	25/08/2000	ratified
C105 Abolition of Forced Labour Convention, 1957	12/10/2000	ratified
C111 Discrimination (Employment and Occupation) Convention, 1958	25/08/2000	ratified
C138 Minimum Age Convention, 1973	03/06/2005	ratified
C144 Tripartite Consultation (International Labour Standards) Convention, 1976	12/10/2000	ratified
C182 Worst Forms of Child Labour Convention, 1999	12/10/2000	ratified

**INTERAMERICAN CONVENTION AGAINST CORRUPTION (1996)**

SIGNATORY COUNTRIES	DATE	STATUS
Antigua & Barbuda	01/13/04	RA
Barbados	04/06/01	SI
Dominica	09/14/04	AC
Grenada	11/15/01	RA
St Lucia	01/23/03	AC
St Kitts & Nevis	08/04/04	RA
St Vincent & Grenadines	05/28/01	AC

RA = RATIFICATION  
 SI = SIGNATURE  
 AC = ACCESSION

**ROME STATUTE OF THE INTERNATIONAL CRIMINAL COURT (1998)**

Country	Signature	Ratification, Acceptance(A), Approval(AA), Accession(a)
Antigua & Barbuda	23 Oct 1998	18 Jun 2001
Barbados	8 Sep 2000	10 Dec 2002
Dominica		12 Feb 2001 a
Grenada	----	----
St Lucia	27 Aug 1999	----
St Kitts & Nevis	----	----
St Vincent & Grenadines		3 Dec 2002 a

## APPENDIX 8 — Debt Sustainability Analysis (if available from the IFIs, where appropriate)

Taken from IMF — Staff Report for the 2005 Article IV Consultation, December 2005  
<http://www.imf.org/external/country/KNA/index.htm>

### Restoring Fiscal and Debt Sustainability

Steering the debt onto a firm downward path would require a determined effort on several fronts, with strong, sustained fiscal adjustment at the core. If policies remain unchanged, the debt stock would continue rising, exceeding 200 percent of GDP before the end of the decade (although continued financing under this passive scenario could be highly problematic).

While there was a consensus that debt needed to be reduced, the authorities argued that near-term risks remained small. They emphasised their strong record of debt servicing and active debt management. The mission noted, however, that interest payments are a large share of revenues and are likely to rise further in line with world interest rates and higher risk premia. Moreover, anecdotal evidence suggested that external borrowing conditions for the public sector were tightening, with lenders demanding land as collateral, shorter maturities, and higher arrangement fees, indicating rising risk premia. With little fiscal room left for manoeuvre, any adverse shock could destabilise the authorities' reform programme.

#### St. Kitts and Nevis: Options for Fiscal Adjustment in 2006 (In percent of GDP)

Measure	Yield
<b>Expenditure and net lending</b>	<b>4.0-5.3</b>
Contain the wage bill	0.5-0.8
Contain expenditure on goods and services	0.5-0.7
No net lending to public enterprises 1/	0.4-0.6
Restrict capital expenditure to well-targeted projects 1/	2.7-3.2
<b>Revenue</b>	<b>2.0-2.8</b>
Increased effort to collect tax arrears	0.1-0.2
Raise property taxes by market value-based approach	0.2
Stricter enforcement of hotel taxes	0.1-0.2
Increased effort to collect the domestic consumption tax	0.1-0.2
Introduce new pricing mechanism for petroleum products	0.2
Reduce tax concessions	0.3-0.5
Raise electricity and water charges	0.6-0.9
Increase taxation of gambling	0.2-0.4
<b>Total impact of fiscal measures</b>	<b>6.0-8.1</b>
<b>Additional expenditures for downsizing sugar sector 2/</b>	<b>1.1</b>

Source: St. Kitts and Nevis authorities; and Fund staff estimates.

Note: Includes effect of implementing already announced initiatives, as well as introducing new measures also recommended by previous IMF missions.

1/ Compared to a passive scenario involving a reversion towards historical levels of net lending and an increase in capital expenditure.

2/ It is envisioned that costs of severance payments will amount to EC\$30 million (2.5 percent of GDP), of which about EC\$5 million will not be paid until 2006. Continuing outlays for land maintenance and diversification are projected to amount to EC\$10 million a year.

