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ST KITTS AND NEVIS – EUROPEAN COMMUNITY

Country Strategy Paper
and National Indicative Programme
for the period 2001 - 2007

The Government of St Kitts and Nevis and the European Commission hereby agrees as follows:

- (1) The Government of St Kitts and Nevis, represented by Mr. Wendell LAWRENCE, Financial Secretary, and the European Commission, represented by John CALOGHIROU, Head of Delegation, hereinafter referred to as the Parties, held discussions in St Kitts and Nevis and Barbados from October 2000 to August 2001 with a view to determining the general orientations for co-operation for the period 2001 – 2007. The European Investment Bank was represented at these discussions by Stephen McCARTHY, Head of Division.

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

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

- (2) As regards the indicative programmable financial resources which the Community envisages to make available to St Kitts and Nevis for the period 2001-2007, an amount of €3.4million is foreseen for the allocation referred to in Article 3.2 (a) of Annex IV of the ACP-EC Partnership Agreement (A-allocation) and of € 0.6 million for the allocation referred to in Article 3.2 (b) (B-allocation). These allocations are not entitlements and may be revised by the Community, following the completion of mid-term and end-of-term reviews, in accordance with Article 5.7 of annex IV of the ACP-EC Partnership Agreement.
- (3) The A-allocation is destined to cover macroeconomic support, sectoral policies, programmes and projects in support of the focal or non-focal areas of Community Assistance. The indicative programme under chapter VI concerns the resources of the A-allocation as well as uncommitted balances of former EDFs, for which no projects and programmes have been identified under the respective National Indicative Programmes. It also takes into consideration financing from which St Kitts and Nevis benefits or could benefit under other Community resources. It does not preempt financing decisions by the Commission.
- (4) The B-allocation is destined to cover unforeseen needs such as emergency assistance where such support cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to mitigate adverse effects of instability in export earnings, the B-allocation shall be triggered according to specific mechanisms and procedures and does therefore not yet constitute a part of the indicative programme.
- (5) Pending the entry into force of the Financial Protocol of the ACP-EC Partnership and within the framework of the present Country Strategy Paper and Indicative Programme, financing decisions for projects and programmes can be taken by the Commission at the request of the Government of St Kitts and Nevis, within the limits of the A- and B-allocations referred to in this document and under the condition that sufficient resources are available under the general reserve of the eighth EDF. The respective projects and programmes shall be implemented according to the rules and procedures of the eighth EDF until entry into force of the Financial Protocol for the Ninth European Development Fund.
- (6) The European Investment Bank may contribute to the implementation of the present Country Strategy Paper by operations financed from the Investment Facility and/or from its own resources,

in accordance with Articles 3 (a) and 4 of the Financial Protocol of the ACP-EC Partnership Agreement.

- (7) In accordance with Article 5 of Annex IV to the ACP-EC Partnership Agreement, the National Authorising Officer and the Head of Delegation shall annually undertake an operational review of the Indicative Programme and undertake a mid-term review and an end-of-term review of the Country Support Strategy and the Indicative Programme in the light of current needs and performance.

The mid-term review shall be undertaken within two years and the end-of term review shall be undertaken within four years from the date of signature of the Country Support Strategy and the National Indicative Programme. Following the completion of the mid- and end-of-term reviews, the Community may revise the resource allocation in light of current needs and performance.

- (8) The agreement of the two parties on this Country Strategy Paper and the National Indicative Programme, subject to the ratification and entry into force of the ACP-EC Partnership Agreement, will be regarded as definitive within six weeks of the date of the signature, unless either party communicate the contrary before the end of this period.

Signatures

For the Government of St Kitts and Nevis

For the Commission

TABLE DES MATIERES

1	EU/EC CO-OPERATION OBJECTIVES	9
<hr/>		
2	THE GOVERNMENT'S POLICY AGENDA	9
<hr/>		
3	ASSESSMENT OF THE POLITICAL ECONOMIC AND SOCIAL SITUATION	10
<hr/>		
3.1.	POLITICAL SITUATION	10
3.2.1.	DEMOGRAPHIC STRUCTURE	11
3.2.2.	ECONOMIC STRUCTURE	11
3.2.3	TRADE	11
3.2.4	RECENT ECONOMIC PERFORMANCE	11
3.2.6.	MONETARY PERFORMANCE	12
3.2.7.	BALANCE OF PAYMENTS	13
3.3	SECTOR PRIORITIES	13
3.3.1	AGRICULTURE	13
3.3.2	FISHERIES	14
3.3.3	TOURISM	14
3.3.4	MANUFACTURING	14
3.3.5	INTERNATIONAL FINANCIAL SERVICES	15
3.3.6.	ENVIRONMENT	15
3.4	SOCIAL SECTOR ANALYSIS	15
3.4.1	POVERTY REDUCTION	15
3.4.2.	HEALTH	16
3.4.3.	EDUCATION	16
3.4.4.	GENDER	17
3.5	EXTERNAL CHALLENGES	17
3.5.1	INTERNATIONAL CONTEXT	17
3.5.2	REGIONAL COOPERATION	17
3.5.3	OECD HARMFUL TAX	18
3.6	FUTURE CHALLENGES AND PROSPECTS	18
<hr/>		
4	OVERVIEW OF PAST AND ONGOING EC COOPERATION.	19
<hr/>		
4.1	EUROPEAN DEVELOPMENT FUND	19
4.2.	REGIONAL PROGRAMMES	20
4.3	EUROPEAN INVESTMENT BANK (EIB)	20
4.4	PAST EXPERIENCES OF COMMUNITY AID	20
4.5	PROGRAMMES OF EU MEMBER STATES AND OTHER DONORS	21
4.5.1	PROGRAMMES OF EU MEMBER STATES	21
4.5.2	PROGRAMMES OF OTHER DONORS	21
<hr/>		
5	RESPONSE STRATEGY	21
<hr/>		
5.1.	PRINCIPAL ELEMENTS	22
5.2.	THE EC SUPPORT STRATEGY	22
5.3.	PROPOSED FOCAL SECTOR FOR EC SUPPORT	23

5.4	COHERENCE WITH EU POLICY AND CONTRIBUTION TO POVERTY REDUCTION	24
5.5.	CONSISTENCY WITH GOVERNMENT POLICY	24
5.6.	INVOLVEMENT OF NON-STATE ACTORS IN EDUCATION REFORM	25
5.7	ACTIVITIES OF OTHER DONORS IN THE SECTOR	25
5.8.	NON-FOCAL SECTOR, COHERENCE AND COMPLEMENTARITY: REGIONAL INTEGRATION	25
5.9	THE EUROPEAN INVESTMENT BANK	26

6 INDICATIVE WORK PROGRAMME **29**

6.1.	INTRODUCTION	29
6.2.	FINANCING INSTRUMENTS	29
	9 TH EDF A-ALLOCATION EURO 3.4 MILLION:	29
6.4	ACTION OUTSIDE THE AREA OF CONCENTRATION	30
6.5	INTERVENTION FRAMEWORK INFORMATION TECHNOLOGY (IT) BASED TRAINING PROJECT	31
6.6	ACTIVITIES/COMMITMENTS & PAYMENTS TIMETABLE	33
		33

ANNEXES

ANNEX 1: NATIONAL DONORS MATRIX

ANNEX 2: OVERVIEW OF EC FUNDING

ANNEX 3: ANALYSIS OF NATIONAL POLICY IN THE FOCAL SECTOR

ANNEX 4: ENVIRONMENTAL PROFILE

ANNEX 5: KEY ECONOMIC & SOCIAL INDICATORS

ANNEX 6: DETAILED DESCRIPTION OF GOVERNMENT OBJECTIVES 2000-2002

PART I

Country Support Strategy

Executive Summary

The purpose of this Country Support Strategy paper is to provide a framework for EU assistance programmes under the 9th EDF. The framework is based on EU/ACP co-operation objectives, St Kitts and Nevis's own policy agenda, an assessment of the situation in St Kitts and Nevis (SKN), and the activities of other major donors in St Kitts and Nevis. The framework concludes with the proposed EU response strategy and an Indicative work programme.

St Kitts and Nevis is a small open economy, highly susceptible to exogenous shocks. Production is focused on a very narrow range of goods and services, most of which are exported, while the country relies heavily on imports to satisfy demand for consumer and producer goods. The sugar industry had been the main contributor to the economy, with sugar being exported to Europe under preferential arrangements. Changes in the international trade milieu; globalisation, trade liberalisation, erosion of market preferences and shares; have had a disproportionate impact on the local economy. Significant shifts in the domestic economy have occurred with agriculture, dominated by the sugar industry for three centuries, going through a period of restructuring that will eventually result in a more diversified industry, with greater emphasis on agri-business and with a modern skills base requirement. Tourism and financial services are the new lead sectors in terms of their ability to stimulate economic activity through creating backward and forward linkages within the local economy.

Natural disasters and more specifically, hurricanes have dampened economic growth in recent years with resources being diverted to the reconstruction of damaged economic and social infrastructure and disaster mitigation measures and leading to a shift in the macroeconomic performance of the country, moving it from the foreign exchange earning sectors (tourism, agriculture and manufacturing) to the foreign exchange using sectors as extensive construction work got underway. This boost in the construction sector, along with activities in manufacturing, mining and quarrying, real estate and housing sectors led to an expansion of economic growth in 1999 and 2000. In the 1998-2000 period construction was the main source of economic growth with output increasing at an annual average rate of 6.9%. The UNDP Human Development Report ranks St Kitts and Nevis 47 among 174 countries on the basis of adult literacy, school enrollment, life expectancy at birth, and per capita Gross Domestic Product (GDP).

The long-term development strategy of SKN is continued growth leading to sustainable development, within the context of economic diversification, appropriate development of human resources including capacity building, social justice, equity and stability and sound environmental management. Economic restructuring, and in particular, diversification of the output base of the productive sectors is the cornerstone of the development programme of SKN.

It has been agreed that education should be the focal sector for its National Indicative Programme under the 9th EDF and in particular support will be provided for adult and continuing education in informatics at a tertiary level. The decision to concentrate on this area of education was made after a thorough consideration of the major development issues confronting the country, which include (a) the skills gap, highlighted as the local economy is restructured to face the challenges posed by globalisation and the rapid development of Information technology, (b) the results of the recent Poverty Assessment of SKN, which found that almost 1/3 of the Federations' population is poor and also identified human resource development as one of the most important measures for poverty reduction and eradication, and (c) the results of two studies into the development of the informatics industry in SKN which concluded that accelerated training and skills upgrading were necessary conditions for success in this field.

The choice of Informatics/IT development in adult and continuing education at the tertiary level follows as a logical step given the existing and ongoing investment that SKN has made in new

technology training at the primary and secondary stages. There are cohorts of workers now integrated into the labour force at low levels of employment who missed out on IT education because they exited the formal education system before the widespread introduction of such training in schools. These workers, many of whom must work at more than one job to survive, make up the ranks of the 'working poor' which according to the Country Poverty Assessment accounted for 90% of the poor. Through re-training, some of these workers shall have the possibility to take advantage of the skilled occupations in new and emerging industries, all of which require IT skills.

1 EU/EC co-operation objectives

In accordance with Article 177 of the Treaty Establishing the European Community, community policy in the sphere of development co-operation shall foster:

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

These objectives have been confirmed and reinforced in Article 1 of the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000, which puts main emphasis on the objective of reducing and eventually eradicating poverty. Co-operation between the Community and St Kitts and Nevis shall pursue these objectives, taking into account fundamental principles laid down in Article 2 of the Agreement – especially the principle of encouragement of the development strategies by the countries and populations concerned - and essential and fundamental elements as defined in Article 9.

In their Statement on the European Community's Development Policy of 10 November 2000, the Council of the European Union and the European Commission determined a limited number of areas selected on the basis of their contribution towards reducing poverty and for which Community action provides added value: link between trade and development; support for regional integration and co-operation; support for macro-economic policies; transport; food security and sustainable rural development; institutional capacity-building, particularly in the area of good governance and the rule of law. The Statement also specifies that in line with the macro-economic framework, the Community must also continue its support in the social sectors (health and education), particularly with a view to ensuring equitable access to social services.

The Treaty establishing the European Community foresees that the Community and the Member States shall co-ordinate their policies on development co-operation and shall consult each other on their aid programmes, including in international organisations and during international conferences. Efforts must be made to ensure that Community development policy objectives are taken into account in the formulation and implementation of other policies affecting the developing countries. Furthermore, as laid down in Article 20 of the Agreement, systematic account shall be taken in mainstreaming into all areas of co-operation the following thematic or cross-cutting themes: gender issues, environmental issues and institutional development and capacity building.

