Contents

Executive summary

I. Private sector assessment
5 Background
5 Macroeconomic overview
8 Institutional effectiveness
9 Components of the productive sector
10 Industry and agriculture
10 Services

II. Key challenges for private sector development
12 General political and governance issues
13 Access to finance
16 Cost of electricity
16 Labour market issues
18 Trade issues
19 Environment
19 Gender

III. Emerging sectors
21 Tourism
21 Construction
22 Offshore education services
22 Electronics manufacturing

IV. Priority areas and action plan
23 Background
23 General political and governance issues
24 Access to finance
26 Cost of electricity
26 Labour market issues
27 Conclusions

References
Executive summary

The Private Sector Assessment Report (PSAR) for St. Kitts and Nevis provides a comprehensive overview of the country's private sector. It draws on both primary and secondary data sources. Primary data analyses were derived from interviews with key stakeholders from the domestic private and public sectors as well as interviews with regional and international agencies. A listing of the main stakeholders interviewed is documented in the original country report. Secondary data were utilized to describe the state of the country at both the micro and macro levels. In addition to these specific elements of the research, the development of the PSAR was assisted by consultations organized under the Caribbean Growth Forum (CGF).

The PSAR evaluates the primary components of the productive sector, the key challenges, potential emerging industries and policy recommendations for priority areas. The PSAR also suggests improvements to the general political and governance issues, access to finance, the cost of electricity and labour market issues as being vital in terms of driving future growth.

The private sector in St. Kitts and Nevis is largely driven by services and manufacturing. The median firm size is relatively small. The World Bank Enterprise Surveys (2010) note that around 55% of firms employ fewer than 20 people, with most of the remainder (40%) employing between 20 and 99 people. About 80% of the private sector can be classified as providing some type of service, and the largest companies in St. Kitts and Nevis are involved in services. Tourism is the main driver of activity in the services sector. On average, the construction sector accounted for around 19% of GDP between 2000 and 2010. More recently in 2013, its contribution to GDP has dropped to around 13%, reflecting the slowdown in domestic economic activity. The economy of St. Kitts and Nevis has traditionally depended on the growing and processing of sugarcane, a key foreign-exchange-earning industry which, due to decreasing world prices, has contracted significantly in recent years. The agricultural activity that still occurs takes place mainly on the island of Nevis.

It is clear that there are several constraints on private-sector development in the country, relating to the time and monetary costs of doing business (for example, the costs of electricity, finance and corruption); lack of access to finance, due to stringent conditions for credit provision and an underdeveloped capital market; weaknesses in intra-regional transport; and an inadequately trained labour force. All of this is in an environment in which external threats from climate change, natural disasters and competition from new tourism destinations present severe challenges to the private sector in St. Kitts and Nevis.

1 The original reports can be found on Compete Caribbean’s website: https://www.competecaribbean.org.
2 The CGF is a facilitated methodology for public-private dialogue around issues central to private-sector development and growth. It brings a non-traditional approach to the greatest challenge currently faced by the region: creating sustainable and inclusive growth. The Forum also aims to facilitate an action-oriented dialogue around key policy reforms needed across three thematic areas: investment climate, skills and productivity, and logistics and connectivity. The CGF is a joint initiative by the Compete Caribbean Program, the Inter-American Development Bank, the World Bank and the Caribbean Development Bank. It is supported by the Department of Foreign Affairs, Trade and Development Canada, the United Kingdom’s Department for International Development, the CARICOM Secretariat and the University of the West Indies.
The PSAR identifies general political and governance issues, access to finance, the cost of electricity and labour market issues as key areas for improvement to boost private-sector development, and offers recommendations and an action plan that include increasing efficiency and the use of technology in both the private and public sectors.

The PSAR recommends that the government of St. Kitts and Nevis seek to assist the private sector to build domestic market opportunities as well as to target overseas markets in the areas with the most promising growth prospects, namely tourism, offshore education services and electronics manufacturing.

The PSAR concludes that the private-sector development policy framework must include the implementation of a formal forum for collaboration on private-sector development between key stakeholders and representatives of labour, the private sector and government.
I. Private sector assessment

Background
The government of St. Kitts and Nevis demonstrated its commitment to private-sector development in the 2013 budget address by the prime minister, Denzil Douglas. The budget included plans to reduce corporate tax rates, as well as to extend incentives to the construction industry and measures to stimulate other sectors, notably tourism, wholesale and retail, and information and communications technology (ICT). Key elements of the economic stimulus package included support for the construction sector, entrepreneurship and education, in addition to skills training. Speaking about investment projects to be introduced in the next 5-7 years aimed at stimulating growth in these sectors, Dr Douglas noted:

“These projects will also provide well-needed long-term job opportunities for persons in various fields of expertise such as landscape architects, web developers, graphic designers and mechanics... As far as possible, all capital projects will be designed to create jobs.”

While it appears that the government’s direct target in terms of private-sector development is employment generation, this should not be seen as its end-goal. Rather, it needs to be understood in the context of the effects that employment generation and skills development can have in terms of attracting investment (both domestic and foreign), increasing tax revenue, and reducing poverty and the consequences of living in poverty (primarily crime, health problems and social unrest). Thus, the government’s goal for private-sector development in St. Kitts and Nevis is to create more jobs, and ultimately thereby to contribute to broader economic and social development on the islands.

Macroeconomic overview
The macroeconomic environment in St. Kitts and Nevis is broadly stable: inflation is relatively low, there are no restrictions on capital flows, and exchange-rate uncertainty is limited. The economy grew modestly between 2000 and 2013 (see Figure 1) on an annual average basis. Real GDP is estimated to have stood at US$743m in 2013. On a per-head basis, the islands' GDP of US$15,570 (see Figure 2) ranked third among the comparator countries in 2013.