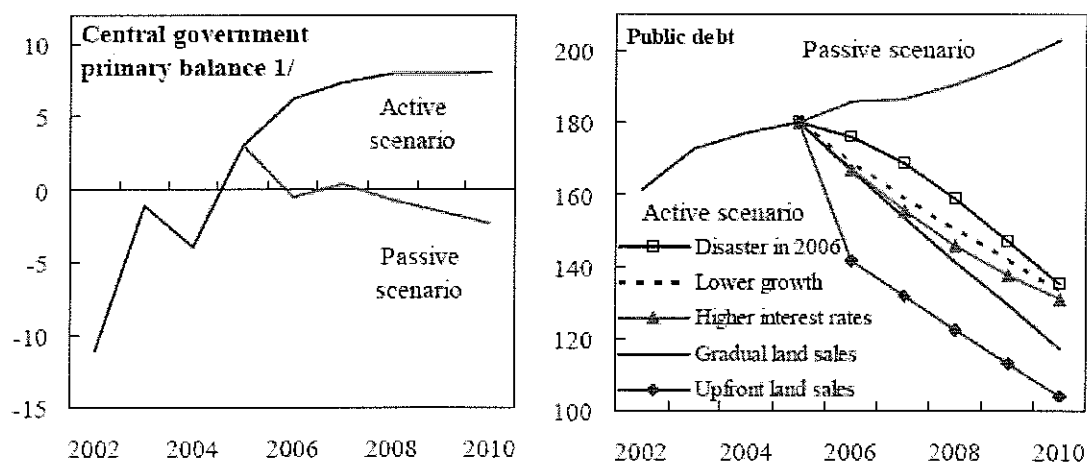
## Debt Sustainability

Even with strong economic growth and the absence of adverse external shocks, bringing the debt down to a more manageable level will be a prolonged process. Over a longer-term perspective, significantly strengthening debt management capacity (including a fully formulated debt strategy) will be critical.<sup>6</sup> In the meantime, addressing the sugar-related debt will be the crucial first step. Staff presented two scenarios, with differing assumptions on the approach to land sales (Annex II):

- The mission's recommended fiscal adjustment, combined with solid medium-term growth and the public sale of a land management company, could lower the debt-to-GDP ratio to about 100 percent by the end of the decade.
- The same fiscal adjustment and growth assumptions, without an upfront sale of land, but with strong privatisation receipts of 4 percent of GDP per year, would lower the debt ratio to almost 115 percent by the end of the decade.<sup>7</sup>

Even a determined effort to reduce the debt burden would leave the economy highly vulnerable to adverse external shocks. A serious risk is a hurricane similar to those experienced in the late 1990s, which could easily add 20 percentage points to the debt-to-

St. Kitts and Nevis: Public Sector Debt Dynamics (in percent of GDP)



Source: St. Kitts and Nevis authorities; and Fund staff estimates and projections.

1/ Combined accounts of the St. Kitts government and the Nevis Island Administration.

GDP ratio. A less benign outcome for interest rates or economic growth, or further terms-of-trade shocks (for example, oil price increases), would also slow progress dramatically. Without substantial fiscal adjustment, the debt dynamics could become explosive (assuming the continued availability of financing). If access to new financing were to dry up, the implication would be a disorderly fiscal, economic, and social adjustment. The increasing difficulties in securing reasonably priced external financing, together with the impact that

<sup>6</sup> The authorities participated in a hands-on joint CARTAC/ECCB/IMF Debt Management Workshop in October 2005. At the conclusion of the workshop, participants prepared an action plan to strengthen the legislative and organisational aspects and technical capacity of debt management units across the ECCU region.

<sup>7</sup> Few countries have ever generated privatisation receipts of more than 4 percent of GDP a year over the medium term.

persistent recourse to domestic financing might have on the banking sector (see Appendix III), underscore the risks facing the economy.

**While downplaying the risks, the authorities considered a more gradual approach to debt reduction.**<sup>8</sup> They argued that comparisons of St Kitts and Nevis' debt ratio with those prevailing in other countries were misleading, owing to the high growth potential and unique features of small island economies. Given the substantial assets in the form of government-owned land and social security investments, the high gross debt levels did not, in their view, indicate problems of solvency. The authorities also saw little likelihood of a precipitous increase in interest rates, in view of the disconnect between global capital markets and the highly liquid domestic market.<sup>23</sup> They agreed that natural disasters were a risk, but contended that mitigation efforts had now substantially reduced their vulnerability.