The above objectives and principles and the national policy agenda presented in the next chapter constitute the starting point for the formulation of the present Country Strategy Paper, in accordance with the principle of national ownership of development strategies.

2 The Government's Policy Agenda

The long term development strategy of St Kitts and Nevis (SKN) is the pursuit of continued growth leading to sustainable development, within the context of economic diversification, appropriate development of human resources including capacity building, social justice, equity and stability, and sound environmental management. Economic restructuring, specifically diversification of the output base of the productive sectors, has been a long-term development strategy of SKN and is the cornerstone of its entire development programme. It is acknowledged that for a small, open, non-subsistence economy like that of SKN, dependence on one or two export industries increases vulnerability to external economic trade/aid trends as well as to natural disasters. The objective of the Government is to optimally use available resources to generate sustainable growth while ensuring the benefit of such growth is widespread. The development strategy targets sugar and non-sugar agriculture, manufacturing, tourism, information based and financial services. GSKN will promote

private investment by improving the regulatory framework, encouraging private trading companies and collaborating with established regional institutions. GSKN recognizes that economic development is not sufficient to solve all social problems and intends to harmonize the economic sector with other key contributors to national development.

Public Sector Investment Programme (PSIP)

The medium term strategy of the Government of St Kitts and Nevis, as outlined in the Medium Term Economic Strategy Paper 2000-2002, focuses on the continuation of the promotion of private sector led development. In support of this objective the public sector investment programme 2000-2002 will invest in the priority areas of social and infrastructure development, which are deemed to be necessary complements to the anticipated private sector development. To this end the government is to invest EC\$190.5m (€82.444 million), of which external financing is expected to cover 82.9%, while the balance is expected to be generated locally, largely through government revenue. Of this health is to receive 30%, transportation 19%, education 11.8% and energy 10.3%.

3 Assessment of the Political Economic and Social situation

3.1. Political situation

First settled by the British in 1623, the islands became an associated state with full internal autonomy in 1967. St. Kitts and Nevis achieved independence in 1983. The state of St. Kitts and Nevis is democratic with universal suffrage, free elections, a multiparty structure, equality of access to political activity and participative decision-making. The chief of state is Queen Elizabeth II as represented by a Governor General. The Prime Minister, th Hon. Dr. Denzil Douglas (since 6 July 1995) is leader of the SKN Labour Party. The unicameral parliament has 14 members, with 11 elected members and 3 nominated members (two on the advice of the Prime Minister and one on the advice of the leader of the opposition). The election of 6th March 2000 resulted in eight seats to the ruling St. Kitts-Nevis Labour Party, and the remaining three seats going to the Nevis opposition parties [Concerned Citizens Movement (CCM) won two and the Nevis Reformation Party (NRP), one]. In the Nevis Island Assembly, CCM holds three seats and NRP two.

The main political issue in the State is the relationship between the two islands. Nevis exercises autonomy in most areas with the exception of foreign affairs, defense and certain aspects of economic policy. Nevis has a constitutional right to independence if two thirds of the population votes for it in a referendum. In the 1998 referendum Nevis failed to achieve that proportion but had a majority in favour of independence. Together the islands of St Kitts and Nevis are 269 square kilometers with a coastline of 135 km and have a population of 45,884 (2001 estimate) hence a political separation would exacerbate their disadvantages of scale in the global economy.

St. Kitts and Nevis is not considered to have significant problems with human rights or protection of civil liberties. A declaration of individual rights and freedoms is entrenched in the St Kitts and Nevis Constitution. St Kitts and Nevis is a signatory to the Universal Declaration of Rights and the Convention on the Elimination of all forms of Discrimination against Women. Recourse to the death penalty still exists in St Kitts and Nevis though it is not frequently used. The legal system is based on UK common law as exercised by the Eastern Caribbean Supreme Court of Justice, one judge of the Supreme Court resides in Saint Kitts. Provision is made for appeal to the Privy Council in London however a Caribbean Court of Justice (CCJ) is being established, replacing the function of the Privy Council. The CCJ is not expected to be operational before 2003.

3.2 Macroeconomic Overview

3.2.1. Demographic structure

The population of St Kitts and Nevis was estimated at 45,884 (2001 est.), 11,181 of whom live on Nevis. This implies an annual average growth rate of 1.23% between 1991 and 2001. The increase in population over this period appear to be due to immigrants rather than through an increased birth rate. The labour market is characterized by relatively low unemployment. The last study of unemployment financed by the Organisation of American States in 1994 reported an unemployment rate of between 4.3% and 11.3%, the lowest in the OECS and most of which is structural. This rate is well below regional averages.

3.2.2. Economic Structure

St Kitts and Nevis is a small open economy, highly susceptible to exogenous shocks. Production is focused on a very narrow range of goods and services, most of which are exported, while the country relies heavily on imports to satisfy demand for consumer and producer goods. The sugar industry was in the past, the main contributor to the economy, with sugar being exported to Europe under preferential arrangements (mostly to the UK), and to the USA. A review of the macroeconomic situation of St Kitts and Nevis reveals that significant structural changes have occurred over the last twenty years as indicated by the performance of the key sectors. Included in this is the marked decline in the contribution of the agriculture sector to GDP. Traditionally, the agriculture sector was the largest contributor to GDP however the trends in sector contribution to GDP shows that the construction and service sectors are increasingly responsible for the recorded growth in GDP. By 1996 agriculture accounted for 5.5% of GDP with industry at 22.5% (sugar processing, tourism, cotton, salt, copra, clothing, footwear, beverages) and services at 72%. Tourism and sugar together, account for 59% of total exports of goods and services.

3.2.3 Trade

SKN's main export partners are the US 68.5%, the UK 22.3%, and CARICOM countries 5.5% whilst its main import partners are the US 42.4%, CARICOM countries 17.2% and the UK 11.3%. The principal products for export are machinery, food, electronics, beverages and tobacco. SKN's main imports are machinery, manufactures, food and fuels. In 1998 exports accounted for US\$42 million and imports US\$160 million. SKN belongs to the Eastern Caribbean Central Bank (ECCB), which operates a fixed exchange rate regime. The Eastern Caribbean Dollar is pegged to the United States Dollar at the rate of US\$1 = EC\$2.70 since July 1976.

3.2.4 Recent Economic Performance

Hurricane Georges passed through St. Kitts and Nevis in September 1998 causing over € 519.98 million worth of damage to the hospital, hundreds of homes, the airport, the seaport, hotels, electricity infrastructure and businesses. As a result of hurricane damage, real GDP growth was only 1% for 1999 as compared with 7% in 1998. Developments in St. Kitts and Nevis during 1999 were again dominated by hurricanes with the passage of Hurricanes Jose and Lenny, the latter of which caused an estimated €48.376million worth of damage. The main damage was to the hotel industry and the Four Seasons hotel in Nevis had to be closed with 400 redundancies. There was also extensive damage to the port facility, residential and commercial property, schools, the hospital and other infrastructure.

The hurricanes have had a negative impact on the tourism sector and have caused a shift in the macroeconomic performance of the country, moving it from the foreign exchange earning sectors (tourism, agriculture and manufacturing) to the foreign exchange using sectors as extensive construction work got underway to rehabilitate the social and economic infrastructure as well as private property. This boost in the construction sector, along with activities in manufacturing, mining and quarrying, real estate and housing sectors led to an expansion of economic growth in 2000. In the 1998-2000 period construction was the main source of economic growth with output increasing at an annual average rate of 6.9%. GDP increased from €300million in 1999 to €330.209million in 2000.

3.2.5 Fiscal Performance

During the five-year period to 1999, the Central Government's current account balance registered a deficit in every year except 1997, averaging 0.7% of GDP. The deterioration resulted from a decline in the current surplus, as a result of increases in expenditures on goods and services and interest payments, while revenue performance remained virtually flat. Following the hurricanes of 1998 and 1999 the central Government recurrent account deficit widened to €5.609 million during the first 10 months of 1999 from € 2.921 million in the corresponding period of 1998, necessitating increased borrowing from external and domestic sources. In 1999, the overall deficit narrowed to about 5.75% of GDP as capital spending declined to more normal levels, despite a worsening of the current balance arising from further increases in the wage bill, expenditure on goods and services, and interest payments. In the year 2000, the current account position of the consolidated finances of St Kitts and Nevis is expected to worsen significantly as the deficit is expected to increase. However for 2001 and 2002 this situation is likely to improve with increases in current revenue on account of a number of new revenue enhancing measures and a reduction in current expenditure.

The persistent current account deficit contributed to a rise in Central Government debt from 46.4% of GDP at the beginning of 1995 to 69.6% of GDP by the end of 1999. As much of the borrowing was on commercial terms, the effective interest rate of debt rose from 4.4% in 1995 to 5.9% in 1999. As a result debt service went from 15.6% of current revenue in 1995 to 25.9% in 1999. Recent wage increases awarded by central government have put some upward pressure on wages in other sectors. Hence, in 1999 expenditure on wages and salaries rose by 2.4% to € 31.316 million, while transfers fell by 14.8% to €7.0 million.

In order to provide for the replacement of duties which will be lost as a result of the introduction of the Common External Tariff, an OECS sponsored study has been commissioned to look at possible alternative tax revenue. Options include the reintroduction of Income Tax and the imposition of value-added tax however the Government is reluctant to see income tax applied to personal incomes and has stated that value-added tax would only be introduced if the reduction in tariffs threatens the financial stability of the Federation. In the interim the Government has instead opted to increase the Consumption Tax, payable on goods imported into the Federation, by 5 percentage points.

3.2.6. Monetary Performance

Monetary policy in the Eastern Caribbean is centralised under the Eastern Caribbean Central Bank where the focus of the policy is to maintain a strong Eastern Caribbean dollar so as provide a degree of certainty in the economic policy environment thereby promoting investment and economic activity in general. The monetary system in SKN experienced a gradual erosion of net foreign assets in 1999 related to the decline of activity in the foreign exchange-earning sectors and the growth in the construction sector. Net foreign assets fell by 22.2% during the first nine months of 1999. Domestic credit increased by 11% during the same period reflecting a 16.4% increase in net credit to Government.

3.2.7. Balance of Payments

Overall capital inflows have been more than sufficient to cover large current account deficits, allowing for a build-up in imputed international reserves during the 1995-99 period. Since 1995 St Kitts and Nevis has faced high current account deficits (approx. 20% of GDP per year) as a result of trade imbalances and growing factor income outflows. 1999 saw a decline in the overall surplus on the balance of payments from 3.9% of GDP in 1998 to 0.9% of GDP. In 2000 there was a further deterioration, giving rise to an overall deficit of 1.3% of GDP.

3.3 Sector Priorities

3.3.1 Agriculture

The share of agriculture in total GDP fell from an average of 11.5% in 1980-89 to 6.4% in 1990-99. The principle agricultural products are sugarcane, rice, yams, vegetables, bananas and fish. The decline in agriculture was led by the sugar sub-sector which accounted for about half of the value added of the agriculture sector and fell from 6.2% of GDP to 2.7% over the respective periods. Value added in 1999 decreased by 9.9%. The outturn was to a large extent related to a contraction in sugar cane production, due partly to unfavourable weather and a reduction in acreage under cultivation. Sugar production declined by 18% to 196,784 tonnes.

While the sugar industry is still one of the contributors to economic activity in St Kitts and Nevis the economy has greatly reduced its dependence on sugar production with sugar production and related processing activities now accounting for only 2% of GDP and 7% of exports. The erosion of the preferential arrangements for the exportation of sugar, and the unprofitable state of the sugar industry even with these preferential arrangements means steps have to be taken to reduce costs and increase efficiency in the industry. One option being considered by the government is the winding down of the industry. St Kitts Sugar Manufacturing Company (SSMC), the sole producer and exporter of sugar has consistently sustained heavy losses with the estimated costs of each tonne of sugar approximately €1,030 (EC\$2,381) to produce, compared with an average selling price of approximately €649.17 (EC\$1,500). Annual losses in 2000 were estimated at approximately 3.5% of GDP, financed mainly through overdrafts at the government owned National Bank. The SSMC employs approximately 1,400 permanent workers and an additional 600 migrant workers during the peak season which represents 7-8% of employment in the economy. Consequently in winding down the sugar industry a safety net for workers unable to find suitable alternative employment will have to be put in place. The World Bank has funded a government committee study to examine the costs and benefits of closing the sugar industry which is currently being reviewed by the government. It is the intention of government to engage in broad-based consultations to devise a coherent medium-term strategy for the industry, taking into account all possible options.

