

CARIBBEAN DEVELOPMENT BANK

TWO HUNDRED AND FIFTY-FOURTH MEETING OF THE BOARD OF DIRECTORS

TO BE HELD IN BARBADOS

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COUNTRY STRATEGY PAPER 2013-16 – ST. KITTS AND NEVIS

The attached Country Strategy Paper (CSP) outlines the assistance strategy of the Caribbean Development Bank (CDB) for St. Kitts and Nevis (SKN) over the period 2013-16. In preparing the CSP discussions were held with officials of the Government of SKN. CDB's proposed strategy for SKN focuses on two strategic objectives: establishing an enabling environment for sustained inclusive growth and poverty reduction; and strengthening resilience by securing social stability and improving environmental sustainability. Sustained growth would result from improved competitiveness through the targeted attention to macroeconomic stability and strengthened governance and improving the business environment through reducing infrastructure-related bottlenecks and investments that develop the productive sectors and human capital.

2. Economic resilience would be strengthened by enhancing social stability and improving environmental sustainability. Gender will be treated as a cross-cutting issue, since it is an important component to achieving good governance, social equality and sustainable economic development.
3. The Country Strategy was developed within the framework of the development challenges confronting SKN, the Government's Adaptation Strategy, National Poverty Reduction Strategy and the interventions of its other development partners. The proposed CDB interventions are expected to contribute towards the attainment of the above mentioned objectives.

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CARIBBEAN DEVELOPMENT BANK

**COUNTRY STRATEGY PAPER
ST. KITTS AND NEVIS, 2013-16**

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Considered at the Two Hundred and Fifty-Fourth Meeting of the Board of Directors on December 12, 2012.

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CURRENCY EQUIVALENT

Dollars (\$) throughout refer to Eastern Caribbean dollars (XCD) unless otherwise stated.

XCD1.00 = USD0.37
USD1.00 = XCD2.70

ABBREVIATIONS

| | | | |
|--------------------------|---|--|-------|
| AIDS | - | Acquired Immune Deficiency Syndrome | ALPBA |
| - | | Bolivarian Alternatives for the Americas | AR4 |
| Fourth Assessment Report | | | |
| BAICO | - | British American Insurance Company Limited | |
| BMCs | - | Borrowing Member Countries | |
| BOP | - | Balance of Payments | |
| bn | - | billion | |
| BNTF | - | Basic Needs Trust Fund | |
| BVI | - | British Virgin Islands | |
| °C | - | degrees Celsius | |
| CARICOM | - | Caribbean Community | |
| CARTAC | - | Caribbean Regional Technical Assistance Centre | |
| CC | - | Climate Change | |
| CCRIF | - | Caribbean Catastrophe Risk Insurance Facility | |
| CDB | - | Caribbean Development Bank | |
| CDM | - | Comprehensive Disaster Management | |
| CDEMA | - | Caribbean Disaster Emergency Management Agency | |
| CG | - | Central Government | |
| CGA | - | Country Gender Assessment | |
| CIDA | - | Canadian International Development Agency | |
| CJS | - | Criminal Justice System | |
| CLICO | - | Colonial Life Insurance Company Limited | |
| CMDGs | - | Caribbean Millennium Development Goals | |
| CPA | - | Country Poverty Assessment | |
| CPRS | - | Country Poverty Reduction Strategy | |
| CPI | - | Consumer Price Index | |
| CSEC | - | Caribbean Secondary Education Certificate | |
| CSP | - | Country Strategy Paper | |
| CTCS | - | Caribbean Technological Consultancy Services | |
| CVQs | - | Caribbean Vocational Qualifications | |
| DBSKN | - | Development Bank of St. Kitts and Nevis | |
| DGA | - | Department of Gender Affairs | |
| DfID | - | Department for International Development | |
| DMU | - | Debt Management Unit | |
| DRM | - | Disaster Risk Management | |
| DRR | - | Disaster Risk Reduction | |
| EC | - | Eastern Caribbean | |
| ECD | - | Early Childhood Development | |
| ECE | - | Early Childhood Education | |
| ECCB | - | Eastern Caribbean Central Bank | |
| ECCU | - | Eastern Caribbean Currency Union | |
| EDRM | - | Environmental and Disaster Risk Management | |

| | | |
|-----------------|---|---|
| EDRR | - | Environmental and Disaster Risk Reduction |
| EDF | - | European Development Fund |
| EU | - | European Union |
| FG | - | Federal Government |
| FDI | - | Foreign Direct Investment |
| FSI | - | Financial Soundness Indicators |
| GAD | - | Gender and Development |
| GDP | - | Gross Domestic Product |
| GE | - | Gender Equality |
| GEF | - | Global Environmental Facility |
| GOSKN | - | Government of St. Kitts and Nevis |
| GPI | - | Gender Parity Index |
| HIV | - | Human Immunodeficiency Virus |
| HRD | - | Human Resource Development |
| ICTs | - | Information and Communication Technologies |
| IFC | - | International Finance Corporation |
| IMF | - | International Monetary Fund |
| IPCC | - | International Panel on Climate Change |
| IT | - | Information Technology |
| km ² | - | square kilometers |
| m | - | metres |
| mn | - | million |
| m ³ | - | cubic meters |
| Mt. | - | Mount |
| M2 | - | broad money supply |
| MDGs | - | Millennium Development Goals |
| MIEAs | - | Major International Environmental Agreements |
| MFI | - | Microfinance Institutions |
| MIS | - | Management Information System |
| mW | - | megawatts |
| NCVQ | - | National/Caribbean Vocational Qualification |
| NDM | - | Natural Disaster Management |
| NDMD | - | Nevis Disaster Management Department |
| NEMA | - | National Emergency Management Agency |
| NEPAP | - | National Energy Policy and Action Plan |
| NEVLEC | - | Nevis Electricity Company |
| NIA | - | Nevis Island Administration |
| NIHA | - | Natural Hazards Impact Assessment |
| NPLs | - | non-performing loans |
| NPRSAP | - | National Poverty Reduction Strategy and Action Plan |
| OAS | - | Organisation of American States |
| OCR | - | Ordinary Capital Resources |
| OECS | - | Organisation of Eastern Caribbean States |
| OESS | - | OECS Education Sector Strategy |
| % | - | per cent |
| p.a. | - | per annum |
| PBG | - | Policy-Based Guarantee |
| PBL | - | Policy-Based Loan |
| PCG | - | Partial Credit Guarantee |
| PEFA | - | Public Expenditure and Financial Accountability |

| | | |
|--------|---|--|
| PFM | - | Public Financial Management |
| PRAP | - | Poverty Reduction Action Plan |
| PSIP | - | Public Sector Investment Programme |
| SBA | - | Stand-By Arrangement |
| SCASPA | - | St. Christopher Air and Seaport Authority |
| SE | - | South East |
| SEMCAR | - | Supporting Economic Management in the Caribbean |
| SDF | - | Special Development Fund |
| SIDS | - | Small Island Developing States |
| SME | - | Small and Medium Enterprises |
| SKN | - | St. Kitts and Nevis |
| SOE | - | State-owned Enterprises |
| SPV | - | Special Purpose Vehicle |
| sq mi | - | square miles |
| SRU | - | Single Regulatory Unit |
| SSB | - | Social Security Board |
| TA | - | Technical Assistance |
| TVET | - | Technical and Vocational Education and Training |
| UK | - | United Kingdom |
| UN | - | United Nations |
| UNDP | - | United Nations Development Programme |
| UNEP | - | United Nations Environmental Programme |
| UNHDR | - | United Nations Human Development Report |
| USA | - | United States of America |
| USAID | - | United States Agency for International Development |
| USD | - | United States Dollars |
| VAT | - | Value-added Tax |
| WB | - | World Bank |
| WTTC | - | World Travel and Tourism Council |

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FIGURE 1

MAP OF ST. KITTS AND NEVIS

COUNTRY DATA : ST. KITTS AND NEVIS

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---------|---------|---------|---------|---------|
| PER CAPITA GDP (current market prices; \$) | 36,760 | 38,955 | 35,758 | 34,491 | 35,509 |
| GROSS DOMESTIC PRODUCT (GDP) | | | | | |
| GDP at Current Market Prices (\$mn) | 1,861.6 | 1,998.3 | 1,859.4 | 1,817.7 | 1,933.1 |
| Demand Components: | | | | | |
| Consumption Expenditure | 1,291.5 | 1,628.9 | 1,483.3 | 1,480.5 | 1,581.4 |
| Gross Domestic Investment | 868.4 | 844.2 | 812.0 | 678.4 | 651.2 |
| Exports of goods and non-factor services | 622.9 | 621.2 | 501.2 | 564.2 | 620.0 |
| Imports of goods and non-factors services | 921.2 | 1,096.1 | 937.1 | 905.4 | 919.5 |
| Gross domestic savings ratio (%) | 30.6 | 18.5 | 20.2 | 18.6 | 18.2 |
| Sectoral Distribution of Current GDP (%) | | | | | |
| Agriculture | 1.3 | 1.5 | 1.5 | 1.6 | 1.6 |
| Mining & Quarrying | 0.2 | 0.1 | 0.2 | 0.1 | 0.1 |
| Manufacturing | 6.9 | 7.0 | 6.0 | 6.2 | 6.6 |
| Utilities | 1.6 | 1.4 | 1.6 | 2.3 | 2.4 |
| Construction | 19.9 | 18.6 | 17.2 | 15.2 | 14.2 |
| Transport & Communication | 11.2 | 11.4 | 11.0 | 12.7 | 12.9 |
| Hotels & Restaurants | 9.0 | 8.7 | 6.7 | 7.1 | 7.6 |
| Wholesale & Retail Trade | 7.7 | 8.4 | 7.7 | 7.6 | 7.1 |
| Financial & Business Services | 28.8 | 28.5 | 30.2 | 30.1 | 30.1 |
| Government Services | 12.5 | 13.2 | 15.9 | 14.6 | 14.7 |
| Other Services | 3.3 | 3.3 | 3.5 | 3.9 | 3.9 |
| Less Imputed Service Charge | 2.4 | 2.1 | 1.5 | 1.4 | 1.2 |
| GDP at Current Factor Cost (\$mn) | 1,613.5 | 1,721.3 | 1,624.0 | 1,583.0 | 1,635.4 |
| GDP at constant 2006 Prices (\$mn) | 1,513.8 | 1,575.0 | 1,486.9 | 1,446.9 | 1,417.9 |
| Annual rate of growth in GDP (%) | 5.0 | 4.0 | (5.6) | (2.7) | (2.0) |
| MONEY AND PRICES (\$ mn) | | | | | |
| Consumer prices (av. annual % change) | 4.5 | 5.4 | 1.9 | (0.3) | 2.9 |
| Money supply (M1; annual % change) | 9.5 | 13.5 | (5.5) | 40.0 | (7.1) |
| Total domestic credit(net) | 1,566.8 | 1,609.0 | 1,702.0 | 1,848.0 | 1,712.1 |
| Private sector (net) | 1,064.4 | 1,201.4 | 1,264.6 | 1,324.3 | 1,406.4 |
| Public sector (net) | 393.4 | 366.2 | 390.9 | 476.4 | 305.7 |
| Non-bank financial institutions (net) | 109.0 | 41.3 | 46.5 | 47.4 | ... |
| Estimated Tourism Expenditure (USD mn) | 124.8 | 110.1 | 83.5 | 85.9 | 92.1 |
| CENTRAL GOVERNMENT FINANCES (\$ mn) | | | | | |
| Current Revenues | 517.3 | 544.4 | 539.4 | 513.5 | 650.0 |
| Current Grants | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Current Expenditures | 497.8 | 545.3 | 565.6 | 576.3 | 598.8 |
| Current Accounts Surplus/ (Deficit) | 19.5 | (0.9) | (26.2) | (62.8) | 51.2 |
| Capital Revenue and Grants | 28.4 | 28.3 | 67.5 | 50.7 | 69.4 |
| Capital Expenditure and Net Lending | 113.8 | 105.1 | 95.5 | 129.8 | 86.3 |
| Overall Surplus/ (Deficit) | (65.9) | (77.7) | (54.2) | (141.9) | 34.3 |
| BALANCE OF PAYMENTS (USD mn) | | | | | |
| Merchandise Exports (f.o.b) | 57.7 | 69.0 | 37.6 | 39.1 | 54.6 |
| Merchandise Imports (c.i.f) | 239.5 | 285.8 | 250.9 | 235.9 | 218.3 |
| Trade balance | (181.8) | (216.8) | (213.3) | (196.8) | (163.7) |
| Net Balance on services account | 71.4 | 41.0 | 35.7 | 60.8 | 76.7 |
| Income (net) | (30.0) | (32.4) | (39.2) | (39.7) | (30.4) |
| Transfers (net) | 29.2 | 33.1 | 45.2 | 46.6 | 57.1 |
| Current Account Balance | (111.2) | (175.1) | (171.6) | (129.1) | (60.3) |
| TOTAL PUBLIC DEBT (USD mn) | | | | | |
| Total public debt | 923.6 | 950.1 | 999.2 | 1073.4 | 1104.1 |
| Domestic debt outstanding | 622.3 | 627.2 | 679.1 | 733.5 | 742.1 |
| Long term | ... | ... | ... | ... | ... |
| Short term | ... | ... | ... | ... | ... |
| External debt outstanding | 301.3 | 322.9 | 320.1 | 339.9 | 362.0 |
| Debt Service | 40.8 | 36.5 | 38.6 | 38.3 | 63.4 |
| Amortisation | 26.3 | 20.8 | 22.4 | 23.3 | 50.7 |
| Interest Payments | 14.5 | 15.7 | 16.2 | 15.0 | 12.7 |
| External debt service as % of exports of goods and services | 17.6 | 15.9 | 20.8 | 18.3 | 24.6 |
| Total debt service as % of current revenue | 39.9 | 39.2 | 37.8 | 41.9 | 23.4 |
| AVERAGE EXCHANGE RATE | | | | | |
| Dollar(s) per US dollar | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 |

Data for 2011 are provisional.

COUNTRY DATA : ST. KITTS AND NEVIS

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|---------------------------------|------|------|------|------|-------|
| POPULATION | | | | | |
| Mid-Year Population ('000) | 50.6 | 51.3 | 52.0 | 52.7 | 54.4 |
| Population Growth Rate (%) | 1.3 | 1.3 | 1.4 | 1.3 | 3.3 |
| Crude Birth Rate | 13.6 | 13.8 | 14.4 | 12.5 | ... |
| Crude Death Rate | 7.0 | 7.3 | 6.79 | 6.6 | ... |
| Infant Mortality Rate | 20.3 | 14.1 | 20.0 | 18.3 | ... |
| EDUCATION | | | | | |
| Net School Enrollment Ratio (%) | | | | | |
| Primary | 88.0 | 81.0 | 91.0 | 88.3 | 100.0 |
| Secondary | 88.0 | 89.0 | 88.0 | 93.4 | 97.0 |
| Pupil-Teacher Ratio | | | | | |
| Primary | 17.0 | 17.0 | 16.0 | 14.0 | 14.6 |
| Secondary | ... | ... | ... | 9.0 | 9.2 |
| LABOUR FORCE | | | | | |
| Unemployment Rate (%) | ... | ... | 6.5 | ... | ... |
| Male | ... | ... | 6.0 | ... | ... |
| Female | ... | ... | 7.0 | ... | ... |
| Participation Rate (%) | ... | ... | 73.0 | ... | ... |
| Male | ... | ... | 77.5 | ... | ... |
| Female | ... | ... | 69.3 | ... | ... |

COUNTRY DATA : ST. KITTS AND NEVIS

| | 1970 | 1980 | 1990 | 2000 | 2010 |
|---|------|------|------|-------|------|
| INDICATORS OF HUMAN DEVELOPMENT | | | | | |
| HEALTH AND EDUCATION | | | | | |
| Life Expectancy at Birth (years) | ... | ... | 69.7 | 70.0 | 71.4 |
| Male | ... | 62.8 | 66.1 | 67.6 | 68.4 |
| Female | ... | 67.9 | 70.6 | 71.7 | 74.3 |
| Dependency Ratio | ... | ... | ... | ... | ... |
| Male | ... | ... | ... | ... | ... |
| Female | ... | ... | ... | ... | ... |
| Human Development Index | ... | ... | ... | 0.808 | ... |
| HOUSING AND ENVIRONMENT | | | | | |
| Households with piped water (%) | 33.7 | 46.3 | 72.0 | 92.0 | ... |
| Households with access to flush toilets (%) | 31.8 | 31.5 | 55.7 | 78.5 | ... |
| Households with electricity (%) | ... | 57.5 | 81.9 | 92.9 | ... |

Environmental strategy or action plan (year prepared): 2004

Source(s): ECCB Research Dept.
 ... not available
 Data as at July 30, 2012

EXECUTIVE SUMMARY

1. This Country Strategy Paper (CSP) outlines the Caribbean Development Bank's (CDB) strategic focus and planned interventions to support St. Kitts and Nevis' (SKN) development over the period 2013-16. It takes into account discussions with senior officials in the country, as well as with principal development partners and incorporates a Management for Development Results framework so that the impact of the strategy can be measured.

2. SKN is an upper-middle income country with strong development indicators. In 2011, SKN's per capita income stood at fifteen thousand, three hundred and forty-three United States dollars (USD15,343). Over the last three decades, SKN experienced relatively strong economic growth as it transitioned from an agricultural to a service-based economy, with tourism being the main source of employment and foreign exchange earnings. SKN ranks highly on the United Nations Human Development Index compared to other countries at similar income levels. The country has shown progress towards achievement of several Millennium Development Goals (MDGs), including universal primary education and gender equality. However, additional efforts will be needed to achieve the remaining MDGs by 2015.

