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**INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
THE INTERNATIONAL DEVELOPMENT ASSOCIATION  
AND  
THE INTERNATIONAL FINANCE CORPORATION  
  
COUNTRY ASSISTANCE STRATEGY  
  
FOR  
THE ORGANIZATION OF EASTERN CARIBBEAN STATES**

**September 6, 2005**

**Caribbean Country Management Unit  
Latin America and the Caribbean Region**

**The International Finance Corporation  
Latin America and the Caribbean Region**

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## CURRENCY EQUIVALENTS

Currency Unit: Eastern Caribbean Dollar (EC\$) US\$1.0 = EC\$2.7

## FISCAL YEAR

Antigua and Barbuda, Grenada, St. Kitts and Nevis,  
St. Vincent and the Grenadines: January 1–December 31  
Dominica: July 1–June 30  
St. Lucia: April 1–March 31

## ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Activities	EU	European Union
ACP	African, Caribbean, Pacific	FDI	Foreign Direct Investment
APL	Adaptable Program Loan	FSAP	Financial Sector Assessment Program
CARICOM	Caribbean Community		
CARIFORUM	Caribbean Forum	GDP	Gross Domestic Product
CARTAC	Caribbean Regional Technical Assistance Center	GNP	Gross National Product
CAS	Country Assistance Strategy	IBRD	International Bank for Reconstruction and Development
CDB	Caribbean Development Bank	IDA	International Development Association
CFAA	Country Financial Accountability Assessment	IDB	Inter-American Development Bank
CGCED	Caribbean Group for Cooperation in Economic Development	IDF	Institutional Development Fund
CIDA	Canadian International Development Agency	IMF	International Monetary Fund
CPAR	Country Procurement Assessment Review	OAS	Organization of American States
CPPR	Country Portfolio Performance Review	OECS	Organization of the Eastern Caribbean States
CSO	Civil Society Organization	OED	Operations Evaluation Department
DFID	Department for International Development (UK)	SIDS	Small Island Developing States
ECCB	Eastern Caribbean Central Bank	UNDP	United Nations Development Program
		USAID	United States Agency for International Development
		UWI	University of the West Indies

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## Executive Summary

(i) **The OECS<sup>1</sup> countries are at a critical juncture in their development.** Just three decades after gaining independence, they are struggling to find new sources of growth and reduce vulnerability, against a backdrop of an increasingly competitive global environment; the looming end of trade preferences; and dwindling or log-jammed donor resources. These challenges are further compounded by their fiscal imbalances and high debt ratios and their inherent vulnerability as small island developing states<sup>2</sup> (SIDS). Since the last CAS period, economic indicators have deteriorated and all six OECS countries are in the top fifteen of the world's most indebted (relative to GDP) emerging market countries. The impressive social development gains made over the past 30 years now risk being eroded by the current challenging fiscal and debt situations and by the economic transformation that may be required to adapt to the changing external environment. Signs of the erosion are already emerging in the shape of rising poverty in both rural and urban areas, disenfranchised youth and high unemployment, and a corresponding increase in crime. The countries also face the risk posed by the growing HIV/AIDS epidemic in the Caribbean.

(ii) Furthermore, as small states, they face a vulnerability to external shocks, including natural disasters; limited economic diversification opportunities and high dependence on external trade; high cost of public service provision due to diseconomies of scale; and limited capacity in the public and private sectors. In a few areas, these diseconomies of scale and capacity constraints have been successfully overcome through regional initiatives and projects. Going forward, leveraging regional approaches more aggressively will be critical to the sub-region's efforts to revive growth and improve competitiveness and reduce vulnerabilities. However, a coordinated regional approach by the OECS governments is often thwarted by differences in their electoral cycles and by traditions of national sovereignty.

### **The World Bank Group Strategy for FY06-09**

(iii) The World Bank Group's Country Assistance Strategy (CAS) for the Organization of Eastern Caribbean States (OECS) proposes a new way of doing business to help these small states meet the challenges facing them at this critical stage of their development. Its guiding principles are: (a) supporting regional integration and coordination efforts; (b) partnering and harmonization in both lending and analytical work with other development partners; and (c) active pursuit of simplification and capacity building initiatives tailored to small states.

(iv) The World Bank Group's strategy for the four years covered by this CAS (FY06-09) supports the sub-region's development agenda through two main pillars: (1) stimulating growth and improving competitiveness; and (2) reducing vulnerability, by promoting greater social inclusion and strengthening disaster risk management.

(v) Recognizing the OECS countries' weakened creditworthiness due to high debt ratios, Bank activities will focus, where possible, on using innovative mechanisms to leverage available donor grant financing across the sub-region. Under Pillar 1, IBRD and IDA support would focus on stimulating growth and competitiveness by providing technical and financial assistance for public sector modernization and competitiveness, public utility reform, and skills enhancement. Analytical and advisory activities to support Pillar 1 would include policy notes on public sector and public utility reforms, skills enhancement, investment climate assessments and an OECS fiduciary assessment. Under Pillar 2, designed to help reduce vulnerability, the Bank would promote catastrophe risk insurance and environmental management as well as continue the dialogue on disaster risk mitigation initiatives. It would also support the OECS Governments in strengthening social protection mechanisms, in particular addressing vulnerable groups such as youth at risk. Finally, the Bank will continue to support climate adaptation measures and efforts at restoring the ability of

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<sup>1</sup> For the purposes of this CAS, the OECS is defined to include Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines, all members of the World Bank Group. There is a seventh, full member (Montserrat) and two associate members (Anguilla and the British Virgin Islands) which are overseas territories of the United Kingdom. This strategy supports both national and sub-regional interventions in the six OECS countries across a total landmass no larger than 2,364 sq. km, with a total population of just over half a million (a fifth of the size of Jamaica, and a quarter of its population).

<sup>2</sup> The World Bank framework of assistance for small states indicates seven areas of activity related to the four categories—tackling volatility, vulnerability, and natural disasters; strengthening capacity; meeting challenges and opportunities of globalization; and adapting to the changing global trade regime.

natural ecosystems to withstand climate variability effects. Under Pillar 1 and 2, the sub-region will benefit from Caribbean-wide analytical work on social protection and pension reform; crime, violence and social exclusion; financial sector and regulation; health financing; and air transport rationalization. Through its existing portfolio, the Bank will continue to support both Pillars 1 and 2 through interventions in the areas of disaster risk management, HIV/AIDS, telecommunications liberalization and education sector reform. Finally, ongoing technical support and additional technical assistance for improved poverty and social indicator measurement and monitoring and public finance management is also envisaged.

(vi) IFC's strategy will be to support projects which will enhance the competitiveness of the OECS economies helping them meet the challenges of globalization, especially trade liberalization, focusing on environmentally sustainable business practices and improving standards of corporate governance. IFC will seek to finance and partner with those companies able to diversify the region's sources of growth, further regional economic integration (including with the bigger island economies such as Barbados, Trinidad and Tobago, and Jamaica), and develop linkages with the smaller locally based island businesses. Some of the sectors of focus entail the financial sector, infrastructure, services (IT, tourism), and the social sectors. Given the particular issues and constraints faced by island economies (critical mass, collateral), IFC very often cannot finance stand alone projects. The availability of grant financing by notably European donors provides an opportunity to develop some funding mechanism through which donor monies could be used to share/lower the commercial risk, and thereby facilitate IFC's financing. Structuring effective risk sharing structures will be key to IFC's ability to support private sector development in the OECS countries. IFC and the Bank will coordinate their efforts towards developing effective partnerships with the donor community.

(vii) MIGA's involvement in the OECS region has primarily been through technical assistance in FDI attraction and the agency is scheduled to undertake a benchmarking exercise in FY06 which will focus on the investors' perspective and will give the participating countries a comparative view of their competitiveness vis-à-vis FDI. MIGA will continue to review requests at the regional or country levels as they arise.

### **Managing Risks**

(viii) The CAS has three scenarios with different lending volumes and number of operations. The base case (IDA only) lending scenario includes operations for a total of US\$ 51.3 million over 4 years in the IBRD/IDA blend countries<sup>3</sup>. The high case lending scenario consists of US\$52.1 million in IBRD only commitments additional to the base case, bringing the total lending envelope to US\$103.4 million. In the low case (IDA only) scenario, the Bank would support operations for a total of US\$ 31.2 million in the IDA blend countries<sup>4</sup>. Key risks are (i) the lack of sustained OECS Governments' commitment to restore fiscal and debt sustainability; (ii) natural disasters and other exogenous shocks (i.e. oil price and interest rate increases) which could further exacerbate these countries' vulnerability; (iii) limited Governments' commitment to advance forcefully on regional coordination and integration; and (iv) weak project implementation capacity.

(ix) The CAS program seeks to manage risks through careful selection of triggers and monitoring of progress, continued support for disaster risk prevention and mitigation, and a focus on capacity-building at both the national and regional levels. More emphasis than was given in the past will be committed to ensuring that Bank-supported interventions are designed to benefit from broad consultative processes involving civil society and the private sector. In addition, the Bank will continue to pursue outreach efforts to civil society to encourage an understanding of the development challenges facing the sub-region and to build consensus around needed reforms.

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<sup>3</sup> By virtue of the small states exception, Dominica, Grenada, St. Lucia and St. Vincent and the Grenadines are IBRD/IDA blend countries even though their incomes are well above the IDA cutoff. For them, the IDA/IBRD lending ratio has traditionally been set at 50:50. St. Kitts and Nevis has graduated to IBRD-only status since its per capita income is above US\$6,000. Antigua and Barbuda, with a per capita income of over US\$9,000, has never borrowed from the Bank Group, but has expressed an interest in doing so.