As a result of the above situation in the sugar industry there is an increasing emphasis on agricultural diversification. The government implemented a strategic plan for the non-traditional agriculture sector during the 1995-99 period however the sector was also adversely affected by significant soil erosion and crop damage. The sector improved however in 1999, reflecting an increased production of vegetables and root crops. Value added from this sector grew by 7.7% in 1999 as against a decline of 21.6% in the previous year. The livestock sub-sector which is currently being revitalized represents the largest area of market potential and emphasis had been placed on dairy, beef, mutton, pork and poultry production while the fishing industry is also a likely area for growth potential.

Sugar Protocol

St Kitts and Nevis continues to benefit from the sugar protocol in the Cotonou agreement however its quota of sugar has been reduced from 15,590 to 14,800. The advantage for St Kitts and Nevis derived from the sugar protocol is the significant difference between quota and world market prices (almost three times higher). The special preferential import quota for raw sugar established in 1995 is a scheme separate from the sugar protocol. It aims at guaranteeing sufficient supplies to the European refiners of raw and cane sugar, particularly following the accession of Portugal and Finland to the European Community. A quota is calculated each year on the basis of the European Community's needs. The ACP countries are responsible for allocating this quota amongst themselves. The price paid will be the EC guaranteed price for raw sugar after the deduction of certain amounts and, in particular, a reduced rate of duty. The resulting price being above world market, the arrangement implies a benefit for the group of sugar exporting ACP States which has been estimated at close to €70million for the first period of operation.

3.3.2 Fisheries

Fishing methods are traditional, although some modern techniques have been adopted in recent years. However on the whole the fishing industry has remained relatively weak. In its Medium Term Strategy Paper the Government had committed itself to the adoption of measures to boost the industry whilst efforts are also being made at the sub-regional level to establish a well developed and diversified regional fisheries sector with the OECS Secretariat mandated to initiate the development of a Fisheries Strategy for Member States.

3.3.3 Tourism

The tourism industry has become a major source of income and employment however the market has stagnated in recent years, largely on account of inadequate direct access to the destination from major markets. The performance of the industry during the 1995-99 was significantly influenced by the hurricanes which affected the Federation with the temporary closure of two large hotels in 1999 as a result of hurricane damage. In the first ten months of 2000, visitor arrivals declined by 22% which is again attributed to the hurricane damage sustained by the hotels however yacht and cruise ship arrivals recovered as repairs to the berthing facilities were effected. The US market dominated the category of arrivals, accounting for 44.1% of visitors during 1995-99. Caribbean tourists accounted for 30.2% of the total with the remaining visitors coming mostly from Canada and the rest of Europe. In order to enhance the management of the tourism industry, the government of St Kitts and Nevis is to establish a Central Tourism Authority which will have responsibility for the management of the tourism industry and will implement the governments' tourism strategy. This strategy is intended to facilitate the expansion of the tourism sector in an effort to maximize its potential for income and employment creation.

3.3.4 Manufacturing

In addition to sugar refining, the manufacturing sector is mainly comprised of export-oriented firms producing garments, electronic components, and small enterprises producing food, beverages, clothing and furniture and other wood products mainly for the domestic market. Sugar refining constitutes a significant portion of activity in the manufacturing sector and as a result, the share of the manufacturing sector in GDP has declined, moving from an average of 16.2% of GDP in 1980-89 to an average of 11.6% of GDP in 1990-99. Growth in the non-sugar manufacturing sector is largely attributed to three of the major firms producing electronic components and produce is largely for

export to extra-regional markets. However there has been increasing pressure on this sector also with intense competition from regional manufacturers which has reduced the demand for goods produced for the domestic and regional markets. The government strategy for the sector is designed to stimulate local entrepreneurs, attract foreign investors, maximize employment and facilitate skills development particularly in light manufacturing and information technology.

3.3.5 International Financial Services

The Government of St Kitts and Nevis has identified the offshore sector as a sphere of activity with significant growth potential and has taken initiatives to realize this potential through the upgrading of legislation and the intensification of marketing. However, further growth in company registration will require more marketing resources and the installation and maintenance of proper infrastructure. The offshore sector is discussed further below under section 3.5 External Challenges.

3.3.6. Environment

The catastrophic impact of several hurricanes in recent years and the accession of SKN to several international conventions have caused the GSKN to commit to the redoubling of efforts to positively influence the conservation and preservation of the environment. One of the main environmental difficulties facing SKN is the soil erosion, the result of de-vegetation and cotton and sugar production. As with the other countries of the OECS, solid waste management, sewage and industrial waste collection, treatment and disposal, chemical pollution, marine and coastal pollution, and drinking water quality are also important environmental concerns.

3.4 Social Sector Analysis

There has been a high level of investment in the social sectors such as education, housing and community development over time in the Federation. Despite these relatively high levels of investments there are however growing pockets of poverty in SKN especially among vulnerable groups such as female-headed households, youth, the elderly and children. According to the UNDP Human Development Report for 1998, the last for which statistics are available, St Kitts and Nevis is ranked 47 among 174 countries on the basis of adult literacy, school enrollment, life expectancy at birth, and per capita Gross Domestic Product (GDP). SKN has a national insurance scheme, with a range of contributory and non-contributory benefits.

3.4.1 Poverty Reduction

A Country Poverty Assessment Project jointly sponsored by the Caribbean Development Bank and the Government of SKN was conducted between September of 1999 and April 2000. As a direct result of the findings of this study published in March 2001, the Government of SKN is now fully committed to the formulation of appropriate policies, programmes and projects to promote social development across the twin island state. The survey revealed that 30.5% in St Kitts and 32% in Nevis, or a little less than 1 in 3 individuals were poor, in the sense that they could not meet their minimal food and other basic requirements whilst 11% or slightly more than 1 in 10 individuals in St Kitts and 17% in Nevis were unable to meet the cost of the minimal requirements for food. Of the percentage of those poor, 67.8% in St Kitts and 62.6% in Nevis were women. In St Kitts and Nevis, 67.8% and 58.0% respectively of the poor were under-25 years of age. Despite these figures in 2000 the GDP per capita was approximately EUR 8,750.

A Labour force survey conducted in 1994 showed an unemployment rate of 4.5%, the lowest in the OECS. While this low rate points to a healthy employment environment and continuous creation of new jobs, the findings of the Country Poverty Assessment, a more recently conducted study, highlights the phenomenon of the working poor as a prominent factor in the analysis of poverty in the Federation, as over 90% of the poor are actually working. This suggests that while a significant proportion of persons of working age are employed, a large number of these individuals attract low levels of pay. It also shows that unemployment is not the main cause of poverty in the Federation and underscored the importance of policies and initiatives to increase the earning power and income levels of the poor.

The government has established a UK/St Kitts and Nevis Commonwealth Debt initiative. Under this initiative, monies owing to the British Government as repayment for debts would be placed in a special account to fund poverty-focused activities.

3.4.2. Health

When compared with other countries in the region, SKN allocates a relatively low proportion of government expenditure on health with a recent average of 2.7% of GDP per year. Over the 1995-1998 period the Government instituted a health reform programme however the health sector continues to face numerous challenges including high rates of infant and neonatal mortality, a high incidence of teenage pregnancy, the re-emergence of tuberculosis along with the threat of HIV/AIDS, and resource limitations both in private and public sector. Despite these challenges the population enjoys almost 100% immunisation coverage, access to safe water and good sanitation. The Government has placed special emphasis on primary health care services, particularly those targeted toward the prevention of illness and the promotion of healthy lifestyle habits. Recent statistics from the Caribbean Epidemiological Center and UNAIDS estimate that in the Caribbean approximately 360,000 adults and children are living with HIV/AIDS. The share of persons between the ages of 15 and 49 years infected with the virus is estimated to be 2%. In February 2001 a new Pan-Caribbean Partnership against HIV/AIDS was launched and will be coordinated by CARICOM, with funding provided by the EU and other major donors in the region.

3.4.3. Education

The present system of education guarantees universal access to the present cohorts of the school going age, however many in the current work force have not had the opportunities for education and training that are required in more dynamic areas of the employment market. According to the Country Poverty Assessment Report as many as 55.8% of the poor engaged in the labour market did not possess any educational certification. Education therefore becomes an important springboard from which the fight against social degradation and poverty can be launched. In the twin island state, adult and continuing education is essential, especially in light of the rapid technological transformations taking place at a global level and more specifically advancements in information technology. The Government of SKN sees education as a tool to build its social, economic and political super-structure and consequently has placed it as the focal sector under the 9th EDF. It is felt that giving priority to the education sector will optimize the development of the human resources needed to support the further restructuring of the economy by providing IT support for tourism, manufacturing and financial services. Government has set forth the future orientation of educational policy in St Kitts and Nevis in the comprehensive Long Term Education Plan 1998-2011. The plan sets down clear goals and objectives for the education system as a whole and for each sub-sector, identifying targets and strategies, programmes and projects, implementation schedules, costs and sources of financing and the establishment of structures for implementing the proposed plan.

3.4.4. Gender

As was seen above poverty and unemployment among females is much higher than that of males. This is related to the low levels of women's occupational status combined with a high rate of female-headed households. Female participation in public service and the private sector is improving with women occupying five of the ten permanent secretary positions available. Reported violence against women is low however a sensitisation programme is being put in place to improve the levels of reporting and conviction.

The Government of St Kitts and Nevis ratified the 1979 UN Convention on the Elimination of All forms of Discrimination against Women (CEDAW) and in 1984 established a Ministry of Women's Affairs. The Ministry, through the projects Agricultural Project for Rural Women and Generating Resources for Women (GROW), has concentrated its efforts on training women in leadership and entrepreneurial skills. International agencies have been largely responsible for financing these projects.

3.5 External Challenges

3.5.1 International Context

The Caribbean region is currently facing huge challenges on the external front as it grapples with the effects of globalisation and international trade commitments under the World Trade Organisation (WTO) alongside pressures arising from economic groupings such as the North American Free Trade Agreement (NAFTA) and the Free Trade Area of the Americas (FTAA). Under WTO rules, the countries of the Caribbean have until 2004 to dismantle non-tariff barriers, progressively liberalise trade in goods and services, and eliminate all discriminatory practices and tariffs while further access by Latin American countries to North American markets through the establishment of the FTAA promises to erode even further, preferences from the CBI (Caribbean Basin Initiative) and CARIBCAN (the trade agreement between the Caribbean and Canada). Under Cotonou the preferential access of the commodities produced by the ACP countries to the EU will be restructured, in the context of the WTO-compatible ACP-EU Economic Partnership Agreements envisaged under the Cotonou Agreement, which will progressively eliminate barriers to trade between the parties and enhance cooperation in all areas relevant to trade.

3.5.2 Regional Cooperation

On the regional front, St Kitts and Nevis is a member of CARICOM (the Caribbean Community) and the Association of Caribbean States (ACS). CARICOM members are in the process of establishing a Common Single Market and Economy (CSME) that will include not only a fully functioning common market, but also the harmonization of macroeconomic policies and eventual monetary integration. The new regional trade arrangements are expected to be finally in place by 2005 alongside those of the FTAA and WTO. The ACS, established as a mechanism for consultation, cooperation and concerted action, brings together all the countries of the Caribbean Basin (the sovereign states of Central America, CARICOM, Cuba, Colombia, Mexico and Venezuela) with an overall population of some 200 million. Together they have pledged their commitment to strengthen cooperation in trade, tourism, transport, the environment, language training, and cultural cooperation.

Within the context of liberalisation, St Kitts and Nevis's national trade policy, largely guided by that of CARICOM and the OECS, focuses on forward looking, outward oriented trade policy reform programmes geared towards the gradual removal of protectionist measures. The government has made considerable progress in liberalizing its trade regime by reducing both tariff and non-tariff barriers. In keeping with its obligation to CARICOM, the government introduced the third phase of the Common External Tariff (CET) in July 2001. This measure will bring the Customs tariff down from a maximum of 30% for all imported goods, except in a few special cases, to a maximum of 25%. Trade negotiations with respect to bilateral free trade agreements have been signed between CARICOM and St Kitts and Nevis and are ongoing between CARICOM and Cuba. A trade policy review was conducted by the WTO in June 2001.