3. Notwithstanding its development progress, pockets of poverty persist. In addition, SKN is dependent on a narrow range of activities, and is vulnerable to external shocks and natural hazards, especially hurricanes. The pace of economic growth slowed considerably in the second half of the 1990s, because of exogenous shocks and natural hazard events. To counteract the slowdown in economic growth and rebuild infrastructure damaged by hurricanes, the Government of St. Kitts and Nevis (GOSKN) ran large deficits, which caused the debt to Gross Domestic Product (GDP) ratio to increase rapidly, restricting fiscal space and increasing the country's vulnerability to external shocks. The global financial crisis and the Great Recession that followed severely affected the country's economic performance, with real GDP contracting by 10.9 per cent (%) between 2009 and 2011. Despite a strong fiscal effort over the last five years, GOSKN had difficulty stabilising its fiscal situation. In July 2011, GOSKN entered into a three-year Stand-By Arrangement (SBA) with the International Monetary Fund (IMF) aimed at reducing fiscal imbalance and restoring macroeconomic stability. Implementation of policy reform measures under this facility, including a comprehensive debt restructuring, has, to date, been broadly satisfactory.

4. SKN faces some extremely difficult challenges over the medium term, including the need to achieve fiscal and debt sustainability, accelerate and sustain economic growth, foster social development, reduce poverty, pay closer attention to the environment and reduce vulnerability to natural hazard events. In response to these challenges, and following the closure of the sugar industry in 2005, GOSKN has been implementing its National Adaptation Strategy (2006-2013). Even though the Adaptation Strategy was prepared in 2006, before the onset of the global financial crisis, the five areas of intervention identified in the strategy are still valid. These include: (i) macroeconomic policies to reduce vulnerability and encourage and facilitate investment; (ii) improving the competitiveness of industries engaged in production and export of goods and services; (iii) policies to support social development and the most vulnerable; (iv) ensuring environmentally sustainable development; and (v) organising to achieve success in economic restructuring and transformation.

5. CDB's proposed strategy for SKN 2013-16 focuses the Bank's interventions in a manner that is consistent with GOSKN's Adaptation Strategy and the National Poverty Reduction Strategy (NPRS 2012-16). The CSP focuses on two strategic objectives: establishing an enabling environment for sustained inclusive growth and poverty reduction; and strengthening resilience by securing social stability and improving environmental sustainability. Sustained growth would result from improved competitiveness through targeted attention to macro-stability and strengthened governance, an improved business environment through reducing infrastructure-related bottlenecks, and investments that

(ii)

develop the productive sectors and human capital. Interventions in support of these expected outcomes may include:

- (a) assistance to strengthen public financial management (PFM) in cooperation with the European Union (EU), the Canadian International Development Agency (CIDA), and Caribbean Regional Technical Assistance Centre (CARTAC);
- (b) support for GOSKN's effort to sustain economic growth by funding components of its tourism strategy and action plan, which is being prepared with EU funding, that are intended to improve the competitiveness of the sector;
- (c) assistance to expand the acreage of land under irrigation, enhance land mechanisation services and facilities for the handling and storage of produce, improving the genetic stock of large and small ruminants and strengthening the capacity of farmers and farmer cooperatives;
- (d) assistance to improve the electricity distribution system and the supply of potable water; and
- (e) in the education sector, assistance will be provided to create greater linkages between the labour market and the education system so as to strengthen workforce preparation and facilitate equity in relation to opportunities by strengthening Technical and Vocational Education and Training (TVET).

6. Economic resilience would be strengthened by enhancing social stability and improving environmental sustainability. Interventions in support of these expected outcomes may include:

- (a) assistance to better target the recipients of social safety nets;
- (b) assistance to inform the country's gender mainstreaming strategy, as well as identifying priority areas for gender sensitive development initiatives and interventions;
- (c) assistance to conduct a new Country Poverty Assessment (CPA);
- (d) support for the implementation of GOSKN's NPRS, 2012-16 particularly through the Basic Needs Trust Fund (BNTF) and Caribbean Technological Consultancy Services (CTCS); and
- (e) support for adaptation to climate change (CC), preservation of environmentally sensitive areas and the development of institutions and systems that are conducive to sustainable development including technical assistance (TA) for the development of a drainage improvement plans for Basseterre in St. Kitts and Charlestown in Nevis;

7. Gender will be treated as a cross-cutting issue, since gender equality is an important component to achieving good governance, social equality and sustainable economic development. The country's indicative programme is complemented by a series of regional initiatives that address the citizen security agenda, support greater economic integration and aim to reduce disaster risks across the Caribbean.

(iii)

8. CDB's indicative interventions in SKN will result in a programme of up to USD42.70 million (mn) over the strategy period. In the design of the interventions, lessons learnt from previous interventions in SKN have been taken into account. To improve the effectiveness and efficiency of project implementation, CDB will play a more strategic role in the provision of TAs to develop a pipeline of capital projects for implementation. In addition, greater attention will be placed on the training of staff assigned to the projects to alleviate shortages in key execution agencies.

9. There are a number of macroeconomic risks that must be considered during the strategy period. Given the small size and openness of SKN's economy, the uncertain global economic outlook would be considered a major risk because of the country's vulnerability to external shocks. SKN debt sustainability could be jeopardised by worsening fiscal deficits or growth moderation. These risks will be mitigated by GOSKN's pursuit of prudent macroeconomic policies as it continues to implement its IMF supported reform agenda, while improving the tourism sector's competitiveness.

COUNTRY STRATEGY PAPER RESULTS MATRIX

| Country Development Goals | Key Sector Issues and Constraints | Country Strategy Paper Outcomes | Outcome Indicators | CDB Interventions/ Outputs Indicators | Risks and Mitigation Measures |
|---|--|---|--|--|---|
| Strategic Objective I: Establishing an enabling environment for sustained inclusive growth and poverty reduction | | | | | |
| <ul style="list-style-type: none"> • Improved fiscal and debt management. | <ul style="list-style-type: none"> • Fiscal imbalances and high level of public sector debt. • PFM system is impaired by unreliable planning systems and weaknesses in budget execution. • Weak institutional capacity for the coordination of the public sector investment programme (PSIP). | <ul style="list-style-type: none"> • Enhanced macro-stability through strengthened PFM capacity for budget planning and management. • Specific outcomes will be included in the CSP mid-term strategy review. | <ul style="list-style-type: none"> • As measured by improved performance in the relevant the Public Expenditure and Financial Accountability (PEFA) indicators. • Recommendations of the consultant's reports adopted by GOSKN. • The maintenance of a primary surplus of at least 3.5% of GDP over the period 2013-16. | <ul style="list-style-type: none"> • Provision of TAs in cooperation with CIDA, EU and CARTAC to facilitate reforms and required capacity improvements for PFM identified by GOSKN in its Action Plan. • Consultant's reports delivered and recommendations accepted by June 2014. | <ul style="list-style-type: none"> • Insufficient commitment by GOSKN to implementing the recommended PFM reforms. • Continued regular policy dialogue by CDB, EU, IMF CARTAC and other development partners and effective loan/grant conditions precedent. |

| Country Development Goals | Key Sector Issues and Constraints | Country Strategy Paper Outcomes | Outcome Indicators | CDB Interventions/ Outputs Indicators | Risks and Mitigation Measures |
|--|--|---|---|---|-------------------------------|
| <ul style="list-style-type: none"> Improved tourism sector competitiveness. | <ul style="list-style-type: none"> Declining tourism sector competitiveness. Inadequate airlift. Tourist market concentration. Weak linkages with the rest of the economy. | <ul style="list-style-type: none"> Promote competitiveness and growth in the sector through implementation of selected measures of its Tourism Sector Strategy and Action Plan. Specific outcomes will be included in the CSP mid-term strategy review. | <ul style="list-style-type: none"> Adoption of the consultant's recommendations by GOSKN. % increase in the number of stayover tourist arrivals. % increase in the growth of the hotel and restaurants sector. | <ul style="list-style-type: none"> TAs to implement components of the Tourism Sector Strategy and Action Plan to improve competitiveness. Consultant's reports delivered and accepted by GOSKN by June 2014. Implementation of components of the strategy identified to improve tourism competitiveness begun by 2015. | |
| <ul style="list-style-type: none"> Increased output from the agricultural sector. | <ul style="list-style-type: none"> Low rainfall. Inadequate land mechanisation Inadequate facilities for product handling and storage | <ul style="list-style-type: none"> Increased production of crops and livestock. | <ul style="list-style-type: none"> % increase in the production of crops and livestock. % increase income in rural incomes. % increase income in rural incomes. | <ul style="list-style-type: none"> Multi-project implemented with elements including irrigation, land mechanisation services and post-harvest handling and storage by June 2014. % increase in the acreage of land under cultivation % increase in the number of livestock. | |

| Country Development Goals | Key Sector issues and Constraints | Country Strategy Paper Outcomes | Outcome Indicators | CDB Interventions/ Outputs Indicators | Risks and Mitigation Measures |
|---|--|--|--|--|--|
| <ul style="list-style-type: none"> Efficient transmission and distribution of electricity reflected in the cost of goods and services across the economy | <ul style="list-style-type: none"> High cost of electricity in St. Kitts due to the inefficient transmission and distribution system. | <ul style="list-style-type: none"> Lower transmission and distribution cost contribution to the electricity tariff. | <ul style="list-style-type: none"> Recommendations of the consultant's report adopted by June 2014. | <ul style="list-style-type: none"> Transmission and distribution loss reduction study to inform capital works necessary for addressing the high level of line losses. Consultant's report completed and accepted by June 2014. | <ul style="list-style-type: none"> The electricity utility capacity to borrow for required capital works. CDB's and other development partners' assistance for GOSKN to attain fiscal and debt sustainability. GOSKN and the general public acceptance of cost recovery for a more efficient electricity transmission and distribution system. Public education and awareness campaign |

| Country Development Goals | Key Sector Issues and Constraints | Country Strategy Paper Outcomes | Outcome Indicators | CDB Interventions/ Outputs Indicators | Risks and Mitigation Measures |
|--|---|---|--|---|---|
| <ul style="list-style-type: none"> Improved water storage and distribution. | <ul style="list-style-type: none"> Absence of a water sector master plan to guide the development of water management systems. High level of disruptions to potable water supply, particularly during dry season. | <ul style="list-style-type: none"> Improvement in the supply, distribution and access to potable water in St. Kitts. Enhanced capacity for planning and management of water resources in St. Kitts. | <ul style="list-style-type: none"> % of households with access to pipe-borne water. % reduction in water supply disruptions. % reduction in water leakages. | <ul style="list-style-type: none"> TA to develop a water sector master plan for St. Kitts, including design options and capital costs. Consultant's report completed and recommendations accepted by June 2014. Capital project to enhance water supply, storage and distribution to households and commercial enterprises in St. Kitts. Project approved and implementation begun by 2015. | <ul style="list-style-type: none"> GOSKN's commitment to strengthen governance in arrangements at the water utility. Public acceptance of cost recovery principles for efficient water supplies. Policy dialogue and effective conditions precedent. |

| Country Development Goals | Key Sector Issues and Constraints | Country Strategy Paper Outcomes | Outcome Indicators | CDB Interventions/ Outputs Indicators | Risks and Mitigation Measures |
|---|---|--|--|---|-------------------------------|
| <ul style="list-style-type: none"> Improved transportation system to support economic development. | <ul style="list-style-type: none"> Inadequate financial and technical resources to improve the road transportation system. Periodic damage to roads through hurricanes and extreme weather events. Inadequate safety measures in some parts of the existing road network. Inadequate length of airport runway on Nevis to accommodate private jets. | <ul style="list-style-type: none"> An enhanced road transportation system that would encourage the development of land for productive purposes. Enhance air transportation into Nevis. | <ul style="list-style-type: none"> Reduction in risks associated with using the road transportation system. Reduced vehicle operating costs. Increased safety for persons using the road transportation system. Adoption of the consultant's recommendations by Nevis Island Administration (NIA). | <ul style="list-style-type: none"> Project for the upgrading of the South-East (SE) Peninsula Road approved and implementation begun by 2014. % reduction in the number of accidents on the SE Peninsula Road. TA to undertake feasibility study on extending the runway to accommodate jets flying into Nevis. Consultant's report completed and accepted by NIA by June 2014. | |

| Country Development Goals | Key Sector Issues and Constraints | Country Strategy Paper Outcomes | Outcome Indicators | CDB Interventions/ Outputs Indicators | Risks and Mitigation Measures |
|---|---|---|--|--|-------------------------------|
| <ul style="list-style-type: none"> Strengthening labour markets and employment creation. | <ul style="list-style-type: none"> Low level of marketable skills of vulnerable groups including the working poor. Inadequate household income. | <ul style="list-style-type: none"> Increased labour market participation of vulnerable groups. | <ul style="list-style-type: none"> % unemployment rate. | <ul style="list-style-type: none"> Provision of relevant training for workforce participation using BNTF. Provision of relevant training for workforce using CTCS. Number of training workshops undertaken by BNTF. Number of persons trained by BNTF by sex. Number of training workshops, TAs and job placements arranged by CTCS. Number of persons trained by sex. | |

| Country Development Goals | Key Sector Issues and Constraints | Country Strategy Paper Outcomes | Outcome Indicators | CDB Interventions/ Outputs Indicators | Risks and Mitigation Measures |
|---|---|--|---|--|---|
| <ul style="list-style-type: none"> Improved access to quality education. | <ul style="list-style-type: none"> Inadequate demand driven education programmes. Gender disparity in the provision in education is not adequately addressed. | <ul style="list-style-type: none"> Enhanced employability of graduates. | <ul style="list-style-type: none"> % students completing at least one Level 1 course in TVET and training increased from 28 to 35%. Consultant's recommendations adopted for the development of a national qualification framework. | <ul style="list-style-type: none"> TVET Enhancement Project started by June 2014. TA to develop a national qualifications framework completed by June 2014. Consultant's report completed and recommendations accepted by June 2014. Implementation of National / Caribbean Vocational Qualifications (NCVQ) project by June 2014. Limited access to early childhood development (ECD) services. ECD gross enrolment rate: 0-2 age cohort from 15 to 20% (baseline year 2009); 3-5 age cohort from 67 to 75% base- line year 2009) Number of persons completing training courses. BNTF programme to expand ECD services completed by 2015. Number of interventions supporting ECD service delivery. Number of beneficiaries by | <ul style="list-style-type: none"> Inadequate industrial linkages to support an optimal range of competency-based training programmes. |

| Country Development Goals | Key Sector Issues and Constraints | Country Strategy Paper Outcomes | Outcome Indicators | CDB Interventions/ Outputs Indicators | Risks and Mitigation Measures |
|---|---|---|---|--|-------------------------------|
| Strategic Objective II: Strengthening resilience by securing social stability and improving environmental sustainability | | | | | |
| <ul style="list-style-type: none"> Strengthening social assistance and community development. | <ul style="list-style-type: none"> Limited human, technical and financial resources available for social protection programmes. Fragmented social assistance programmes. Pockets of poverty Gender disparity in social assistance programmes Lack of access to basic infrastructure and enterprise development services is low income communities. High levels of crime | <ul style="list-style-type: none"> Established framework for the effective delivery of targeted (coverage and quality) social protection systems. Capability enhancement by promoting entrepreneurship, education and skills training. Information on the nature of priorities to support the NPRS. Identification of critical priority areas for gender-sensitive initiatives and interventions. Support social cohesion through rehabilitation of small-scale social and economic infrastructure in low income communities | <ul style="list-style-type: none"> Central beneficiary registry established. % of working graduands from social protection programmes. Recommendations of the consultant's report adopted by June 2014. Consultant's report on the incidence of poverty. Consultant's report on gender inequality. | <ul style="list-style-type: none"> TA to develop an integrated social safety net system with central beneficiaries register and management information system (MIS). Consultant's report completed and implementation begun by 2014. Provision of social infrastructure by BNTF. Number of community-based interventions. Number of beneficiaries by sex. Consultant's report completed by June 2014. Consultant's report completed by December 2013. | |

| Country Development Goals | Key Sector Issues and Constraints | Country Strategy Paper Outcomes | Outcome Indicators | CDB Interventions/ Outputs Indicators | Risks and Mitigation Measures |
|--|--|--|---|--|-------------------------------|
| <ul style="list-style-type: none"> Enhanced environmental protection, land management, disaster risk management (DRM) and adaptation to CC. | <ul style="list-style-type: none"> Inadequate enforcement of environmental legislation. Inadequate infrastructure to mitigate disaster risks. Inadequate adaptation measures to CC. | <ul style="list-style-type: none"> Reduced flooding episodes and damage to infrastructure from hurricanes and extreme weather events. Enhanced capacity to better manage environmental protection, disaster risks and adaptation to CC. Increased awareness of the likely impact of CC on the environment and enhanced capacity to better manage CC adaptation. | <ul style="list-style-type: none"> Adoption of the consultant's report and recommendations by 2014. Number of developments complying with conditions of development approval increased. Number of compensation claims for residential and commercial losses for flooding episodes. Number of working days lost due to flooding reduced. Adoption of the recommendations of the consultant's report by 2014. Consultant's recommendations adopted by 2014. | <ul style="list-style-type: none"> TA to develop a comprehensive national land policy to govern land use and land administration. Completion and acceptance of consultant's report by June 2014. TA to develop Basseterre drainage improvement plan, including preliminary design options and capital cost estimates. TA to develop Charlestown drainage improvement plan, including preliminary designs and capital cost estimates. Completion and acceptance of consultant's reports by June 2014. TA to develop a National Climate Change Policy, Strategy and Action Plan. Consultant's report completed and accepted by June 2014. | |

1. DEVELOPMENT CONTEXT: KEY ISSUES AND DEVELOPMENT CHALLENGES

Country Profile

1.1 The twin-island state of SKN has a land area of 261 square kilometers (km²) and, with a population of 46,204, is the smallest of CDB's independent Borrowing Member Countries (BMCs). As a result, the country faces many challenges relating to diseconomies of scale, especially in human resources, infrastructure, institutions and markets. Under its constitution, Nevis exercises autonomy in most areas except for foreign affairs, defense and aspects of economic policy. As a result, FG and NIA generally act as two distinct entities.