<sup>4</sup> This includes US\$ 15.2 mn from the Regional IDA allocation.

# THE ORGANIZATION OF EASTERN CARIBBEAN STATES COUNTRY ASSISTANCE STRATEGY

## I. Overview

1. The six members of the OECS are similar in size, climate, topography and history. They also face a number of common challenges. First, they are all seeking new sources of growth and a way to reduce vulnerability, against a backdrop of an increasingly competitive global environment; the looming end of trade preferences; and dwindling or log-jammed donor resources. Second, they all face fiscal imbalances and high debt ratios, compounded by their inherent vulnerability as small island developing states. Finally, the impressive social development gains made over the past 30 years now risk being eroded by the current challenging fiscal and debt situations and by the economic transformation that may be required to adapt to the changing external environment.

2. Despite their similarities, the OECS countries remain distinct in many ways. In tourism--a fiercely competitive sector, which accounts for almost 75 percent of their collective GDP--while they share a common "Eastern Caribbean destination", they also exploit their distinct features<sup>5</sup>. And in the agriculture sector--historically important, but whose production has been halved as a share of GDP over the last twenty years--St. Kitts and Nevis has grown sugar<sup>6</sup>; three others (Dominica, St. Lucia and St. Vincent and the Grenadines) grow bananas, while Grenada, until the recent events of Hurricane Ivan, had marketed itself successfully as the "spice island", second only to Indonesia in global nutmeg production.

3. These multi-faceted challenges require the World Bank Group to design its assistance strategy in a way that reflects both the national and the sub-regional development needs of these countries. This document is organized as follows: The first section presents an overview of the sub-region's political, economic and social context, and discusses some key development challenges. The second section presents the OECS Development Charter and progress to date on its implementation, including moves towards greater regional integration. The third section reviews the lessons learned from previous Bank involvement in the OECS and presents a strategy for the next four years. The fourth section highlights how the Bank would manage risks under the CAS.

## II. The Country Context

### The Political Context

4. Characterized by political stability, the OECS countries boast open democracies, with strong (over 80 percent) participation in elections. They have retained Westminster-style Parliamentary government systems which have not evolved or been modernized since their establishment, leading to civil services which are large, bureaucratic and burdensome to their small economies. All but one of the OECS Prime Ministers hail from strong labour party roots. Of the six Heads of Governments, one has recently been elected (Antigua and Barbuda), three have recently been returned to office (Grenada in 2003, St. Kitts and Nevis in 2004, and Dominica in 2005) and two (St. Lucia and St. Vincent and the Grenadines) will seek re-election in the next eighteen months. In March of 2004, following 40 years of the Bird dynasty, and its associated ruinous fiscal management and poor transparency<sup>7</sup>, Baldwin Spencer was elected as Antigua and Barbuda's Prime Minister with a resounding majority. St. Kitts and Nevis recently returned the Prime Minister, Denzil Douglas, to power and in Grenada, Prime Minister Keith Mitchell--the lone centrist--returned to office for a second term with a reduced one-seat majority in Parliament. In Dominica, Roosevelt Skerrit was returned to office, adding two seats (giving him 12 out of 20) to his Labour Party's majority. Elections must be called in both St. Vincent and the Grenadines and St. Lucia by 2007. All of the Prime Ministers, with the exception of Antigua and Barbuda and Grenada, are also the Finance Ministers.

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<sup>5</sup> In the tourism sector, for example, the islands of St. Vincent and the Grenadines and Dominica do not have runways that can accommodate large jets, but they boast yachting and eco-tourism respectively as their own niche markets. Similarly, some islands cater to predominantly British markets (Grenada), others to the US (St. Kitts and Nevis) while others cater to both (St. Lucia).

<sup>6</sup> St. Kitts and Nevis has recently announced its last sugar crop will be harvested in July 2005.

<sup>7</sup> During the 1980s, a series of large public investments, surrounded by governance issues, turned out to be unproductive. Allegations of money laundering and proven misuse of the medical insurance scheme have also contributed to the country's debt: GDP estimated at 142 percent in 2003.

5. The Prime Ministers are committed to the Caribbean Community and Common Market (CARICOM) and the move towards a broader single market and economy under the Caribbean Single Market and Economy (CSME)<sup>8</sup>. Following a protracted period of weak leadership at the OECS Secretariat<sup>9</sup>, the new Director-General has sought to revitalize its mission and has support from the OECS Heads for moving forward with regional initiatives. Funding for the secretariat has, however, been sporadic and the OECS authority has not managed to match its political commitment with much-needed financial support. The Secretariat is mandated to implement the sub-region's Development Charter while the Eastern Caribbean Central Bank (ECCB) has taken the lead on initiatives supporting an OECS economic union.

6. Over the past year, the Governments' commitment to confronting their economic problems has strengthened. They now openly recognize that the current economic situation is unsustainable and have started to take steps to address the challenges facing them. Spurred by the fiscal crisis in Dominica, the administration change in Antigua and Barbuda and the devastation caused by Hurricane Ivan in Grenada, and against a backdrop of diminishing agricultural trade preferences and an increasingly competitive global environment, the OECS Prime Ministers are interested in exploring new options to revive growth and deal with their debt situations. However, many of them have yet to build the required consensus to implement bold adjustment programs and to date only limited public consultations have taken place. The OECS populace expects high living standards because of the "demonstration effect" exerted by their strong ties to North America through tourism and migration. Meeting those expectations entails significant pressure on incumbent governments, and opposition parties are quick to seize on any potential signals that difficult adjustment may be needed. The situation is further exacerbated by the differences in electoral cycles which makes collective regional positioning challenging. Creating ownership for change will, therefore, require significant outreach efforts to civil society to inform them and consult on existing challenges and options for addressing them.

## The Social Context

7. Social indicators for the OECS countries are strong and almost all of the major Millennium Development Goals have been met. Primary education net enrollment ratios, for example, are high, between 84 and 100, and infant mortality rates are low, ranging from 14 to 22 per 1,000. Dramatic progress in access to improved water source and sanitation has also taken place over the last ten years<sup>10</sup>. Life expectancy, ranges from 71 to 77 years, comparable to most OECD countries.

8. However, despite the achievements attained over the past three decades, these social gains risk being eroded by four key factors. First, the current challenging fiscal and debt situation has made current levels of spending in critical sectors such as education and health no longer affordable and points to the need for urgent reforms to improve efficiency and cost effectiveness. Second, weak educational attainment and a limited curriculum are having a stifling effect on growth and competitiveness and contributing to rising unemployment among youth. Third, low population growth rates of less than 0.3 percent and an increasingly older population (which lead to an increasing elderly dependency rate) will require a reorientation of both the health and education sectors to reflect this demographic shift. Finally, the high and growing prevalence of the HIV/AIDS epidemic in the Caribbean, if not addressed, would reverse gains in the health indicators and have grave consequences for overall growth and development in the OECS countries.

9. **Poverty.** Notwithstanding their status as Upper Middle Income Countries (with GNIs per capita ranging from US\$3,650 in St. Vincent and the Grenadines and Dominica to US\$9,950 in Antigua and Barbuda), and a dearth of reliable time-series data, poverty in the OECS appears to be increasing and the gap between rich and poor widening. Income inequality in the sub region is also worryingly high, with Gini coefficients ranging from about 0.4 to 0.5. While poverty is increasing predominantly in rural areas, migration to urban communities in search of employment is also contributing to a rise in the number of poor people in towns and cities. On average, although data sources are weak and not easily comparable, it is

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<sup>8</sup> In 1989, the CARICOM Treaty was amended to establish the CARICOM Single Market and Economy (CSME). Nine new Protocols were introduced with the objective of achieving free trade in goods and services, free movement of capital and people, coordination of foreign exchange and interest rate policies, tax regimes, laws and common currency, among other things.

<sup>9</sup> The OECS Secretariat is the sub-regional institution mandated to identify scope for joint or coordinated action towards the economic and social advancement of the OECS member states.

<sup>10</sup> Other than Dominica, the other countries recorded access to piped water by well over 90 percent of households; considerable improvement in the level of sanitation ranging from 50 to 96 percent across Antigua and Barbuda, St. Kitts and Nevis and St. Vincent and the Grenadines. The increase in access to improved sanitation in Dominica and St. Lucia was 10 and 15 percent respectively, to 45 and 52 percent.

estimated that across the OECS, a third of the population is below the national poverty lines. And of the total poor households in the sub region, about a third are said to be living in extreme poverty, while the remaining two thirds are unable to achieve satisfactory incomes due to low human capital and/or the economic environment. Finally, high unemployment (25 percent in Dominica, 13 percent in Grenada, 19 percent in St. Lucia and 21 percent in St. Vincent and the Grenadines) is also impeding development (see Table 1). Young people, between the ages of 15 and 24, are over-represented among the poor and unemployed, driving many to a life of crime and drugs.

**TABLE 1: POPULATION, POVERTY AND INEQUALITY IN THE OECS5**

	Population (000)'s	GNI Per capita US\$	% below poverty line	Poverty gap	Gini coefficient	Unemploy- ment % Labour Force
	2003	2004	Latest	latest	2001	latest
Antigua and Barbuda	79	9,950	12	--	0.52	7
Dominica	71	3,650	33	10.2	0.49	25
Grenada	105	3,760	32	15.3	0.45	13
St. Kitts and Nevis	47	7,600	31	2.5/2.8	0.45	5
St. Lucia	161	4,300	25	8.6	0.43	19
St. Vincent and the Grenadines	109	3,650	38	12.6	0.45	21

Source: Population, GNI, % below poverty, GNI Coefficients: World Bank LDB and SIMA, CDB and the IMF.