In order to secure markets for its exports GSKN's strategy is to negotiate CSME/WTO compatible agreements with its trading partners. Towards this end, GSKN is highly supportive of, and actively participates in the work of the RNM (Regional Negotiating Machinery) and in collaboration with the OECS and Canada, is undertaking a programme for strengthening its trade negotiating capabilities.

3.5.3 OECD Harmful Tax

A further challenge facing the countries of the Caribbean is the issue raised by the OECD of harmful tax practices. According to the 1998 OECD report, harmful features of preferential regimes are to be eliminated before the end of 2005. In June 2000, a further report presented a list of jurisdictions that are deemed tax havens under the criteria of the 1998 report. It also contained a list of 35 uncooperative countries, including SKN, and the threat of sanctions against non-cooperating jurisdictions. Data from the CARICOM secretariat reveals that the offshore sector constitutes a significant percentage of revenue for the governments of the Caribbean. In St. Kitts and Nevis, offshore activities have been an important aspect of economic diversification, particularly in Nevis where 17,500 international banking companies were registered in 1998. Registration and annual filing fees paid by these entities amounted to about EC\$6.3m in 1999 which is almost 10.5% of Nevis' revenues. Development of the offshore business in St Kitts has been less significant with one trust and 1,000 international banking companies. The latest assessment by the Financial Action Task Force (FATF), the results of which were made available in June 2001 notes that St Kitts and Nevis have enacted legislation to address the issue of supervision of the financial sector and money laundering related to crime. Nonetheless SKN remains on the list of uncooperative countries as many issues remain to be resolved including the ability of the Financial Intelligence Unit and the financial regulators to co-operate internationally. The country is currently participating in the IMF-led offshore financial centres self-assessment exercise, to determine actions needed for improved legislation, regulation, and supervision of the sector and will participate in the upcoming Financial Sector Assessment Program (FSAP) to be jointly conducted by the World Bank and IMF.

3.6 Future Challenges and Prospects

The combined impact of geographic features, a small economy, dependence on the exportation of a narrow range of goods and services and dependence on preferential markets play a considerable role in the economic development of SKN. The small size of the country and the fact that there is extensive duplication of administration and infrastructure in the two islands imposes significant pressure on the public finances. The small size of the population and, by extension, the economy, also limits the extent to which the domestic market can be used for the development of infant industries. The dependence on a narrow range of goods and services for foreign export earnings is also a major constraint to development alongside the dependence on preferential trading arrangements in a global economy characterised by increasing trade liberalisation. In the medium term, the government of St Kitts and Nevis needs to put in place a response mechanism to the review and eventual restructuring of the

preferential sugar arrangements however, owing to the scale and scope of the domestic market in St Kitts and Nevis the possibilities for viable agricultural diversification are somewhat limited. With the establishment of the CARICOM Single Market it will be necessary to ensure a competitive market environment which promotes production in areas that have demonstrable potential for productivity growth.

In view of the burden of repairing hurricane damage in the medium-term along with the need to strengthen external competitiveness, it is essential that the authorities raise public savings to reverse the rapid increase in the debt stock and debt servicing that has occurred in recent years. Such a measure would require fiscal policy restraint which in turn necessitates a reform of the public sector. In the offshore sector, steps need to be taken to ensure a proper regulatory framework is in place to guard against illegal activities while the future of this sector remains unsure as negotiations with the OECD continue. As much of the difficulty facing the Federation of St Kitts and Nevis has been the result of natural disasters, it is essential that effective disaster preparedness and emergency response arrangements are put in place, particularly in view of the frequency with which the natural disasters have struck the area.

In the 2000-2002 period, real GDP is projected to grow at an average of approximately 5%. With the completion of two new hotels, it is expected that the tourism industry will grow while the construction sector is expected to continue to expand as a result of post-hurricane reconstruction works and the implementation of new and on-going public and private sector projects. Activity in the agriculture and manufacturing sectors is expected to increase slightly up to 2002. The fiscal position of the consolidated accounts of St Kitts and Nevis, as measured by the current account balance, is projected to be in deficit over the 2000-2002 period while the external current account balance is expected to improve.

4 Overview of past and ongoing EC cooperation.

St Kitts and Nevis signed the first Lomé Convention in 1976. The total amount of European Community aid given to St Kitts and Nevis since then is estimated to be more than EUR 20 million, the vast part of which is EDF financed. In principle Nevis receives 25% of the NIP allocation for the Federation.

4.1 European Development Fund

St Kitts and Nevis's first three indicative programmes (Lomé I, II, III) concentrated on social infrastructure including the provision of schools and water development projects (60%), SME development (25%) and roads (15%). The 7th EDF NIP amounts to €2.5m with health sector development as the main focal sector. Funds outside the focal areas were allocated for technical assistance and training and to support regional programmes.

Under Lomé IV, health was identified as the focal sector and was allocated 90% of the NIP funds for that period. The main objective, to improve the capital stock of the health sector, is currently being achieved through the rehabilitation and extension of the two main hospitals in the Federation, the J.N. France Hospital in Basseterre, St Kitts and the Alexandra Hospital in Charlestown, Nevis to which the 8th EDF (€3.0 million) has also been committed. The second focal sector under the 7th EDF NIP was training and education. Efforts in education were designed to improve further, the delivery of primary and adult training and education, and to assist community activities. To this end, a primary school at Dieppe Bay, and a community centre in the rural parish of St. Peters were constructed. Both buildings have been in operation since the end of 1996. In the case of tourism promotional activities were funded. The second focal sector under the 8th EDF NIP (€300,000) is a drugs control programme

which looks specifically at the issue of demand reduction and targets young persons.

4.2. Regional programmes

In addition to the EDF, St Kitts and Nevis also benefits from a wide range of regional programmes. The focal sectors for Community aid under the 7th EDF Regional Indicative Programme for which a global envelope of EUR 105 million was made available were agriculture/fisheries, trade, tourism, education, human resource development, environment and telecommunications. The 8th EDF Regional Programme had EUR 90 million available to it for activities in support of regional economic integration and co-operation, and human development, institutional strengthening and capacity building. Within these priorities special attention is given to the enhancement of the region's competitiveness and to private sector development. Outside the focal sectors, priority programmes include decentralised co-operation, regional disaster preparedness and the Caribbean action plan for drug control.

The OECS Tertiary Education Level Project has provided support to the Clarence Fitzroy Byrant College to strengthen its capacity through the provision of new physical facilities and funding for the introduction of a greater range of courses, and the Nevis airport extension project which has been financed from 7th EDF regional funds to the tune of €2.2 million. The overall goal of the project is to increase tourist arrivals in Nevis with the possibility of larger aircraft being accommodated.

Alongside the regional funds above, SKN has benefited through the Center for the Development of Enterprise (CDE) whose aim it is to strengthen private enterprises and professional associations in the ACP countries. The CDE antenna in St Kitts and Nevis is the Chamber of Commerce and Industry.

4.3 European Investment Bank (EIB)

The EIB has provided St Kitts and Nevis with a total of €8.5million in financial assistance since 1983 of which €2.7m remains to be disbursed. Among EIB financed initiatives are, a two-phased programme of support for the St Kitts and Nevis Development Bank and in 1995 a €2m loan for Nevis Airport. In addition, the EIB has attempted to promote regional integration through the financing of operations on a sub-regional level: Carib Express (air traffic), OECS Waste Management (solid waste management), CFSC and CDB (global loans), Tíona and CIF (venture capital funds). The EIB is working on the development of instruments which will assist towards developing the financial sector in an integrative fashion.

In 2000 a global loan of 4million EUR on risk capital resources (Lomé IV bis) was made available to the Development Bank of St Kitts and Nevis for the financing of productive investments from small and medium sized enterprises in the industrial, agro-industrial, transport and service sectors by means of loan and (quasi-) equity participations and for the financing of investments in human capital by means of student loans related to those sectors.

4.4 Past experiences of Community aid

On the whole, cooperation with the Community has yielded highly satisfactory results in terms of support to the Government's economic diversification endeavours and maintenance and use of the facilities financed has been good. Concentration of funding on a single sector has proved to be the most effective form of cooperation. In the implementation of projects however difficulties have been experienced largely as a result of delays on the part of contractors and the European Commission. As a consequence implementation of the Lomé IV National Indicative Programmes has been slow. To redress this, institutional strengthening measures are being carried out by the Government of SKN

while assistance in individual sectors is being provided by a number of donors as can be seen in the donor matrix in the annex to this document.

4.5 Programmes of EU Member States and other donors

Apart from the EU, the principal donors to St Kitts and Nevis are France (AFD), Canada (CIDA), the Caribbean Development Bank (CDB), the UN agencies, US Aid, Japan (JICA), Kuwait, the Republic of China (Taiwan) and the World Bank. Donor coordination plays an important role in the programming of activities for St Kitts and Nevis in the following sectors: drugs, education, environment, governance and disaster management, while consultations are held in other areas of common interest. As the major part of the PSIP of St Kitts and Nevis is financed by external aid, activities of donors tend to be closely linked and as such donor coordination is effectively pursued. In the past, the preparation and implementation of EC funded projects has involved technical assistance from the donor community. In the education sector other donors with a long involvement include the UK, US Aid and CIDA which have supplied teacher training, scholarships and improvement of school infrastructure on a comparable level with that of the EC.

4.5.1 Programmes of EU Member States

Member states active in St Kitts and Nevis include France and the UK (DFID) whilst Germany via GTZ has provided technical assistance to the OECS secretariat in St Lucia for the strengthening of technical/vocational training, the Natural Resources Monitoring Unit (NRMU) and the CARICOM sub-organisation CEHI (Caribbean Health Institute). AFD have a programme for the improvement of air access to the Federation.

4.5.2 Programmes of other Donors

Activities of CIDA, DFID, UN agencies, USAID and the World Bank in the eastern Caribbean are conducted on the basis of sub-regional strategies. The principal areas receiving support from these agencies are regional strategic objectives such as institutional support, including support to the Regional Negotiating Machinery (RNM) which is charged with the responsibility of representing the members of CARICOM in international trade and financial negotiations, implementation of the Common Single Market and Economy (CSME), HIV/AIDS programmers, environment programmers, social recovery through economic diversification and job creation, emergency reconstruction and disaster mitigation, increased efficiency and fairness of legal systems, telecom reform, and the development of primary and secondary education.

The Caribbean Development Bank (CDB) is a significant donor to St Kitts and Nevis and in 1999 approved a mixture of loans and grants, the equivalent of \$95.3m, with emphasis on such sectors as agriculture/forestry/fishing, manufacturing, tourism, power/energy, water, transportation, communication, housing, education, health, disaster rehabilitation and basic needs. CDB also provided assistance to conduct a country poverty assessment report.

Funding received from the Republic of China (Taiwan), Japan and the Kuwait Fund for Arab Economic Development (KFAED) is largely used for infrastructure projects.

The funding distribution of the donors is included in the attached matrix, Annex I.

5 Response strategy

5.1. Principal elements

As indicated in the country analysis and the past performance and result of EU cooperation, the following elements are the principle factors for consideration in the EC response strategy:

- the role of the sugar industry in the economy of St Kitts and Nevis, the need to diversify and adapt it to the existing and forthcoming constraints; its impact on the social situation and in particular on the most vulnerable part of the population.
- the implementation of a medium-term strategy by the GSKN in which agriculture, tourism, education and human development as well as financial services constitute the core sectors;
- the challenges and opportunities presented by globalisation and trade liberalization and the need to adapt a country of limited natural resources to these new realities;
- the vulnerability of the Federation to natural disasters and the need to ensure that effective disaster preparedness and emergency response arrangements are put in place, particularly in view of the frequency with which the natural disasters have struck the area.

SKN is at this time exhibiting most of the features of a transitional economic and social scene. One aspect of this is an observed skills gap as the country moves from one dominant mode of production requiring a narrow range of skills to a more diversified multi-skilled economy. The skills gap is also predicated by the time lag between the rapid pace of technological change and the rate of technology transfer from developed to developing countries.

Of particular importance is the finding that one in three of the population is regarded as poor even though unemployment is only 4.5% thus indicating the existence of the phenomenon of the working poor whereby over 90% of the poor are actually working. The country poverty assessment report revealed that 55.8% of the working poor did not possess any educational certification. So while the system of education guarantees universal access many of the current work force have not had the opportunities for education and training. Therefore it is clear that it is of critical importance to SKN at this time, in view of the demise of the traditional agricultural industry and the twin challenges of a technological and globalised competitive economy, that workers be retrained to adapt to this new environment. The changes towards a more service oriented economic structure focusing on globally competitive sectors such as off-shore finances, informatics, telematics and tourism require a high level of educational attainment. Further as birth rates are low and declining and enrolment at primary and secondary levels is almost universal the average for the enrolment rate at the tertiary level remains a very low 9%.