Economic Context

1.2 The economy of SKN is small and open and has undergone significant structural change over the last three decades. With agriculture and manufacturing declining in relative importance, tourism has grown to become the main source of employment and foreign exchange earnings, accompanied by a rapid expansion of the banking and construction sectors. In addition, SKN has also diversified into offshore education and financial services. As a result, the economy is now mainly service-based with tourism estimated to have contributed 28.2% of GDP in 2011^{1/}.

1.3 The manufacturing sector in SKN is mainly comprised of firms involved in the assembly of electronic components for export to the United States of America (USA) and the production of food and beverages, construction material and furniture for domestic consumption. Since 2006, the sector's contribution to GDP has varied between 6 per cent (%) and 8%.

1.4 With the closure of the sugar industry in 2005, the agriculture sector is now limited to small farmers growing vegetables, root crops and fruits for domestic consumption. Livestock production and fishing also take place. However, there is potential to increase crop, livestock and fisheries production for domestic consumption and exports.

1.5 SKN's economy is vulnerable to external shocks and natural hazards. After 1995, SKN experienced frequent external shocks, including hurricanes^{2/}, which caused substantial damage to infrastructure, disrupted economic activity and slowed the pace of economic growth. This caused GOSKN to maintain an accommodative fiscal stance to rebuild infrastructure damaged by hurricanes and stimulate economic growth. The resulting fiscal deficits caused the debt to GDP ratio to increase rapidly. In addition, several state-owned enterprises (SOEs), including the St. Kitts Sugar Manufacturing Corporation, similarly reported large deficits and accumulated significant debts that were guaranteed by GOSKN. Between 2000 and 2005, the public sector debt to GDP ratio rose from 96.7% to 159.9%, restricting GOSKN's fiscal space and increasing the country's vulnerability to external shocks.

1.6 Over the years, GOSKN has borrowed from the commercial banks and the Social Security Board (SSB) to finance its deficits. The resulting domestic public sector debt, which accounts for about two-thirds of total debt, is mainly in the form of treasury bills, debentures, bonds, secured loans and overdrafts. The remaining one-third is external debt, which is comprised of multilateral loans, mainly from CDB, and commercial and bilateral loans.

^{1/} World Travel and Tourism Council estimates.

^{2/} Including Hurricanes Luis (1995), Georges (1998), Lenny (1999) and Jose (1999).

Recent Macroeconomic Trends

(a) *Output and Prices*

1.7 SKN's economy slumped into recession after 2008 induced by the effects of the global financial crisis in 2007 and the Great Recession that followed, and aggravated by its severe debt overhang. Cumulatively, real GDP contracted by 10.9% over three consecutive years, 2009-2011. Manufacturing output contracted and value-added in the construction and hotel and restaurant sectors also fell sharply. Although there was rapid growth in cruiseship passenger arrivals during this period, the number of stayover arrivals, (the more important contributor to GDP), declined by 27.1% to 93,081 in 2009, before slowing recovering to 102,345 in 2011.

1.8 Over the period 2006-2011, the Consumer Price Index (CPI) in SKN increased at a modest pace, despite a spike in 2006 that was caused by higher global food and fuel prices. The currency peg of East Caribbean dollar (XCD) to the United States dollar (USD) was important in keeping the rate of inflation down. There was another spike in the CPI in the final quarter of 2010, following the introduction of the Value-added Tax (VAT). Inflationary pressures, however, subsided in 2011.

(b) *External Sector*

1.9 Over the period 2006-2011, the current account deficits ranged from 13.5% of GDP in 2006 to 24% of GDP in 2008. Despite the large deficits on the current account, SKN consistently achieved overall balance-of-payments (BOP) surpluses as a result of large foreign direct investment (FDI) inflows and capital transfers to GOSKN.

(c) *Fiscal and Debt Operations*

1.10 Notwithstanding the difficult economic conditions, GOSKN's overall fiscal deficit remained below 4% of GDP and primary surpluses were generated prior to 2010. GOSKN took initial steps to address its debt situation by reining in public expenditures and increasing revenue. These measures achieved some success, reducing the debt-to-GDP to 127.6% by 2008. This reform effort was supported by a CDB Policy-based Loan (PBL) and a Policy-based Guarantee (PBG), as well as financial support from the EU. Between 2008 and 2011, there were some slippages in the implementation of the fiscal reforms, even though the authorities introduced a VAT and increased electricity tariffs. A more than doubling of the fiscal deficit to 7.8% of GDP in 2010, tilted debt dynamics sufficiently to add 37.3 percentage (%) points to the debt-to-GDP ratio (to 158.9% of GDP).

1.11 With a financing gap of 11.3% of GDP in 2011 and significant debt maturities falling due in 2011-13, GOSKN reached agreement with the International Monetary Fund (IMF) in June 2011 on a three-year SBA to assist in closing its gap and placing public debt on a path toward restoring sustainability. In that context, GOSKN commenced implementing a front-loaded fiscal consolidation programme incorporating reforms to, *inter alia*, improve the collection of revenue, reduce and more closely monitor expenditure arrears, reform the pension system, and improve expenditure control. Of USD84.1 mn available under this facility to support GOSKN's adjustment efforts, USD60.21 mn is already disbursed.

1.12 GOSKN's adjustment programme also included a comprehensive debt restructuring to close its financing gap. On April 18, 2012, GOSKN closed the first phase of its debt exchange offer, which included new discount bonds issued with a face value of USD43.3 mn, at a 50% discount to the face value of the original eligible debts, and new par bonds with a face value of \$134.4 mn. The discount bonds,

carried a partial guarantee by CDB in an amount of USD12 mn. CDB's also converted some existing credit facilities into concessional loans. Separately, GOSKN and NIA announced two restructuring agreements, covering approximately \$900 mn in loans and other debts owed to domestic creditors, that will allow domestic creditors to monetise encumbered lands in St. Kitts and in Nevis. In addition, GOSKN reached agreement on USD5.7 mn outstanding with its Paris Club creditors on May 24, 2012, to extend the repayment period to 20 years with a seven-year grace period.

1.13 One year into the SBA, GOSKN has made significant progress in improving its primary fiscal balance. Despite the decline in economic activity, GOSKN has met all the quantitative fiscal targets to the end of June 2012. The stock of expenditure arrears has been reduced and no new external arrears have been accumulated. Progress at fiscal consolidation has been complemented by structural reform measures aimed at strengthening the financial sector, as well as PFM within the areas of public sector enterprise management, the civil service, debt management and economic planning systems.

(d) Financial Sector

1.14 Eastern Caribbean Currency Union (ECCU) Financial Soundness Indicators (FSI) for December 2006-2011 suggest the commercial banking sector in SKN is sound. Commercial bank credit to the public sector in SKN, as a proportion of total credit for the period 2006-2011, at 42% was significantly higher than the ECCU average. When Treasury Bills and Government Securities held by the commercial banks are taken into account, the level of commercial bank exposure increases to about 50%. A significant portion of the debt to the commercial banks is secured against land. The Government's debt restructuring initiative will allow for the orderly sale of land using special purpose vehicles and the repayment of these loans. An important component of the support obtained from the IMF is an allocation of USD17 mn to provide liquidity to solvent indigenous banks, if needed, during the debt restructuring. GOSKN has not had any reason to access this facility under the SBA.

1.15 The problems associated with the collapse of CL Financial Holdings, to which Colonial Life Insurance Company Limited (CLICO) and British American Insurance Company (BAICO) are subsidiaries, are still to be resolved. In 2010, GOSKN has established a Single Regulatory Unit (SRU) to enhance the monitoring and strengthen the oversight of insurance companies, private sector pension plans and credit unions. GOSKN has also enacted new a Cooperative Societies Act which governs the operations of Credit Unions.

Medium-Term Outlook

1.16 The medium-term economic growth outlook for SKN is challenging, but there are signs the economy is starting to recover after three consecutive years of decline. Real GDP is projected to stabilise in 2012, with prospects improving after 2013. Real GDP is projected to pick up from 2.0% in 2013 to 3.8% in 2016. The continued modest recovery in the global economy, particularly the USA, suggests the decline in stay over tourist arrivals will stabilise. As a result, the hotels and restaurants sector is expected to start to show signs of recovery and the increase in stay over tourist arrivals will feed through into the other sectors of the economy, such as construction, transportation and retailing. In the construction sector, activity is projected to increase as the pace of work on ongoing projects starts to speed up and projects that were previously postponed or placed on hold are restarted. Signs are the rate of inflation will remain low and within the range 2.5-3.5% over the medium term.

1.17 On the fiscal front, GOSKN's performance is projected to improve, as a result of revenue and expenditure measures introduced in 2010 and 2011. The primary surplus is projected to exceed 3.5% of GDP. When the public sector debt restructuring is completed by the end of 2012, the debt ratio is expected to fall to about 86% GDP.^{3/}

1.18 On the BOP, the current account deficit will widen over the medium term, with the merchandise trade deficits continuing to be large. However, on the services account, improved tourism receipts will contribute to close some of the merchandise deficit. Higher levels of FDI will boost the surplus on the capital and financial account.

Social Context

1.19 The 2011 Census recorded a preliminary population count of 46,204 residents on SKN, a decline of 0.26% on the 2001 total. Of this total, 34,789, or 75.3%, were resident on St. Kitts and 11,415 on Nevis. Historically, emigration from SKN has been high and resulted in an almost continuous decline in population since 1960.

1.20 The United Nations Development Programmed (UNDP) Human Development Report ranks SKN among the countries with a high human development index. Average life expectancy, at more than 70 years of age is high for males and females, however, there are concerns in relation to the prevalence of non-communicable diseases and communicable diseases, such as Human Immune Deficiency Virus (HIV) and Acquired Immune Deficiency Syndrome (AIDS). The literacy rate, at 97.8%, is high. In addition, significant progress has been made towards the attainment of the Caribbean Millennium Development Goals (CMDGs), including universal primary education, gender equality, improved maternal health and the reduction of extreme poverty and hunger (see Appendix 1.3).

1.21 SKN achieved universal basic education in 1968 and net secondary enrolment is currently approximately 90%. Since 2006, all MDGs and CMDGs targets have been met or exceeded in relation to gender parity participation in basic education and empowerment of women in tertiary education. Completion rates at the secondary level are high, and performance in the Caribbean Secondary Education Certificate (CSEC) has been improving.

1.22 Employment data are not collected on a systematic basis in SKN. In the 2007-08 Country Poverty Assessment (CPA), the employment survey showed an unemployment rate of 5.1%. At that time, labour shortages had started to show up in some sectors of the economy, notably construction. The last employment survey, undertaken in June 2009, reported an unemployment rate of 6.5%, up from 5.1% in 2007. Since then, the sharp downturn in economic activity and other indicators point to an increase in the number of persons unemployed, particularly in the construction, manufacturing and hotel and restaurants sectors. The 2009 survey of employment also showed that youth unemployment was high, with 22.9% of labour participants in the 15-19 year-old category and 12% of the 20-24 year-old category out of work, placing pressure on the country's social protection systems and social safety net programmes.

1.23 The 2007 CPA revealed that generally, men had a higher participation rate than women, but poor women displayed a higher labour force participation rate than poor men. Non-poor young women in the 15-24 age group had a much lower participation rate than their counterparts (young men of the same age

^{3/} Appendix 1.3 shows the actual fiscal performance 2008-2011 and projections to 2017 incorporating the completion of the comprehensive debt restructuring. Appendix 1.2 provides a summary of the debt sustainability analysis for SKN over the period 2007-2017.

group and socioeconomic status). This may be due to the fact that among that group, participation in secondary and tertiary education is higher than it is for men (CPA 2007-08:11).

1.24 In line with its commitment to achieving the gender-related MDGs by 2015, SKN has increased its focus on gender equality (GE) issues. The Department of Gender Affairs (DGA), which replaced the Department of Women's Affairs in 2000, has proposed the development of an overarching gender policy, a gender mainstreaming strategy and implementation framework to adequately address existing and emerging gender-related development issues. A review of SKN's performance on the CMDGs shows a decrease in gender disparity in relation to enrolment rates at the secondary school level (94.5% males, compared to 92.8% females) and a high level of literacy of both sexes between ages 15-24 (96.5% males and 97.4% females).

1.25 Over the period 2000-07, the incidence of poverty in SKN fell from 30.5% to 21.8%. Over the same period, the level of indigence also fell appreciably. The indigence levels were 1.4% in St. Kitts and 0.0% Nevis, respectively.^{4/} However, three consecutive years of economic contraction since then have likely reversed some of the improvements in poverty and indigence levels. The CPA had estimated that 37.8% of individuals in St. Kitts and 36.5% of individuals in Nevis were vulnerable to poverty. The CPA identified lack of education and functional illiteracy as being among the major causes of poverty.

1.26 Although poverty levels in SKN are moderate in comparison to other BMCs, income inequality is not. The Gini-Coefficient, which measures income distribution on a scale of 0 to 1, with 1 indicating absolute inequality, was estimated to be 0.4 at the time of the 2007/8 CPA. This translates to the richest 20% of the population in SKN accounting for about 47.7% of total income and the poorest 20% for 8.8%.

Development Challenges and Constraints

1.27 SKN faces some extremely difficult challenges. Attaining fiscal and debt sustainability is a prerequisite to expanding the space for growth-enhancing spending and improving the investment climate. However, macro-stability is fundamental but not sufficient for inclusive and sustained economic growth. The challenge of sustaining economic growth will require that GOSKN undertake economic and structural reforms that would underpin stable macroeconomic policy, and address infrastructural and other gaps to provide reliable infrastructure and effective institutional and human capacity.

Restoring Fiscal and Debt Sustainability

1.28 Strong fiscal policies will be required for GOSKN to achieve fiscal and debt sustainability. Significant progress has been made in lowering the debt stock and improving its risk profile. However, the public debt stock remains high and GOSKN will need to maintain primary surpluses of about 3.5% of GDP going forward and grow real GDP at about 3.2% per annum (p.a.) to keep the debt to GDP ratio on a downward trajectory to attain the Eastern Caribbean Central Bank (ECCB) threshold of 60% by 2020.

1.29 Sustaining improved fiscal and debt outcomes will hinge, in part, on GOSKN further consolidating its fiscal operations. GOSKN has developed an action plan for PFM reform for 2012-15

^{4/} The CPA (2007/08) was conducted by GOSKN with support from CDB. The study measured poverty in terms of the ability of a household to consume basic food and non-food requirements. The poverty line was based on an annual per capita consumption of \$17,978 in St. Kitts and \$21,961 in Nevis for food and basic non-food. While the CPA essentially assessed income poverty using data collected through the Survey of Living Conditions and the Household Budgetary Survey, attention was paid to the qualitative aspects of poverty through the Participatory Poverty Assessment, and vulnerability of households and communities.

based on a PEFA assessment undertaken in December 2009. The PEFA evaluation indicates PFM systems characterised by weaknesses that have tended to undermine budget credibility and fiscal discipline. Deficiencies in expenditure (non-salary) control, tax administration and collection and Government's capacity to manage the PFM reform action plan have been identified as needing strengthening. The PEFA assessment also pointed to significant deviations in budgetary allocations, excessive or inadequate use of special warrants and other deficiencies in strategic planning and the strategic allocations of resources and service delivery that undermine the efficiency of budget implementation. A summary of PEFA Performance Indicators for 2007 and 2009 is attached at Appendix 1.2. An updated assessment of the GOSKN's PFM systems is currently being conducted as part of a scoping exercise to identify gaps and weaknesses and refine the PFM reform action plan under the CIDA and World Bank (WB) Supporting Economic Management in the Caribbean (SEMCAR) TA initiative launched in 2011.

Improving Growth Prospects

1.30 With the closure of the sugar industry GOSKN has been seeking to encourage new engines of growth to propel the country's development. Tourism is constrained by the low volume of scheduled air carrier services from major tourism source markets; insufficient hotel rooms to induce an increase in air carriers to the destination; vulnerability of the sector to hurricanes, which have extensively damaged infrastructure and disrupted operations in the past; insufficient diversity of tourist generating markets; weak linkages with the rest of the economy; declining sector competitiveness; and deficiencies in human resource capacities.^{5/} SKN has enjoyed success in attracting tourists from the USA, but not from the United Kingdom (UK) and Europe, unlike other EC destinations such as Antigua and Barbuda and Barbados. A more proactive marketing strategy could reap some rewards. More can also be done to improve the prospects for tourism such as: (i) development of special segments, such as eco-tourism and heritage tourism, honeymoons and conventions; and (ii) improving productivity through improved management and skills training.

1.31 Output from the agricultural sector is inadequate to meet local demand and product quality is variable. GOSKN intends to increase agricultural production by developing competitive commercial farms in both crops and livestock on some of the land that was formerly used to grow sugar cane. However, for GOSKN's thrust to be successful, production must be sustainable and competitive in price and quality. GOSKN also intends to expand the fisheries sub-sector with assistance from the Government of Japan.

1.32 The International Finance Corporation (IFC) Enterprise Survey on SKN conducted in 2010 identified the ten top constraints faced by businesses as follows: (i) access to finance; (ii) tax rates; (iii) electricity; (iv) crime; (v) inadequately educated workforce; (vi) practices of the informal sector; (vii) customs and trade regulations; (viii) corruption; (ix) transportation; and (x) tax administration. The World Bank's (WB) "Doing Business Report 2012" ranked SKN at 95 out of 183 countries, the lowest of the Organisation of Eastern Caribbean States (OECS) countries. This ranking confirmed the persistence of constraints that adversely affect the business climate.