10. The demise of the sugar and banana sectors has been a major contributing factor to rising poverty levels and unemployment. The recent economic contraction in 2001-02 and the continued vulnerability to both natural disasters and other external shocks have also played a significant role in increasing poverty and unemployment.

11. **Gender.** Differences between the genders in the OECS are first visible at the secondary levels of the education system, where girls not only outperform boys but have higher completion rates<sup>11</sup>. This continues into tertiary education where the ratio at the University of the West Indies (UWI) is 2:1 in favor of females. Despite this ratio, women are not realizing their academic success in the workplace and are over-represented in unemployment figures. Women who have pursued higher education tend to be employed in teaching, the civil service and distributive trades while, at the other end of the spectrum women account for a disproportionate percentage of the “elementary occupations”<sup>12</sup>, accounting for two-thirds, for example of the agricultural workers.

12. The participation of women in national political activity is still small. Although women participate fully in the political process – voting, canvassing, and membership of boards – they have not been very successful in significantly increasing their seats in national Parliaments. There is however a general upward trend in the available data, although the number of seats in Parliament still remain small.

13. Finally, while the legal and constitutional rights of women are reasonably well-established--and in almost all of the OECS countries family law revision and reform have taken place or are being undertaken to address the realities of Caribbean family structures and international women and human rights’ conventions -- domestic violence remains a concern in the sub-region.

<sup>11</sup> It should be noted that although participation rates and achievement are higher for girls, there is still a tendency for girls to pursue the traditional "female" subjects such as domestic science. The pursuit of more technical subjects is limited for both sexes.

<sup>12</sup> Defined as occupations which require the knowledge and experience necessary to perform mostly routine tasks which often involve experience necessary to perform mostly routine tasks, often involving the use of simple hand-held tools and, in some cases, requiring a degree of physical effort. Most occupations in this major group do not require formal educational qualifications and examples would include farm laborer, domestic helpers, street cleaner etc.

14. **Health.** Health Ministries across the sub-region are grappling with a number of common issues--reflective of their small size, dispersed populations and changing demographics--and are seeking ways to deliver health services more efficiently. The OECS countries are struggling to address issues in two key areas: (1) the wage bill, which accounts for between 60 and 80 percent of health expenditures, resulting in insufficient investment in infrastructure and equipment, and (2) the issue of skills deficiencies due to the migration of nurses which has resulted in poor facilities and weak provision of specialist services:

15. The benefits of regional approaches to common challenges are perhaps nowhere better illustrated than in the health sector. The establishment of the OECS Pharmaceutical Procurement Service, as a sub-agency of the OECS Secretariat, lowered the cost of pharmaceuticals across the sub-region by around 40 percent. There is scope to expand this type of "collective approach" within the sector in areas such as purchasing supplies, laboratory services and specialized health service delivery through regional arrangements, and into other sectors, such as the procurement of textbooks. Another pressing reason for extensive reforms within the OECS health sectors is the demographic and epidemiological transition. The reduction in mortality due to communicable diseases, the rise in life expectancy and the fall in fertility rates will have drastic implications for the provision of health care over the next decade<sup>13</sup>. Non-communicable diseases and chronic conditions such as hypertension, diabetes, strokes and coronary heart disease will be the health challenges of an aging population and health sectors will need to make adjustments in their strategies to reflect these changes.

16. **HIV/AIDS.** The World Health Organization estimates the overall HIV/AIDS prevalence in the Caribbean to be second to Sub-Saharan Africa. In the OECS, the prevalence is estimated to be approaching 1 percent of the OECS population compared to 7.5 percent average for Sub-Saharan Africa. In small islands like those of the OECS, such an HIV prevalence rate can rapidly affect the country's development prospects. Furthermore, uncontrolled spread of the disease in a single country threatens the success to control the epidemic in the wider Caribbean region because of the populations' high mobility among islands. This is particularly the case in the OECS, where, notwithstanding public information efforts, the epidemic continues to spread from high-risk groups to the general population. Furthermore, detection and treatment are stymied by under-reporting, an ongoing stigma attached to those infected with HIV/AIDS and continued risky behavior among vulnerable groups such as youth.

17. The leaders of the OECS sub-region have identified the fight against HIV/AIDS as critical to the sub-region's long-term economic growth and human development. For its part, the donor community, including the Bank—through four projects under the Multi-Country HIV/AIDS Adaptable Program Lending (APL) in Grenada, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines—has rallied to support the OECS islands in their efforts to curb the spread of the HIV/AIDS epidemic through increasing awareness of risks, promoting behavioral change, strengthening treatment and care; and, development of a sustainable organizational and institutional framework for addressing the epidemic over the longer term. The complex, multi-dimensional nature of HIV/AIDS strategies will demand strengthened institutional capacity and a framework that allows cooperation across sectors. Effective approaches to the HIV/AIDS challenge in the Caribbean will also require better coordination among the various donors and other agencies so that the region can benefit from an overall strategic approach to the epidemic. Given the debt situation facing the OECS, grant resources should be leveraged where possible.

18. **Social Protection.** The OECS countries face a number of important socio-economic risks. The high levels of income and consumption volatility, due to an array of external economic shocks, natural disasters and domestic policy-induced shocks, have translated into equally high levels of vulnerability among individuals, households and communities. These manifest themselves as chronic and transient poverty, weak human capital development, job or income loss, persistent unemployment, and income insecurity in old age. Poor families and youth find themselves particularly vulnerable, and with relatively few risk management tools at their disposal.

19. All the OECS countries implement a range of programs – both social insurance and social assistance – to mitigate these risks, but a number of structural challenges hamper their impact, including: (i) overlapping and uncoordinated programs; (ii) weak targeting; (iii) inadequate or non-existent MIS systems; and (iv) weak implementation capacity. Social insurance (i.e., social security) programs that provide health insurance and old-age security, among other things, also confront important structural challenges. A vast majority of the

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<sup>13</sup> In St. Vincent and the Grenadines, for example, the share of the population under 20 years old is projected to decline from 42 percent of the total in 2000 to 25 percent in 2025, while the share of the population 60 years old and over is projected to double.

poor and informal sector workers remain uncovered; moreover, if unreformed, some of these programs face insolvency in the long-run due to the rapid aging of local populations. A Social Protection Strategy Paper for the Caribbean is laying the ground work for a more strategic approach to social protection reform in the OECS that includes improved coordination among donors as well as exploitation of cross-country synergies. Increasingly out of school and out of work, youth at risk are also emerging as a significant challenge and Governments have expressed the urgent need for interventions that are remedial as well as preventive. An increase in, among other things, HIV/AIDS incidence; teenage pregnancies; high school drop out rates; and antisocial behaviors often resulting in crime have been directly linked to this segment of the population.

20. **Education.** Although all the countries achieved universal primary enrollment and completion in 2000 (the latter with the exception of St. Vincent and the Grenadines, which is expected to attain this within the next year), and rapid increases in secondary school enrollment rates are underway (see Table 2), completion rates are lagging, and the quality of education remains a major issue. The OECS education sectors are well-funded<sup>14</sup> but poorly managed and the outputs do not reflect the considerable public resources dedicated to them. If the OECS countries fail to change some of the fundamentals (curriculum content, teacher training and equitable access), the gains made in the primary sector over the last decade will become irrelevant as a new generation of young people graduates from secondary school or college with skills that are not competitive in a new global economy.

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<sup>14</sup> 6.8 percent of GDP compared to the Latin America and OECD averages of 4.1 and 4.6 percent respectively.

## BOX 1: YOUTH AND RISKY BEHAVIOR

The failure of the formal education system to retain secondary students has led to a growing population of disenfranchised, excluded youth who are often too young to work when they drop out of school. For those young people--by the time they do come of age at 15/16—their opportunities have dramatically decreased and these are often the first to turn to risky, anti-social behavior. Drug use and dealing; an increase in teenage pregnancies; active unprotected sexual activity, leading to high levels of STDs, including HIV/AIDs; and often crime and violence are all examples of such risky behavior..

### The Drug Connection

Alongside Barbados, the six OECS islands form the eastern edge of the Caribbean transit zone for drugs, mostly cocaine and marijuana products, traveling from South America to the U.S. and other global markets. It is estimated that approximately 30-35 metric tons of cocaine originate from, are destined for, or transit through the Eastern Caribbean (from Puerto Rico east and south) annually to the United States. Eight to nine times that amount transit the Eastern Caribbean to Europe annually.

According to the U.S. Drug Enforcement Agency, marijuana crops are grown in the greatest amounts in Dominica, St. Lucia, St. Kitts and Nevis, and St. Vincent and the Grenadines, primarily for local use or for export to other islands in the region and Europe. Marijuana is grown to a lesser extent in Antigua and Barbuda and in Grenada. The overall level of production is below the threshold for designating any of these countries as major drug producers under the US Foreign Assistance Act , yet the extent of marijuana production within St. Vincent and the Grenadines appears to make it a significant element of the Vincentian economy.

Notwithstanding the commitment of Eastern Caribbean law enforcement agencies to control the passage of illegal substances, international drug trafficking organizations (DTO's) and various organized crime groups have infiltrated many of the Eastern Caribbean nations and incentives are high: a single night's drop-shipment of marijuana between islands can earn the equivalent of six months' salary in some islands.