3 http://www.caribbeanelections.com/blog/?p=2345#more-2345
St. Kitts and Nevis is a member of the Eastern Caribbean Currency Union (ECCU), the common-currency framework for the Organization of Eastern Caribbean States (OECS). The Eastern Caribbean dollar is issued by the Eastern Caribbean Central Bank (ECCB), the monetary authority for the OECS. St. Kitts and Nevis accounted for 13% of the nominal GDP of the OECS in 2013.

The major risk to macroeconomic stability in St. Kitts and Nevis stems from the very high level of public debt and associated financing requirements. Although the public debt ratio has fallen markedly since 2005, it is still high (103% of GDP). The situation has been exacerbated by the global crisis. The global economic slowdown severely affected the local economy through its impact on tourist arrivals, foreign direct investment (FDI) inflows and remittances. The current surge in international food and fuel prices has added to balance-of-payments pressures. The dual impact of the global downturn and the increase

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5 The OECS member countries are Anguilla, Antigua and Barbuda, the British Virgin Islands, Dominica, Grenada, Montserrat, Saint Lucia, St. Kitts and Nevis, and St. Vincent and the Grenadines. All of these are members of the ECCU, with the exception of the British Virgin Islands.

6 ECCB

7 IMF World Economic Outlook 2013
in food and fuel prices will lead to a widening of the current-account deficit over the short term. Despite weak demand in the local economy, inflationary pressures mounted due to increases in fuel and food prices, with inflation peaking at nearly 7% in 2012. This historically high rate of growth in prices, however, slowed somewhat in the following year to just 1.7%. Inflation in St. Kitts and Nevis has generally been low relative to those in comparator countries, at an average of 3.2% a year in the period from 1980 to 2010, compared with 8.5% on average in the comparators during the same period (see Figures 3 and 4).

The economy contracted in both 2009 and 2010, particularly in the areas of tourism and FDI-related construction, the main drivers of growth in recent years. Nonetheless, in the last two years the country has rebounded and registered positive economic growth. The local economy has grown increasingly dependent on tourism and other services as both industry and agriculture have diminished significantly in terms of their share of GDP since 1980. Tourism is

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8 The comparator countries for this study comprise Antigua and Barbuda, the Bahamas, Barbados, Belize, the Dominican Republic, Dominica, Grenada, Guyana, Haiti, Jamaica, Saint Lucia, St. Kitts and Nevis, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Malta, Mauritius, the Seychelles and Palau.
largely dominated by visitor arrivals from the US and the Caribbean, and is therefore dependent on the economic fortunes of these source markets. The decline in tourism receipts, FDI and other capital inflows has severely impacted the balance-of-payments position.

FDI inflows reached US$110m in 2013, while remittance inflows have steadily increased, reaching US$45m in 2012. FDI in St. Kitts and Nevis is largely associated with tourism. In 2013 FDI was equivalent to almost 20% of GDP—one of the highest such proportion among small-island states, and far exceeding the level in most such states9. Given the profile of the local economy, it is likely that most FDI will continue to be tourism-related or will be of the efficiency-seeking variety (for example, investment in international financial services). FDI in these areas will utilize some of St. Kitts and Nevis’s surplus labour, but will also require investment in the islands’ human-resources capabilities.

**Institutional effectiveness**

The Worldwide Governance Indicators Project of the World Bank and the Brookings Institution suggests that St. Kitts and Nevis possesses a degree of strength in the area of government effectiveness (see Figure 5). This indicator captures perceptions of the quality and independence of public services and civil service, the quality of policy formulation and implementation, and the credibility of the government’s commitment to its policies. In 2012 the islands’ score for government effectiveness was in the 70th-80th percentile among all countries evaluated and above the median for the group of comparator countries, with a score of 0.84 on a scale from -2.5 to 2.5.

![Figure 5](image_url)

While St. Kitts and Nevis has a fairly transparent system for doing business, the island’s ranking in relation to the ease of doing business is indicative of a less than supportive business environment. According to the World Bank’s 2014 Doing Business report, St. Kitts and Nevis was ranked 101st out of 189 countries for ease of doing business. Within the Caribbean, the countries with worse rankings were Haiti (177th), the Dominican Republic (117th), Guyana (115th), Belize (106th), Grenada (107th) and Suriname (161st). Among the main reasons for St. Kitts and Nevis’s relatively poor ranking for ease of doing business are

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9 ECCB and World Bank Development Indicators
the amount of time that it takes to start a business and the cost of doing so (see Figure 6): the average cost of registering a business is just over 8.7% of annual income per head, while the time required to start a business is 18.5 days.

**Figure 6**

![Opening a business, 2014](image)

St. Kitts and Nevis has many organizations supporting private-sector development. The main public-sector entities include the relevant ministries (those for finance, trade, and industry) as well as the St. Kitts and Nevis Development Bank and investment-promotion agencies. In the private sector, the Chamber of Industry and Commerce and the Hotel and Tourism Association are the main stakeholders. There is only limited formal networking between agencies, and dialogue between private-sector representatives and the government has to be initiated by the government. For the most part, discussions between the main stakeholders are informal and ad hoc.

**Components of the productive sector**

**Overview of the sector**

This section addresses the current state of the private sector in St. Kitts and Nevis, and gives a broad overview of major trends in the sector and its primary components. A later section will discuss potential emerging growth sectors.

Following the abandonment of the sugar industry in 2005, St. Kitts and Nevis no longer has a sizeable productive sector. What remains of the sector consists mainly of electrical and electronic equipment assembly for a US-based aircraft manufacturer, Boeing, on St. Kitts, along with one brewery, while agriculture takes place mainly on the island of Nevis.

The four largest sectors in St. Kitts and Nevis are real-estate, renting and business activities; construction; transport, storage and communications and manufacturing, and together these account for nearly 60% of GDP. The fastest-growing sectors are manufacturing, and transport, storage and communications.