1.33 To help create an environment conducive for growth, GOSKN needs to address current and emerging infrastructure challenges and constraints. In terms of the utilities, the power sector in St. Kitts has presented major challenges. Prior to its corporatisation in 2011, the Electricity Department, in St. Kitts, made improvements in generation capacity through the purchase of new generators. However, high electricity load growth, and issues relating to transmission and distribution remain problematic. Line

^{5/} Adaptation Strategy in Response to the New European Union Sugar Regime 2006-13, pg 27.

losses are high and there are frequent black-outs because of transmission problems. Not only has demand for electricity outstripped supply at times resulting in numerous black-outs, but also several technical, financial and human resource issues have constrained its growth and have impacted negatively on business operations and economic development.

1.34 Disruptions of water supply also affect business operations. SKN relies primarily on groundwater for its potable water supply and both islands face similar challenges. These include: ageing infrastructure; low tariffs; and weak institutional frameworks for managing groundwater resources and for providing water services to residents. The islands face major challenges in meeting existing water demand, especially in the dry season. As a result, water supply is a limiting factor for future development. There is a need for a systematic approach towards water development, including water resource management, infrastructure upgrading and institutional strengthening. In 2010, Nevis received a loan from CDB to be used for upgrading its water-supply networks, establishing an institutional framework for managing water resources, and corporatising the Water Department. A similar initiative is required in St. Kitts.

1.35 SKN transportation infrastructure is in need of upgrading. The primary road network (of 105 kilometers (km) of paved roads) in St. Kitts is generally in good condition. However, drainage improvement is needed to increase the life of the roads and to reduce the maintenance requirements.

1.36 Improving growth prospects will also hinge on addressing the escalation in the incidence of serious crime and violence. High levels of crime impose costs as firms are forced to divert resources to cover security costs. Firms surveyed by the IFC's Enterprise Survey reported losses of 1.2% of sales due to theft, robbery, vandalism and arson. At the same time, security costs represented a little over 1% of sales. This is a disincentive to local and foreign investment.

1.37 Over the last decade, the increased incidence of murders and other serious crimes in SKN and the rise of criminal gangs have heightened feelings of citizen insecurity and threatens to undermine social stability. The security challenge has made the country invest heavily in the police and on avoidance costs. Despite these significant expenditures, GOSKN is challenged to provide rehabilitative and reform services. GOSKN is pursuing a robust multifaceted approach involving the modernisation of the Criminal Justice System (CJS), strengthened use of information communication technologies (ICTs), improved techniques of crime detection by law enforcement officers, and policing approaches that include community participation.

1.38 In spite of the good performance of the education sector, quality deficits persist: twice as many boys compared to girls repeat or drop out in basic education; only 58.3% of primary teachers and 39% of secondary teachers are trained; and more than 50% of students transition to secondary education without meeting the minimum achievement standards in Mathematics and English, with boys demonstrating a lower level of mastery than girls. Negative perceptions of TVET as a viable career preparation option persist, influencing subject selection decisions in schools even though TVET subscription would enhance employability. Education access targets are below acceptable levels in ECD, for both the 0-2 age cohort and pre-schools population at 15% and 67%, respectively, and in tertiary education.

1.39 GOSKN has begun to implement its education sector strategy. Key priorities identified for assistance focus mainly on improving the quality of education, although there is an urgent need to address school rehabilitation needs in St. Kitts and overcrowding in the primary education sub-sector on Nevis. Other sector priorities include: strengthening curriculum relevance and workforce preparation; expanding access quality ECD services and tertiary education; enhancing teacher effectiveness; and establishing a comprehensive framework for improving school connectedness for at-risk students.

Protecting the Vulnerable

1.40 A recent Social Safety Net Assessment estimated expenditure on social assistance programmes in 2008 at \$20 mn.^{6/} This represented 1.6% of GDP and 3.4% of Central Government expenditure. Similarly, a Poverty and Social Impact Assessment (2010)^{7/} that examined the impact of the global financial crisis on the livelihood of people in SKN found that GOSKN has continued to maintain its delivery of social programmes in order to cushion the impact on the poorest and most vulnerable. These assessments also found that despite its best intentions, the safety net system in SKN is comprised of a set of disjointed programmes with no clear articulation of priorities and no clear guidelines for fiscal prioritisation of programmes. In addition, errors of inclusion and exclusion in the system translate into inefficiency and ineffectiveness in the delivery of much needed social assistance programmes. Rationalisation and integration of all social assistance programmes have been proposed as a means to redress these systemic challenges and improve cost effectiveness.

Improving Environmental Sustainability

1.41 Economic development is inextricably linked to the quality of the natural and physical environment. The need to increase economic growth, create productive employment opportunities and expand physical development is exerting increasing pressure on SKN's available environmental resources. To achieve sustainable economic growth GOSKN needs to pursue a balanced approach to economic development that is based on sound environmental management principles.

1.42 More effort is needed to protect the environment through integrated legal and policy frameworks, greater institutional coordination, and improved enforcement of existing laws and regulations. In addition, the promotion of greater energy efficiency and making better use of renewable energy sources are integral to environmental sustainability. Several factors hinder the advancement of GOSKN commitments to environmental sustainability. Primary among these is the fiscal constraints of GOSKN.

1.43 The main environmental issues in relation to SKN include: (i) land degradation, soil erosion and its associated impacts on marine ecosystems; (ii) inadequate management and supply of water resources; (iii) overfishing and marine and coastal pollution; and (iv) inadequately controlled land-use practices and its threats to biodiversity. Other areas of environmental concern include solid waste management, sewage collection, treatment and disposal.

1.44 SKN has no centralised sewage system. On St. Kitts the only sewage treatment plant is located at Frigate Bay and in Nevis at the Four Seasons Resort. Most commercial and residential buildings have septic tanks and soak-away systems installed for sewage treatment. To date, this has not resulted in any contamination of the groundwater resources. However, grey water from commercial buildings and homes drain into the storm drains and into the near-shore marine environment. In the Basseterre coastal area, high levels of coliform bacteria have been detected.

1.45 SKN is principally affected by tropical storm systems and is also susceptible to flooding, slope failure, coastal erosion and soil erosion from high rainfall events. Stormwater drainage is a major concern in Basseterre, and several communities, where flooding is a common occurrence during the rainy season. Apart from the economic losses associated with the disruption to businesses and institutions, public safety

^{6/} St. Kitts and Nevis *Social Safety Net Assessment (2010:vii)*. Study was supported by the United Nations Children Fund.

^{7/} *Social Implications of the Global Economic Crisis (2008/09) on Living Conditions in the Caribbean*, Country Report, SKN. Study was commissioned by UNDP on behalf of SKN and conducted by Kairi Consultants Ltd. Final report was published on February 27, 2010.

is often compromised. The closure of the sugar industry and the subsequent clearing of cane lands for other uses, have contributed to watershed degradation and soil erosion and increased risks to civil infrastructure and some settlements. SKN also lies in the zone of the highest seismic risk in the EC. SKN is identified among the top 40 countries with economic risk from two or more natural hazards.

1.46 The most recent national progress report (September 30, 2010) on the Implementation of the Hyogo Framework for Action prepared by the National Emergency Management Agency (NEMA) indicates that SKN still remains substantially challenged. The report noted that NEMA lacks sufficient financial and technical resources and equipment to fulfil its functions. Except for the health sector, hazard and vulnerability assessments have not been updated since 2001, after hurricane Georges. However, significant progress has been made in terms of public sensitisation and awareness. In terms of future outlook, NEMA identifies the need for more effective integration of disaster risk considerations into development planning and programming at all levels as the most important challenge.

1.47 SKN is vulnerable to the effects of global CC. Already, the main coastal aquifer groundwater supply source for SKN has been identified as subject to saltwater intrusion.^{8/} The International Panel on Climate Change (IPCC) Fourth Assessment Report (AR4) and other model projections indicate that annual total precipitation is projected to decline under a range of potential scenarios between the months of May and August, but with more intense episodes. This will not only have implications to an already challenged national water supply, but also to the productive sectors of the economy.

1.48 To ensure sustained economic growth and to improve competitiveness SKN needs to put in place systems to make it resilient to natural hazards and CC. To this end, sector preparedness, response capacities, levels of mitigation and insurance are imperative measures.

^{8/} Simpson, M.C et al., (2009) An Overview of Modeling Climate Change Impacts in the Caribbean Region with contribution from the Pacific Islands, UNDP, Barbados, West Indies.

2. GOVERNMENT'S DEVELOPMENT STRATEGY

Overview of the Government's Development Strategy

2.1 In response to the new EU Sugar Regime that would have resulted in a 36% fall in the intervention price for sugar beginning in 2006, GOSKN ended the commercial production of sugar and developed an Adaptation Strategy, for the period 2006-2013, aimed at diversifying its economy. The Adaptation Strategy encompasses five areas for interventions that are focused on the challenge of achieving sustainable growth with an emphasis on enhancing international competitiveness and promoting private sector development. These areas of intervention include: (i) macroeconomic policies to reduce vulnerability and encourage and facilitate investment; (ii) improving the competitiveness of industries engaged in the production and export of goods and services; (iii) policies to support social development and the most vulnerable; (iv) ensuring environmentally sustainable development; and (v) organising to achieve success in economic restructuring and transformation.^{9/} Implementation of the Adaptation strategy has been, however, much slower than anticipated due to capacity and other resource constraints. As a result the strategy's time frame has been extended by three years to 2016.

(i) *Macroeconomic Policies To Reduce Vulnerability and Facilitate Investment*

2.2 Before the Adaptation Strategy was developed, GOSKN had embarked on public sector reform to modernise the public sector to facilitate its efficient and effective operation, while adhering to good governance, transparency and accountability. Since 2006, however, macroeconomic policies have focused on the attainment of fiscal and debt sustainability as part of a wider strategy of encouraging investment activity through the creation of an appropriate environment which includes good governance in the public sector; security of property rights; adequate and reliable infrastructure; effective state institutional capacity; a reduced role of the state in economic activity; accelerated economic diversification; and a simplified regulatory framework for private sector activity. This reform is being pursued within the ambit of the IMF's SBA.

(ii) *Improving Competitiveness*

2.3 The Adaptation Strategy had highlighted SKN's need to build competitive advantage in the production of export services. As a result, GOSKN launched initiatives to exploit opportunities in tourism, ITC, offshore financial and other services. To enhance competitiveness in the provision of these services, the strengthening of the country's human resource skills-base by paying special attention to the curriculum of training institutions was emphasised. GOSKN also realises that it is important to improve the productivity of all industries and services. In agriculture, GOSKN intends to increase production to satisfy local demand by developing competitive large farms.

2.4 In the tourism sector GOSKN, in association with the private sector, intends to upgrade infrastructure, tourism attractions and roads. GOSKN recognises that it needs to increase responsiveness to changing market demands by pursuing new niche markets; introducing new promotional strategies based on repackaging its tourism products; and upgrading tourism infrastructure. GOSKN has approached the EU to provide TA to develop a new tourism sector strategy and action plan. The new tourism sector strategy and action plan is expected to be completed before the end of 2012.

^{9/} Adaptation Strategy in Response to the New EU Sugar Regime, 2006-13, p. xii

2.5 The Adaptation Strategy also explained SKN's intention to expand into more technologically-intensive ICT-based export services. The development of ICT-related industries is considered critical to increasing international competitiveness and as a new source of export earnings.

(iii) *Policies to Support Social Development and Protect the Most Vulnerable*

2.6 GOSKN's objective of supporting economic development while protecting the most vulnerable is a core element of the Adaptation Strategy. Recently, GOSKN has developed a National Social Protection Policy, which is intended, *inter alia*, to strengthen the country's social protection framework, guide the integration of a number of fragmented social programmes, and reduce inefficiency and ineffectiveness in the social protection system. With assistance from the Organisation of American States (OAS), SKN intends to pilot the Chilean modeled Bridge Programme to provide social protection and psychosocial support to vulnerable households in the Federation.

2.7 CDB supported the development of the country's National Poverty Reduction Strategy and Action Plan (NPRS 2012-16). The key pillars of the NPRS support the social development imperatives identified in the Adaptation Strategy and include *inter alia*, (i) a focus on stimulating economic activity; (ii) strengthening social safety nets; (iii) risk reduction and social protection; (iv) enhancing education training programmes including TVET designed to facilitate the movement of workers into new areas of economic activity; (v) developing agriculture and tourism; (vi) promoting domestic entrepreneurship, community participation and mobilisation; and (vii) community empowerment, crime reduction and security management. The NPRS endorses ongoing plans to reduce the level of crime and the spread of criminality in the Federation, through improvements in policing, crime detection and solution, and improvements in the CJS. These initiatives are to be complemented by social interventions that can lead to social or community integration that encourage at-risk communities and households to self-actualisation and increase their quality of life.

(iv) *Environmentally Sustainable Development Agenda*

2.8 With the closure of the sugar industry, GOSKN acknowledges the need to pay closer attention to the issue of environmental sustainability. GOSKN sees environmental sustainability as an indispensable component for sustainable economic development, particularly in tourism and agriculture. GOSKN has expressed its intention to intensify activity in: (i) land-use planning and management; (ii) coastal management; (iii) management of protected areas; and (iv) disaster management and risk reduction.^{10/} While GOSKN has a physical plan to guide land-use, implementation has been weak. However, there is increasing emphasis on the designation of protected areas. GOSKN has identified the following protected areas: (i) the central forest reserve above 1,000 feet; and (ii) the Basseterre Valley from the airport towards Frigate Bay. GOSKN is also in the process of establishing marine reserves.

(v) *Economic Restructuring and Transformation*

2.9 With respect to economic restructuring and transformation, the Adaptation Strategy paid special attention to public sector reform. To increase SKN's growth potential, GOSKN needed to improve public sector management, ensure transparency and accountability in the management of public enterprises and improve the allocation of public sector resources. While some prioritisation of investments is ongoing, there is need to extend this activity to the medium term so as to develop an appropriate pipeline of capital investments projects.

^{10/} Adaptation Strategy, p. xvi.

Analysis of Government's Strategy and Challenges

2.10 The Adaptation Strategy is GOSKN's premier development policy document. It takes a medium-term perspective, targeting the country's main development constraints and contains many project ideas, reform initiatives and policy recommendations. However, it could have also benefitted from the prioritisation and sequencing of the various components into a phased implementation plan. Also missing was a comprehensive strategy for the mobilisation of resources to fund the strategy. These weaknesses in operationalising the Adaptation Strategy, coupled with capacity constraints within GOSKN contributed to the slow pace of implementation.

2.11 When the Adaptation Strategy was developed, it was envisaged that it would cost a little over USD500 mn to implement the various programmes and activities over the period 2006-2013. The expenditure was allocated as follows: initial transition costs USD29 mn; macroeconomic and administrative support USD151 mn; economic services and infrastructure USD195 mn; social development USD104 mn; and environmental management and disaster risk mitigation USD23 mn. This translates into an average annual expenditure of almost 13% of GDP in 2006 prices. This level of investment was high by historical standards and unsustainable, given GOSKN's fiscal constraints.

2.12 A key component of the Adaptation Strategy was the stabilisation of the macroeconomic situation. Effort was made to increase revenue receipts and control expenditures, however, actions to develop and implement a debt strategy were delayed. While there was a consensus that the public debt needed to be reduced, with SKN's growth potential, Government's substantial land holdings and the investments owned by the social security scheme, the debt risk profile was not considered to be acutely unmanageable by the authorities. However, given the country's high vulnerability, even with strong economic growth, bringing the public sector debt down to manageable levels would have been a difficult and prolonged process in the absence of a comprehensive debt restructuring.

2.13 In developing the various programmes contained in the Adaptation Strategy GOSKN's institutional capacity was overestimated. Compounding matters, the time required to implement politically difficult policy reforms was underestimated. GOSKN's inability to implement many of the policy reforms included in the Adaptation Strategy can be attributed to not being able to sustain high priority reform because of the influence of the political cycle. The slowing in the rate of economic growth after 2007 also affected the pace of implementation of the Adaptation Strategy because GOSKN had pursued a strong fiscal effort in order to stabilise its fiscal and debt situation and to meet the 3.5% primary surplus required as a condition to CDB's PBL.

3. CARIBBEAN DEVELOPMENT BANK'S ASSISTANCE STRATEGY, 2013-16

Introduction

3.1 CDB's country strategy for SKN 2013-16 sets out the programme of interventions to be undertaken. It translates the focus of CDB's Strategic Plan 2010-14 in a manner that is consistent with GOSKN's Adaptation Strategy and the NPRS. And has been informed by discussions with senior officials of GOSKN, representatives from the private sector and other stakeholders. Interventions of SKN's other development partners were taken into account to ensure that the strategy is complementary. Lessons learnt from previous interventions in SKN were incorporated in the design to ensure its effective implementation.

Review of Caribbean Development Bank's Past Strategy

3.2 At December 2011, SKN was the eighth largest recipient of CDB assistance. Over the period 1970-2011, CDB approved USD217 mn in loans, contingent loans, equity and grants targeted mainly at transportation, education and power and energy sectors. Multi-sectoral assistance was provided through policy-based interventions (loan and guarantee), reconstruction loans following natural disasters, lines of credit and BNTF projects.

3.3 The previous Country Strategy for SKN for the period 2006-08 was approved by CDB's Board of Directors in October 2006. Its major objectives were to support:

- (a) fiscal and debt sustainability by strengthening fiscal and debt management and supporting public sector reform;
- (b) economic growth by facilitating economic diversification, infrastructural development, promoting private sector development and improving competitiveness in productive activities;
- (c) social development by reducing poverty, improving human resource development, expanding general social services, including water, electricity and security; and
- (d) sustainable development through improved environmental management and the support of DRM and disaster risk mitigation policies.