### Crime

Although statistics are scant in the Eastern Caribbean, anecdotal evidence suggests that crime is rising steadily, and increasingly being committed by younger persons. In 1990, in St. Kitts, for example, only 1.2 percent of all crimes were committed by juveniles, but by 1998, this had increased to 17 percent. Swelling prison populations, a backlog in the judicial system and weak correctional systems for rehabilitation into society have exacerbated the situation.

### Teenage Pregnancies

Sexual activity in the sub-region starts at an early age. Teenage pregnancies, most of which are unplanned, account for a significant proportion of total births: in St. Lucia, for example, this figure stands at 57 per 1,000 women. Ten percent of young women aged 15-19 have children in Grenada, double the figures of the United States, but half those of St. Kitts and Nevis, which has one of the highest teenage pregnancy rates in the Caribbean region, alongside Antigua and Barbuda.

**TABLE 2: SECONDARY AND TERTIARY EDUCATION IN THE OECS**

	Secondary				Range of CXC pass <sup>a</sup> rates across schools	Estimated tertiary enrolment (% pop cohort)
	Gross enrolment rate	Gross completion rate	CXC pass rates			
			English	Math		
Antigua and Barbuda	81	...	58	34	..	...
Dominica	91	56	66	45	56% – 96%	8
Grenada	88	84	46	35	18% – 90%	13
St. Kitts and Nevis	100	67	53	46	64% - 80%	12
St. Lucia	77	72	58	39	36% – 96%	14
St. Vincent and the Grenadines	67	51	61	37	41% – 81%	5
OECS (pop-wtd)	81	67	56	38	..	11
Caribbean <sup>b,c</sup>	75		46	36		21
Micro states <sup>b</sup>	80		..	..		..
Up middle inc. <sup>b</sup>	83		..	..		..
Latin America	69		..	..	NA	24
World	70		..	..		26

a. in General Proficiency, b. Not including the OECS countries, c. Belize, Barbados, Dominican Republic, Jamaica. Sources: Monitoring Educational Outcomes in the Caribbean, di Gropello (2003). CXC Statistical Yearbook 2003. SIMA, and for Antigua the OECS OERU Annex 2003

21. Poor education outcomes in the context of high public spending indicate serious inefficiencies in the education systems. Low pupil: teacher ratios, inefficient teacher deployment and scant pre-service training<sup>15</sup> have combined to raise the personnel costs while constraining the number of trained teachers in classrooms across the region. One outcome of the low quality and inequitable access to secondary education in the OECS is high youth unemployment<sup>16</sup>. In addition, disincentives to complete high school --such as curricula which are perceived as irrelevant often being taught by unqualified teachers, and schools which condone corporal punishment--are a key contributing factors to a rise in risky youth behavior and social exclusion, particularly among boys.

22. The OECS also has a serious shortfall in post-secondary attainment, due in great part to the poor quality of secondary education and an inadequate provision of tertiary education. However, as the following section indicates, a significant share of tertiary graduates migrate abroad with a resulting loss to the public of returns from this public investment. Increasing non-governmental financing in tertiary education while ensuring access to low-income students through scholarships and student loans are fundamental changes needed to increase enrollment and equity in the future.

23. **Migration and Skills Retention.** Five of the six OECS countries rank high among the top 20 countries in the world with the highest migration rates<sup>17</sup>. Four of the countries also rank among those with the highest remittances per capita.<sup>18</sup> These migration and remittance flows are significant and play an important role, given the small population size and the inherent susceptibility of small states. There are three broad categories of migrants – those who migrate within the OECS, those who migrate within the Caribbean region and those who migrate to OECD countries – mainly the US, Canada and the UK. Extra-regionally, it has been estimated that the OECS community abroad numbers 200,000 people or about 35 percent of the population. From the data available, the majority of those migrating are skilled and post-secondary educated workers, many of whom are joined later by their families (more than one-third of the residencies granted in the US are, for instance, under the guise of family sponsorship), contributing to a “brain drain” across the sub-region. This departure of educated migrants has two impacts: (1) a social dislocation among families and communities and (2) a reduction in productivity in specific sectors of the economy creating labor gaps, particularly in the public sector --where capacity is weak--and the entrepreneurial class. OECS Governments are increasingly encouraging return migration as an important source of skills, expertise and ideas (i.e. brain gain, circulation or exchange) to be drawn on for national and regional development.

24. In the OECS, remittances have made a healthy contribution to GDP, from almost 11 percent in Grenada to 3 percent in Antigua and Barbuda, with an average of around 5 percent across the region. On the positive side, they represent an important element of the safety net for the poor and unemployed.<sup>19</sup> On the negative side, remittances have been shown to raise voluntary unemployment and to increase the average wage in the economy to the detriment of competitiveness. More importantly, it is unclear whether remittances can compensate in the long-term for the public investment foregone by governments. A key challenge will be to find innovative ways to capture a higher return on public investment in education.

## The Economic context

25. **Recent Macroeconomic Performance.** The OECS countries, as members of the Eastern Caribbean Currency Union (ECCU), share a common central bank, the Eastern Caribbean Central Bank (ECCB), and a common currency, with three independent territories (Anguilla, Montserrat and the British Virgin Islands). The Eastern Caribbean (EC) dollar has been pegged to the US dollar since 1976 at EC\$2.7 per US\$1. The commitment to a fixed exchange rate and a prudent monetary policy under the ECCU umbrella has been a key element in maintaining inflation rates close to international levels.

26. The OECS countries experienced a relatively strong decade of real GDP growth in the 1980s (5.9 percent per year) driven mainly by tourism and banana exports, and public investment financed primarily by development assistance. This was followed by a steady decline in real GDP growth since the mid 1990s (3.3

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<sup>15</sup> This limited pre-service training allows unqualified people to be brought in as trainees, who teach alongside regular teachers, for 2 years, after which they are allowed to apply for the teacher training program.

<sup>16</sup> 29% of the 15-24 year olds are unable to find work, compared with an adult unemployment rate of 10%.

<sup>17</sup> Percent of Educated Labor Force that has migrated to the OECD. Educated labor force is defined as having 12 or more years of completed schooling.

<sup>18</sup> Worker remittances, compensation of employees and migrant transfers as a percent of GDP in 2002.

<sup>19</sup> However, findings from the recent Dominica *Country Poverty Assessment* (2001), undertaken by CDB and DFID indicate that the poor and non-poor are equally likely to be recipients of remittances.

percent per year). Initially, this decline was largely caused by a sharp reduction in productivity growth associated with shifts in the composition of investment, weakening performance in the export sector, competitive pressures from lower-priced tourist destinations and a growing inward orientation of the private sector. This trend was exacerbated in the early 2000s by many negative external shocks (natural disasters, the 9/11 events, the slowdown in the global economy, oil price increases and eroding trade preferences). The OECS Governments tried to offset the slowdown and sustain employment as well as meet natural disaster-related costs through an expansionary fiscal policy, mainly through increased public investments financed by expensive commercial borrowing (both external and domestic). This created persistent fiscal deficits and boosted public sector debt to some of the highest levels in the world. In four countries (Antigua and Barbuda, Dominica, Grenada and St. Kitts and Nevis) existing debt levels are at or in excess of 100 percent of GDP. The large fiscal and debt imbalances are now further dampening growth and private investment. The lack of an enforceable fiscal discipline mechanism in the currency board arrangement and the easy access to external credit from commercial banks outside the sub-region contributed to weakened fiscal discipline. In effect, the cost of fiscal slippage, in the form of future inflation, higher interest costs or pressure on the currency board, are being shared with the other OECS Governments or deferred to the future.

**TABLE 3: MACROECONOMIC INDICATORS IN THE OECS**

OECS Countries	2000	2001	2002	2003	2004 (preliminary)	2005 (projected)
<b>Real GDP growth (%)</b>	2.9	-1.5	0.7	3.4	3.2	3.2
<b>Inflation (CPI, eop)</b>	1.5	1.5	1.0	2.1	2.2	2.1
<b>External current account/GDP</b>	-16.1	-18.1	-20.4	-21.4	-17.3	-19.4
<b>Overall central gov. balance/GDP</b>	-5.2	-7.8	-10.9	-5.6	-4.9	-7.1
<b>Primary balance</b>	-1.8	-4.2	-6.7	-1.0	-0.4	-2.5
<b>Total public sector debt/GDP</b>	83.2	89.4	108.7	108.7	105.5	107.5
<b>External debt/GDP</b>	46.8	52.9	65.2	68.2	61.6	63.1
<b>Real effective exch. rate (1990=100) (deprec. -)</b>	4.3	1.5	-5.5	-8.8	-3.6	..
<b>End-year gross reserves of the ECCB (in months of imports)</b>	3.2	4.1	4.6	4.4	4.7	4.8

Source: Eastern Caribbean Central Bank; and IMF staff estimates and projections.

27. Macroeconomic performance in the OECS countries improved in 2003 and 2004. Driven by a rapid expansion in tourism in most countries following the 9/11 slowdown, real GDP growth was 3.4 and 3.2 percent in 2003 and 2004, respectively, despite an active hurricane season in the second half of 2004. The aggregate OECS fiscal balance improved from -10.9 percent of GDP in 2002 to an estimated -5.6 and -4.9 percent in 2003 and 2004<sup>20</sup>, on account of strengthened revenue administration, enhanced expenditure controls and some reduction in capital spending. The improved fiscal performance and renewed growth have not been sufficient, however, to steer public debt to GDP ratios on a downward path (with an OECS average of 106 percent of GDP at end – 2004).