**Table 1: Contribution to GDP by sector in St. Kitts and Nevis, 2013**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real-estate, renting &amp; business activities</td>
<td>16.92</td>
</tr>
<tr>
<td>Transport, storage &amp; communications</td>
<td>13.45</td>
</tr>
<tr>
<td>Construction</td>
<td>12.69</td>
</tr>
</tbody>
</table>
The private sector in St. Kitts and Nevis is driven largely by services and manufacturing. The median firm size is fairly small: the World Bank's 2010 Enterprise Surveys note that around 55% of firms employ fewer than 20 people, with most of the remainder (40%) employing between 20 and 99 people. Given the small size of firms on the islands, it is unsurprising that many of them (44%) are either sole proprietorships or partnerships, although it is noteworthy that just over 40% of firms are privately held limited-liability companies. There is insignificant ownership of firms by the public sector, and fewer than 15% of all firms in the country are foreign-owned.

### Industry and agriculture

The economy of St. Kitts and Nevis traditionally depended on the growing and processing of sugarcane. This was formerly a key foreign-exchange-earning industry, but falling world prices for sugar meant that it contracted significantly and was finally abandoned in 2005. In 1980 agriculture accounted for almost 18% of GDP, but its share now stands at less than 2%, due in part to the abandonment of the sugar industry. The agricultural activity that still occurs is mostly carried out on the island of Nevis.

In terms of industry, that which remains consists mainly of the assembly of electrical and electronic equipment for Boeing on St. Kitts, together with one brewery. Following the decline of the agricultural sector, export-oriented manufacturing has assumed a larger role in the economy. Recent moves by manufacturers of electrical components to increase output of higher-value-added electronic communications equipment, as part of St. Kitts and Nevis's 2012 partial scope agreement on trade with Brazil and Guyana10, suggests that this sector is likely to remain one of the largest and fastest-growing in the country.

### Services

Around 80% of the private sector in St. Kitts and Nevis can be classified as providing some type of service, with the largest companies also involved in services. Tourism is the main driver of activity in the services sector. On average, tourism services accounted for just over three-quarters of services exports, with communications services accounting for most of the remainder.

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10 [http://www.eccb-centralbank.org/PDF/efr_sept2012(1).PDF](http://www.eccb-centralbank.org/PDF/efr_sept2012(1).PDF); [http://www.thestkittsnevisobserver.com/2012/05/18/partial-agreement.html](http://www.thestkittsnevisobserver.com/2012/05/18/partial-agreement.html)
Travel services are the only category of services trade in which the islands run a surplus; in all other services segments, trade payments far exceed earnings.

The economy of St. Kitts and Nevis has become more dependent on tourism and other services since 1980, as both industry and agriculture have diminished in importance. The hotel and restaurant industry, which is driven largely by tourist expenditure, has been identified as one of the drivers of future growth in St. Kitts and Nevis. Similarly, offshore education has been identified as an industry whose further development should be encouraged as St. Kitts and Nevis seeks to expand the range of services that it offers.
II. Key challenges for private sector development

St. Kitts and Nevis has a number of strengths that would be likely to support the continued growth and development of the private sector. The country’s natural beauty and heritage can be leveraged to support the continued focus on tourism. However, it is clear that there are several constraints on private-sector development in the country. These relate to the time taken to complete various business processes and the monetary costs of doing business (in terms of electricity, finance and crime), a lack of access to finance (due to high collateral requirements as well as the underdeveloped state of the capital market), weakness in intra-regional transport and an inadequately trained labour force. In addition, the business environment faces severe challenges from external threats arising out of climate change, natural disasters and competition from new tourism destinations.

Figure 7

The Private Sector Assessment Report (PSAR) identifies a number of issues but pays particular attention to five areas—general governance issues, issues regarding access to finance, electricity issues, labour market issues and trade issues—as being particularly important. These interrelated issues are organized into several categories, and are discussed in further detail below. Also included is a discussion of environmental and gender issues.

General political and governance issues

General political and governance issues impact private-sector development due to the coordination role that the public sector plays in an economy. In St. Kitts and Nevis, unlike other countries in the region, there was only limited direct mention of these issues by stakeholders when constraints on business were discussed. However, although these issues were not considered by key stakeholders to be as critical in St. Kitts and Nevis as in other countries in the Organization of Eastern Caribbean States (OECS), they still require attention, given the effect that they have on private-sector development in general.

The Caribbean Growth Forum working group on investment climate has indicated the need for a cohesive framework to monitor and address concerns relating to private-sector development. At present in St. Kitts and Nevis, there is ad hoc discussion between the government and the social partners (civil
society, trade unions and the private sector), but the country would do well to formalize this process in order to facilitate collaboration on private-sector development between key stakeholders and representatives of labour, the private sector and the government.

Other issues that warrant discussion are the lack of fiscal and related incentives that the government is able to provide to support private-sector development (owing to the government's tight financial resources), the lack of information-sharing and research by the private sector, and the lack of economic and labour market information, resulting in part from the limited use of technology by the public sector. Private enterprises are reluctant to share information about themselves with the government, but at the same time there is also strong demand from these enterprises for data to assist them in strategic planning and the formulation of business plans in order to access finance. Such data does exist in the region, but it is generally not collated or mined, as public-sector agents have failed to exploit fully the available technology. The problem in this regard is a lack of infrastructure and human resources to consistently collate and present the labour market statistics and economic data collected by various government agencies.