3.4 These objectives aligned with the Government's priorities, and the strategy targeted interventions where CDB's support was thought to have the greatest impact. Although the strategy identified 2008 as its ending year, its strategic focus remained relevant beyond that date enabling continuity of objectives and program priorities. The Bank has continued, in consultation with GOSKN, to adapt and direct resources to areas of priority need. Over the period 2006-2012, SKN benefited from several initiatives that were not included in the CSP. However, the CSP pre-dated CDB's mainstreaming of results-based management. As a result, CSP expected outcomes were not explicitly identified and the original strategy matrix was not structured in a results-based format. Notwithstanding, findings on the strategy's effectiveness in delivering on its objectives, and lessons discerned from its implementation have been distilled.

3.5 The indicative list of projects included in the 2006-08 CSP included 25 projects, totaling USD82.75 mn, see Appendix 3.1. Infrastructure projects accounted for USD47.2 mn, or 57%, of the total assistance programme. Projects for macroeconomic management, including a PBL of USD20 mn, accounted for USD23.35 mn, or 28.2%. In addition, the CSP contained TA projects to assist in public

sector management, environmental management, poverty reduction and disaster mitigation. Some of the TA projects were subsequently undertaken by SKN's other development partners. Other Initiatives implemented after 2008 included two partial loan guarantees, disaster risk insurance under the Caribbean Catastrophe Risk Insurance Facility (CCRIF), and exceptional financial assistance to help in the restructuring of the public sector debt. The status of the interventions is shown at Appendix 3.2. Compared with the total assistance programme of USD82.75 mn, loans and grants approved during the 6- year period totaled USD76.5 mn.

3.6 Although the Bank's strategy remained highly relevant, progress in achieving the strategy goals was uneven affected by shifts in policy emphasis brought about by Government's fiscal constraints, the influence of the political cycle, and the changed economic environment after 2008. GOSKN's budget constraints limited its loan absorptive capacity to USD42.9 mn during 2006-2008. In the context of fiscal constraints, the multiplicity of objectives - many complex with tight implementation schedules - were overly optimistic. GOSKN's priorities shifted to focus primarily on macroeconomic stability. In this area, the Bank had some success in supporting outcomes in macroeconomic management and public sector reforms through PBL and PBG operations, instruments which assisted GOSKN to drive its policy reform to, *inter alia*, strengthen its revenue base, improve its debt dynamics and enhance public sector management. Among other measures, the Electricity Department, in St. Kitts, was corporatised and initiatives were also undertaken to strengthen the management of the public enterprises, including the establishment of the Government Entities Oversight Board.

3.7 GOSKN's demand for investment loans was severely affected by its fiscal situation and debt overhang. This situation was exacerbated by the severe contraction in economic activity after 2008, and by GOSKN's strong fiscal effort (attaining primary surpluses), which effectively reduced the availability of funds to meet counterpart resource requirements. CDB showed considerable flexibility, especially by restructuring its loan products to assist with mitigating the impact of the global financial crisis and natural hazards. The strategy provided support to sustaining economic growth, environmental management and DRM through loans approved after 2008: (i) West Basseterre Bypass Road; (ii) Nevis Water Supply Project; (iii) National Disaster Management - Immediate Response Loan; and (iv) premium payment to CCRIF, a parametric insurance scheme owned, operated and registered in the Caribbean for the Region's governments. The previous country strategy also supported the promotion of social development and poverty reduction. Through sub-programmes undertaken by BNTF, low income communities improved access to essential services and upgraded skills to support income generation (see Appendix 3.2 for details of BNTF). More significantly, SKN completed a CPA and NPRS (2012-16) with CDB's support over the period 2006-2012.

3.8 Throughout 2006-2011, CDB remained SKN's largest multilateral creditor. Table 3.2 provides a summary of CDB's resource flows. With the exception of 2009 and 2011, resource flows were positive with disbursements in 2008 and 2010 reflecting PBL tranches.

TABLE 3.2: ST. KITTS AND NEVIS CDB RESOURCE FLOWS TO 2006-2011
(USD mn)

| Item | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|----------------------|------|-------|-------|--------|-------|--------|
| Net Disbursement | 4.32 | 6.44 | 9.26 | 2.16 | 8.21 | (2.35) |
| Disbursement | 7.38 | 10.41 | 15.43 | 6.91 | 13.65 | 4.34 |
| Amortisation | 3.06 | 3.97 | 6.71 | 4.75 | 5.44 | 6.69 |
| Interest and Charges | 3.35 | 3.77 | 3.93 | 3.59 | 3.44 | 3.18 |
| Net Resource Flow | 0.97 | 2.67 | 5.33 | (1.43) | 4.77 | (5.33) |

Source: CDB

Portfolio Performance and Lessons Learnt

3.9 In 2006, the performance of SKN's portfolio of projects, as measured by CDB's portfolio implementation performance index, was considered satisfactory but below the overall average of the portfolio of projects under implementation. The portfolio implementation performance index deteriorated marginally between 2006 and 2010 and in 2011 was deemed satisfactory. SKN was ranked relatively low in terms of implementation efficiency, taking three months to sign loan agreements and 8.6 months from Board approval to loan effectiveness. The major operational bottlenecks identified were:

- (a) delays in meeting eligibility conditions for first disbursement;
- (b) shortages of staff in GOSKN with project management experience; and
- (c) severe budgetary constraints, which affected the availability of counterpart financing.

3.10 In undertaking projects included in the CSP, CDB had overestimated the institutional capacity of GOSKN, while at the same time underestimating the time required for operationally complex projects. In general, investment projects were more successful than those relating to policy or institutional reforms that were contained in the previous country strategy.

3.11 Other lessons learnt from the SKN portfolio performance over the period 2006-2011 included:

- (a) weaknesses in project design tend to lead to underestimation in project costs and implementation times;
- (b) project implementation efficiency and effectiveness are influenced by the adequacy of staffing in the executing agency;
- (d) closer supervision during project implementation should occur whenever technical weaknesses are identified in the executing agency;
- (e) successful project implementation depends on GOSKN's sustained commitment and perception that the project is a priority;
- (f) the impact of the political cycle on project implementation should not be underestimated, especially in relation to policy, legislative and institutional reforms;
- (g) ambiguity with respect to the functioning of BNTF offices structures in SKN during the implementation of BNTF 5 created inter-agency coordination and accountability issues; and
- (h) the inclusion of the Director of Gender Affairs on the BNTF Project Steering Committee assisted in enhancing gender-sensitive design elements of sub-projects.

3.13 Projects included in the new CSP will be designed to take into account the lessons learnt from previous projects undertaken in SKN. In particular, care would be taken in identifying eligibility conditions for first disbursement on projects and closer supervision will be undertaken where technical weaknesses are identified in executing agencies. In designing TA projects to undertake policy, legislative and institutional reforms, the political cycle will be taken into account.

Development Partner Coordination

3.14 CDB has good relations with SKN's other major development partners. However, donor coordination has mostly been on an *ad hoc* basis. Generally, SKN's major development partners in the EC work through coordination groups, under the umbrella of the UNDP, to address specific areas of concern and those requiring immediate actions. Of the major development partners, CDB and the EU are the largest providers of assistance to SKN. Except for the IMF and some of the non-traditional development partners, the other bilateral and multilateral development partners mainly have programmes that are implemented at the OECS sub-regional or CARICOM regional levels.

3.15 CDB will continue to coordinate its interventions in SKN over the period of the strategy with other development partners to reduce duplication, enhance impact and reduce costs. Over the strategy period, CDB will seek opportunities for closer and more effective collaboration with SKN's other development partners. Appendix 3.4 provides a summary of the activities to be, or being, undertaken in SKN by its development partners by thematic areas over the period of the strategy.

The Strategic Focus of the New Country Strategy and the Expected Overall Outcomes

3.16 The focus of CDB's new SKN country strategy will be two-fold: on sustainable economic growth, based on an improved macroeconomic climate, more competitive productive sectors, and enhanced human capital; and on strengthening resilience through safeguarding social and environmental stability and reducing the country's vulnerabilities to external shocks and natural hazards. This focus is consistent with the Government's Adaptation Strategy and with CDB's objective of promoting broad-based economic growth and inclusive social development, promoting good governance and environmental sustainability and DRM.

3.17 The fiscal consolidation and debt restructuring initiatives being implemented are expected to restore macroeconomic stability, increase in private sector confidence and lead to higher levels of public sector savings to facilitate increased public sector investment in infrastructure. It is expected that GOSKN will generate primary surpluses of about 3.5% of GDP over the strategy period to contribute to the further reduction of the public sector debt. While efforts are currently being focused on achieving fiscal and debt sustainability, it is also important for GOSKN to strengthen its institutional capacity to manage its finances. Hence, the emphasis on improving PFM.

3.18 The interventions in the indicative programme include design options and capital estimates which will be used to develop a pipeline of capital projects for implementation over the strategy period and beyond. The fiscal effort required to attain fiscal and debt targets implies limits to borrowing capacity in the near term. A lesson learnt from the previous CSP is that not all interventions share the same level of priority. In a context of limited absorptive capacity, the key lessons learned are: the need for selectivity; avoidance of overly ambitious programme and project goals; and recognition of capacity constraints. In recognition of this, CDB has aimed to be more conservative and selective in its resource and results programming. The Bank will also facilitate GOSKN's efforts to improve its effectiveness and efficiency in project implementation by providing TA. During the strategy implementation period, attention will be placed on the training of staff assigned to capital projects in order to alleviate problems of staff turnover and shortages in key execution agencies.

Strategic Objective I: Establishing an Enabling Environment for Sustained Inclusive Growth and Poverty Reduction

Country Strategy Paper (CSP) Outcome: Enhanced Macro Stability Through Strengthened PFM Capacity for Budget Planning and Management.

3.19 CDB intends to assist GOSKN in its effort to reduce the public sector debt to GDP ratio to fewer than 100% by the end of 2012 and to maintain primary surpluses of 3.5% of GDP over the period 2012-16. The resolution of SKN's fiscal and debt sustainability issues are expected to be completed by the end of 2012, with the finalisation of the comprehensive public sector debt restructuring. At the same time, GOSKN will be implementing a number of structural measures, such as civil service reform and pension reform that are likely to be completed during the period of the new country strategy.

3.20 While several development partners have indicated a willingness to provide TA to address GOSKN's capacity constraints and institutional weaknesses, including EU, CARTAC, CIDA and the World Bank, significant gaps in the funding requirements will remain. In the new strategy, resources have been allocated to address some of GOSKN's PFM capacity and institutional constraints in strengthening the management of public corporations, strengthening VAT administration and tax audit training. CDB will also conduct training in project cycle management. Government is currently refining its PFM reform action plan which will provide a common platform for dialogue between the Government and donors that CDB and the other development partners can assist in implementing. The CSP specific outcomes and baseline data in this area will need to be more explicitly defined at a later stage when this process has been completed.

Improved Competitiveness

3.21 SKN's economy is projected to grow at a modest pace during the period of the country strategy. However, this is not without considerable downside risks given the softening in the global medium-term economic outlook. CDB intends to assist GOSKN in attaining higher and less variable economic growth rates. Over the period of the strategy, CDB's indicative interventions in the productive sector will be restricted to assisting GOSKN to implement initiatives to increase the competitiveness of the tourism and the agricultural sectors. In addition CDB, through CTCS, will play a role in strengthening the private sector by the provision of TAs, workshops and job attachments to micro and small businesses.

(a) Tourism

CSP Outcome: Promote Sector Competitiveness Through the Implementation of Selected Measures in the Tourism Sector Strategy and Action Plan.

3.22 Projections for the long-term growth of the global tourism industry and the restart of several projects in SKN that were previously on hold indicate that the sector's contribution to GDP is expected to increase over time. However, SKN tourism sector needs to raise its competitiveness. In this regard, GOSKN has obtained funding from the EU to prepare a tourism sector strategy and action plan. Work on the plan is expected to be completed by the end of 2012. CDB, in its indicative programme of assistance to SKN, will consider funding sub-project components that emerge from the tourism sector strategy and action plan that would help to increase the sector's competitiveness.

(b) Agriculture and Rural Development

CSP Outcome: Agricultural Output Improved.

3.23 CDB will support SKN in increasing the output of the agricultural sector. In keeping with the thrust of the NPRS that stresses the importance of agricultural development for food security reasons, linkages to employment creation and poverty reduction, CDB will support GOSKN's efforts to boost local production and, by extension, rural incomes through investments aimed at:

- (i) expanding irrigated acreages (construction and rehabilitation of wells and small dams and associated distribution systems in concentrated agricultural districts);
- (ii) enhancing land mechanisation services, and facilities for produce handling and storage;
- (iii) improving genetic stock - large and small ruminants; and
- (iv) strengthening the capacity of farmers, farmer cooperatives and farm service delivery personnel.

(c) Upgrading Physical Infrastructure

3.24 The continuous improvement of SKN's physical infrastructure is an essential component of CDB's indicative programme of interventions over the strategy period. The demand for such financing is, in part, a natural response to the suppressed levels of investment in physical infrastructure caused by GOSKN's fiscal and debt problems. CDB's indicative programme for physical infrastructure development is also the result of GOSKN's reorientation of activities in specific sectors of the economy to ensure the effective and efficient provision of utility services in an effort to improve competitiveness in the productive sectors.

CSP Outcome: Lower Transmission and Distribution Cost Contribution to the Electricity Tariff.

3.25 One of CDB's indicative interventions will be to support the improvement in electricity transmission and distribution. CDB had provided GOSKN with funding for the corporatisation of the Electricity Department under the last country strategy. Before it was corporatised, GOSKN purchased four generators to address the shortage in electricity production. However, distribution losses, as a percentage of net generation, are at a high level for a utility of its size and represent a significant cost to the utility.

CSP Outcome: Improved Supply and Access to Potable Water.

3.26 SKN is a water-scarce country. Significant water challenges exist, especially during the dry season. Given the forecast by global CC models of lower future rainfall, with more intense episodes, the challenge of ensuring a sustainable supply of water to meet future needs is pressing. CDB, as one of its indicative interventions, will fund a TA project for the development of a water sector masterplan for St. Kitts, including design options and capital estimates. After the completion of the water sector master plan, CDB will consider funding the capital works programme to improve the water supply and storage capacity. In low income communities, BNTF sub-programmes will focus on helping to improve access to potable water supplies.

CSP Outcome: Enhanced Transportation System

3.27 CDB will also consider funding the rehabilitation of part of the South-East Peninsula Road which runs through the most important tourism area in St. Kitts. During heavy rainfall events, large rocks and boulders fall onto the road disrupting the flow of traffic and creating a danger to vehicular traffic. In addition, large sections of the road are in urgent need of rehabilitation and upgrading. GOSKN has obtained funding from the Organisation of Petroleum Exporting Countries Fund for International Development to finance the design stage and part of the civil works.

3.28 CDB will also consider a TA project to conduct a feasibility study on extending the runway at the airport on Nevis to accommodate private jets. Nevis has a number of upmarket tourism properties that attract high-end travelers and celebrities. The extension of the airport will assist in making the island more attractive to these types of visitors.

(d) Enhancing Human Capital

CSP Outcome: Enhanced Employability of Graduates.

3.29 CDB's assistance in this area will be based on priorities outlined in GOSKN's Education Sector Strategy and the implementation of the OECS Education Sector Strategy 2012-2021 (OESS). GOSKN has begun to implement its education sector strategy and by the end of 2012, the OESS, which was endorsed by OECS Ministers of Education in May 2012, will be adopted for implementation by all OECS member states. The major areas of assistance to SKN will be in the facilitation of equity in relation to opportunities, improving basic literacy and enhancing the skill levels of learners by creating greater linkages between the labour market and the education system. Key priorities for CDB assistance will focus on improving access, quality and relevance of education by strengthening workforce preparation with emphasis on quality TVET provision, including the implementation of a National Qualification Framework (NQF) and National/ Caribbean Vocational Qualifications (NVQ/CVQ); and expanding ECD services through BNTF programmes.

Strategic Objective II: Strengthening Resilience through Securing Social Stability and Improving Environmental Sustainability

CSP Outcomes: Established Framework for the Effective Delivery of Targeted Social Protection Systems.

Capability Enhancement of Vulnerable Groups by Promoting Entrepreneurship, and Skills Training.

Social Cohesion through rehabilitation of Small-Scale Social and Economic Infrastructure in Low Income Communities.

3.30 CDB will support GOSKN's NPRS 2012-16 within the framework of a systematically organised programme using a community-focused approach that engages stakeholders at policy, implementation and management levels. It will aim to reduce social vulnerability by improving the targeting of recipients of social safety net programmes and where possible, increasing the number of women benefitting from projects and programmes undertaken by GOSKN.

3.31 CDB's interventions will also focus on promoting entrepreneurship and enterprise development, community participation and mobilisation, and education and skills upgrades through BNTF and CTCS. CDB also proposes to assist SKN in strengthening its social safety net system, in keeping with one of the key recommendations emanating from the Social Safety Net Assessment (2008) and the NPRS. At present, the social safety net system is fragmented, lacks targeting and operates in an inefficient manner. CDB's assistance will help GOSKN to establish a Central Beneficiaries Register and MIS to support the integration of all social assistance programmes. This integrated and coordinated approach will improve targeting, efficiency and effectiveness of programme delivery. In addition, CDB will consider providing support to GOSKN to conduct another CPA to provide empirical data on the multi-dimensional nature of poverty and well being. The findings of the new CPA will complement other data that will be collected in country to strengthen the platform for evidence-based decision making.