28. Driven by the continued growth in the US and UK (the sub-region's main tourism markets), real GDP growth is projected at 3.2 percent in 2005. While key actions are underway in several OECS highly indebted countries to address the fiscal imbalances, the pace of fiscal consolidation should be accelerated to place debt on a clearly downward path, notably by broadening the tax base, including through the introduction of a broad-based consumption tax (or VAT), streamlining expenditures and strengthening fiscal institutions. Also, restoring medium-term fiscal and debt sustainability in the OECS countries will require comprehensive

<sup>20</sup> With the aggregate primary balance improving from - 6.7 percent of GDP in 2002 to - 0.4 percent in 2004.

adjustment policies. It is unlikely that in the highly indebted countries debt can be brought down purely through fiscal adjustment, so a multi-pronged approach, incorporating sustained fiscal adjustment, growth-enhancing structural reforms, improved debt management, and possible debt restructuring is needed.

29. In Dominica, the Government is already implementing such a strategy with the coordinated financial and technical support from the IMF under a PRGF-supported program, the World Bank and other donors. Progress in fiscal consolidation is expected to continue in those countries that held elections in 2004. Antigua and Barbuda has announced an ambitious fiscal reform agenda including the reintroduction of a personal income tax and civil service retrenchment; in Grenada progress is being made in designing and implementing reconstruction and macroeconomic stabilization measures; and St. Kitts and Nevis has announced the closure of the sugar state-owned company which will ease fiscal pressure and release valuable resources for private sector growth. Three of the four OECS countries with public sector debt to GDP ratios at or in excess of 100 percent of GDP (Dominica, Grenada, and Antigua and Barbuda) have adopted a more forceful debt strategy in an attempt to bring down their high debt levels and are currently pursuing debt restructuring agreements with creditors. The exception is St. Kitts and Nevis where the authorities anticipate proceeds over the next few years from the disposition of assets (including land) of the sugar state-owned company.

30. Prospects for fiscal consolidation in St. Vincent and the Grenadines and St. Lucia (the two countries with lower public debts) will be influenced by electoral cycles (with both countries expected to hold elections no later than 2006); in these countries, the approved budgets suggest easing of fiscal stances, including a significant expansion in public sector investment and with the authorities targeting reduction in the debt levels only over the medium-term. While this approach has risks in view of the high vulnerability of these economies to external shocks, the political leaders feel that a swifter approach may not be politically or socially acceptable (see Annexes 4-9 for country details).

31. **Growth and Competitiveness.** A secular slowdown in growth, a radical transformation of the external environment and debt and fiscal imbalances have combined to create an imperative for strengthening the OECS strategy for growth and competitiveness. A Bank report recently completed at the request of the OECS countries<sup>21</sup> presents an overarching strategic framework for growth and competitiveness that could serve to guide the various efforts of the national and regional authorities, the private sector and development partners to define and implement a strategy to stimulate growth and improve competitiveness. The report highlights the importance for the OECS countries individually and as a group to formulate a strategic vision for the OECS economies and key sectors reflecting the changing global environment and capitalizing on the sub-region's competitive advantages.

#### BOX 2: TOURISM AND THE OECS

**Tourism is a critical sector for the OECS, accounting for 28.8 percent of GDP, 38.7 percent of employment and 54.2 percent of export earnings.** Given the numerous competitive advantages of the sub-region in tourism, this sector is likely to remain a major contributor to growth, employment and export earnings in the OECS for some time. In the period 1990-2002, the OECS underperformed in tourism, compared to world tourist arrivals which grew at 3.7 percent over the same period. Recent figures, however, are more encouraging and the pick-up in arrivals has grown by 7.6 percent between 2002 and 2003, growing faster than that of world tourism growth rates.

Until recently, the OECS tourism product comprised predominantly beach resorts offering the traditional *sun, sea and sand* tourism complemented by a host of very small properties which attempted to specialize in more *experiential* tourism which translated into a relatively very small share of stay-over guests. Spurred by the growth in other Caribbean markets such as the Dominican Republic and Cuba, demand for the *sun, sea and sand* product has become very price elastic, necessitating innovative approaches. High growth segments include adventure and nature-based tourism both expected to grow by 20 percent annually, cultural, meetings and conference tourism by 10 percent, and health and wellness tourism by 6 percent. Given its rich endowment of natural resources and its increasing accessibility, particularly to the US, with increasingly more carriers and charter flights destined to the OECS countries, the sub-region is well placed to develop such markets. This has been witnessed in such areas as event and festival marketing (the St. Lucia's Jazz Festival, Test Cricket and Sailing Week in Antigua and Barbuda, and Dominica's "Zouk" Creole Festival are successful examples); the positioning of Dominica as an ecotourism destination; and the development of park and heritage sites in Antigua and Barbuda, St. Lucia, Grenada and St Kitts and Nevis. Increasingly evident is greater attention to local entrepreneurial development, the adoption of informatics technology (including web-based marketing and booking systems) as a competitive strategy and human resource development. In the case of the latter, both industry and Government partners in tourism are placing priority on this area having recognized the link between quality service and product success and the need for career paths for the region's tourism labor force. Greater investment in skills development and staff retraining are therefore generally recognized as needed as is greater investment from both the public and private sectors in environmentally sustainable tourism.

<sup>21</sup> OECS: Towards a New Agenda for Growth, World Bank, 2005.

32. This strategy would need to include a number of growth-enhancing interventions: (i) streamlining and refocusing the role of government through accelerated fiscal adjustment and public sector modernization; (ii) expansion of the skills base and promotion of innovation and technology adoption; (iii) a reduction in the key constraints to doing business; (iv) the reduction of inward orientation and expansion of external market space;<sup>22</sup> and (v) rapid implementation of free movement of labor within the OECS and CSME and use of international standards and certifications. Such interventions would support the development of emerging possible new sources of growth such as offshore education, health and wellness tourism and high-end ICT. In order to bring such an agenda to fruition, a concerted effort on the part of the OECS governments, the sub-regional institutions, the private sector and civil society will be required, as well as sustained support from their development partners, over a medium term horizon. Given the limited capacity of the OECS public sectors to address these multiple challenges, the report proposes a number of priority actions that can be addressed over the short- to medium-term:

- Restoring fiscal and debt sustainability and improving the efficiency of public administration. In addition to improved debt management, efforts are needed to: refocus and improve the strategic planning of public investment programs and improve public procurement; reform public sector wage mechanisms to align wage increases with productivity improvements; reform the tax regime, including rolling out the VAT, removing non-tariff barriers to trade and reducing the use of investment incentives and discretionary tax concessions, to level the playing field for businesses; and refocus the role of the public sector in the management of the economy, in particular by reducing unnecessary layers of approvals and discretion in the administration of regulations, permits and license administration;
- raising the skills base by: reforming teacher training and deployment schemes; accelerating curriculum reform in schools and training institutions; and strengthening the quality of primary and secondary education delivery;
- improving the business environment through: addressing monopoly pricing in remaining telecom segments; improving oversight of electricity utilities to reduce costs; formulating and implementing an air transport competition policy; reforming petroleum pricing mechanisms; updating tourism strategies to target new market segments and strengthening investment and tourism promotion, while protecting the natural environment on which tourism is based; and
- establishing and adopting risk mitigation measures to offset the effects of natural disasters, to which the small states are particularly vulnerable.

33. **Financial Sector.** In the OECS, the financial sector is relatively deep and has achieved an impressive reach, providing access to some formal financial services for a very large share of the population. While banks are generally highly liquid and capital adequacy levels have remained stable, a 2003 joint Bank-IMF FSAP highlighted a number of emerging risks. In addition to the concentration of asset portfolios, in particular large exposures to the public sector and mortgage market, these include: (i) weaknesses in the regulatory and supervisory framework for bank supervision relative to the requirements of the Basel Core Principles, including lack of enforcement capacity; (ii) weaknesses in follow-up actions, as well as inadequate frequency of on-site inspections; and (iii) a substantial share of non-performing loans in Antigua and Barbuda (21 percent), Dominica (47 percent) and St. Lucia (24 percent).

34. Perhaps most important among the emerging risks are those associated with the fiscal pressures in the region. Several indigenous banks are highly exposed to their local public sector, and the rapid build-up in government borrowing in some jurisdictions, combined with sizable domestic arrears by these governments, raises a key concern that, if the current situation continues or deteriorates, the central bank may be called upon to meet a liquidity need attributable, directly or indirectly, to government arrears. Such support could pose a threat to the credibility of the currency peg that is the basis of the stability in the ECCU.

35. The role of the Eastern Caribbean Central Bank (ECCB) in the development of the financial sector has been considerable. It has placed itself at the service of the OECS governments in energetically and imaginatively promoting three interlinked prongs of financial sector policy: (i) maintenance of monetary stability; (ii) protection of the safety and soundness of the banking institutions; and (iii) market development.

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<sup>22</sup> Through strengthened participation in the CSME and FTAA negotiations (notably by pushing for critical market access to facilitate service exports), tax reform to make fiscal space for a reduction in trade taxes, phased out exceptions within the Common External Tariff, elimination of non-trade barriers and reform of duty concessions.