### Public Debt Dynamics

Two baseline scenarios are first considered:

- **Passive.** Assumes no new fiscal or structural measures beyond those already initiated and has real GDP growth gradually declining to 1½ percent a year.
- **Active.** Assumes the introduction of the fiscal and structural measures outlined above and has real GDP growth stabilising at 4 percent a year, following a small dip in 2006. Two variations are considered:
  - **Upfront land sales.** Sale in early 2006 of sugar lands vested in a land management company for an amount equal to SSMC's current debt, with privatisation receipts of 1 percent of GDP in subsequent years.
  - **Gradual land sales.** Privatisation receipts of 4 percent of GDP a year during 2006–2010.

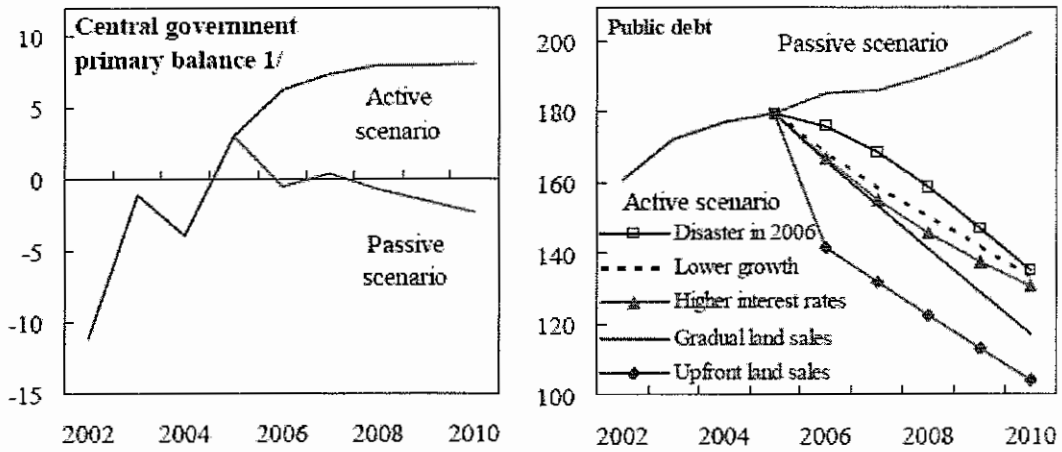
The following scenarios use the assumptions of the active scenario with gradual land sales, modified as follows:

- **Natural disaster in 2006.** Roughly in line with the impact of recent hurricanes, this scenario assumes that GDP growth is reduced by 3½ percent in 2006 and expenditure is increased by 10 percent of annual GDP, spread out over 2006–08.
- **Lower growth.** GDP growth declines as in the passive scenario.
- **Higher interest rates.** The interest rate increases gradually by 5 percentage points relative to the base case, in which the marginal interest rate increases in line with the WEO projections for the US deposit rate. The impact on public sector debt is illustrated below:

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<sup>8</sup> The 2005 budget address declared the aim of reducing the overall fiscal deficit to under 3.5 percent of GDP over the medium term and bringing public debt below 100 percent of GDP over a 10-year period. The specific details for achieving these outcomes were, however, not fleshed out.

Public Sector Debt Dynamics (in percent of GDP)



Source: St. Kitts and Nevis authorities; and Fund staff estimates and projections.

1/ Combined accounts of the St. Kitts government and the Nevis Island Administration.

Table 9. St. Kitts and Nevis: Public Sector Debt Sustainability Framework, 2000-10 (Active Scenario with Gradual Lead Sains)  
 (In percent of GDP, unless otherwise indicated)