Access to finance

Compared with credit markets in the other Caribbean countries, the market in St. Kitts and Nevis is relatively efficient when measured by the spread between lending and deposit interest rates. Since 2005 the spread has narrowed significantly, to around 4.5% in 2012, resulting in the islands having one of the lowest interest-rate spreads of any of the comparator countries; only Mauritius, the Bahamas and Canada have lower spreads. Nonetheless, a problem that has persisted in the Caribbean region is the cost of financing and the underdeveloped state of capital markets. Difficult access to finance is considered the biggest hindrance that private firms in St. Kitts and Nevis face. This claim is supported by the results of the World Bank's 2010 Enterprise Surveys and discussions with stakeholders. Detailed interviews indicate that firms believe problems with access to finance and its cost to be the most binding constraints on their operations and growth.

Domestic savings play a key role in terms of the availability of credit in St. Kitts and Nevis. At the end 2010 deposits were equivalent to over 130% of annual GDP, the second-highest ratio among the group of comparator countries, behind only Malta at 158%. However, bank credit as a ratio of bank deposits stood at only 55% of GDP—one of the lowest ratios in the Caribbean. This suggests that there is substantial excess liquidity in the banking system that is not being utilized to finance credit in St. Kitts and Nevis. Indeed, the islands were ranked 130th out of 189 countries for ease of accessing credit in the World Bank's 2014 Doing Business report (see Figure 8). This implies that business finance (or the lack thereof) is more a problem of demand than one of supply. Although on the supply-side there is the perceived risk associated with lending to small businesses, while on the demand-side many entrepreneurs and small businesses lack the ability (for example, in terms of data management and record-keeping) to access the credit facilities that are available.
The data for St. Kitts and Nevis show that nearly 50% of firms’ investment is financed by internally generated cash (see Figure 9), with most of the remainder coming from debt, with only insignificant amounts from supplier credit and equity. Excessive reliance on internal sources of finance has traditionally been seen as a constraint on firms’ growth, as it limits the ability of companies—particularly younger and smaller enterprises—to exploit profitable investment opportunities. In general, about one-fifth of working-capital finance in St. Kitts and Nevis comes from banks, while a similar proportion comes from supplier creditors (see Figure 10). The similarity of the shares of bank credit and supplier credit in providing working capital is noteworthy, and may be related to the difficulty of obtaining bank credit. Indeed, Figure 11 suggests that St. Kitts and Nevis has one of the highest average collateral requirements of any of the comparator countries, at 183% of loan value in 2010.

Figure 8

Figure 9

Moore, Craigwell and Maxwell, 2005.
To address the issues of high collateral requirements and interest rates in relation to accessing finance, there is a need to investigate the other core causes of these problems—namely, poor efficiency in financial institutions, high transaction and operational costs, information asymmetries in terms of the information on borrowers that is available to lenders, and a lack of networking and collaboration between enterprises in the country. In addition, there is also the need to balance the savings deposit rate (SDR) against the reserve requirements set by the Eastern Caribbean Central Bank (ECCB). The ECCB’s SDR, the statutory minimum interest rate payable on savings deposits, has been shown to be positively correlated with interest-rate spreads at commercial banks operating in countries in the Organization of Eastern Caribbean States (OECS). Together with the reserve requirement ratio (which is proxied as the percentage of reserves to total deposits that commercial banks must hold, and which has an effect on the amount of funds available to make loans), the SDR influences interest rates on loans in the region, as the burden of higher rates is usually passed on to customers.

12 Grenade, 2007.
Cost of electricity

Based on interviews and the results of the World Bank’s Enterprise Surveys (2010), electricity costs are ranked as one of the chief obstacles to doing business across the OECS (see Figure 12) and are considered the third most important obstacle to business development in St. Kitts and Nevis. Electrical outages suffered by firms on the islands average around four per month.

**Figure 12**

Despite the relative consistency of electricity supplies, private-sector investment in generators is still high, at 54% of companies, compared with an average of 38% in the benchmark group of states. The proportion of electricity obtained from generators is generally low, however, at less than 1%, reflecting the short average duration of outages (at 2.6 hours). However, nearly two-thirds of firms identified problems with electricity as a major constraint on doing business, reflecting the high prices charged by the St. Kitts Electric Company (SKELEC) and the Nevis Electricity Company (NEVLEC).

Table 2: Infrastructure indicators for St. Kitts and Nevis versus comparator countries

<table>
<thead>
<tr>
<th>Indicator</th>
<th>St. Kitts and Nevis</th>
<th>Average for comparator countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of electrical outages in a typical month</td>
<td>4.2</td>
<td>3.6</td>
</tr>
<tr>
<td>Duration of typical electrical outage (hours)</td>
<td>2.6</td>
<td>1.7</td>
</tr>
<tr>
<td>Losses due to electrical outages (% of annual sales)</td>
<td>1.6</td>
<td>0.6</td>
</tr>
<tr>
<td>Percentage of firms owning or sharing a generator</td>
<td>54.3</td>
<td>37.8</td>
</tr>
<tr>
<td>Percentage of electricity obtained from a generator</td>
<td>0.7</td>
<td>3.4</td>
</tr>
<tr>
<td>Days to obtain an electrical connection</td>
<td>15.7</td>
<td>17.9</td>
</tr>
<tr>
<td>Percentage of firms identifying electricity as a major constraint</td>
<td>63.7</td>
<td>39.4</td>
</tr>
<tr>
<td>Number of water insufficiencies in a typical month</td>
<td>1.5</td>
<td>0.7</td>
</tr>
<tr>
<td>Percentage of firms identifying transportation as a major constraint</td>
<td>30.9</td>
<td>23.5</td>
</tr>
</tbody>
</table>


**Labour market issues**

Although there is a relatively transparent approach to labour market regulations on the islands, most businesses did not identify such regulations as a significant hindrance to doing business (see Figure 13). Instead, the most important issue relates to accessing skilled employees. Skills are important for achieving and maintaining competitiveness, and are particularly important for OECS countries.
that are moving from a low-skill agricultural development model to one based on skill-intensive service industries. Respondents have frequently cited the shortage of skilled labour as a major constraint on increasing competitiveness and the further development of the private sector. Skill shortages prevail in specific technical areas, as well as in professional services such as accounting and information technology.