Each of these contributes to financial stability and each is also needed for increasing the contribution of finance to growth. Emerging risks to the ECCU now call for a renewed effort on the part of the ECCB to take a more forthright role in protecting the soundness of the OECS financial system as a whole. This effort will require a refocusing of its resources. So far, there has been limited progress in financial sector reform. The ECCB has revised its prudential guidelines on capital adequacy, risk-based supervision, and corporate governance standards in line with some of the recommendations of the recently completed FSAP. However, revisions to the Uniform Banking Act that was approved by the ECCB's Monetary Council in 2004 have not been enacted by the OECS countries, and the ECCB Agreement Act has not yet been amended to enhance the ECCB's supervisory powers. While some countries have strengthened the supervision of the offshore sector, there are currently no plans to align the prudential regimes of offshore banks with the Uniform Banking Act, as recommended in the FSAP.

36. Access to financing remains a constraint for the OECS economies, especially for Micro, Small and Medium Enterprises, (MSMEs,). Issues include: (i) undercapitalized companies; (ii) short term instruments used to fund long-term needs; (iii) lack of risk capital (equity and quasi-equity instruments); (iv) limited structuring expertise; and (v) underdeveloped financial markets with virtually no products other than traditional banking products. Of particular concern for MSMEs is the application of conservative standards for credit screening such as preference towards successful business establishments and over collateralization. Although there has been some progress in the past couple of years, the OECS financial markets need further integration and modernization to efficiently mobilize funds from larger economies such as Trinidad and Tobago, Jamaica, and Barbados.

37. The OECS countries have encouraged the growth of their financial sectors to diversify away from traditional agricultural activities in order to limit the economic impact of natural disasters. In the past, initiatives undertaken by the OECS countries to promote the financial sector with limited regulatory oversight have led to a growth in offshore financial intermediation and with it attracted flows of legitimate and potentially illegitimate capital. The geographic location of the OECS countries makes them a strategic transshipment point for illicit drugs flowing between South America and the United States and Europe.

38. Financial regulatory policies within the OECS countries during the 1990s raised international money laundering concerns that are being addressed. The United States Treasury Department issued an advisory against Antigua and Barbuda in 1999 because of concerns over the country's regulation of the offshore financial sector. Between 2000 and 2001, the Financial Action Task Force on Money Laundering (FATF) identified Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, and St. Vincent and the Grenadines as Non-Cooperative Countries or Territories (NCCT) in the fight against money laundering. FATF did not list St. Lucia as an NCCT. In light of the international pressure, each OECS country has taken important steps to build anti-money laundering and combating the financing of terrorism (AML/CFT) regimes in accordance with international standards. The OECS countries have enacted or have taken steps to enact AML and CFT legislation, tightened regulatory controls on the financial sector, especially the offshore sector and established financial intelligence units to combat money laundering among other measures. Some of the OECS countries have had money laundering prosecutions. In recognition of these measures, the United States withdrew its advisory on Antigua and Barbuda in 2001 and by 2003 the FATF had removed all of the OECS countries on its NCCT list. The OECS countries continue to take steps to enhance their programs to combat money laundering. Challenges remain in implementing AML measures and adopting comprehensive CFT regimes.

39. The World Bank's Financial Market Integrity Office (FSEFI) has worked with the OECS countries to support their AML/CFT efforts in numerous ways. FSEFI stands ready to provide additional technical assistance as needed.

40. **Infrastructure.** The infrastructure challenge for the OECS countries is not one of access but rather one of performance in service delivery, particularly in terms of affordability and financial sustainability. Reflecting government policies that have put services high on the political agenda, the OECS countries have been successful in increasing access to electricity and water.

41. Electrification rates exceed 95 percent and access to water is generally reported to be higher than access to electricity. (Sewage networks, however, are less extensive than water supply networks, and wastewater is often inadequately treated prior to discharge, which has detrimental effects on both health and the environment).

42. Notwithstanding these high rates of access, discrepancies remain, with electricity tariffs, for example, in St. Kitts, St. Lucia significantly below those in Grenada, St. Vincent and the Grenadines, Antigua and

Barbuda, Nevis, and Dominica<sup>23</sup>. This can be explained, at least in part, by differences in policies and institutions, that is, by decisions on issues such as regulation, private or public operation and the extent of competition in service provision, and regulation design. There is a strong positive correlation between measures of institutional capacity and measures of infrastructure performance.

43. **Telecommunications and Utilities.** The successful liberalization of the telecommunications sub-sector has arguably been the success story in infrastructure<sup>24</sup>, implemented with the assistance of the World Bank. This was accomplished through the establishment of the Eastern Caribbean Telecommunications Authority (ECTEL), a regional regulatory agency--which is being further strengthened under a follow-on FY05 operation and legal and regulatory reforms in the sector. Similar regional regulatory approaches, which promote effective regulation despite limited national capacity constraints, could be adapted with positive results to the water and electricity sectors.

44. In electricity, several Eastern Caribbean utilities, both public and private, have little in the way of regulatory incentives to optimize their capacity planning, fuel choices, procurement, and other cost drivers. This contrasts with Barbados and Jamaica, where regulatory agencies effectively supervise the utilities providing incentives for increased efficiency and improved service. Private ownership of utilities can also help increase efficiency if the profit motive can be used to provide incentives to minimize costs. The OECS entities could consider establishing a regional regulator similar to ECTEL to exert additional pressure for efficiency on electricity companies that are not currently subject to regulatory oversight. It seems unlikely that any country in the OECS possesses the scale and diversity in electricity generation to benefit from a competitive power market. A better model may be to subject the incumbent utilities' generation-capacity expansion plans to public and regulatory scrutiny, and to require them to purchase power from independent providers in cases where it can be shown to lower total system costs. This approach could result in lower tariffs and increased opportunities for co-generation and use of renewable resources. Recognizing the importance of improving the regulatory environment, Dominica is actively pursuing an electricity sector reform program with World Bank assistance.

45. **Water** in the Caribbean, which is provided through government owned and operated water service providers, is an inherently political issue, and reforms that recognize this fact may ultimately be the ones that become sustainable.

46. Water delivery is also the worst performing of the OECS utility sectors and is characterized by its inefficient operation, tariffs which are often too low to recover costs, overstaffing and an inability to attract finance for new investment to improve and extend services. A number of solutions have been proposed: (i) Private participation through operating (lease/affermage)- type contracts that give private firms true management control; require them to meet defined targets; and lock-in well-designed tariff and subsidy regimes; (ii) Explicit, targeted subsidies paid for provision of outputs, to address social concerns in water pricing, and to expand access; (iii) Development agency finance of capital expenditure, either directly, or through loans to establish subsidy funds; (iv) Government responsibility for financing some or all investments, either directly or through paying of output-based subsidies to expand service; and (v) Performance-based contracts for defined elements of the service, such as meter reading, billing and collections. It is also worth noting that coastal infrastructure is particularly vulnerable to climate change impacts (rise in sea level, increased climate variability) and that the anticipated impacts in saline intrusion of aquifers caused by sea level rise, will further tax the ability to supply freshwater.

47. **Transportation.** Overall, there is scope for significantly improving the reach and quality of the transport sector within the OECS. Shipping capacity is adequate and is privately provided in a competitive market. Air transport, however, continues to frustrate the scope for growth and competitiveness and policy changes could significantly increase the quality of service and reduce costs. Other issues that require attention include: (i) improving safety standards to comply with international requirements; and (ii) enhancing terminal capacity at airports. Roads in the OECS are poorly constructed and represent a significant drain on government budgets, due to a disinclination by the private sector to be involved. This has led to a network

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<sup>23</sup> Residential customer rates for baseline electricity rates (US¢/kWh) are 12 cents for St. Kitts and St. Lucia and 15 cents for Antigua, 21 cents for Dominica, 14 cents for Grenada, 19 cents for Nevis, and 16 cents for St. Vincent and the Grenadines.. This compares to around 9 cents for the US and 8 cents for Mexico and Costa Rica.

Source: "Organization of Caribbean States Towards a New Agenda for Growth", World Bank, May 2005.

<sup>24</sup> The increase in network capacity and competition among operators has caused prices to drop for most services. Average prices for calls from the region to the United States have been reduced by more than 70 percent since the start of the liberalization process in 1998.

that is congested, unsafe and which challenges the efficient transportation of goods (such as produce) and the services (such as tourism). Road construction and maintenance practices seem to be particularly poor in the Caribbean.

48. The greatest gain to international transport in the region would come through rapid liberalization of air services and the eventual phase-out of government support for national and regional carriers. The main barrier to liberalization is the desire on the part of regional governments to protect regional flag carriers, such as LIAT. A study conducted by IFC indicated that these carriers, whether in public or private hands, are financial liabilities, not assets. However, governments are rightly concerned about their ability to ensure reliable and adequate air services, and worry that a purely market-based approach could be too risky. This concern could be addressed by asking airlines to bid on non-exclusive contracts, under which they would commit to provide specific capacities and schedules on key routes in exchange for a subsidy. Competitively awarding such contracts would assure governments that services would be provided while simultaneously engaging lower and more transparent subsidies than the alternative of supporting national and regional carriers.

### **The Environmental Context**

49. **Vulnerability to Natural Disasters.** The OECS countries are among the most disaster-prone in the world, by measures such as frequency, population affected, and value of damage. A joint Commonwealth Secretariat/World Bank Task Force on Small States study which compiled a composite vulnerability index places four of the OECS countries in the top 20 (out of 111 developing countries, which includes all small states) with the remaining two closely behind in the top thirty.