	Actual			Projections							Debt-to-GDP ratio primary balance %
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	
1 Reserve: Public sector debt / of foreign-currency denominated	122.2	134.8	141.0	171.4	177.2	179.9	164.2	143.4	141.3	123.1	117.9
2 Change in public sector debt	49.2	64.8	71.0	86.8	77.5	67.1	65.4	38.1	33.2	43.9	43.7
3 Change in public sector debt	16.6	16.6	22.2	31.6	4.6	2.7	-13.7	-22.8	-12.1	-12.1	-12.1
4 Identified debt-creating flows (41+74+12)	10.2	14.9	26.2	18.8	2.8	3.1	-13.7	-12.8	-12.1	-12.1	-12.1
5 Primary deficit	10.7	10.3	19.3	3.7	9.3	3.1	-7.8	-18.9	-8.3	-9.3	-9.6
6 Revenue and grants	-40.3	39.4	43.2	45.4	44.0	48.0	46.7	45.7	46.2	45.0	44.8
7 Primary (noninterest) expenditure	51.0	49.7	64.3	49.2	51.3	51.1	30.8	36.8	35.8	35.3	35.3
8 Automatic debt dynamics (2)	-1.1	1.5	1.5	1.1	1.4	1.4	1.4	1.4	1.4	1.4	1.4
9 Contribution to debt growth differential (3)	-0.5	3.5	6.5	4.1	-4.5	-3.4	-1.9	-0.1	1.3	1.4	1.4
10 Of which contribution from real interest rate	6.3	5.3	6.2	2.6	-3.5	2.3	4.4	7.0	7.2	6.8	6.3
11 Contribution from exchange rate depreciation (4)	-4.8	-1.9	0.4	1.4	-9.9	-7.9	-6.3	-6.9	-5.9	-5.3	-4.9
12 Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	-4.0	-4.0	-4.0	-4.0	-4.0
13 Privatization receipts (negative)	0.0	1.2	0.4	0.0	0.0	0.0	-4.0	-4.0	-4.0	-4.0	-4.0
14 Recognition of previously unrecognized liabilities (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
15 Other (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
16 Residual, including lead changes (2-3) / 5	-1.6	1.6	-4.0	-0.8	1.8	0.0	0.0	0.0	0.0	0.0	0.0
Public sector debt-to-revenue ratio (1)	393.1	352.4	351.9	397.2	402.9	374.7	356.2	375.5	317.4	286.8	269.9
17 Green financing need (6)	33.2	48.4	61.3	73.5	75.3	86.3	84.0	78.8	71.9	66.3	63.2
18 In billions of U.S. dollars	0.2	0.2	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Scenario with key variables at their historical averages (7)											
Scenario with no policy change (constant primary balance) in 2005-10											
Key Macroeconomic and Financial Assumptions Underlying Baseline											
Real GDP growth (in percent)	6.5	1.7	-0.3	-0.0	6.4	4.9	3.7	4.4	4.1	4.0	4.0
Average real interest rate on public debt (in percent) (8)	3.5	7.6	4.0	7.3	7.1	6.9	6.1	6.4	6.6	6.8	7.0
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-6.1	4.7	4.8	2.3	2.5	1.2	2.8	4.6	5.0	5.1	5.2
Nominal appreciation (increase in US dollar value of local currency, in percent)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inflation rate (CPI deflator, in percent)	1.4	2.9	3.3	3.0	4.5	5.1	3.4	1.9	1.6	1.7	1.7
Growth of real primary spending (deflated by GDP deflator, in percent)	0.8	-1.0	29.3	-24.3	15.3	0.6	-21.1	-1.1	1.1	2.2	3.4
Primary deficit	0.7	1.0	1.2	3.7	9.3	3.1	-7.8	-8.3	-9.3	-9.6	-9.6

1) Public sector covers central government and public enterprises but excluding the social security system. Debt is accounted for on a gross basis.  
 2) Derived as  $(1 - \text{net} - \text{net} - \text{net}) / (\text{net} - \text{net})$  times previous period debt ratio, with  $r =$  interest rate,  $g =$  growth rate of GDP deflator,  $g =$  real GDP growth rate,  $\alpha =$  share of foreign-currency denominated debt.  
 3) The real interest rate contribution is derived from the decomposition in footnote 2) as  $(1 - \text{net} - \text{net}) / (\text{net} - \text{net})$  and the real growth contribution as  $g$ .  
 4) The exchange rate contribution is derived from the decomposition in footnote 2) as  $(\text{net} - \text{net}) / (\text{net} - \text{net})$ .  
 5) For projections, this line includes exchange rate changes.  
 6) Defined as public sector deficit, plus investment of medium and long-term public sector debt, plus short-term debt at end of previous period.  
 7) The key variables include real GDP growth, real interest rate, and primary balance in percent of GDP.  
 8) Interest on external interest expenditures are divided by previous period debt stock.  
 9) Assumptions: Key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.