5.2. The EC support strategy

It is against this background that the funds under the 9th EDF programming cycle are to be used to target the education sector with special emphasis on skills development for the informatics industry. Several recent studies and analyses of local economic and social conditions support this approach. The CDB supported Poverty Assessment Report states that within the last decade SKN has not been able to improve its knowledge and skill base quickly enough to participate at increasingly higher levels in the international division of labour. Further the report states that as the global economy becomes more integrated and as the factor knowledge becomes more critical, the country risks being left behind. It goes on to say that human resources development is central to the process of a secular reduction in poverty and to providing the country with the flexibility and capacity to expand its production frontier on a continuing basis. It is recommended that the Government transmit to the population the urgency with which all members of the society must commit themselves to the task of building a knowledge-

based economy through investment in education, training, retraining and continuous upgrading. Through the provision of support to the education sector, assistance will be made available to St Kitts and Nevis to address the first three principal elements listed above whilst the fourth, disaster management and preparedness is being supported by the World Bank, USAID and AFD.

With regard to the “B envelope” and the possibility of compensation for future losses in export earnings, preference shall be given to direct budgetary support where the necessary macroeconomic conditionalities are met.

5.3. Proposed focal sector for EC support

It is proposed to concentrate 85% of the A envelope on the Education sector and in particular the development of adult and continuing education at the tertiary level in Information Technology. This focus is justified by the following:

1. St Kitts and Nevis is faced with international competition and growth of global markets
2. The growth and effect of information and communication technology is such that its impact on education and industry must be harnessed to ensure continued development
3. The development of new industries and new types of jobs in SKN increase the demand for workers who are flexible and multi-skilled
4. Changes to the way in which work is organized and to the type of work available underscores the need for continuous training
5. Developing entrepreneurial and other specialised skills are useful tools to tackle unemployment issues

Courses and workshops could be organised to explore transfer of know-how on IT between Europe and the Caribbean region. IT training should lead to an intensification of electronic traffic between the two partner regions, and the search for compatible IT solutions and common regulatory frameworks should be enhanced, as to expand the application of European Information and Communication Technologies in different areas.

The decision to concentrate on IT training in particular is based on two independent evaluations carried out in 2000. The first, a study on the development of the Informatics Industry in St Kitts and Nevis was published in June 2000 by the UN CDCC/ECLAC, and concluded that transaction processing and document conversion are the areas in which St Kitts and Nevis could compete in the near to medium term, with scope for added value. The report also stated that the two key areas where policy action is needed most urgently to change the competitive arena in St Kitts and Nevis's favour are telecommunications and training. Measures to increase competition in the telecommunications industry through deregulation are currently underway in the OECS member countries including St Kitts and Nevis. Focused IT training would therefore seem to be the significant part of the strategy still missing.

With bilateral assistance from the Republic of Ireland, a second evaluation of the potential of IT based job creation in St Kitts and Nevis was conducted in October 2000. It was recommended that assistance should be sought to put in place a high quality teacher training programme on IT subjects for technical schools and colleges. The evaluation report also asserted that there is also the possibility for the government to improve the quality of personnel on offer by concentrating on IT training. The encouraging conclusion of the report was that St Kitts and Nevis has certain distinct advantages including its proximity to the US, the use of the English language and a well-developed infrastructure. The report also emphasized that the development of a strong IT capability in St Kitts and Nevis had political commitment and support at the highest level of the current administration.

The Nevis Island Administration (NIA) sees the overall development of Information Technology (IT) and its related activities as a necessary means to improve the quality of life for all citizens. With this vision the NIA embarked on a project of computerization of the seven primary schools on the island. However additional support is needed to put in place the operational infrastructural base. The NIA has also sought to develop the capacity of the two secondary schools on the island by equipping them to effect immediate training in IT and its related activities.

Currently the training of persons to fill the anticipated job opportunities lags behind the effort that has been put into the physical infrastructural development, especially for the short term. There is a significant IT skills gap for the majority of young adults who exited the secondary schools without gaining access to IT training. Such an IT skills gap also exists among parents, practicing technicians, and workers in the light manufacturing and sugar industries. There is also a lack of persons trained to impart the skills beyond rudimentary computer literacy. Consequently, there is an urgent need to train persons to deliver the training to upgrade tertiary level facilities and to equip youth and women with the skills needed for them to become productive citizens in the IT sector.

5.4 Coherence with EU policy and contribution to Poverty Reduction

In a joint Declaration of the European Commission and Member States in the Development Council in November 2000 concerning the Community's development cooperation policy, it was stated that education remains a priority for the programming of Community aid to developing countries because of its impact on the overall objective of poverty reduction and re-directing the marginalized in society. Various studies conducted in St Kitts and Nevis have concluded that the government needs to reposition and diversify the economic base, including that of the sugar industry. Also by targeting education it will provide an opportunity to assist those identified in the Country Poverty Assessment Report suffering the highest incidence of poverty, persons aged 18-35 and in particular women.

The EU is currently engaged in the implementation of the regionally funded OECS tertiary level educational project which is designed to increase the standard and number of human resources in the labour market by improving and expanding the tertiary level education capacity. A focus on education will serve to complement the student loan facility of the EIB which is designed to support loans in areas that are relevant to the productive sectors of the economy which include vocational, technical and professional training in accountancy, business administration, and hospitality skills.

5.5 Consistency with Government policy

The government intends to pursue and intensify the country's transition towards a service-oriented economy. Education, as stated in the medium term strategy paper 2000-2002, is pivotal to the governments' efforts in social and economic development while informatics has been identified as a major plank in the diversification and modernization of the economy and hence the Government is actively encouraging the expansion of IT based industries. The informatics industry has the caveat of being able to absorb significant numbers of workers possessing a range of skills at wage levels that enable them to sustain and improve living standards. When integrated with communications technology IT has the capability of impacting on poverty and removing disparities between rural and urban areas. Expanding the IT educated population and increasing the level of skills serves to attract IT based businesses both local and foreign.

In support of its policies in the field the government has undertaken to provide facilities and computer equipment in primary and secondary schools as well as upgrading the quality of the teaching and administrative staff in all educational institutions and ensuring that teachers are trained to properly integrate computer technology into the curriculum of primary and secondary schools. The provision of

tertiary level training in IT will ensure that skills acquired at primary and secondary level may be further enhanced thereby increasing job opportunities.

5.6. Involvement of non-state actors in Education Reform

In the course of elaborating the Long Term Education Plan for SKN 1998-2011 all stakeholders in the education field were consulted with mechanisms were established for informed dialogue and the systematic exchange of information.

5.7 Activities of Other Donors in the Sector

The Caribbean Development Bank is financing the Basic Education Project with emphasis placed on the provision and maintenance of a more appropriate learning environment for a greater number of students in the system, including those with learning disabilities. In addition, efforts are directed at enhancement of the education system in the areas of management, in particular, planning, data collection and analysis, student assessment, school management, curriculum development and pedagogy. These initiatives are being harmonized with initiatives at the regional level. UNESCO also funds various projects in the education sector whilst the Republic of China (Taiwan) has provided assistance to improve the delivery of early childhood education. The OECS Tertiary Education Level Project financed from the 7th EDF has provided support to the Clarence Fitzroy Byrant College to strengthen its capacity through the provision of new physical facilities and funding for the introduction of a greater range of courses. The World Bank is also providing funds for this project.

5.8. Non-focal sector, Coherence and Complementarity: Regional Integration

The Government of SKN is working closely with regional organisations such as the Organisation of Eastern Caribbean States, the Caribbean Tourism Organisation, Caribbean Hotel Association, the Caribbean Development Bank and the Caribbean Conservation Association in an effort to ensure that St Kitts & Nevis derives the maximum benefit from the grants and technical assistance that are available for the tourism sector from external agencies. Coherence between development co-operation policy and other EC policies (trade, fisheries, agriculture, environment, drugs, money laundering etc.) relevant for St Kitts and Nevis will be assessed on a permanent basis. St Kitts and Nevis participates in a number of regional programmes dealing with the aforementioned issues including the Caribbean Regional Agriculture and Fisheries Programme (CRAFP), the Caribbean Regional Trade Sector Programme, the Cariforum Anti-Money Laundering Programme and the Anti-Drugs Programme.

In the context of the Cotonou Agreement, the Parties have agreed to conclude new trading arrangements compatible with WTO rules, remove progressively barriers to trade between them and enhance cooperation in all areas relevant to trade. SKN is a member of CARICOM, has signed the FTAA agreement in Quebec and has to prepare itself for the REPA negotiations. A better understanding of the threats and opportunities will allow the private sector to respond appropriately to new market possibilities, particularly in relation to regional trade and trade with neighbouring countries.

The support to be provided under the 9th EDF aims at addressing the following issues:

- Assessments of impact of further trade liberalisation, of the CARICOM Single Market and Economy and the FTAA on the private sector and on government revenues and formulating appropriate policy responses measures.
- Assist in preparing the REPA with the EC, involving broad consultations and studies on impact.
- Assist private sector initiatives to explore business opportunities in the region.

- Assist with improving the relations with the neighbouring countries and with exploring trade opportunities. This could include trade missions, identification of impediments to trade with neighbouring countries and addressing these impediments.

Besides the focal sector assistance in the form of studies or technical support may be given to institutional strengthening and the regional integration process. Under institutional strengthening assistance may be provided to enhance the Government's capacity to plan, implement and monitor projects and programmes. In coherence with the regional support strategy, actions may be initiated to facilitate and strengthen regional integration through CARICOM and ensure the necessary complementarity between regional and national EC support. This may include the establishment of a monitoring system and technical support.

Wherever relevant, EC policies in cross-cutting issues such as human rights and democratization, gender and environment have been taken into account. This includes building strategic and operational links between related development aspects.

5.9 The European Investment Bank

The European Investment Bank shall contribute to the continuation of economic diversification through the provision of financing for productive investments from small and medium sized enterprises in the industrial, agro-industrial, transport and service sectors by means of loan and (quasi) equity participations and for the financing of investments in human capital by means of student loans related to those sectors. EIB funds for this purpose are made available through the Development Bank of St Kitts and Nevis and through regional financial intermediaries.

Under the Investment Facility of the 9th EDF the EIB intends to expand the network of financial intermediaries through which it works. This shall be done through the establishment of lines of credit, for financing of investments made by SMEs active in core sectors of the economy, accessible through banks meeting the financial and operational requirements of the Bank. Financing under this facility may, where appropriate, be combined with the business advisory services proposed by the Commission. The facility features will depend on requirements identified and market conditions and may include equity/quasi-equity in addition to loans. In addition to this the Bank will continue to provide financing to larger projects considered to be financially viable and of economic priority to St Kitts and Nevis. The exact size, timing and sectors for such interventions will be determined by when and where the need arises.

PART II

National Indicative Programme

6 Indicative Work Programme

6.1. Introduction

Within the general framework of the present Country Support Strategy and based on the analysis and strategies described in the preceding chapters, the Parties have agreed on the main priorities for their cooperation and the sectors in which the support of the Community shall be concentrated. A detailed indicative programme is presented in this chapter based on the resources of the A allocation of the EDF, and, subject to the outcome of the mid-term review and emerging needs as covered by the relevant regulations, the B-allocation.

6.2. Financing Instruments

The implementation of the response strategy of the EC will be financed through a number of different financing instruments which include the following:

9th EDF A-allocation Euro 3.4 million:

This allocation is destined to cover the long-term development activities identified in the context of the response strategy, namely in the education sector while 15% of the allocation is to be used for studies, audits and technical support in the area of regional integration, disaster prevention and monitoring.

9th EDF B-allocation Euro 0.6 million: This allocation is to be used for unforeseen needs such as emergency assistance where support cannot be financed from the Community budget, contributions to internationally agreed debt relief initiatives and support to mitigate adverse affects of instability in export earnings.

Other Sources of Financing

Investment Facility: Apart from the above-mentioned financial instruments, of which the A-envelope is the main programmable basis for the Indicative Programme, the 9th EDF includes also the "Investment Facility" as a financing instrument managed by the European Investment Bank (see details in Part A, chapter 5). The Investment Facility does not form part of the Indicative Programme.