**Figure 13**

![Labour market issues chart](source: World Bank, Enterprise Surveys 2010.)

Stakeholders suggested several reasons for the skills gap in St. Kitts and Nevis, including: relatively low educational attainment in terms of the number and quality of secondary-education graduates; an undersupply of tertiary education and training; and schooling that is considered insufficiently focused on labour market skills and overly oriented towards academic careers.

Skills deficiencies are exacerbated by emigration and “brain drain”. The Caribbean region has the highest emigration rates in the world, and the phenomenon is particularly acute with regard to the tertiary-educated labour force. Because of its small population and lack of robust business activity (owing to the weakness and immaturity of the private sector), St. Kitts and Nevis is unable to hold on to skilled labour for extended periods. One respondent indicated that “there simply isn’t enough business around St. Kitts to keep young professionals on the island”, while another stated emphatically that “they get smart and realize they can make more money offering their professional services on their own terms”. The problem is not unique to St. Kitts and Nevis, as a large percentage of educated people in the OECS emigrate. However this may disproportionately affect St. Kitts and Nevis given the small size of the country. This results in social dislocation among families and communities and poor productivity within certain sectors, including the public sector and the entrepreneurial class.

In terms of sector-specific requirements in St. Kitts and Nevis, the Chamber of Industry and Commerce cited the need for:

- Engineers: mechanical, electrical and electronic
- Technicians: electrical, electronic and quality assurance
- Managers: human resources, supply chain and quality assurance
The Hotel and Tourism Association identified the skill shortages in the tourism sector as consisting of:

- Culinary skills at the executive chef and sous-chef levels
- Management and supervisory skills
- Spa attendant skills
- Specialized maintenance skills (for example, pool technicians)

Trade issues

All of the above issues—namely governance, finance, cost and labour market issues—have had an impact on the product mix in St. Kitts and Nevis. Most products are at the lower end of the value chain and utilize low-skilled and semi-skilled labour. In addition to the low value-added content of products, exports also tend to be concentrated in terms of products and markets. This type of export structure makes the islands vulnerable to shifts in the global business cycle.

Tariffs on most categories of goods imported into St. Kitts and Nevis are relatively low, suggesting that the country’s producers are subject to strong competition from imports. The average applied tariff on all products in 2011 was 10.8%, in line with the average among the group of comparator countries. The level of protection offered to the agricultural sector is also relatively low, with the average tariff on agricultural goods standing at 15%. Some industries, notably tourism, import most goods duty-free. Senior managers cited trade regulations as a constraint, with nearly 30% of firms flagging customs and trade regulations as an obstacle to doing business (see Figure 14).

Figure 14

![Graph: Customs and trade regulations as a major constraint on doing business](source: World Bank, Enterprise Surveys 2010.)
St. Kitts and Nevis is located at the northern end of the Lesser Antilles island chain. It has a fairly advanced environmental policy framework, but lacks the financial resources to implement many of its policies. As articulated by interviewees and in the various national reports, components of the current framework need to be strengthened through an increase in staffing levels at institutions; provision of the requisite training for staff; providing institutions with relevant regulatory and enforcement capabilities; maintenance of a baseline of programmatic activities, such as the collection and monitoring of data; an increase in the ability to use information from diverse sources for decision-making purposes; and the development of fiscal policies to stimulate corporate environmental stewardship and to incentivize the adoption of business models that focus on the sustainable use of natural capital.

The economy and quality of life in St. Kitts and Nevis are largely dependent on the capacity of its terrestrial and marine ecosystems to continue to provide ecosystem services. Ecosystem services take many forms: provisions from natural systems (seafood, wood and plants from gully ecosystems) and altered agro-ecosystems; protection of the seashore provided by reefs and coastal vegetation; sand generation by reefs; and non-extractive-use services that support income-generating activities such as snorkelling, scuba diving, hiking and sightseeing.

Environment

Gender
The Ministry of Gender Affairs has responsibility for co-ordinating activities related to gender balance in St. Kitts and Nevis. Many programmes and regulations have been introduced to support the goal of gender equality. The Employment Act includes explicit requirements regarding females in the labour force in order to ensure gender equality. All employers are required to keep records of all female employees, including normal pay and working week and the duration of any maternity leave granted. The act also explicitly prohibits discrimination on the grounds of sex, race, colour, marital status or family responsibilities (among other personal characteristics) in relation to recruitment, training, promotion, terms and conditions of employment, termination of employment or other matters arising out of the employment relationship. More specifically, the law states that “every employer shall pay male and female
employees equal remuneration for work of equal value”. However, the Caribbean Development Bank’s Country Poverty Assessment 2007/08 for St. Kitts and Nevis indicates that labour market segmentation results in differential opportunities for men and women in terms of earnings.

The World Bank’s 2010 Enterprise Surveys for St. Kitts and Nevis also provide indicators of gender patterns in employment in the country. Figure 16 shows indicators of female participation in ownership of firms and permanent full-time positions relative to the situation in comparator countries, while Figure 17 shows the proportions of firms that have female top managers. Almost 60% of firms in St. Kitts and Nevis indicated that they had a woman participating in ownership—one of the highest ratios in the comparator group. Meanwhile, women made up 43% of all permanent full-time employees. However, St. Kitts and Nevis scored relatively poorly in terms of women in top management, with only one in every five top managers being female.