## APPENDIX 9 — List of Government commitments

Governance area	Prospective commitments
<b>1. Political democratic governance</b>	
- Human rights	-
- Fundamental freedoms	-
- Electoral process	An Electoral Reform Process has been initiated. A national registration system will be introduced, electoral legislation will be revised, and a public education programme carried out by 2008.
- Principles of constitutional democracy	A Democratic Dialogue Programme to cement the relationship between the two islands of the Federation has been initiated and will be completed by 31 December 2007.
<b>2. Political governance — rule of law</b>	
- Judicial and law enforcement system	<p>A Law Revision Project has been initiated to revise the laws of the Federation and will be completed by the end of 2008.</p> <p>A Law Revision/Law Reform Commission will be set up to embark on the exercise of reviewing and making recommendations for reforms in the legal and regulatory framework. This will be initiated by 2008 and run for a period of four (4) years.</p> <p>A Family Court System will be initiated by the end of 2010.</p> <p>An Intellectual Property Office will be established by the end of 2010.</p> <p>The Land Registry System will be updated by the end of 2010.</p>
<b>3. Control of corruption</b>	
<b>4. Government effectiveness</b>	
- Institutional capacity	A Public Sector Reform Unit with a rolling programme was established to carry forward the Public Sector Reform Process. Policies for reforming the Public Service Pension Scheme and the Modernisation of the Human Resource Department of the Public Sector will be

	<p>- Public finance management</p>	<p>implemented by 31 December 2007.</p> <p>The Finance Administration Act, which outlines the legal basis for the financial management of the state, is presently under review in order to improve and implement international and regional best practices. Will be enacted by 30 June 2007.</p> <p>The new Corporation Income Tax Act will be enacted and brought into force by 30 June 2007.</p> <p>The multi-year budgeting — Technical Assistance from ECEMP — is ongoing and awaiting new funding to continue. This should be completed by the end of 2007.</p> <p>The Canadian Corporation Fund should provide Technical Assistance for Public Sector Debt Management by the 3rd quarter of 2007.</p> <p>The Public Sector Enterprise Management Proposal should go to Cabinet by the end of March 2007 with a view to implementation by the end of June 2007.</p>
<p>5.</p>	<p><b>Economic governance</b></p> <p><u>Taxation system and financial sector</u></p>	<p>Government commits to</p> <ul style="list-style-type: none"> <li>- confirming readiness to conclude exchange of tax information agreements with EU Member States that wish to do so.</li> <li>- complete transparency of the tax system to the extent necessary to meet obligations under a tax information agreement concluded with EU Member States, by [depending on the transparency situation of the individual country] insofar as this is asked by EU Member States.</li> <li>- consider how to remove the potentially harmful effects of its tax regimes for EU Member States by 2013 at the latest. It also commits to confirm not to introduce similar regimes in the future.</li> </ul>

	- Private sector/market friendly policies	As part of the economic transformation programme, the Government will be putting in place an array of policies to support private sector development, e.g. One Stop Shops for investors. <i>(prospective)</i>
	- Management of natural resources	A structured approach towards the management of natural resources will be implemented through the National Physical Development Plan between 2006 and 2021.
<b>6.</b>	<b>Internal and external security</b>	
	- Internal stability / conflict	The professionalism of the Police Force will be improved as part of the 10th EDF Safety and Security Project. <i>(prospective)</i>  The operations of the Police Department will be computerised by 2009.  A new Forensic Science Bill will be introduced by 2009  Regulations for the new Police Act will be enacted by 2008.
	- External threats and global security	St Kitts and Nevis has been a party to the Caribbean Regional Security System Treaty since 1996
<b>7.</b>	<b>Social governance</b>	Social Protection Policies will be reviewed and further refined in the context of the Adaptation Strategy in response to the new EU Sugar Regime 2006-2013 <i>(ongoing)</i>  Policies will be implemented to have the community centres operational country-wide. This process will commence by June 2007.
<b>8.</b>	<b>International and regional context</b>	
	- Regional integration	Participation in the CARICOM Single Market and Economy and the OECS Economic Union <i>(ongoing)</i>
	- Involvement in regional peer review mechanisms (e.g. APRM)	
	- Migration	St Kitts and Nevis established a Secretariat for Returning Nationals to support those who wish to return to the Federation. <i>(ongoing)</i>
<b>9</b>	<b>Quality of partnership</b>	

-Political dialogue	Continuation of EU-St Kitts-Nevis Political Dialogue, EU-CARIFORUM, EU-LAC partnership ( <i>prospective</i> )
-Programming dialogue	Regular consultations with the EC Delegation ( <i>ongoing</i> )
-Non-state actors	Operationalisation of the NSA Panel. The panel will meet twice annually ( <i>ongoing</i> )



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