50. Based on the experience since 1970, a large natural disaster, inflicting damage equivalent to more than 2 percent of the affected country's GDP, can be expected to hit the region roughly every 2.5 years. The short and medium-term impacts of natural disasters include (i) an immediate contraction in economic output; (ii) a worsening of external balances; (iii) a deterioration in fiscal balances; and (iv) an increase in poverty. The long-term impacts may include (i) environmental degradation; (ii) capital flight, bank and or balance of payments crises; (iii) crowding out of productive public spending due to reconstruction efforts; and (iv) increased indebtedness which in turn may raise the rate of interest reducing future investment. Depending on the scale of the disaster, other sectoral repercussions can be felt: the destruction of schools may, for example, retard educational progress.

51. In 2004, one of the most active seasons for tropical storms and hurricanes on record since 1950, twice as many of these natural phenomena were registered. Hurricane Ivan, the longest-lasting hurricane since 1900, devastated Grenada, decimating the housing stock and causing an estimated EC\$2bn (US\$900 million) of damage (St. Vincent and the Grenadines was also affected by Hurricane Ivan, though to a much lesser extent). In St. Kitts and Nevis, Hurricane George caused more than US\$400 million of damage in 1998, just 9 years after Hurricane Hugo. Dominica was also recently struck by an earthquake, measuring 6.0 on the Richter scale, causing damages estimated at 7 percent of 2004 GDP. In 2005, the hurricane season began earlier than normal, with Tropical Storm Emily causing additional damage while passing over Grenada.

52. The cost of natural disasters to individual countries can be substantially mitigated. Insurance and capital markets can offset losses and the adoption of good building practices, to international standards, can significantly lower the level of impact. Hurricane Ivan provides a good example: the only schools that were left untouched in Grenada were two built with Bank assistance designed with rigorous attention paid to hurricane-proof standards.

### BOX 3: THE NEED FOR CATASTROPHE RISK INSURANCE

#### **Background**

Spurred by assistance from the World Bank and other donors, the OECS islands are on course to complete a substantial hardening of their physical and institutional infrastructure against natural disasters and emergencies. However, even effective implementation of these measures will be insufficient to provide adequate protection against these hazards for fragile island economies, as Grenada's physical and economic destruction in the wake of Hurricane Ivan clearly demonstrates. While long discussed, OECS governments now appear closer to taking action on the introduction of financial instruments for catastrophe mitigation. The Caribbean Heads of Government, acting through CARICOM, met on September 15, 2004, and officially requested the World Bank to design a catastrophe insurance/risk pooling mechanism.

#### **The Approach**

The Governments' strategy is to institutionalize a comprehensive risk management approach which would more efficiently allow for risk sharing between the public sector, the private sector, the international insurance industry, the credit and capital markets, and the 'self-insured' population. The leveraging of scarce capital for such purposes, to diversify and better spread risks, as well as to significantly increase the efficiency of risk transfer mechanisms, would require a sub-regional risk pooling mechanism which the Caribbean CARICOM (Caribbean Community) countries are committed to develop. This, as well as other aspects of the risk management strategy, would be intrinsically coupled with real sector mitigation practices and special purpose funding instruments to soften the impact of natural disasters on the development prospects of these island economies, particularly as such disasters can affect generally insurable infrastructure and lifeline services.

This comprehensive risk strategy approach relies on a key pillar of regional risk pooling which provides an effective resolution to current constraints through:

- a. The more efficient channeling of catastrophe insurance risk capital to the international reinsurance markets, through economies of scale via direct reinsurance contracting, and lower intermediation costs for channeling risk premiums.
- b. The establishment of consistent risk rating standards, pricing methodologies, and loss prevention & mitigation requirements for catastrophic risks, by subjecting pool participant eligibility to such standards.
- c. The isolation and buffering of some of the effects of international reinsurance price movements by accumulating and retaining more risk capital at the domestic pooled level.
- d. The diversification of risks at the regional level allowing minimization of localized risk exposures, and the transfer of such diversified risks, at improved terms, to the international markets.
- e. Establishing a critical mass of pooled insurance capital that would allow exploitation of innovative modes of risk financing, including backstop credit support for catastrophic risks or transfer of insurance risks to the broader capital markets to minimize reinsurance capacity constraints.
- f. Providing a cost effective mechanism for regional governments to insure public assets of high value and which can be beyond the risk bearing capacity of domestic insurers.

Based on various international experiences in disaster prone countries, as well as the use of innovative credit and capital market mechanisms to "hedge" against catastrophic risks, the CARICOM Governments see an opportunity to better spread risks via market mechanisms that can be catalyzed with multilateral support. In this respect, the project would develop the requisite institutional and financial structures which might support both the insurance industry and the public sector, to more effectively deal with disaster risks. Such structures and mechanisms, supported by a strengthened insurance regulatory framework and supervisory infrastructure, would include regional reinsurance pooling arrangements, whereby the catastrophic insurance component of property coverage is ceded to a sub-regional vehicle that can access international reinsurance and credit support under more efficient pricing and maturity terms.

#### **The Bank's Response**

The Bank plans to address the challenge undertaking the following preparatory tasks: (i) Physical Risk Mapping and Vulnerability Estimation; (ii) Insurance/Actuarial Pricing; (iii) Risk Financing Instruments and Structures for Pooled Risks; and (iv) Institutional and Legal Structure of a possible Regional Catastrophe Fund, funded through a PHRD grant approved in Spring 2005.

### BOX 3: THE NEED FOR CATASTROPHE RISK INSURANCE (CONTINUED)

#### Expectations

The optimal approach would include: 1) conventional, pre-arranged, post-disaster multilateral financing, 2) introduction of efficient preventive measures (e.g., construction standards), 3) global reinsurance of fairly priced risks, and, possibly, 4) some degree of regional risk pooling, particularly for those risks which are unlikely to hit most Caribbean countries at the same time (e.g., earthquakes, but not hurricanes or tsunamis). In addition to the feasibility work described above, the Bank is also discussing with other donors their possible participation – through a Trust Fund mechanism or other appropriate instrument – in a Catastrophe Risk Insurance Scheme including the shifting of some element of donor resources from ex-post financing of reconstruction needs to ex ante participation in reducing the overall costs borne by countries from repeated natural disasters. Work is also ongoing, in collaboration with other donors, on disaster prevention through better building codes and regulation - two areas which will also impact the cost of disaster insurance.

53. Disaster risk mitigation measures, such as appropriate zoning and hazard mapping, establishment and enforcement of building codes, and disaster information mechanisms should be promoted. These measures can reduce loss of life, infrastructure damage, and the cost of ex-post insurance. Assisting regional co-operation and co-ordination of disaster risk mitigation strategies is important. The multilateral development and finance institutions can help in this through: the provision of technical assistance and financial resources; promoting the exchange of information on successful practice; and assisting regional co-operation and coordination of disaster risk mitigation strategies. Donor finance for mitigation measures, for example in infrastructure, in small states subject to repeated natural disasters can have a very high pay-off.

54. Given the small size of their economies, the OECS countries are similarly susceptible to other external shocks. The September 11, 2001 attacks and accompanying fall in tourism activities had a significant impact on tourism, the most important source of foreign revenue. The recent increase in oil prices has also strained these small economies. Fluctuations in real interest rates and possible cross-country contagion arising from banking and currency crises are other possible shocks. These vulnerabilities point to the need for the OECS economies to diversify their service export markets; strengthen their fiscal positions and reduce debt levels; and reduce rigidities in their labor markets.

55. The United Nations Framework Convention on Climate Change (UNFCCC) has identified small island nations as amongst the most vulnerable to anticipated impacts from climate change. Those impacts—likely to hit coastal areas where a significant share of economic activity takes place—are a result of externalities largely caused by resource intensive societies with a resultant significant effect on sustainable development in these already fragile islands. Specifically, in terms of coastal ecosystems,<sup>25</sup> it is expected that coral reefs will be affected and may collapse, if seasonal maximum temperature sea surface temperatures increase even slightly. In addition, increases in CO<sub>2</sub> will affect the ability of reef plants and animals to calcify and thus reduce the ability of reefs to grow vertically and keep pace with anticipated rising sea levels. Also, in near-shore marine and coastal areas, many wetlands will be affected by changes in storm surges. These may result in large-scale translocation of populations in low-lying areas. Mangroves and coastal lagoons are expected to undergo rapid change and perhaps be lost altogether as functioning ecosystems. Low-lying coastal areas and associated swamps could also be displaced by saltwater habitats, disrupting freshwater ecosystems. Such changes are likely to result in dislocation of migratory birds and aquatic species that are not tolerant to increased salinity or flooding and may even force large scale forced resettlement of coastal areas.

56. **Agricultural Transition.** The share of agriculture as a percentage of GDP has dropped dramatically, from 15 percent in the 1980s to 8 percent in 2000, and it continues to decline. There are two main reasons for this: (i) agriculture as it is practiced in the OECS countries is no longer competitive: farms are very small (2-3 ha on average), many soils are degraded and hence productivity is very low compared to other producer<sup>26</sup> and (ii) the erosion of EU agricultural preferences which, until recently, guaranteed relatively high prices and markets through quotas. Only the very efficient producers and marketers can compete in the high volume non-differentiated markets.

<sup>25</sup> Interlinkages between biological diversity and climate change. Secretariat of the Convention on Biological Diversity. CBD Technical Series, 2003.

<sup>26</sup> For instance yields of bananas are 10T/ha in Dominica and 6T/ha in St. Lucia, compared to Costa Rica yields at 47 T/ha and Ecuador's at 28T/ha.