**Figure 16**

**Female participation in businesses, 2010**

- Percent of firms with female participation in ownership
- Proportion of permanent full-time workers

**Source:** World Bank, 2010 Enterprise Surveys.

**Figure 17**

**Percentage of firms with female top managers, 2010**

- (%)%

**Source:** World Economic Forum, Global Gender Gap Report 2013.
III. Emerging sectors

Real estate, renting and business activities contributed around 16% on average to the country’s GDP between 2003 and 2013. This sector comprises activities associated with construction, hotels and restaurants, together with the ancillary business services needed in the economy. The Eastern Caribbean Central Bank (ECCB) estimates that this sector’s contribution to GDP will increase to 17% in 2014, despite the slowdown in the wider economy, with real value-added output rising to EC$274m, from EC$224m in 2006.

In terms of prospects, the government's 2013 budget provided incentives for construction, tourism, and wholesale and retail trade. In the construction sector, the government extended the Building Materials Incentive Programme, which grants duty-free concessions for imports of building materials for home construction, in the form of the expansion of a programme of soft loans for first-time home-owners. In addition, support for construction in the tourism and education sectors bodes well for these sectors, and recent moves by manufacturers of electrical components to increase output of higher-value-added electronic communications equipment (as part of St. Kitts and Nevis's 2012 partial scope agreement on trade with Brazil and Guyana), all suggest that these sectors will remain the largest and fastest-growing in the country.

Tourism

The economy of St. Kitts and Nevis has continued to depend largely on tourism to generate growth in recent years. The hotel and restaurant sector has been identified as critical to future growth prospects. As a result, accommodation capacity is currently being built, and the country has been able to attract significant foreign direct investment (FDI). The government has heavily incentivized development within this industry, and has mobilized resources to accelerate implementation. It is crucially important that an appropriate marketing strategy be implemented that focuses on both Northern and Southern source markets, in order to deliver consistent occupancy levels and greater returns on investment for the country. Recent growth in tourism has been fuelled by an increase in cruise-ship and stay-over visitors. Tourism has spillover effects on the rest of the economy, for example in road transportation. The sector is among the parts of the economy that have experienced most growth in gross value added in recent years.

Construction

Construction in St. Kitts and Nevis is driven primarily by investment in expanding hotel capacity, and also by domestic housing programmes and infrastructure development. On average, the construction sector accounted for around 19% of GDP between 2000 and 2010. Its contribution has since dropped to around 13% in 2013, reflecting a weakening of demand for new construction projects due to economic uncertainty both domestically and abroad. However, renewed growth in the sector is expected in the short term, as the 2013 budget provided incentives including the extension of the Building Materials Incentive Programme, which grants duty-free concessions for imports of building materials.

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materials for home construction, through the expansion of a programme of soft loans for first-time home-owners. In addition, support for construction in tourism and education bodes well for these sectors. FDI inflows also support growth in the construction industry. Any rebound in longer-term growth in the industry is therefore dependent on a recovery in FDI inflows.

**Offshore education services**

Offshore education services have been identified as a sector for further development as St. Kitts and Nevis seeks to expand the range of services that it offers. The sector has grown rapidly, to the point where there are currently over 2,000 offshore university students resident. Locals have taken advantage of strong demand for accommodation, and this has given a powerful boost to the real-estate, renting and business activities sector. There is considerable scope for further development of offshore education, and this could benefit other segments of the private sector. The resultant increase in the islands’ resident population would constitute a significant expansion of the small local market, and this, together with tourist arrivals, could generate increased demand in other sectors of the economy.

**Electronics manufacturing**

Manufacturing activity has partially offset declines in other sectors. In 2012, the manufacturing sector was among the top three sectors in St. Kitts and Nevis in terms of growth in gross value added, owing to growth in exports of telecommunications and electrical machinery. Assembly of electrical and electronic equipment for Boeing of the US takes place on St. Kitts. Recent moves by manufacturers of electrical components to increase their output of higher-value-added electronic communication equipment, as part of the 2012 partial scope agreement on trade with Brazil and Guyana, suggest that this sector will remain one of the largest and fastest-growing in St. Kitts and Nevis.
IV. Priority areas and action plan

The St. Kitts and Nevis Private Sector Assessment Report (PSAR) identifies a number of key challenges to private-sector development and several sectors that may drive growth in the future. Many policy recommendations could be included to improve the business environment in St. Kitts and Nevis, but the PSAR emphasizes the importance of addressing the challenges of general political and governance issues, access to finance, the cost of electricity, and labour market issues in order to spur private-sector development. It should be noted that the two most pressing concerns expressed in St. Kitts and Nevis relate to access to finance and the shortage of skills available in the labour force.

Background

The government of St. Kitts and Nevis is seeking to boost private-sector development, with a focus on employment generation. While the 2013 budget addressed the need for a reduction in corporate taxation and extended incentives to the construction industry and measures to stimulate other sectors (notably tourism, wholesale and retail, and information and communications technology15), the key recurring theme in the budget was the need to generate sustainable employment.

General political and governance issues

One of the salient recommendations to emerge from the Caribbean Growth Forum (CGF) consultations undertaken across the region in the first quarter of 2013 is the need for the implementation of a formal forum for collaboration on private-sector development between key stakeholders and representatives of labour, the private sector and the government. At present in St. Kitts and Nevis, there is ad hoc discussion between the government and the social partners, but the country would do well to formalize this process, as Barbados has done. In that country, this institutional mechanism is known as the Social Partnership; it is chaired by the prime minister, and its members are drawn from labour and private-sector representative bodies.

**Action 1: Establishment of a Tripartite Committee (consisting of representatives of government, employers and labour) to identify the needs of all bodies and guide and oversee private-sector development strategies.**

The recently launched chapter of the CGF in St. Kitts and Nevis has a key role to play in the establishment of such a formal committee, and should act as the catalyst for the resolution of some of the critical issues identified—particularly those relating to logistics and connectivity, skills and productivity, and the investment climate. It is recommended that three working groups be merged to create a Private Sector Development Committee. This committee would be tasked with monitoring and implementing the action plans set out below, identified from the research process (consisting of analysis of pre-existing data and interviews with stakeholders).