3.32 Gender equality is seen as a cross-cutting theme in the Country Strategy. Measures to support gender equality are intended to improve human development, productivity and economic growth prospects by reducing social and economic inefficiencies that adversely affect men and women. As a result, CDB in its strategy for SKN will assist GOSKN in sustaining its gender equality initiatives by providing resources to conduct a Country Gender Assessment to inform its gender mainstreaming strategy and in identifying critical priority areas for gender-sensitive development initiative and interventions.

CSP Outcome: Strengthened Environmental Management

3.33 CDB will assist SKN in increasing its capacity to improve environmental and DRM. This assistance will allow GOSKN to develop and implement new approaches to promoting the sustainable use of the country's resources. The main themes of CDB's environmental and DRM assistance to SKN are minimising water pollution, supporting the preservation of environmentally sensitive areas and developing institutions and systems that are conducive to sustainable development. Some of the indicative programme of interventions will be applicable to SKN, whereas others will be targeted to an individual island. Those interventions applicable to SKN include: the development of a national climate policy, strategy and action plan, a comprehensive land policy to govern land tenure, land use management and land administration. United Nations Habitat and the Australian Agency to International Development are currently working on some aspects of improving land administration, but GOSKN may need assistance from CDB to support the institutional strengthening of the land registry. In addition, BNTF drainage and sanitation sub-programmes will be used to support environmental sustainability in low income communities.

3.34 In St. Kitts CDB's indicative programme of interventions relating to environment and climate change will include the development of a drainage improvement plan for Basseterre. The drainage improvement plan will include preliminary design options and capital cost estimates. The TA will be undertaken with the prospects of CDB funding the capital investment project. In Nevis CDB's intervention will be a TA project to conduct a drainage and sewage improvement plan for Charlestown, including preliminary design options and capital cost estimates.

Programme Size

3.35 CDB's proposed indicative lending programme to SKN will be driven by the continuity and success of GOSKN's socioeconomic measures at the macro and sectoral levels. The continued implementation of the fiscal adjustment programme under the SBA and maintenance of an appropriate medium-term fiscal stance is expected to be of foremost importance. Steady progress on the implementation of the adjustment programme would result in a lending programme of up to USD42.15 mn, as shown in Table 3.3. This total should, however, be seen as indicative and could

theoretically be exceeded in the event of a better than expected macroeconomic out-turn and/or in project disbursement rates. It is also possible the value of disbursements could be lower than the indicative programme because of a less than satisfactory macroeconomic performance, changes in GOSKN's priorities, slower than expected rates of project appraisals and disbursements and GOSKN sourcing project funding from other development partners.

TABLE 3.4: ASSISTANCE PROGRAMME
(USD mn)

| Projects/Programmes | Value |
|--|--------------------|
| (a) Strategic Objective 1: Establishing an Enabling Environment for Sustaining Inclusive Growth and Poverty Reduction | |
| (i) Enhanced Macro Stability through Strengthened PFM Capacity. | |
| - TAs to strengthen PFM in selected areas as identified in PFM action plan. | 1.00 |
| (ii) Improved Competitiveness | |
| (a) Tourism | |
| - Projects components arising from the tourism sector strategy and action plan to increase the sectoral competitiveness. | 2.00 |
| (b) Agriculture and Rural Development | |
| - Multi-project with elements including irrigation expansion and improvement of land mechanisation services, post-harvest handling facilities and stability training | 2.00 |
| (c) Upgrading Physical Infrastructure | |
| - TA to undertake a line-loss study for the St. Kitts Electricity Company Limited. | 0.20 |
| - TA to undertake a feasibility study to extend the runway in Nevis to accommodate jets. | 0.10 |
| - TA and capital works project to improve water supply and expand storage capacity for St. Kitts. | 8.50 |
| - Capital works to improve the SE Peninsula Road. | 20.00 |
| - BNTF – Expanding water and sanitation. | 0.55 ^{1/} |
| (d) Enhancing Human Capital | |
| - Strengthening TVET, including the implementation of a National Qualification Framework and National/Caribbean Vocational Qualification (NCQV). | 5.00 |
| - BNTF – Expanding public ECD services. | 0.55 ^{1/} |
| (b) Strategic Objective 2: Strengthening Resilience through Securing Social Stability and Improving Environmental Sustainability. | |
| (i) Enhancing Resilience of Vulnerable Groups | |
| (a) TA to establish a central beneficiaries register and MIS to support the integration of all social assistance programmes. | 0.40 |
| (b) TA to conduct CPA | 0.30 ^{1/} |
| (c) TA to conduct CGA | 0.25 ^{1/} |
| (d) TA to develop a drainage improvement plan for Basseterre, St. Kitts; including design options and capital estimates. | 0.50 |
| (e) TA to develop a drainage and sewage improvement plan for Charlestown, Nevis; including design options and capital estimates. | 0.50 |
| (f) BNTF basic community access and drainage. | 0.55 ^{1/} |
| (ii) Strengthened Environmental Management | |
| (a) TA to develop a land use policy to govern land tenure, land management and land administration. | 0.15 |
| (b) TA to develop a national CC policy, strategy and action plan. | 0.15 |
| Total | 42.70 |

^{1/} Grant funding

4. RESULTS MONITORING AND EVALUATION FRAMEWORK

Strategy Implementation Risks

(a) Macroeconomic Factors

4.1 Over the medium term the current global economic outlook is challenging. The expectations are that while SKN's real GDP growth will be positive, it will be modest. The openness of the SKN economy and the likely adverse effects of the reforms to be undertaken under the SBA could slow down the implementation of the country strategy. The fiscal, debt and structural reforms may yield less than expected gains and therefore push the attainment of fiscal and debt sustainability further into the future. Under such circumstances it may be necessary to review the strategy and adjust it to suit SKN's revised circumstances.

4.2 Another potential risk relates to instability in the domestic financial market because of GOSKN's restructuring of its domestic debt. With a significant proportion of the domestic debt secured against land, the restructuring may be difficult because of its illiquidity, even though SPVs will be used to monetise encumbered lands. This could make the restructuring of the public sector domestic debt difficult and prolonged. However, it could possibly lead to the better coordination of interventions between SKN's development partners.

4.3 SKN is vulnerable to natural disasters, especially hurricanes, which have in the past caused substantial damage to infrastructure and disruption to economic activity. The threat is perennial, and GOSKN needs to ensure that its disaster risk mitigation strategies are robust from an institutional and policy perspective. CDB is committed to providing assistance to enhance GOSKN's institutional and policy capabilities. In the event of a disaster, CDB and other development partners stand ready to assist.

(b) Fiduciary Risks and Mitigating Actions

4.4 GOSKN's high public sector debt and debt service payments means that there is a fiduciary risk involved in CDB providing additional finance. However, GOSKN has clearly stated that it will not be suspending loan repayments to multilateral institutions and holders of its treasury bills. As GOSKN continues to implement its fiscal and structural reforms and debt restructuring initiatives, the expectation is that the debt stock and the debt service burden will be significantly reduced after 2012, mitigating much of the fiduciary risks. Also, GOSKN's strengthening of its capacity for implementing the fiscal and structural reforms and initiatives to improve PFM will help to enhance confidence in its ability to service debt obligations in future.

(c) Institutional Capacity Risks and Mitigating Actions

4.5 One of the main weaknesses in implementation of the previous CSP was the lack of capacity in public sector institutions. In the current CSP, the intention is to address this issue at two levels by: (i) in the short term provide funding for capacity building in case of need, wherever there are gaps in provisioning by other development partners; and (ii) in the longer term the provision of resources for the development of institutional capacity.

Strategy Performance Monitoring

(a) Institutional Arrangements

4.6 The overall responsibility for monitoring implementation of the CSP lies with the Department of Economics, supported by members of the CSP team from the Projects Department. While members of the CSP team will be in constant contact with officials from GOSKN to accelerate project implementation, the intention is to review the CSP at least half yearly, to address bottlenecks that could constrain progress and to reevaluate priorities as required because of changing circumstances. A formal mid-term strategy review will be undertaken 24 months after the Board's approval of the CSP. A detailed evaluation of the CSP will also be undertaken at the end of the CSP period.

(b) Results-Based Monitoring Plan

4.7 The results-based monitoring framework outlined in the evaluation matrix will be followed closely to ensure that action undertaken during the CSP period achieves the results intended. If the results are not achieved, the monitoring framework will allow for the identification of factors inhibiting achievement of the results and allow for changes in the design, if required, to achieve the results. Monitoring will be undertaken by both the Economics Department and by the team member(s) with responsibility for the specific projects in the Project Department. Baseline indicators not included in the document are to be agreed at project appraisal. Data sources will comprise reports from the various implementing agencies, where applicable. Where appropriate, data will be disaggregated by sex to improve analysis.

St. Kitts and Nevis: Central Government Fiscal Operations, 2008–17

(In millions of Eastern Caribbean dollars)

| | 2008 | 2009 | 2010 | Prel. Program | | Proj. | | | | |
|---|--------------|--------------|---------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | | | | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| Total revenue | 544.4 | 539.4 | 513.5 | 651.1 | 524.1 | 566.2 | 598.8 | 633.3 | 671.8 | 712.4 |
| Current revenue | 544.4 | 539.4 | 513.5 | 650.0 | 524.1 | 566.2 | 598.8 | 633.3 | 671.8 | 712.4 |
| Tax revenue | 422.0 | 396.1 | 342.4 | 408.1 | 420.1 | 448.8 | 474.9 | 505.6 | 539.9 | 576.6 |
| Taxes on income | 135.7 | 148.7 | 92.6 | 86.6 | 81.5 | 89.1 | 94.3 | 100.4 | 107.2 | 114.5 |
| Taxes on property | 6.6 | 8.8 | 9.4 | 8.8 | 10.6 | 11.8 | 12.5 | 13.3 | 14.2 | 15.2 |
| Taxes on domestic goods and consumption 2/ | 83.9 | 69.6 | 84.2 | 208.3 | 216.8 | 231.5 | 245.0 | 260.9 | 278.6 | 297.5 |
| Taxes on international trade and transactions | 195.9 | 169.0 | 156.3 | 104.4 | 111.3 | 116.3 | 123.0 | 131.0 | 139.9 | 149.4 |
| Nontax revenue | 122.5 | 143.3 | 171.0 | 241.9 | 104.0 | 117.4 | 123.9 | 127.7 | 131.8 | 135.8 |
| Capital revenue | 0.0 | 0.0 | 0.0 | 1.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total expenditure and net lending | 650.4 | 661.1 | 706.1 | 684.5 | 645.3 | 612.6 | 628.1 | 661.9 | 692.6 | 737.0 |
| Current expenditure | 545.3 | 565.6 | 576.3 | 598.8 | 527.6 | 506.8 | 516.1 | 539.7 | 562.2 | 594.3 |
| Wages and salaries | 204.5 | 233.5 | 224.0 | 222.0 | 225.1 | 225.1 | 230.7 | 241.9 | 257.7 | 275.2 |
| Goods and services 3/ | 151.8 | 150.1 | 169.1 | 179.7 | 108.7 | 109.4 | 112.6 | 119.9 | 128.0 | 136.7 |
| Interest | 128.7 | 123.2 | 127.0 | 126.0 | 109.0 | 95.2 | 94.5 | 96.4 | 89.3 | 89.3 |
| Domestic | 86.8 | 81.6 | 86.7 | 91.6 | 60.3 | 59.9 | 61.0 | 65.7 | 63.8 | 63.8 |
| Foreign | 41.9 | 41.6 | 40.3 | 34.4 | 48.7 | 35.3 | 33.5 | 30.6 | 25.6 | 25.6 |
| Transfers | 60.3 | 58.9 | 56.2 | 71.1 | 84.8 | 77.0 | 78.3 | 81.6 | 87.1 | 93.1 |
| Net lending | 15.4 | 7.6 | 5.8 | -0.6 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Capital expenditure | 89.7 | 87.9 | 124.0 | 86.3 | 116.7 | 104.8 | 111.0 | 121.2 | 129.4 | 141.7 |
| Current balance | -0.9 | -26.2 | -62.8 | 51.2 | -3.5 | 59.4 | 82.7 | 93.5 | 109.6 | 118.1 |
| Overall balance (before grants) | -106.0 | -121.7 | -192.6 | -33.3 | -121.2 | -46.4 | -29.2 | -28.6 | -20.8 | -24.6 |
| Grants | 28.3 | 67.5 | 50.7 | 68.3 | 80.1 | 44.6 | 17.6 | 17.6 | 17.6 | 17.6 |
| Overall balance (after grants) | -77.7 | -54.2 | -141.9 | 35.0 | -41.1 | -1.8 | -11.7 | -11.1 | -3.2 | -7.0 |
| Primary balance | 51.0 | 68.9 | -14.9 | 160.9 | 67.9 | 93.4 | 82.8 | 85.3 | 86.1 | 82.3 |
| (In percent of GDP) | | | | | | | | | | |
| Total Revenue | 27.2 | 29.0 | 28.2 | 33.7 | 26.1 | 27.0 | 27.2 | 27.2 | 27.1 | 27.1 |
| Current Revenue | 27.2 | 29.0 | 28.2 | 33.6 | 26.1 | 27.0 | 27.2 | 27.2 | 27.1 | 27.1 |
| Tax Revenue | 21.1 | 21.3 | 18.8 | 21.1 | 20.9 | 21.4 | 21.6 | 21.7 | 21.8 | 22.0 |
| Nontax Revenue | 6.1 | 7.7 | 9.4 | 12.5 | 5.2 | 5.6 | 5.6 | 5.5 | 5.3 | 5.2 |
| Total Expenditure and net lending | 32.5 | 35.6 | 38.8 | 35.4 | 32.1 | 29.2 | 28.6 | 28.4 | 28.0 | 28.1 |
| Current Expenditure | 27.3 | 30.4 | 31.7 | 31.0 | 26.2 | 24.1 | 23.5 | 23.1 | 22.7 | 22.6 |
| Wages and salaries | 10.2 | 12.6 | 12.3 | 11.5 | 11.2 | 10.7 | 10.5 | 10.4 | 10.4 | 10.5 |
| Goods and services | 7.6 | 8.1 | 9.3 | 9.3 | 5.4 | 5.2 | 5.1 | 5.1 | 5.2 | 5.2 |
| Interest | 4.3 | 4.4 | 4.8 | 4.7 | 3.0 | 2.9 | 2.8 | 2.8 | 2.6 | 2.4 |
| Transfers | | | | | | | | | | |
| Net lending | 0.0 | -1.4 | -3.5 | 2.7 | -0.2 | 2.8 | 3.8 | 4.0 | 4.4 | 4.5 |
| Capital expenditure | -5.3 | -6.5 | -10.6 | -1.7 | -6.0 | -2.2 | -1.3 | -1.2 | -0.8 | -0.9 |
| Grants | 1.4 | 3.6 | 2.8 | 3.5 | 4.0 | 2.1 | 0.8 | 0.8 | 0.7 | 0.7 |
| Overall balance (after grants) | -3.9 | -2.9 | -7.8 | 1.8 | -2.0 | -0.1 | -0.5 | -0.5 | -0.1 | -0.3 |
| Primary balance | 2.6 | 3.7 | -0.8 | 8.3 | 3.4 | 4.4 | 3.8 | 3.7 | 3.5 | 3.1 |
| Memorandum Items: | | | | | | | | | | |
| GDP (market prices) | 1,998 | 1,859 | 1,818 | 1,932 | 2,010 | 2,100 | 2,199 | 2,332 | 2,474 | 2,625 |

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

1/ Combined accounts of the Federal Government of St. Kitts and Nevis and the Nevis Island Administration. Reflect the outcome of the debt exchange offer to bondholders and external commercial creditors.

2/ The sharp drop in international taxes and concurrent rise in taxes on domestic goods and services reflect the introduction of VAT in November 2010.

3/ Decline in goods and services expenditure from 2012 reflect the corporatization of the Electricity Department from August 2011.

ST. KITTS AND NEVIS PUBLIC SECTOR DEBT SUSTAINABILITY FRAMEWORK
2007-2017

1. St. Kitts and Nevis (SKN) public sector debt would be unsustainable even with the strong adjustment measures introduced in 2010 and 2011. The comprehensive debt restructuring, which is expected to be completed before the end of 2012 will result in the restoration of debt sustainability. However, at 86% of GDP, the level of public sector debt will remain high.

2. SKN has the highest debt to GDP ratio in the ECCU. At the end of 2010, the public sector debt stock was equal to 163% of GDP. About two-thirds of the public sector debt was held domestically, mostly by commercial banks and the social security scheme. External debt represents the remaining one-third, and is mainly owed to multilateral creditors, particularly CDB, and commercial creditors.

3. Over the years, GOSKN has relied heavily on short-term financing from the domestic financial system. At the end of 2010, Treasury Bills and overdrafts accounted for about 30% of GOSKN's domestic debt. This represented a significant exposure to roll-over risks.

4. The public sector debt sustainability analysis summarised in the attached table is based on the following baseline assumptions:

- (i) The decline in real GDP growth experienced over the last three years is expected to stabilise in 2012. It is then projected to gradually pick up from 2% in 2013 to 4% in 2017. Over the period 2012-17, real GDP growth is projected to average 3.2%.
- (ii) The rate of inflation is projected to average 3.3% over the period 2012-17, fluctuating within the range of 1.9-3.5%.
- (iii) The primary surplus of the central government is projected to average 3.6% of GDP, reflecting increased revenue from the introduction of the value-added tax in the final quarter of 2010, the constraining of recurrent expenditure by the freezing of the wage bill and expenditures on goods and services and the disbursement of tranches of the EU sugar grant.

5. The adoption of strong fiscal measures and the completion of the comprehensive debt restructuring will allow the public sector debt to decline from 150.8% of GDP in 2011 to 85.9% in 2012. The debt to GDP ratio is projected to gradually fall to about 72% of GDP by 2017. With modest growth and a continuation of the strong fiscal effort, GOSKN public sector debt to GDP ratio is projected to reach the ECCU target of 60% by 2020.