Centre for the Development of Enterprise (CDE): Support for St Kitts and Nevis enterprises in the field of non-financial services to the private sector is available through CDE.

Budget lines of the Community: Specific activities may be supported through the various Community budget lines, including, inter alia, NGO co-financing, decentralized cooperation, European Initiative for Democracy and Human Rights, food security and disaster prevention. Humanitarian and emergency assistance may also be accorded to the St Kitts and Nevis population concerned in case of serious economic and social difficulties resulting from natural disasters or man-made crises. Approval of proposals and implementation of support measures under the available budget lines will be decided in accordance with the procedures in place for each respective financing instrument. They will also be subject to availability of funds and on the continuing existence of the different funding mechanisms in the period covered by this paper.

Focal Sector

The concentration sector is Education to which 85% of the A allocation of the 9th EDF amounting to €2.89million shall be allocated. Part of the allocation may be utilized for accompanying measures under the reform process initiated by the government in the sector.

Overall Objective

The overall objective of the EC intervention is to foster the development of a vibrant and sustainable IT sector and to enable it to contribute to the economic and social development of the Federation of St Kitts and Nevis.

Target Group

All young people 18-35 with an emphasis on multi-skills development,
Young women who have dropped out of school due to failure or pregnancy,
Young men who dropped out of school to earn quick money but now need skills,
Young women who wish to move from menial labor to skilled positions,
Parents who wish to learn or upgrade computer skills,
Persons in the rural area who are most likely to suffer economic dislocation from the restructuring of the agricultural sector due to begin in 2003,
Skilled practitioners wishing to upgrade to be able to work in modern industries, recently retooled with IT related equipment.

Expected result and results indicators

Nationals equipped for work in an international context,
Mobility of the labor force enhanced,
Equitable outcomes for IT based training,
Increased investment in IT training,
Value of Adult Education and Training expenditure maximized.

Government Commitments

The government has committed itself to the introduction of a number of measures to develop the IT sector. These include:

commissioning of studies to assess the country's readiness for IT based industries,
the liberalisation of the telecommunications industry,
encouragement given to the construction of 'smart buildings' to provide infrastructure for businesses based on new technologies ,
the equipping of primary and secondary schools on both islands with computer labs which could also serve as computer learning centers for adults in the community.

6.4 Action outside the area of concentration

15% of the indicative programme (€0.51) will be earmarked for studies, audits and technical support in the area of regional integration.

6.5 Intervention Framework Information Technology (IT) Based Training Project

	Intervention Logic	Objectively Verifiable Indicators	Source of Verification	Assumptions
Overall objective	To foster the development of a vibrant and sustainable IT sector to enable it to contribute to the economic and social development of the Federation of St Kitts and Nevis.		Ministry of Education Reports Ministry of Labour Data	GoSKN continues to support the development of the IT sector through attracting IT based industries to invest in SKN and through the liberalisation of the telecommunications industry
Project Purpose	Upgrade and Expand the computer lab and training office facilities	<ul style="list-style-type: none"> • Appropriate curriculum and curriculum development approaches provided • Appropriate hardware and software supplied for all labs to support an IT skilled workforce • Provision of essential training for tutors • Reduction of unemployment among youth and women • Development of the IT sector augmented • National poverty rate reduced 	Ministry of Education Reports Ministry of Labour Data Ministry of Finance data	GoSKN continues to support and facilitate adult and continuing education in the IT sector
Results	<ul style="list-style-type: none"> • Training courses established to train trainers, administrators and maintenance personnel in St Kitts and Nevis • Hardware and software upgraded in St Kitts and Nevis • Electronic lab and workshop facilities refurbished and retooled in St Kitts • Four computer labs constructed in St Kitts and two centres expanded in Nevis • IT Equipment procured for St Kitts and Nevis • Networking and collaborative arrangements established • IT resource centre established 	<ul style="list-style-type: none"> • Pool of adults and women skilled in IT related fields, who will be employed or become entrepreneurs in the IT sector • Well equipped electronics labs and workshops available to offer initial and refresher training for technicians who will become involved in installation and maintenance of IT equipment • 60 persons trained to deliver and sustain a range of IT programmes • Expanded capacity of the education sector to respond to the demand for ongoing training and retraining for individuals and corporations 	Project Progress reports / Annual Report of the EC Delegation/NAO End of Project Report Report of Supervisor Reports of Colleges involved in the project	<p>GoSKN will secure seed and other incubatory funds to initiate special projects intended to sustain the IT education sector</p> <p>GoSKN will encourage the construction of related physical plants such as smart buildings to provide infrastructure for businesses based on new technologies and the equipping of all schools with computer labs (which can also serve as computer learning centers for adults in the community).</p>

	and staff provided			
Activities	<ul style="list-style-type: none"> • Feasibility Study (3rd Qtr 2002-1st Qtr 2003) • Tender for consultancy (2nd Qtr 2003-3rd Qtr 2003) • Procure IT Hardware (3rd Qtr 2003-4th Qtr 2003) • Training of IT teachers, maintenance technicians, and students to undergraduate and master level. (4th Qtr 2003 – 2005) • Strengthening of management structure and provision of technical assistance. (4th Qtr 2003 – 2005) 	Means EDF	Budget (millions EUR) EUR 0.3 EUR 1.263 EUR 1.353 EUR 0.274 <hr/> Total million EUR 3.19	Feasibility study successful in preparing the project for IT training and management strengthening Successful consultancy for implementation of the adult and continuing education project in the IT sector is professionally capable and financially sound GoSKN agrees to finance possible cost over runs Adequate supervision of the project is provided by the consultant

ANNEXES

Annex 1. Donor Matrix

Donor	Agriculture/ Forestry /Fisheries	Environment	Disaster Management	Education	Health
USDA	Amount: EC\$330 thousand Execution: 2000 – 2001 Objective: Upgrading of Basseterre Abattoir.				
UNESCO				Amount: EC\$1.3 million Execution: ongoing (biannual) Objective: to facilitate the implementation of various projects in the Education Sector.	
UNDP/GEF		Amount: EC\$81 thousand Execution: 1997 – 2002 Objective: to assist SKN to build Institutional capacity by providing basic equipment and technical advice for compliance with the Montreal Protocol. Amount: EC\$281 thousand Execution: January 2001 - December 2001 Objective: to formulate a strategy for the protection and sustainable use of the Federation’s biodiversity (National Biodiversity Action Plan).			
FAO	Amount: EC\$191,862 thousand Execution: 1999-2001 Objective: to improve the agricultural information base for policy and decision-making through the conduct of an Agricultural Census and the development of a medium-term plan for a system of current agricultural				

Donor	Agriculture/ Forestry /Fisheries	Environment	Disaster Management	Education	Health
	statistics.				
UNEP		<p>Amount: EC\$336 thousand Execution: ongoing Objective: to assist SKN in reducing consumption of refrigerants that deplete the OZONE layer and to manage what is left.</p> <p>Amount: EC\$428 thousand Execution: January 2001 – December 2001 Objective: to prepare the first national communication of SKN to enhance general awareness and knowledge on climate change related issues and to strengthen the dialogue, information exchange and cooperation among all stakeholders.</p>			
CDB		<p>Amount: EC\$8.1 million Execution: on-going Objective: to establish and sustain a cost effective and quality solid waste management system for St. Kitts and Nevis.</p>		<p>Amount: EC\$36.1 million Execution: 1997 – 2002 Objective: to improve the delivery of basic education through the refurbishing of a selected number of primary and secondary schools in St. Kitts and Nevis.</p>	<p>Amount: EC\$3.5 million Execution: January 2000 – December 2001 Objective: to improve hospital facilities by reconstructing the Obstetrics ward to hurricane resilient standards.</p>

Donor	Agriculture/ Forestry /Fisheries	Environment	Disaster Management	Education	Health
WB			<p>Amount: EC\$23 million Execution: ongoing Objective: to support the physical and institutional efforts of St. Kitts and Nevis for disaster recovery and emergency preparedness and management.</p>		
EDF				<p>Amount: EC\$1.5 million Execution: ongoing Objective: to increase the standard and number of qualified human resources in the St. Kitts and Nevis labour market, by improving and expanding tertiary level education capacity.</p>	<p>Amount: EC\$22.3 million Execution: January 2001 – October 2003 Objective: to improve hospital facilities with immediate emphasis on their ability to survive hurricane conditions by an appropriate building technology; to provide a reliable emergency response capacity; and an improved quality of medical care delivered by hospitals in the Federation.</p>
ROC (Taiwan)				<p>Amount: EC\$3.8 million Execution: January 2002 – December 2002 Objective: to improve the delivery of early childhood education in St. Kitts and Nevis.</p>	
USAID			<p>Amount: EC\$1.4 million Execution: 1999 – 2001 Objective: to reduce the vulnerability of St. Kitts and Nevis to natural hazards and volcanic hazards through enhanced capacity for disaster mitigation.</p>		<p>Amount: EC\$3.8 million Execution: January 2000 – December 2001 Objective: to improve hospital facilities by reconstructing the pediatrics ward to disaster resilient standards.</p>

Donor	Agriculture/ Forestry /Fisheries	Environment	Disaster Management	Education	Health
AFD			Amount: EC\$10.5 million Execution: January 2001– November 2001 Objective: to improve air access to the Federation of St. Kitts and Nevis.		
JICA	Amount: EC\$23.7 million Execution: 2001 – 2002 Objective: construction of a new fisheries complex to improve the overall management and delivery of fisheries services.				

ACRONYMS

USDA:	United States Development Agency
UNESCO:	United Nations Educational, Science and Cultural Organization
UNDP:	United Nations Development Programme
FAO:	Food and Agriculture Organization
CDB:	Caribbean Development Bank
KF:	Kuwait Fund
AFD:	Agence Française De Développement
WB:	World Bank
EDF:	European Development Fund
ROC:	Republic of China (Taiwan)
USAID:	United States Agency for International Development
JICA:	Japan International Cooperation Agency

Annex 2 Overview of EC Funding

EDF	Amount
7 th EDF	€2.5 million
8 th EDF	€3.0 million
9 th EDF	€3.4 million

Project Account Number	Project Title	Date of Financing Agreement	Primary Commitments (A)	Secondary Commitments (B)
7 ACP SKN 001	Trade Fair - ITIX Las Vegas 92	5.06.92	11,788	11,788
7 ACP SKN 002	Health Sector Rehabilitation Study	18.06.92	-	-
7 ACP SKN 003	Nevis Water Development-Ex Lomé II	3.12.93	-	-
7 ACP SKN 004	Primary Sch & Com Centre-Ex Lomé II	25.07.94	185,000	185,000
7 ACP SKN 005	Scholarship - Mr F Boncamper	17.06.94	20,023	20,023
7 ACP SKN 006	Cycle Management Seminar	26.09.74	2,315	2,315
7 ACP SKN 007	SKN Hospital Rehabilitation	12.05.76	2,455,569	260,000
7 ACP SKN 008	SKN Hospital Rehabilitation Lomé 11	12.05.76	43,931	-
7 ACP SKN 010	SKN Hospital Rehabilitation	08.06.99	5,237	
	Totals		2,723,863	479,126
	Reserve/Balance		10,306	2,244,737
7 ACP SKN 009	EIB - Risk Capital	17.10.95	2,000,000	2,000,000
8 ACP SKN	EIB – DBSKN III Global Loan	11.07.00	4,000,000	4,000,000
8 ACP SKN	SKN Hospital Rehabilitation	08.06.99	2.700,000	2.700,000
	Reserve/Balance		300,000	
	Totals		6,700,000	6,700,000

Annex 3: Analysis of national policy in the focal sector

The education system in its entirety has undergone restructuring and reorganisation in view of its future challenges. At the support base of the system are five secondary and sixteen primary schools on St Kitts and two secondary and nine primary schools on Nevis which offer programmes to take persons through to the Caribbean Examination Council's (CXC) exams. The government has committed over €0.866million (EC\$2million) towards the re-equipping and retooling of these schools. It has also embarked on an IBM primary schools computerization project which has allowed for the procurement of computer hardware and software and the re-design of the learning space. Further, all of the secondary schools are equipped with computers and the appropriate support materials, thus providing computer literate graduates with the prerequisites to access tertiary institutions and entry-level position in the work place.