From the PSAR for St. Kitts and Nevis and other PSARs across the Organization of Eastern Caribbean States (OECS), it is apparent that a tripartite body could be useful in addressing several other issues. The existence of an entity that

15 http://www.caribbeanelections.com/blog/?p=2345#more-2345
includes the various stakeholder groups would allow policymakers to identify key shortcomings affecting the private sector. In many instances, what is required is not just government action, but also input from business and labour organizations in terms of flagging up problems and suggesting appropriate solutions. These issues relate not only to skills, but also to the need for general strategic planning and the necessity of establishing a medium of communication between the public sector, the private sector and representatives of labour in order to address effectively the needs of all parties and promote investor confidence.

Once established, the Tripartite Committee should also seek to address the following:

**Action 2: Development of a national strategic plan that encourages private-sector development in the country.** Through the lobbying efforts of the government, plans for the development of the private sector locally should also be included in regional strategic plans at the level of the OECS, the Eastern Caribbean Currency Union (ECCU) and the Caribbean Community (CARICOM).

A national strategic plan can ensure that policy planning is continuous and is not influenced by the electoral cycle. It was considered that such an approach to development planning would also enhance the transparency of government policymaking, as well as reducing business uncertainty.

The development of a national strategic plan presents operational challenges in relation to the issue of who develops the plan and how to ensure that it continues to be followed despite changes in government. These challenges should not, however, be viewed as insurmountable, and they should not be allowed to deter action. Indeed, if the private sector were sufficiently strong and were to insist that successive governments kept to a development plan, the concern regarding the impact of changes of government would not arise. This suggests that if the private sector is afforded the space to grow, such problems with the implementation of a strategic plan will wane.

**Access to finance** There is a need to reduce the cost of finance and increase the ability of firms to obtain finance by increasing the formality of enterprises, enhancing the availability of data (through information-sharing), and encouraging cooperation and alliances between enterprises to facilitate growth through the development of clusters, both vertical and horizontal. However, businesses are also prevented from accessing finance by a lack of record-keeping and a deficit of the skills required to prepare viable proposals to loan providers. By increasing formality, in terms of both registration and the adoption of accepted business practices, access to credit could be improved. The action plans to emerge from this element of the PSAR for St. Kitts and Nevis include:

**Action 3: Reducing the cost of finance** through the reduction of transaction and operational costs in financial institutions through the use of technology and the monitoring of efficiency levels; reducing risk and risk-aversion through the establishment of a credit bureau and a collateral registry; and introducing alternative financial products and greater competition in the financial sector.
In 2012 the Eastern Caribbean Central Bank (ECCB) collaborated with the International Finance Corporation (IFC, the private-sector financing arm of the World Bank) in staging a conference entitled Wider Access to Credit and Consumers’ Empowerment through Credit Information Sharing. Representatives from regional central banks, ministries of finance, other government agencies and financial institutions from the ECCU and the wider Caribbean region met to discuss credit information sharing systems (credit bureaux) in the Caribbean. The conference took place under the umbrella of a DFATD-funded project aimed at establishing private credit bureaux in the ECCU and developing credit-bureau legislation for the region. It was the first step of many that are needed to rectify information asymmetry in St. Kitts and Nevis and the wider OECS.

In the Caribbean, the collateral registry system is underdeveloped and does not fulfil the needs of a modern financial system. For the most part, financial entities in the Caribbean do not accept movable collateral (such as inventory, accounts receivable, crops and equipment), and this is seen by the IFC as a significant impediment to a free-flowing credit market and to economic development.

In addition to debt financing, equity financing options are also required. Venture-capital financing is limited in the Caribbean, and institutions such as the Multilateral Investment Fund (MIF), a part of the Inter-American Development Bank (IDB) group, have been working on improving the venture-capital industry in the Caribbean. One of the problems faced in encouraging venture capital is the lack of a legal and regulatory framework in the region, and these issues will need to be addressed.

As part of efforts to fill this gap in financing options, the ECCB established the Eastern Caribbean Enterprise Fund (ECEF) in 2009. The ECEF is being positioned as a mechanism for attracting investment capital and channelling those resources to promote the development of private enterprises in the region. In this way, the fund will complement existing financial-intermediation services in the ECCU, by offering a wide range of services to assist in filling the gap in the availability of finance and technical support. The ECEF will also foster the creation and growth of productive sectors in the economies of the region through injections of equity and debt financing. In addition, as the first regional fund of its type in the ECCU, the ECEF will play a key role in promoting the development of a private-equity and venture-capital industry in the region.

**Action 4: Increase the capacity of businesses to access finance through the provision of support (technical assistance and training) for the adoption of accepted business practices (particularly record-keeping) and the skills to develop business plans for funding and strategic-planning purposes. Although these services exist in St. Kitts and Nevis, their utilization is low and enterprises tend not to complete training.**

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In St. Kitts and Nevis, a lack of adequate record-keeping or formal business planning, along with the absence of a data-sharing mechanism involving a large number of firms, means that financial institutions cannot assess the level of risk associated with lending to businesses. Although a number of business-support institutions have offered training in developing business plans, financial management and other skills to key managers of businesses, a low level of engagement on the part of the private sector has meant that only limited improvements in business practices have been observed in most cases. The result is that, owing to the fact that many firms fail to complete courses, only a small number of them benefit from such free training. The lack of record-keeping and data-sharing also contributes to the high collateral values demanded by financial institutions to fund expansion in the private sector.