6. This baseline scenario is subject to a number of downside risks. Over the medium-term the situation often changes. The list of possible types of surprises that may imply adjustments to the fiscal projections are vast. Any exogenous shock could raise debt to higher levels. Stagnant growth would also hinder debt reduction. Under a more pessimistic growth scenario, the decline in the debt to GDP ratio will be slower. In view of these possible surprises, GOSKN will be developing a medium-term economic strategy that would be sufficiently flexible to accommodate the impacts of shocks, yet still preserve the fiscal consolidation objectives even if underlying economic outturn turns out different to the baseline. To complement the medium-term economic strategy, GOSKN will also develop a medium-term debt strategy with assistance from its debt advisors.

ST. KITTS AND NEVIS PUBLIC SECTOR DEBT SUSTAINABILITY FRAMEWORK 2007-2017

(In percent of GDP, unless otherwise indicated)

| | Actual | | | | | Projections | | | | | | Debt-stabilizing primary balance ^{10/} | | |
|---|--------------------------------|-------|-------|-------|-------|----------------------------------|----------------------------------|-------------|--------------|-------------|-------------|---|--|-------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | | | |
| | I. Baseline Projections | | | | | | | | | | | | | |
| Public sector debt 1/ | 134.0 | 128.4 | 145.1 | 163.0 | 150.8 | 85.9 | 82.1 | 80.4 | 77.5 | 74.6 | 71.9 | -0.8 | | |
| o/w foreign-currency denominated | 43.7 | 43.6 | 46.5 | 50.5 | 48.0 | 39.5 | 36.4 | 33.4 | 30.2 | 27.2 | 24.5 | | | |
| Change in public sector debt | -11.3 | -5.6 | 16.7 | 17.9 | -12.2 | -64.9 | -3.9 | -1.7 | -2.9 | -2.8 | -2.8 | | | |
| Identified debt-creating flows (4+7+12) | -11.8 | 0.5 | 10.0 | 12.7 | -0.8 | -0.8 | -3.2 | -3.1 | -3.7 | -4.2 | -3.7 | | | |
| Primary deficit | -2.7 | -2.6 | -3.7 | 0.8 | -8.3 | -3.4 | -4.5 | -3.8 | -3.7 | -3.5 | -2.8 | | | |
| Revenue and grants | 29.3 | 28.7 | 32.6 | 31.0 | 37.2 | 30.1 | 29.1 | 28.0 | 27.9 | 27.9 | 27.8 | | | |
| Primary (noninterest) expenditure | 26.6 | 26.1 | 28.9 | 31.9 | 28.9 | 26.7 | 24.6 | 24.3 | 24.2 | 24.4 | 25.0 | | | |
| Automatic debt dynamics ^{2/} | -9.1 | 3.1 | 13.7 | 11.9 | 7.6 | 2.6 | 1.2 | 0.7 | 0.0 | -0.7 | -0.9 | | | |
| Contribution from interest rate/growth differential ^{3/} | -9.1 | 3.1 | 13.7 | 11.9 | 7.6 | 2.6 | 1.2 | 0.7 | 0.0 | -0.7 | -0.9 | | | |
| Of which contribution from real interest rate | -2.6 | 8.4 | 6.1 | 7.8 | 4.3 | 2.6 | 2.9 | 2.7 | 2.6 | 2.1 | 2.0 | | | |
| Of which contribution from real GDP growth | -6.5 | -5.3 | 7.6 | 4.0 | 3.3 | 0.0 | -1.7 | -2.0 | -2.6 | -2.8 | -2.8 | | | |
| Contribution from exchange rate depreciation ^{4/} | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | |
| Other identified debt-creating flows | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | |
| Privatization receipts (negative) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | |
| Recognition of implicit or contingent liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | |
| Other (specify, e.g. bank recapitalization) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | |
| Residual, including asset changes (2-3) | 0.5 | -6.2 | 6.7 | 5.2 | -11.4 | -64.1 | -0.6 | 1.4 | 0.8 | 1.4 | 0.9 | | | |
| Public sector debt-to-revenue ratio ^{1/} | 457.0 | 447.9 | 444.6 | 525.2 | 405.3 | 285.9 | 282.2 | 286.7 | 277.6 | 267.9 | 258.5 | | | |
| Gross financing need 5/ | 8.4 | 8.2 | 6.2 | 12.5 | 2.7 | 5.7 | 3.3 | 4.6 | 7.8 | 5.7 | 5.2 | | | |
| in billions of U.S. dollars | 0.1 | 0.1 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | | | |
| | | | | | | 10-Year Historical Average | 10-Year Standard Deviation | | | | | Projected Average | | |
| Key Macroeconomic and Fiscal Assumptions | | | | | | | | | | | | | | |
| Real GDP growth (in percent) | 5.0 | 4.0 | -5.6 | -2.7 | -2.0 | 1.3 | 4.6 | 0.0 | 2.0 | 2.6 | 3.4 | 4.0 | 3.2 | |
| Average nominal interest rate on public debt (in %) ^{6/} | 4.7 | 5.2 | 4.8 | 4.7 | 4.3 | 4.8 | 0.4 | 3.7 | 5.5 | 5.5 | 5.5 | 4.9 | 5.3 | |
| Average real interest rate (nominal rate minus change in GDP deflator, in %) | -1.7 | 6.4 | 4.5 | 5.2 | 2.6 | 3.6 | 2.8 | 1.8 | 3.5 | 3.5 | 3.4 | 2.9 | 3.3 | |
| Nominal appreciation (increase in US dollar value of local currency, in %) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Inflation rate (GDP deflator, in %) | 6.4 | -1.2 | 0.3 | -0.5 | 1.7 | 1.2 | 2.6 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | |
| Growth of real primary spending (deflated by GDP deflator, in %) | 1.7 | 6.6 | 2.8 | 8.2 | -5.1 | 4.9 | 13.7 | -5.9 | -5.4 | 1.1 | 3.9 | 4.6 | 6.6 | |
| Primary deficit | -2.7 | -2.6 | -3.7 | 0.8 | -8.3 | -1.4 | 4.3 | -3.4 | -4.5 | -3.8 | -3.7 | -3.5 | -2.8 | |
| | | | | | | | | | | | | | -3.6 | |
| | | | | | | | | | | | | | Debt-stabilizing primary balance 10/ | |
| A. Alternative Scenarios | | | | | | | | | | | | | | |
| A1. Key variables are at their historical averages in 2012-2017 ^{7/} | | | | | | | | 84.7 | 84.5 | 86.4 | 87.7 | 89.7 | 91.3 | 2.0 |
| A2. No policy change (constant primary balance) in 2012-2017 | | | | | | | | 85.9 | 81.7 | 80.3 | 77.6 | 74.8 | 71.4 | -0.8 |
| B. Bound Tests | | | | | | | | | | | | | | |
| B1. Real interest rate is at baseline plus one standard deviations | | | | | | | | 85.2 | 83.0 | 83.1 | 82.0 | 81.0 | 80.1 | 0.1 |
| B2. Real GDP growth is at baseline minus one-half standard deviation | | | | | | | | 85.2 | 84.5 | 86.6 | 88.3 | 90.7 | 93.9 | 1.0 |
| B3. Primary balance is at baseline minus one-half standard deviation | | | | | | | | 85.2 | 83.4 | 84.0 | 83.2 | 82.5 | 81.8 | -0.9 |
| B4. Combination of B1-B3 using one-quarter standard deviation shocks | | | | | | | | 85.2 | 83.9 | 84.9 | 84.7 | 84.5 | 84.3 | 0.5 |
| B5. One time 30 percent real depreciation in 2013 ^{9/} | | | | | | | | 85.2 | 100.4 | 99.5 | 97.3 | 95.1 | 93.0 | -1.1 |
| B6. 10 percent of GDP increase in other debt-creating flows in 2013 | | | | | | | | 85.2 | 91.3 | 89.7 | 86.8 | 84.0 | 81.1 | -0.9 |

^{1/} Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.

^{2/} Derived as $[(r - p(1+g) - g + ae(1+r))/(1+g+p+gp)]$ times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

^{3/} The real interest rate contribution is derived from the denominator in footnote ^{2/} as $r - \pi(1+g)$ and the real growth contribution as $-g$.

^{4/} The exchange rate contribution is derived from the numerator in footnote ^{2/} as $ae(1+r)$.

^{5/} Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

^{6/} Derived as nominal interest expenditure divided by previous period debt stock. The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

^{8/} The implied change in other key variables under this scenario is discussed in the text.

^{9/} Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

^{10/} Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Source: St. Kitts and Nevis Authorities and IMF and CDB Staff Estimates

PROGRESS IN ACHIEVING THE MILLENNIUM DEVELOPMENT GOALS

1. The Millennium Development Goals

1.1 In September 2000, the international community committed to an agenda for poverty reduction, by signing a UN declaration, which listed eight “Millennium Development Goals (MDGs)”, identifying goals, targets and indicators for measuring quality of life improvements. These MDGs, which were originally created and expressed in terms of 8 goals, 18 targets and 48 indicators, all time-bound between 2000 and 2015 (although some goals refer to a base year of 1990), have become an internationally accepted framework for measuring development progress. The MDGs focus largely on social, human and environmental development (Table 1).

1.2 The MDGs are a set of quantifiable, time-bound goals that articulate the social, economic and environmental advances that are required to achieve substantial gains in human development. Goals 1 to 7 are committed to raising the poor out of poverty and hunger, getting every child in school, empowering women, reducing child mortality, improving maternal health, combating HIV/AIDS, malaria and other diseases, and ensuring environmental sustainability. Goal 8 explicitly recognises that eradicating poverty worldwide can only be achieved through international cooperation. The challenges associated with the achievement of the MDGs cut across a vast array of interlinked issues ranging from gender equality, through and education, to sustainable development of the environment. The achievement of all the MDGs will result from government policies and the involvement of the private sector, civil society and the local community, international cooperation and support.

1.3 The Caribbean has since adapted the UN-specified targets and indicators to better reflect regional development objectives. The result is a list of CMDGs with a set of revised targets and an extended list of 89 indicators, which have replaced the original 48.

1.4 SKN is making incremental progress towards integrating the CMDGs into national development frameworks and in monitoring implementation of its NPRS. The United Nations Offices located in the region are committed to providing assistance through tracking progress towards achievement of the goals, assessing policy dimensions, building awareness through advocacy, providing policy advice, galvanising public support for action and supporting specific strategies to address key constraints that limit CMDG achievement. Table 2 outlines the performance of St. Kitts Nevis on the CMDGs.

**ORIGINAL UNITED NATIONS
MILLENNIUM DEVELOPMENT GOALS AND TARGETS**

| GOAL | TARGET |
|---|--|
| Goal 1. Eradicate extreme poverty and hunger. | Halve, between 1990 and 2015, the proportion of people who suffer from hunger |
| Goal 2. Achieve universal primary education | Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling. |
| Goal 3. Promote gender quality and empower women | Eliminate gender disparity in primary and secondary education, preferably by 2005, and to all levels of education no later than 2015. |
| Goal 4. Reduce child mortality | Reduce by two thirds, between 1990 and 2015, the under-five mortality rate. |
| Goal 5. Improve maternal health | Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio |
| Goal 6. Combat HIV/AIDS, malaria and other diseases | Have halted by 2015 and begun to reverse the spread of HIV/AIDS. Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases. |
| Goal 7. Ensure environmental sustainability | Integrate the principles of sustainable development into country policies and programmes and reverse the losses of environmental resources. Halve by 2015 the proportion of people without sustainable access to safe drinking water. By 2020 to have achieved a significant improvement in the lives of at least 100 million slum dwellers. |
| Goal 8. Develop a Global Partnership for Development | Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Address the special needs of the least developed countries Address the special needs of landlocked countries and small island developing States. Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term. In cooperation with developing countries, develop and implement strategies for decent and productive work for youth. In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries. In cooperation with the private sector, make available the benefits of new technologies, especially information and communications. |

THE MILLENNIUM DEVELOPMENT GOALS

| Item | 1990 | 2005 | 2007 | 2010 |
|--|--------------------------|-------------------------|-----------------------|---------------|
| Goal 1: Eradicate Extreme Poverty and Hunger | | | | |
| Proportion of households below poverty line | | | 13.5 | |
| Head count index | | | 21.8 | |
| Prevalence of underweight children | | | 21.0 | |
| Proportion of population without access to electricity | | | 0.7/7.3 ^{1/} | |
| Proportion of households with pit latrines | | | 9.4 | |
| Goal 2: Achieve Universal Primary and Secondary Education | | | | |
| Net enrolment ratio in primary education | | | 73.5 | 89.0 |
| Proportion of pupils starting Grade 1 and reaching Grade 5 | | | 77.6 | 90.0 |
| Net enrolment ratio in secondary education | | 86.7/85.4 ^{2/} | | 94.0 |
| Proportion of children who reach Grade 12 | | N/A | | N/A |
| Literacy rate of 15-24 year olds | 97.8 (1991) | | 97.7 | 97.0 |
| Percentage of trained teachers in primary schools | | | 58.3 | 62.0 |
| Percentage of trained teachers in secondary schools | | | 39.0 | 52.0 |
| Goal 3: Promote Gender Equality and Empower Women | | | | |
| Ratio of literate women to men 15-24 year old | 97.4/98.9 | | 97.4/96.5 | |
| Ratio of girls to boys in primary school | 0.94 (1991) | 1.09 | | 1.00 |
| Ratio of girls to boys in secondary school | 1.02 (1991) | 0.98 | | 0.97 |
| Ratio of girls to boys at tertiary level | 1.16 (1991) | 2.21 (2000) | | 2.1 |
| Share of women in non-agriculture (%) | 47.1 | | | |
| Proportion of seats held by women in Parliament (%) | 1.0;13.3 (1992; 1996) | | | 6.7 |
| National Plan to eliminate gender violence | 1996 | | | |
| Goal 4: Reduce Child Mortality | | | | |
| Under five mortality rate | 33.1 | 20.0 (2001) | 19 (2006) | |
| Infant mortality rate | 26.1 | 14.3 (2000) | 7.8 | |
| Immunisation rate for children 1-5 years ^{3/} | | 94 (2001) | 99.0 (2006) | |
| Goal 5: Improve Maternal Health | | | | |
| Maternal mortality rate per 1000 of population | | | N/A | |
| Proportion of births attended by a physician | | 99.4 (2001) | 100.0 | |
| Adolescent fertility rate | | | | |
| Goal 6: Combat AIDS, Malaria and Other Diseases | | | | |
| HIV prevalence rate | | | N/A | |
| Contraceptive prevalence rate | | | N/A | |
| Prevalence and death rates associated with malaria | | | 0.0 | |
| Prevalence and death rates associated with tuberculosis | | | 16.6/1.8 (2006) | |
| Proportion of tuberculosis cases detected and cured under DOTS | | | 40.1/0.0 | |
| Goal 7: Ensure Environmental Sustainability | | | | |
| Proportion of land covered by forest | | 14.7 | | |
| Energy use per capita GDP (kg oil equivalent) | | | 847 | |
| Carbon dioxide emissions per capita (metric tons) | | 2.6 (2004) | | |
| Proportion of population using solid fuels | | 5.0 (2003) | | |
| Proportion of population with access to improved water | | | 96.8 | |
| Proportion of urban population without access to improved Sanitation | | | 8.0 | |
| Proportion of households with access to secure tenure | | | 69.0 | |
| Goal 8: Develop a Global Partnership for Development | | | | |
| Debt as a percentage of export of goods and services | | 22.0 | | 21.4 |
| Unemployment rate | | | | 6.3 (2009) |
| Telephones lines per 1000 people | 352 (1995) | 593 (2004) | | |
| Personal computers per 1000 people | 181.7 (2000) | 261 (2004) | | |
| Mobile phones per 1000 | 7 (1995) | 26 (2000) | | |

^{1/} St. Kitts/Nevis

^{2/} Males/females

^{3/} BCG, DPT, polio, measles

SUMMARY OF PFM-PEFA PERFORMANCE INDICATORS

| | Item | | 2007 | 2009 |
|--|--|----|------|------|
| A. PFM-OUT-TURNS: | | | | |
| (1) Creditability of the Budget | | | | |
| PI-1 | Aggregate expenditure out-turn compared to original approved budget | M1 | C | B |
| PI-2 | Composition of expenditure out-turn compared to original approved | M1 | C | C |
| PI-3 | Aggregate revenue out-turn compared to original approved budget | M1 | A | A |
| PI-4 | Stock and monitoring of expenditure payment arrears | M1 | - | NR |
| B. KEY CROSS-CUTTING ISSUES: | | | | |
| (2) Comprehensiveness and Transparency | | | | |
| PI-5 | Classification of the budget | M1 | C | B |
| PI-6 | Comprehensiveness of information included in budget documentation | M1 | C | B |
| PI-7 | Extent of unreported government operations | M1 | - | B+ |
| PI-8 | Transparency of inter-governmental fiscal relations | M2 | C+ | NR |
| PI-9 | Oversight of aggregate fiscal risk from other public sector entities | M1 | D | C+ |
| PI-10 | Public access to key fiscal information | M1 | C | C |
| C. THE BUDGET PROCESS | | | | |
| (3) Policy-based Budgeting | | | | |
| PI-11 | Orderliness and participation in the annual budget process | M2 | A | A |
| PI-12 | Multi-year perspective in fiscal planning, expenditure policy and | M2 | B | C+ |
| (4) Predictability and Control | | | | |
| PI-13 | Transparency of taxpayer obligations and liabilities | M2 | - | B |
| PI-14 | Effectiveness of measures for taxpayer registration and tax assessment | M2 | - | C |
| PI-15 | Effectiveness in collection of tax payments | M1 | - | NR |
| PI-16 | Predictability in the availability of funds for commitment of | M1 | C+ | C+ |
| PI-17 | Recording and management of cash balances, debt and guarantees | M2 | C+ | B |
| PI-18 | Effectiveness of payroll controls | M1 | B | C+ |
| PI-19 | Competition, value for money and controls in procurement | M2 | D | D |
| PI-20 | Effectiveness of internal controls for non-salary expenditure | M1 | C+ | D+ |
| PI-21 | Effectiveness of internal audit | M1 | D+ | C+ |
| (5) Accounting, Recording and Reporting | | | | |
| PI-22 | Timeliness and regularity of accounts reconciliation | M2 | D | C+ |
| PI-23 | Availability of information on resources received by service delivery | M1 | D | D |
| PI-24 | Quality and timeliness of in-year budget reports | M1 | C+ | C+ |
| PI-25 | Quality and timeliness of annual financial statements | M1 | D+ | C+ |
| (6) External Scrutiny and Audit | | | | |
| PI-26 | Scope, nature and follow-up of external audit | M1 | D+ | D+ |
| PI-27 | Legislative scrutiny of the annual budget law | M1 | D+ | D+ |
| PI-28 | Legislative scrutiny of external audit reports | M1 | D | D |
| ASSESSMENT OF DONOR PRACTICES | | | | |
| D-1 | Predictability of Direct Budget Support | M1 | N/A | D |
| D-2 | Financial information provided by donors for budgeting and reporting | M1 | C | D |
| D-3 | Proportion of aid that is managed by use of national procedures | M1 | D | D |

Source: Assessment of Public Finance Management in SKN using the PEFA RFM Performance Framework Final Report, December 2009.