Three main government tertiary level institutions exist for this purpose: The Clarence Fitzroy Byrant College (CFB College), Advanced Vocational Education Centre (AVEC) and the Non-Formal Youth Skills (NFYS). The CFB College has implemented a number of projects funded by international agencies such as CIDA, World Bank, CDB, OECS/GTZ, ILO and USAID and have had collaborative relationships with Berne University, the Association of Canadian Colleges (ACCC), UWI and more recently the University of Technology (Utech). With its experience, the CFB College has the potential to function as the principal institution and role player in the provision and development of IT programs in the Federation, ranging from literacy courses to highly specialised professional certification. This is predicated on the availability of adequate staff, fiscal resources and infrastructure. Four Divisions are currently engaged in IT training for the academic year 2000-2001.

The current programs in the CFB College however are faced with a number of constraints:

- The programmes are under-resourced and not given priority status consistent with national priorities.
- The facilities are outdated and inadequate with no inbuilt capacity to constantly upgrade to reflect industry standards.
- There is an acute shortage of qualified staff to deliver even the existing programs.
- Partly as a consequence of the above, the numbers trained are grossly inadequate.
- The range of courses offered is extremely limited and does not currently produce graduates in an acceptable range of job functions required to supply a truly vibrant IT sector of the economy.
- A dire need exists to re-tool and modernise equipment throughout the disciplines to incorporate computer control and automation.
- Faculty need to be upgraded and maintenance staff trained in preventative and remedial maintenance of new instrumentation.
- An overall coordination and management structure does not exist for the myriad programs run and for the efficient and proper utilisation of the facilities.
- Security and supervisory/administrative systems are inadequate.

A significant infusion of funds is required to fully address these limiting factors and enable the Division to offer the range and scope of training envisaged in the proposal.

Annex 4: Environmental Profile

GSKN is committed to the sustainable development of its environmental resources however there exists several factors which hinder the advancement of the country's overall objectives in relation to the environmental sector. One of the constraints is the lack of a regulatory framework to support the NCEPA legislation which has been in existence for some time. Draft regulations on sand mining, beaches, coral reefs, seagrass beds and mangroves have been prepared but to date have not been addressed at the parliamentary level.

In support of the Montreal Protocol GSKN has formulated a Country Programme which makes provision for a Refrigeration Management Plan (RMP) Project and an Institutional Strengthening Project. The RMP will enable GSKN to immediately establish a licensing scheme for in importation of Ozone Depleting Substances (ODS), while in the meantime work will commence on the drafting of appropriate legislation which will ban the import of ODS in the future. As a party to the UNFCCC, GSKN continues to support and participate in the CPACC (Caribbean Planning for Adaptation to Global Climate Change) project and the National Communications project.

The CPACC project aims to support Caribbean countries in preparing to cope with the adverse effects of global climate change (GCC), particularly sea level rise, in coastal and marine areas through vulnerability assessment, adaptation planning, and capacity building linked to adaptation planning. More specifically, the project will assist national governments and the University of the West Indies Centre for Environment and Development (UWICED) to: (i) strengthen the regional capability for monitoring and analyzing climate and sea level dynamics and trends, seeking to determine the immediate and potential impacts of GCC; (ii) identify areas particularly vulnerable to the adverse effects of climate change and sea level rise; (iii) develop an integrated management and planning framework for cost-effective response and adaptation to the impacts of GCC on coastal and marine areas; (iv) enhance regional and national capabilities for preparing for the advent of GCC through institutional strengthening and human resource development; and (v) identify and assess policy options and instruments that may help initiate the implementation of a long-term program of adaptation to GCC in vulnerable coastal areas.

The catastrophic impact of several hurricanes in recent years and the accession of SKN to several international conventions have caused GSKN to commit to the redoubling of efforts to positively influence the conservation and preservation of the environment. The medium term objectives of the environment sector are to:

- Continue to encourage sound and environmental practices by the public through education and enforcement regulation,
- Comply with all international environmental conventions which St Kitts and Nevis has acceded to,
- Introduce environmental studies in school curriculum – primary through secondary school,
- Increase the number of trained staff at the Department of the Environment,
- develop contingency plans to effectively deal with environmental emergencies.

One of the main environmental problems facing SKN is the loss of topsoil from soil erosion considered to be largely due to the centuries of cotton and sugar production. The de-vegetation of the slopes in SKN however is a major contributor to the problem. Other areas of environmental concern include solid waste management, sewage and industrial waste collection, treatment and disposal, chemical pollution, marine and coastal pollution and drinking water quality.

Annex 5: Key Economic and Social Indicators

St. Kitts and Nevis - Key Economic Indicators

Indicator	Actual		Estimate			Projected				
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
National accounts (as % of GDP)										
Gross domestic product ^a	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	5.2	5.5	4.2	3.7	3.6	3.5	3.3	3.2	3.1	3.1
Industry	24.6	23.8	24.4	25.7	26.0	25.8	25.7	25.7	25.6	25.6
Services	70.2	70.6	71.4	70.7	70.4	70.7	71.0	71.1	71.2	71.2
Total Consumption	83.1	73.7	73.2	84.2	82.4	77.6	74.4	72.3	70.6	71.0
Gross domestic fixed investment	45.8	44.0	43.0	37.4	45.0	47.5	45.0	43.5	42.5	42.5
Government investment	4.9	5.1	6.9	4.5	5.8	4.8	4.7	4.6	4.4	4.4
Private investment	40.9	38.9	36.1	32.9	39.2	42.7	40.3	38.9	38.1	38.1
Exports (GNFS) ^b	49.6	53.2	53.8	48.3	52.0	55.6	58.4	59.0	59.7	59.7
Imports (GNFS)	78.6	70.8	69.9	69.8	79.5	80.7	77.7	74.8	72.7	72.7
Gross domestic savings	16.9	26.3	26.8	15.8	17.6	22.4	25.6	27.7	29.4	29.4
Gross national savings ^c	15.4	23.0	26.5	11.3	10.5	12.6	13.8	15.5	17.6	20.6
Memorandum items										
Gross domestic product (US\$ million at current prices)	245.7	275.2	287.4	300.9	314.1	346.5	378.7	411.0	442.5	472.6
GNP per capita (US\$, Atlas method)	5,670	5,990	5,920	6,330	6,660	7,326	7,985	8,664	9,331	9,984
Real annual growth rates (% calculated from 1977 prices)										
Gross domestic product at market prices	6.5	6.8	1.1	2.8	2.6	6.8	6.0	5.3	4.8	4.8
Gross Domestic Income	6.5	6.8	0.9	2.6	2.0	6.1	4.3	4.6	3.2	3.9
Real annual per capita growth rates (% calculated from 1977 prices)										
Gross domestic product at market prices	6.9	6.9	1.1	2.7	2.3	6.6	5.9	5.3	4.9	4.9
Total consumption	15.2	-5.2	0.5	18.1	0.1	0.4	1.6	2.4	2.4	5.5
Private consumption	19.0	-8.0	0.6	19.0	19.4	20.7	21.9	23.1	24.2	25.4
Balance of Payments (US\$ millions)										
Exports (GNFS) ^b	122.0	146.1	154.3	145.2	163.4	192.6	221.1	242.6	264.0	264.0
Merchandise FOB	34.5	51.4	48.9	47.9	53.1	63.0	69.3	75.9	82.6	82.6
Imports (GNFS) ^b	193.2	194.8	200.8	210.0	249.6	279.6	294.4	307.4	321.9	321.9
Merchandise FOB	131.9	129.7	137.4	144.3	174.7	200.0	203.7	207.4	214.4	214.4
Resource balance	-71.2	-48.6	-46.5	-64.8	-86.1	-87.0	-73.3	-64.8	-57.9	-57.9
Net current transfers	17.2	15.9	30.4	17.7	16.8	18.1	18.1	18.1	18.1	18.1
Current account balance	-74.8	-57.9	-47.1	-78.2	-108.2	-120.8	-118.2	-115.0	-110.2	-104.7
Net private foreign direct investment	35.1	19.7	33.6	77.3	80.1	106.6	107.8	105.6	106.2	106.2
Long-term loans (net)	8.8	50.4	17.4	8.8	19.2	7.7	4.1	3.5	1.6	5.6
Official	5.4	47.0	18.9	12.9	14.9	7.7	4.0	3.6	1.7	6.3
Private	3.4	3.4	-1.5	-4.1	4.2	0.0	0.1	-0.1	-0.2	-0.8
Other capital (net incl. errors & omissions)	31.6	-15.9	-12.0	-10.6	8.9	0.9	0.4	-0.8	-5.0	-14.9
Change in reserves ^d	-0.6	3.7	8.2	2.7	0.0	5.6	5.9	6.7	7.4	7.8
Memorandum items										
Resource balance (% of GDP)	-29.0	-17.7	-16.2	-21.5	-27.4	-25.1	-19.4	-15.8	-13.1	-12.2
Real annual growth rates (YR77 prices)										
Merchandise exports (FOB)	10.0	39.2	-4.9	-4.0	12.2	15.4	5.7	6.4	5.9	5.9
Merchandise imports (CIF)	10.0	-11.9	7.4	11.7	20.5	11.3	-0.7	-0.4	1.4	1.4

(Continued)

St. Kitts and Nevis - Key Economic Indicators
(Continued)

Indicator	Actual			Estimate			Projected			
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Public finance (as % of GDP at market prices)^e										
Current revenues	30.2	30.0	30.6	30.9	29.4	30.8	32.1	33.3	33.7	33.7
Current expenditures	29.9	28.9	30.4	32.3	32.5	32.6	32.4	32.4	32.5	32.4
Current account surplus (+) or deficit (-)	0.3	1.1	0.2	-1.4	-3.1	-1.8	-0.3	0.9	1.2	1.3
Capital expenditure	4.9	5.2	6.9	4.5	5.8	4.8	4.7	4.7	4.6	4.5
Foreign financing	0.9	8.1	6.7	4.1	3.2	1.7	0.8	0.1	0.1	0.1
Monetary indicators										
M2/GDP	69.7	70.7	70.4	74.8	77.0	77.0	77.0	77.0	77.0	77.6
Growth of M2 (%)	5.5	13.5	4.0	11.3	7.4	10.3	9.3	8.5	7.7	7.7
Private sector credit growth / total credit growth (%)	38.6	260.4	132.1	38.6	28.2	39.3	35.5	32.4	29.4	29.5
Price indices (YR77 =100)										
Merchandise export price index	85.8	91.8	91.9	93.7	92.6	95.2	99.0	102.1	104.8	99.0
Merchandise import price index	97.0	114.4	102.3	93.8	94.2	96.9	99.4	101.6	103.6	102.2
Merchandise terms of trade index	98.9	98.8	100.6	98.5	97.6	98.6	98.8	98.8	98.8	98.8
Real exchange rate (US\$/LCU) ^f	100.7	113.2	111.1	114.5	116.8	116.1	114.7	113.6	112.6	111.6
Real interest rates										
Consumer price index (% change)	2.1	8.7	3.7	3.5	0.0	2.6	3.2	3.0	2.9	2.9
GDP deflator (% change)	0.0	4.8	3.3	1.8	1.8	3.3	3.1	3.0	2.8	2.8

a. GDP at factor cost

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

c. Includes net unrequited transfers excluding official capital grants.

d. Includes use of IMF resources.

e. Consolidated central government.

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

St. Kitts and Nevis Social Indicators

	Latest single year			Same region/income group	
	1970-75	1980-85	1993-99	Latin America & Carib.	Upper-middle-income
POPULATION					
Total population, mid-year (<i>millions</i>)	0.0	0.0	0.0	508.2	571.5
Growth rate (% annual average for period)	-0.6	-0.8	-0.2	1.6	1.4
Urban population (% of population)	35.0	35.2	34.1	74.9	75.4
Total fertility rate (<i>births per woman</i>)	2.6	2.4
POVERTY					
<i>(% of population)</i>					
National headcount index
Urban headcount index
Rural headcount index
INCOME					
GNP per capita (<i>US\$</i>)	..	1,700	6,330	3,800	4,870
Consumer price index (1995=100)	..	78	119	140	131
Food price index (1995=100)
INCOME/CONSUMPTION DISTRIBUTION					
Gini index
Lowest quintile (% of income or consumption)
Highest quintile (% of income or consumption)
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	3.4	3.3
Education (% of GNP)	3.6	5.0
Social security and welfare (% of GDP)	7.4	7.9
Net primary school enrollment rate					
<i>(% of age group)</i>					
Total	91	94
Male
Female
Access to an improved water source					
<i>(% of population)</i>					
Total	..	100	100	85	87
Urban	..	100	..	93	94
Rural	..	100	..	62	68
Immunization rate					
<i>(% under 12 months)</i>					
Measles	90	90
DPT	87	88
Child malnutrition (% under 5 years)	9	..
Life expectancy at birth					
<i>(years)</i>					
Total	..	64	70	70	69
Male	67	66
Female	73	73
Mortality					
Infant (<i>per thousand live births</i>)	..	45	21	30	27
Under 5 (<i>per thousand live births</i>)	38	34
Adult (15-59)					
Male (<i>per 1,000 population</i>)	207	233
Female (<i>per 1,000 population</i>)	122	143
Maternal (<i>per 100,000 live births</i>)
Births attended by skilled health staff (%)

CAS Annex B5. This table was produced from the CMU LDB system.