**Cost of electricity**

To address the issue of the high cost of electricity (and of energy in general), the two main options involve conservation of energy and exploitation of alternative energy options. In terms of conservation, the adaptation of behaviour to reduce energy use and the adoption of energy-efficient technologies, along with retrofitting, provide avenues to reduce costs in the short to medium term. For St. Kitts and Nevis (and particularly the latter island), the potential to exploit alternative energy sources is high. In the Caribbean Renewable Energy Forum’s 2012 index, Nevis is ranked eighth out of 22 countries in the region for a composite indicator comprising the existence of an enabling environment, existing renewable-energy projects, and renewable-energy projects that are expected to come on line in the next five years. Moreover, the island ranks particularly highly on the scale of existing renewable-energy projects, at fourth in the wider Caribbean region. The main opportunities in this area in St. Kitts and Nevis relate to geothermal energy.

**Action 5: Provide incentives for energy conservation and frameworks for the exploitation of renewable/alternative energy sources. Incentives and support in this area will act as a cost-reduction tool, and will provide an opportunity for investment and enterprise development in the renewable/alternative energy sector.**

Incentives in this area could include concessions related to duties on imports of materials, technical assistance, and the development of special funds for investments in alternative-energy projects and enterprises supplying complementary services, such as retrofitting.

**Labour market issues**

The shortage of skilled labour has frequently been cited by respondents as a major constraint on increasing competitiveness and on the further development of the private sector. Shortages of skills are prevalent in specific technical areas, as well as in professional services such as accounting and information technology (IT).

**Action 6: Reform of the education and training curricula that addresses the long-term strategic direction of the government as well as the more immediate needs of the private sector.**

18 [http://www.castalia-advisors.com/files/Castalia-CREF_RE_Islands_Index_121010-1.pdf](http://www.castalia-advisors.com/files/Castalia-CREF_RE_Islands_Index_121010-1.pdf)
government should be determined on the basis of dialogue with the private sector.

Before the details of any strategic plan can be worked out for the development and growth of the private sector there needs to be a human-resources development strategy based on striking a balance between the requirements of industry and the strategic direction of the government. Businesses in St. Kitts and Nevis indicated during consultations for the PSAR that they are unable to meet their needs for certain technical skills or for skills in professional services in accounting and IT. Manpower planning to address these skill shortages, along with other elements of a national strategic plan, would greatly assist in improving the business environment and supporting the future growth of the private sector by clearly indicating which sectors the government intends to support. Such signalling would encourage private investment (both foreign and domestic) in these strategic sectors. However, there is currently a lack of data on the composition of the workforce and on labour market dynamics to inform the development of human-resources plans for St. Kitts and Nevis.

With regard to on-the-job training and apprenticeships, enterprises need to be incentivized to invest in this element of skills development. This will ensure that firms have access to the skills that they require for growth, and will provide opportunities for uncertified workers to enhance their earning ability through on-the-job certification initiatives such as National Vocational Qualifications (NVQs). This is an area in which the private sector can contribute to the wider development of society.

Given the specialized nature of the skills required by some organizations, it is unlikely that the necessary training will be available in the education sector, and so these skills need to be built internally. As with incentives for investment in plant and equipment, incentives need to be put in place to invest in training at enterprise level (rather than at educational institutions) through apprenticeships and on-the-job training, with recognition through certification and opportunities for workers to improve their employment prospects both within and outside the enterprises where they are currently employed. Caribbean Vocational Qualifications (CVQs) and NVQs provide an ideal mechanism in this respect, and participation by enterprises in these schemes should be strongly encouraged. Such enhancement of skills benefits the productivity of individual enterprises and also demonstrates to potential investors that there is a skills base and a commitment to ongoing training in the country.

Conclusions

It should be noted that although the various elements of the action plan seek to provide a conducive environment for private-sector development in St. Kitts and Nevis, this does not mean that the implementation of the plan will automatically lead to growth in the private sector. There must also be entrepreneurial action to exploit opportunities in the local, regional and global markets. This is especially important in the light of anecdotal evidence that emerged during interviews throughout the region that the private sector shows a lack of interest in looking towards overseas markets and instead seeks to grow domestic market share.
A further caveat is that the implementation of the action plan cannot be undertaken in isolation from regional integration efforts at the OECS and CARICOM levels. In relation to the development of a national strategic plan with a regional focus, attention should be paid to the specific recommendations that have consistently emerged from research in the region regarding niche-market development, moving up the value chain, development of strategic alliances and joint ventures for knowledge and technology transfer, and the development of clusters (both vertical and horizontal).\textsuperscript{19} While activities in these areas are not mentioned explicitly in the action plan due to their specific nature, they should remain as options during the development of the strategic plan for private-sector development and growth in St. Kitts and Nevis.

Although the uncertain international economic picture makes private-sector development a difficult objective, this study identifies several critical areas that, if addressed, could significantly enhance private-sector development. The preceding sections identify a number of approaches that will assist in reducing costs: retrofitting and alternative energy; reducing transaction costs in finance provision; the promotion of competition and linkages in the financial sector; and reducing information asymmetries through the development of credit bureaux and collateral registries.

Whereas addressing process issues—such as the need to increase productivity in the public sector and to reorganize the business-support framework—may be feasible in the short to medium term, addressing the capacity issues that have been identified is a longer-term project. All of the issues identified above would benefit from the creation of a tripartite forum to assist in setting goals. Such open dialogue is critical to achieving a modern financial architecture in St. Kitts and Nevis and developing a labour force whose skills match the requirements of industry. These actions should be guided by a national strategic plan that has a human-resources development plan at its core.

The overriding factor that will make a significant difference to private-sector development will be the level of engagement and resources that private firms allocate to serving their own interests. There must be an increase in firms’ appetite to deploy resources in the most efficient manner while developing the right strategic partnerships to exploit business opportunities (whether in the domestic or foreign markets) in the absence of government subsidies or concessions. In addition, research and development will play a key part in the future economic development of St. Kitts and Nevis, and greater use of technology should also play a critical role in leveraging business opportunities.

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