Notes: NR=Non-rated

LIST OF PROJECTS AND TECHNICAL ASSISTANCE
IN ST. KITTS AND NEVIS
COUNTRY STRATEGY PAPER: 2006-08
(USD mn)

| Projects | Sector | Value |
|---|---|--------------|
| <u>Capital Projects</u> | | |
| Electricity Expansion Project Nevis Electricity Company (NEVLEC) | Infrastructure | 8.2 |
| Electricity Generation Project (St Kitts) | Infrastructure | 6.0 |
| Water Improvement Project (Nevis) | Infrastructure | 3.5 |
| Water improvement Project (St. Kitts) | Infrastructure | 2.0 |
| Secondary Road Project (Nevis) | Infrastructure | 10.0 |
| Feeder Roads (St. Kitts) | Infrastructure | 5.0 |
| Basseterre Revitalisation Project (St Kitts) | Infrastructure | 3.5 |
| Charlestown Revitalisation Project (Nevis) | Infrastructure | 2.5 |
| Security Improvement Project - Police Stations | Infrastructure | 6.5 |
| <u>Multi-Sectoral</u> | | |
| Line of Credit – Microfinance | Small and Medium Enterprises (SME) development and Human Resource Development (HRD) | 10.0 |
| <u>Policy Based Lending</u> | | |
| | Macroeconomic management | 20.0 |
| <u>Technical Assistance</u> | | |
| Implementation of a broad based consumption or transactions-based tax | Macroeconomic management | 0.10 |
| Debt Sustainability Analysis | Macroeconomic management | 0.05 |
| Property Tax Reform | Macroeconomic management | 3.0 |
| Institutional Strengthening – Establishment of Revenue Authority | Macroeconomic management | 0.2 |
| Corporatisation of Electricity Department (St Kitts) | Public Sector management | 0.8 |
| Institutional strengthening of the Water Department (Nevis) | | |
| Institutional Strengthening of the Privatisation Process | Public Sector management | 0.5 |
| Establishment of a Land Management Unit | Public Sector management | 0.2 |
| Coastal Protection study (Nevis) | Environment | 0.5 |
| Institutional Strengthening of Development Planning and the PSIP process. | Environment | 0.10 |
| Statistical Development (Tourism Accounting) | Public Sector management | 0.10 |
| Poverty Reduction Strategy | Public Sector management | 0.20 |
| CPA | Poverty Reduction | 0.10 |
| Design of retrofitting programme of public buildings | Poverty Reduction | 0.15 |
| | Disaster Mitigation | 0.05 |

IMPLEMENTATION STATUS OF ASSISTANCE PROGRAMME, 2006-2012

| Items | Not Implemented | Ongoing | Completed |
|---|------------------------|--|---|
| A. Macroeconomic Management and Public Sector Reforms | | | |
| (i) Fiscal sustainability and Debt Management (aa) Tax reform study for implementation of VAT (bb) Property Tax reform through cadastral survey (cc) Income Tax Legislative Reform (dd) Debt Analysis study; formulation of sustainable debt strategy (ee) Establishment of a Revenue Authority (ff) Provision of two PBGs (gg) Exceptional Financial Assistance (hh) Interest Subsidy (ii) PBL | √ | √ √ √ √ | √ CARTAC √ √ CIDA √ √ |
| (ii) Privatisation Strategy/Privatisation and Commercialisation of Private Sector Enterprises | | √ | Electricity Department |
| (iii) PSIP – Development Capacity and Planning Reform | | √ | |
| (iv) Strengthening Management of Public Enterprises | | √ | |
| (v) Statistical Development (aa) Development of tourism satellite accounts (bb) Upgrading of capacity to record social indicators | √ √ | | |
| B. Sustaining Economic Growth | | | |
| (i) Infrastructure Development (aa) Electricity generation capacity (bb) Improvement of water supply and distribution in Nevis (cc) Improvement of water supply and distribution in St. Kitts (dd) Development of secondary and feeder roads in Nevis (ee) Upgrading of security infrastructure (police stations) (ff) Basseterre By-Pass Road | √ √ | √ EU | √GOSKN √ |
| (ii) Private Sector Development (aa) Line of Credit to Development Bank of St. Kitts and Nevis (DBSKN) and other financial intermediaries | | | √ National Bank |
| (iii) Economic Diversification (aa) Agriculture (feeder roads, irrigation, increased credit) (bb) Tourism (cc) ICTs | √ √ | | √ DBSKN Credit |
| C. Promoting Social Development | | | |
| (i) HRD (aa) Tertiary training through loans from DBSKN (bb) Training through BNTF (cc) Training through CTCS | √ | √ √ | √ National Bank |
| (ii) Poverty Reduction (aa) BNTF (community infrastructure; skills training; employment of women and youths) (bb) Conduct of CPA (cc) Formulation of a NPRS | | √ | √ CDB √ CDB |
| (iii) Public Safety (aa) Construction of new police stations (bb) Training of police officers | | √ EU/Mexico √ EU | |
| D. Environmental Management and Risk Management | | | |
| (i) Funding for establishment of a land management unit (ii) Insurance under CCRIF (iii) Training in DRM (iv) Retrofitting of Public buildings (v) NDM Immediate Response Loan (vi) Coastal Protection Study (Nevis) | √ √ √ | √ | √ √ |

BASIC NEEDS TRUST FUND – MULTI-SECTOR

Overview

1. SKN has taken part in the BNTF Programme from its start in June 1979. Originally, funds were used mainly for constructing small-scale infrastructure. However, in BNTF 5, which effectively started in 2002, an increasing amount of the fund was programmed (12.6%) for livelihood enhancement and community capacity-building skills training in response to the closure of the sugar industry in St. Kitts and the need to re-tool the workforce. Table 1 shows the approved funding of 47 sub-projects, by category, for the commitment period 2004-2011. As at August 31, 2012, some 93% of resources earmarked to SKN had been disbursed and the remaining committed balance is expected to be disbursed by the fourth quarter of 2012.

**TABLE 1: BNTF GRANT FUNDING APPROVED
TO SKN 2004-2011
(USD'000)**

| Sector/Sub-Sector | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|--|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Access | - | - | 24.7 | 181.5 | 221.6 | 28.0 | - | - |
| Education Facilities, including Day Care facilities | 26.3 | 426.3 | 220.4 | - | 164.0 | 103.3 | 28.0 | 269.2 |
| Health Facilities | - | 135.4 | 190.6 | - | - | - | 28.0 | - |
| Maintenance | - | - | - | - | 9.6 | - | - | - |
| Skills Training | - | 53.1 | 6.6 | - | 151.0 | 32.8 | 46.5 | - |
| TOTAL | 26.3 | 614.8 | 442.3 | 181.5 | 546.2 | 164.1 | 102.5 | 269.2 |

Note: 2008 & 2009 figures amended by \$93,100 in savings on completed sub-projects.

Challenges/Constraints

2. Implementing the BNTF Programme in SKN is challenged by poor administrative management on the two islands in the Federation. The NIA has established a separate BNTF office and cooperation between that office and the office in St. Kitts is tenuous. While there is an observed need for BNTF interventions in Nevis, no new sub-project requests have been received from the office.

Status

3. The BNTF 6 programme was approved on July 24, 2008, and became effective in SKN on April 13, 2010. The BNTF office in St. Kitts is fully resourced and the rate of implementation is expected to increase. SKN has so far committed some 40.7% of its total allocation of \$863,535 under BNTF 6. The portfolio of sub-projects identified for implementation under BNTF 6 was selected in accordance with a Poverty Reduction Action Plan (PRAP) for SKN. The PRAP is a BNTF tool that is used to promote good governance by targeting interventions that are fully integrated with the BMCs development priorities. The current programme's resources are allocated as follows: 36% to health facilities; 30% for education facilities; 17% to skills training; 15% to access; and 2% to water and sanitation.

4. The BNTF 7 programme was approved on October 24, 2012. The period of implementation will be December 31, 2012 to December 31, 2016. The project in SKN is estimated to cost USD 1.903 mn, of which CDB allocated USD 1.651 mn in grant funding from its SDF 7 (unified) resources. GOSKN will provide approximately USD 0.252 mn in local counterpart financing.

5. The review of BNTF 5 and the mid-term evaluation of BNTF 6 have indicated that BNTF needs to be more efficient and effective in the delivery of services and recommended, *inter alia*, greater selectivity and focus. In seeking to build on past achievements, which enable GOSKN to improve the living conditions and livelihoods of poor communities, BNTF 7 will seek to focus on more comprehensive and sustainable core interventions in education and HRD; water supply and sanitation system enhancement; and basic community access and drainage improvement. In addition, BNTF7 will seek to improve GOSKN's project implementation capacity in the short-term. Over the longer-term, BNTF7 intends to be incorporated into GOSKN's financial and procurement systems.

DEVELOPMENT PARTNER COORDINATION

CDB has good relations with SKN's major development partners. However, donor coordination has been on an *ad-hoc* basis. Generally, SKN's major development partners work through coordination groups, under the umbrella of the UNDP, to address specific areas of concern and those requiring immediate actions. As a result, there is a need for more systematic policy coordination, particularly in relation to policy-based assistance.

CDB and the EU are the only of SKN's development partners who provide a comprehensive coverage of the thematic areas outlined in Table 1. Except for the IMF and some of the non-traditional development partners, the other bilateral and multilateral development partners mainly have programmes that are implemented at the OECS sub-regional or CARICOM regional level. CDB will continue to coordinate its interventions in SKN with other development partners to enhance the development impact and reduce costs. Over the period of the new strategy, CDB will seek opportunities for closer and more effective collaboration with SKN's other development partners.

The EU has provided SKN with significant annual budgetary support since the closure of the sugar industry. The EU also funded the conduct of a PEFA PFM performance assessment report and will be funding some components of the PFM Action Plan. In addition, the EU will provide assistance to GOSKN to develop a tourism sector development strategy and action plan as part of a wider private sector development initiative that will include improving agricultural production, expanding the use of alternative energy and enhancing land management. Over the period of the CDB country strategy, EU will also be involved in strengthening social protection and in the implementation of the NPRS by supporting GOSKN's initiatives to reduce poverty and generate employment. In addition, EU will assist in strengthening HRD, with an emphasis on information technology and through the European Investment Bank will provide the St. Kitts and Nevis Development Bank with lines of credit to fund SMEs and student loans.

The IMF will be providing funding to SKN through a three-year SBA, which will allow GOSKN to close its financing gap while it undertakes a series of fiscal and structural reforms. The SBA will involve quarterly reviews of the fulfillment of fiscal and structural benchmarks. At the OECS sub-regional level, the IMF, in collaboration with CDB and the World Bank, is undertaking a review of the financial sector. This review includes the updating of stress tests of the financial institutions and analytical work to establish a reserve fund to support sector stability.

The UK, through its Department for International Development (DFID) has provided SKN with a macroeconomic advisor to the Financial Secretary. In addition, DFID continues to provide SKN with support through regional institutions. Its programmes focus on economic management, the delivery of public services, trade competitiveness and economic integration, HIV/AIDS and citizen security.

The Canadian International Development Programme (CIDA), United States Agency for International Development (USAID) and the WB largely conduct their assistance based on OECS-sub-regional strategies. The main areas receiving support are: promoting debt and fiscal sustainability; enhancing competitiveness, HIV/AIDS programmes; environmental management programmes; emergency reconstruction and disaster mitigation; and the development of primary and secondary education.

SKN also receives TA and training support from the CARTAC, which is funded by all of SKN's development partners, of which CIDA is the largest provider of financial support. CARTAC provides short-term TAs and training in economic and financial management. CIDA is also providing funding for the World Bank managed Supporting Economic Management in the Caribbean (SEMCAR) programme to strengthen government IT systems for more effective integration of tax, customs, budgetary and treasury

processes. In addition, CIDA has provided assistance to ECCB to help member countries, including SKN, to improve the management of public sector debt.

The UN system provides assistance in the thematic areas of institutional reforms, poverty reduction, capacity building and environmental and disaster management. UNICEF is involved in a number of activities in SKN, including child and gender-sensitive social protection, supporting child-centred, non-violent schools and legislative reforms relating to the OECS Model Family Law Bill.

The Organisation of American States (OAS) is providing GOSKN with assistance to help develop geothermal and wind powered electricity supplies and the use of biomass to supply energy. The OAS is also involved in social protection and education.

In the transportation sector, the Organisation of Petroleum Exporting Countries International Development Fund is providing assistance to GOSKN to design and construct a component of the South East Peninsula Road. The refurbishment of the South East Peninsula Road is especially important to the future development of the tourism industry in SKN.

Several donors provide SKN with DRM assistance. At the regional level donor assistance for DRM is coordinated by the CARICOM Disaster Management Agency. Proposed priority interventions for SKN include the review, adaption and updating of a model disaster management policy, legislation and regulations. Other priority activities include: (a) development of hazard specific response plans for earthquakes and tsumamis and volcanoes; (b) expansion of hazard vulnerability assessments; and (c) establishment of community-based early response teams.

SKN has been able to attract assistance from a number of non-traditional bilateral development partners, including Japan, the Republic of China (Taiwan), Mexico, Spain, Turkey and Venezuela. In the agriculture sector, Japan will be providing assistance to SKN for the formulation of a master plan for the fisheries' sub-sector and to develop a fisheries centre on the island of Nevis. The Republic of China will provide SKN with assistance in agricultural diversification and in the development of a demonstration agro-tourism model farm. In addition, the Republic of China will assist in the implementation of sports, community and social development projects. Government of Mexico will be providing support in citizen security. Government of Spain is assisting SKN in improving the quality of its water supply. In the social sector, Turkey is providing assistance in the construction of a day care centre.

The Bolivarian Republic of Venezuela has been providing SKN with assistance through the concessionary financing of imports of petroleum products through the Petrocaribe Initiative. The savings in financing costs under this initiative can be used to finance social development and safety net programmes. SKN also obtains assistance from Venezuela from the ALBA Fund to finance capital projects. Project funded by the ALBA Fund include assistance in education and the provision of inputs such as seeds, fertiliser and other items for agricultural development

TABLE 1: AREAS OF DONOR SUPPORT

| Development Partner | Thematic Areas | | | | | | | | | | | | | | | | | | |
|---------------------|----------------|------------------|--------|----------------------------|-----|-------|--------------------------|--------|-----------|----------------------------|---------|--------------------|-------------------|-------------------|---------------|-------------------------|-------------------------|---------------------|----------------------|
| | Private Sector | Financial Sector | Energy | Infrastructure / Transport | ICT | Trade | Agriculture & Rural Dev. | Health | Education | Environment/Climate Change | Tourism | Water & Sanitation | Social Protection | Macro/Fiscal/Debt | Public Sector | Judicial & Legal Reform | Capacity/Inst. Building | Disaster Management | Security & Stability |
| CDB | X | X | X | X | | | X | | X | X | | X | X | X | X | | X | X | X |
| CIDA | 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 | X | X | | | X | X |
| JICA | | | | | | | X | | | | | | | | | | | X | X |
| IDB | X | X | X | | | X | X | | X | X | | X | | | X | | X | X | |
| OAS | | | | | | | | X | X | | | | X | | | | | | |
| PAHO | | | | | | | | X | | | | | X | | | | | | |
| UN System | | X | | | X | | X | | | X | | | X | | X | | X | X | |
| USAID | | | | | | X | | | X | X | | | | | | | | | |
| World Bank | X | X | X | | X | | | X | X | X | X | | X | X | X | | X | X | |
| Japan | | | | | | X | | X | | | | | | | | | | | |
| Republic of China | | | | | | X | | X | | | | | X | | | | | | |
| Venezuela | | | X | | | | X | | X | | | | X | | | | | | X |
| Mexico | | | | | | | | | X | | | | | | | | | | |
| Spain | | | | | | | | | | | | X | | | | | | | |
| Turkey | | | | | | | | | X | | | | | | | | | | |
| OPEC | | | | X | | | | | | | | | | | | | | | |

FIGURE 1: MAP OF ST. KITTS AND NEVIS