5/8/2001

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment ratios exceeding 100 indicate discrepancies between the estimates of school-age population and reported enrollment data. Latest year for access to an improved water source data is 2000.

Source: World Bank

Annex 6: Detailed description of Government Objectives 2000-2002

Sector	Objective	Action
Savings and Investment	Through the Eastern Caribbean Central Bank, GSKN intends to develop primary and secondary markets for shares, mortgages and government securities	
Public Sector Reform <i>1. Civil service productivity reform</i> 2. Budget Reform <i>3. Tax administration</i>	<p>GKSN intends to reform tax administration through a new Tax Administration Act and a new Corporation Tax Act that will modernize rules and procedures and provide an environment that is more investor friendly.</p> <p>With assistance from the Commonwealth Secretariat, GKSN intend to increase civil service productivity by creating a Human Resources Management Department, development of job descriptions, reclassification of posts, job rotations and rewriting general orders.</p> <ul style="list-style-type: none"> - Create opportunities for advancement of lower level civil servants - Enhance the management development techniques of public servants and familiarize them with the operations of the entire civil service - Improve the efficiency of human resource planning, development and management in the civil service - Modernize systems of financial management and cost control - Create a tax environment which is more conducive to investment; and to improve the efficiency and effectiveness of tax collection and administration 	<ul style="list-style-type: none"> ▪ Introduce a Civil Service Examination ▪ Introduce a system of job rotation <ul style="list-style-type: none"> Upgrade the establishments division into a human resources management division ▪ Review the terms and conditions of service for public servants ▪ Revise the wages and salaries of public servants ▪ Introduce a new finance act ▪ Establish a centralized purchasing unit ▪ Introduce a new tax administration act and a new corporation tax act ▪ Introduce new property tax legislation ▪ Incorporate all taxes into SIGTAS <ul style="list-style-type: none"> Reduce the rate of corporation tax from 37% to 35% over a period of two years
Incentive and Regulatory Framework Tourism	<p>Improve the macroeconomic policy Framework to increase the quality and efficiency of private investment, assist Private sector activity and facilitate and development</p>	<ul style="list-style-type: none"> ▪ Improve investment approval procedures ▪ Provide special legislation to respond to the information processing needs of rapid and sustainable economic growth firms serving international markets ▪ Review the incentive framework in order to: <ul style="list-style-type: none"> (i) make it more performance related (ii) proclaim a small business policy (iii) encourage local investors in new, export-oriented areas ▪ Participate in the OECS initiative to reform the Alien Landholding Act ▪ Reduce Corporation tax rate from 38% to 35% ▪ Collaborate with other OECS Governments in developing and implementing a Regional Development Strategy. ▪ Establish a Tourism Authority to direct the overall development of tourism as part of the National Development Plan ▪ Develop a strategy marketing plan which will guide the short term and long term marketing of the destination

		<ul style="list-style-type: none"> ▪ Expand cruise facilities to attract more cruise ships ▪ Promote building of upscale hotels in the south-east Peninsula to induce more airlines to provide direct services from international markets. ▪ Restoration and upgrading of historical sites to provide more attractions for visitors ▪ Develop marketing links with neighbouring islands to encourage international carriers to use R. L. Bradshaw International Airport as a hub. ▪ Implement new systems to maximize use of new technology to provide personnel for top jobs in the tourism industry. ▪ Introduction of Tourism Education up to CXC level to enable students to receive full instructions about the tourist industry so that they could choose related subjects to pursue available careers. ▪ Use of cultural peculiarities to effectively market the destination. ▪ Tourism Education and Environment awareness programmes to educate the populace on the link between the environment and tourism development. ▪ Foster linkages with other sectors to generate jobs in tourism and related services and also to increase revenue.
Tourism (Nevis)	<ul style="list-style-type: none"> - To effectively promote and market Nevis Tourism in the international market place - To ensure that tourist activity is carried out in an environment that adheres to ecologically sound principles - To assist in the preservation, conservation and management of national and historic sites and natural resources - To achieve more diversification of the tourism product by including: the promotion of heritage tourism, eco-tourism, sports tourism, and further improving business opportunities for locals in the industry - Promote greater awareness of tourism among children of school age 	<ul style="list-style-type: none"> ▪ Pass legislation establishing a Promotion and Marketing Authority ▪ Ensure functioning of Authority ▪ Appoint overseas public relations firms in UK and USA ▪ Establish a Heritage Village at Fothergills ▪ Upgrade New River, Eden Browne and other significant historic sites ▪ Regional marketing efforts to focus on student sports exchanges ▪ Teach tourism in school as a curriculum activity
Manufacturing	Attract investment to achieve optimal employment and skills development	<ul style="list-style-type: none"> ▪ Maintain the present high quality economic infrastructure ▪ Continue marketing, innovation and product differentiation efforts ▪ Accelerate the process of economic diversification into informatics ▪ Continue programmes of fiscal prudence and monetary stability ▪ Protect and improve the living standards of industrial workers
<i>Non-Sugar Agriculture</i>	To significantly increase the production of food crops, livestock products and fish landings	<p>Food Crops:</p> <ul style="list-style-type: none"> ▪ Identify and develop sources of water for irrigation ▪ Introduce screen house production of selected vegetables ▪ Increase mechanization of crop production

		<ul style="list-style-type: none"> ▪ Train farmers in appropriate technology ▪ Evaluate organic production of selected crops ▪ Train farmers in farm business management ▪ Expand the production of traditional as well as minor exotic fruits ▪ Further develop the IPM programme ▪ Develop crop mitigation measures ▪ Fully develop agricultural settlements <p>Livestock:</p> <ul style="list-style-type: none"> ▪ Develop options for water harvesting ▪ Expand Department's inventory of inputs ▪ Develop and implement a marketing plan for beef ▪ Introduce new genetic material ▪ Implement proposals for dog control ▪ Identify lands for livestock farming ▪ Improve extension service ▪ Improve response time of Veterinary service <p>Fisheries:</p> <ul style="list-style-type: none"> ▪ Amend and enforce fisheries regulations ▪ Improve fish handling practices ▪ Improve stakeholder involvement in fisheries management ▪ Promote use of fish aggregating devices ▪ Explore development of aquaculture ▪ Organise workshops on diving safety
Agriculture	GSKN intends to devise a coherent strategy for the sugar industry by addressing the following issues:	<ul style="list-style-type: none"> ▪ The debt that has accumulated over time as a result of the industry's incessant deficits ▪ The scope for private sector involvement ▪ The increasing competition among alternative uses for land ▪ Uncertainty in the light of the likely elimination of current preferential trading arrangements ▪ Environmental benefits provided by sugar cane cultivation <p>▪ Non-sugar agriculture will be developed by:</p> <ul style="list-style-type: none"> ▪ Improved crop production systems ▪ Production of minor exotic fruits ▪ Irrigation ▪ Screen house production of selected vegetables ▪ Crop profiles for targeted crops ▪ Training of farmers in business management ▪ Marketing of local produce

		<ul style="list-style-type: none"> ▪ Pest management ▪ Intensification of agricultural settlements ▪ Expansion of the Monkey Task Force ▪ In order to develop the livestock industry Government intends to: <ul style="list-style-type: none"> ▪ Develop options for water harvesting ▪ Expand Dept. of Agriculture’s inventory of inputs ▪ Implement a marketing plan for beef ▪ Introduce new genetic material ▪ Control dogs ▪ Identify lands for livestock farming ▪ Improved extension services ▪ Control tick fever ▪ Improve Veterinary Service ▪ Enforce quarantine regulations ▪ In order to develop sustainable fisheries Government intends to: <ul style="list-style-type: none"> ▪ Amend and enforce regulations ▪ Improve handling practices ▪ Improve stakeholder involvement in fisheries management ▪ Increase landings of large pelagics ▪ Promote use of fish aggregating devices ▪ Introduce degradable panels for fish traps ▪ Establish inspection system prior to export of lobster ▪ Organise workshops on diving safety ▪ Explore development of aquaculture ▪ Facilitate training workshops
Offshore Industry		<p>To boost this sector, particularly company registration, GSKN intends to:</p> <ul style="list-style-type: none"> ▪ Computerise the companies registry ▪ Increase the number of skilled personnel in the Financial Services Department ▪ Establish strategic alliances with major service providers ▪ Employ public relations expert ▪ Introduce new legislation
Education	<ul style="list-style-type: none"> - Upgrade the physical infrastructure of the Education Sector - Increase the use of technology in schools (for both teaching and school administration) and other educational institutions 	<ul style="list-style-type: none"> ▪ Construct, refurbish and expand institutions ▪ Improve library facilities ▪ Improve maintenance practices ▪ Provide computers ▪ Train teachers on IT ▪ Upgrade teaching staff ▪ Upgrade tertiary level programs

	<ul style="list-style-type: none"> - Improve articulation between labour market needs and college programmes - Enhance the quality of education - Upgrade the status of Technical Vocational Education and Training (TVET) 	<ul style="list-style-type: none"> ▪ Expand university scholarships system ▪ Upgrade vocational training ▪ Upgrade tertiary level programmes ▪ Produce curriculum guides in core subject areas ▪ Upgrade the quality of the teaching and administrative staff in all educational institutions ▪ Establish a procedure for routine supervision of schools and educational institutions ▪ Prepare a Teachers Handbook as a means of standardizing output performance ▪ Upgrade facilities, programmes and resources available to staff and students at the Technical Division of the CFB College, the Advances Vocational Education Centre (AVEC) and secondary schools. ▪ Establish a national TVET council ▪ Harmonize TVET programmes at the CFB College, Youth Skills, AVEC, NGOs and private sector institutions. ▪ Develop a proper curriculum and policy base for the recently established AVEC ▪ Award an annual state scholarship to the best technical/vocational education student at the CFB College.
Health	-	<p>Government will seek to:</p> <ul style="list-style-type: none"> ▪ Continue upgrading physical infrastructure ▪ Build institutional capacity ▪ Strengthen delivery system ▪ Strengthen disease surveillance system ▪ Engender increased health awareness
Infrastructure		<p>Work is planned for:</p> <ul style="list-style-type: none"> ▪ A road improvement and maintenance project ▪ Construction of a new tower at Robert L. Bradshaw International Airport ▪ A further 14MW and 2.2MW of additional electricity power in St. Kitts and Nevis respectively ▪ Improvement in quality and availability of drinking water
Environment <i>(i) Beach Protection</i>	- To protect beaches from tidal surges and unlawful environmental activities	<ul style="list-style-type: none"> ▪ Rebuilding and reestablishing of dunes ▪ Regular beach profiling and monitoring ▪ Executive public awareness and education programs
<i>(ii) International Environmental</i>	- To comply with all international environmental conventions which St. Kitts and Nevis has acceded to:	<ul style="list-style-type: none"> ▪ Organising national consultations and workshops

<p><i>Conventions</i></p> <p>(iii) <i>Eco-Tourism</i></p> <p>(iv) <i>Ghaut Protection</i></p>	<ul style="list-style-type: none"> - To obtain technical assistance in the upgrading of the environmental - To upgrade and enhance protected parks, forests and marine sites - To maximum integrity at ghauts 	<ul style="list-style-type: none"> ▪ Develop Management Plan for existing natural trails ▪ Regular monitoring of selected forest areas ▪ Controlling sand-mining ▪ Re-vegetating sides of ghauts ▪ Executing public awareness and education program
<p>Poverty</p>	<p>GSKN will a Country Poverty Assessment to determine characteristics, extent, geographic concentration, severity and causes of poverty.</p> <p>Under a Commonwealth Debt Initiative monies owed to the British Government as repayment of debts will be placed into a special account to fund poverty focused activities.</p> <p>GSKN will continue to pursue the improvement of living standards for all citizens through the creation of employment opportunities, improved access to education and affordable housing</p>	