#### BOX 4. THE END OF THE BANANA REGIME AND ITS CONSEQUENCES FOR THE EASTERN CARIBBEAN

A number of events conspired to deliver the Windward islands a significant shock vis-à-vis the end of the banana regime: among them, the steady erosion of ACP preferences and the accompanying greater exposure of traditional suppliers to market forces; the alteration of supply balance in favor of cheaper, dollar sources at the expense of dearer traditional sources; the removal of country-specific quotas allowing more efficient producers scope to expand; and the steadily decreasing incentives to importers to buy ACP bananas through favorable licensing allocations. For the Windward Islands banana industry which, from the start was the highest-cost producer and faced major structural inefficiencies, this basket of changes effectively sounded the death-knell for a sector which witnessed a decrease in UK-bound production from the OECS islands from 275,541 tons in 1992 to 67,317 tons in 2003. This reflected a market share drop from about 45 percent to 15 percent. In Dominica alone during that period, that decrease represented a fall in revenue from US\$32 million in 1992 to US\$5.3 million in 2003. Since 1990/91, the social importance of the banana industry has also declined. The numbers of registered and active growers have dropped from an estimated 10,000 to around 2,000 and those deriving all or an important proportion of their earnings from bananas have fallen from about 30,000 to under 6,000.

A number of donors, including the CDB, the EU, DFID and UNDP, funded base-line studies to manage the transition, and a program of interventions was agreed between the Heads of Government of the Windward Islands and the donors in April and September 1995 which would lead to the restructuring, modernization and commercialization of the Windward Islands banana industry. Progress to date has been slow, and the dialogue has now shifted to focus more on country-level interventions, focusing on public sector change, economic/rural diversification and social support.

Experts estimate that while the long-term prospects for tropical fruit consumption in Europe is upwards, supply will continue to outstrip demand. In the UK alone, between 1990 and 2000, the retail price for bananas dropped by 15 percent. This downward trend continued, and by 2003, prices had dropped a further 20 percent. In such a market, only the most efficient producers and marketers can compete.

According to the European Union, non-differentiated fresh fruit purchases are barely rising, while sales of brands and convenience packs continue to increase at around 3 percent, despite higher unit prices. Fair Trade and Organic products, niches of the discerning and wealthy, have exceeded these, but this increase in demand is slackening. In addition, increasingly consumers require assurance that a product is safe. EU Legislation and codes of practice (e.g. EUREP-GAP) adopted by the supermarkets (which sell over 80 percent of the UK's bananas) are forcing greater accountability from field to market: factors such as pesticide use, disposal of waste, on-farm production activities and increasingly social issues are under scrutiny. Such an environmental focus has made banana production even more difficult for the producers in the Windward islands, who must now play to their strengths-- less dependence on chemical disease control and non-exploitative labor practices and supplying high price niche markets—resulting in unit prices for their special packs soaring 15 to 30 percent above that of the commodity product.

57. Agricultural trade preferences are set to end in 2007. Even without this impending change, the OECS countries have not been able to fill the quotas at competitive prices. The reduction of EU preferences for bananas and sugar in the OECS has created a brutal shock for the rural economies. The EU quota preferences have created an agro-economic environment that was not conducive to diversification neither in production, nor in marketing or agro processing. Almost all the food for the non-rural population and the hotel industry is imported from the USA or other countries in the Caribbean. It would appear that the agricultural policies of the OECS--to remain focused on traditional crops and to discourage local food production and processing in particular high value foods, and perishable fruit and vegetables as well as staples--has failed. The move from traditional crops has also been stymied because agriculture is still strongly influenced by government intervention (state production) and protection<sup>27</sup>. A key challenge will be finding alternative sources of employment for the farmers affected by the impending change in preferences, estimated to be 15 percent of the total workforce, who are largely older and less educated. In the banana industry alone, the numbers of registered and active growers have dropped from around 10,000 to 2,000 and those deriving all or an important proportion of their earnings from bananas have fallen from around 30,000 to under 6,000.

58. To support agricultural diversification, Governments could: (i) shift social support to rural areas from subsidies for particular traditional crops (bananas, sugar, nutmeg) to family income support (cash transfers); (ii) help attract foreign investment in agriculture (for instance returning migrants) to set up or financially

<sup>27</sup> The Government of Grenada, for example, has repeatedly subsidized the nutmeg industry through subsidies and soft loans to the Grenada Nutmeg Producers Association.

participate in sizeable farm enterprises that can timely provide the market with quality produce in sufficient quantities; (iii) help finance training of young farmers in modern farming and marketing techniques; (iv) encourage linkages between the farming sector and the hotel industry or other commercial private sector in order to create a local market for local produce; and (v) help the small-scale agro-processing sector to transform local produce into products (jams, spices, oils) that can be sold to visiting tourists or in ethnic markets abroad. Lastly, OECS countries will have to ensure adequate land use planning to protect fertile land from being occupied by human settlements.

59. The Bank has not been active in the agricultural sector in the OECS countries, as there is significant support from the European Union through a variety of specially-established funds such as SFA and STABEX<sup>28</sup>. Nevertheless, the Bank, in collaboration with FAO/CP Investment Center is carrying out a study on successful diversification initiatives in the sub-region.

60. **Environment.** To remain competitive in the tourism industry and to reduce the impact of climate change and natural disasters, the OECS countries will have to enhance their efforts to preserve and protect the natural environment. Tourism remains highly concentrated in coastal zones, dependent on the availability and beauty of the natural assets of the coast and near-shore marine waters. These coastal areas are also the principal sites for human settlements and development and poorly planned development projects pose a growing risk to the "health" of the natural resources and surrounding environment. In seeking growth, the OECS needs to ensure that the environment is not undermined, cheapening the Caribbean tourism "brand" in the face of increasing competition.

61. The key environmental problems in the OECS are: degradation of coral reefs and other highly productive coastal and near-shore marine habitats, loss of marine biodiversity, declines in the environmental quality of beaches and adjacent waters, a deteriorating landscape and an increasing susceptibility to natural disasters. Some of the causes include lack of wastewater treatment, agro-industrial pollution, agricultural run-off and soil erosion, and lack of housing planning and building regulations. The problems are exacerbated by the weak public sector capacity to address environmental issues and the anticipated ravages caused by climate change. Also, there is a lack of financial resources to monitor and address the problems. But there are also major institutional shortcomings including: (i) the lack of a systematic monitoring program; (ii) weaknesses in legislation and accompanying regulations; and (iii) lack of transparency and public disclosure (at least in practice). Addressing the issue of environmental management will not only benefit OECS citizens and the tourist industry, but will also strengthen the island's defenses to natural hazards. For example physical mitigation measures taken to ensure that coastal regions are protected from erosion will help deflect the brunt of hurricanes and promoting watershed management will protect the region from flooding.

62. There has been progress in some areas of environmental management in the OECS sub-region, driven by (i) what appears to be a growing demand for, and public and private response to, opportunities in the ecotourism niche market; (ii) enlightened self-interest among tourist operators in protecting the environment; and (iii) a relatively well-educated population becoming more conscious of environmental quality concerns. But much remains to be done, particularly in the areas of sub-regional-wide monitoring of critical ecosystems; policy reforms; regional and national institutional strengthening; and public awareness.

63. **Global climate change** is a major challenge to environmental sustainability. Island nations, including those in the Caribbean, are experiencing the brunt of changes linked to increased sea level, increased sea surface temperature, reduced precipitation, increased climate variability and other related changes. The impacts of climate change also affect the natural resources on which key economic activity depends, such as fisheries and tourism. While many of these changes are irreversible, some can be mitigated and many others will require adaptation measures to cope with the anticipated impacts. The Bank has been active in the sub-region through the Global Environmental Facility that funds the Mainstreaming Adaptation to Climate Change Project (MACC) building institutional capacity and developing climate change adaptation strategies in the Caribbean. More specific climate change adaptation investment projects are under development in St. Lucia, Dominica and St. Vincent and the Grenadines.

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<sup>28</sup> The European Union's Special Framework for Assistance Programme (SFA) and STABEX allocations are sources of support to countries making the difficult transition from agricultural dependent economies. STABEX funds to Dominica, Grenada, St. Lucia and St. Vincent and the Grenadines have totaled 200 million euros, and SFA funds have totaled 189 million euros. These amounts are outside the National Indicative Programs (NIPs) allocated under the European Development Fund (EDF).

64. In addition to ongoing MACC efforts in the region, the Bank will selectively pursue opportunities in carbon finance, under the guidelines of the Kyoto Protocol, that could contribute to ecosystem restoration. A project in Trinidad and Tobago (Nariva Wetland restoration) exemplifies the approach to be taken.

### **The Institutional Context**

65. The public sector in the OECS countries has several positive characteristics, notably the existence of a permanent public service that provides continuity, institutional memory and stability at the administrative level, irrespective of who rules at the political level; the existence of well-established organizational structures and institutional rules and regulations; and the general respect of the rule of law and a high degree of judicial independence. There is also little evidence of widespread systemic corruption. However, despite these strengths and some OECS countries' recent efforts to modernize their public sectors, the latter have failed to adapt to the changing external environment. Indeed, in order to better compete in the global economy, the OECS countries will need to improve their public sector's organizational structures and enhance efficiency and cost effectiveness of the delivery of public services.

66. Feedback from consultations with the private sector identified the need for a more nurturing environment for successful private sector development; and several studies have highlighted inadequate incentives and accountability for public sector performance, the existence of weak internal control systems and oversight bodies, and inadequate mechanisms for regular evaluation of policies, programs, projects and public agency performance. In addition to these institutional problems, serious organizational capacity constraints exist. Even though the OECS countries are small and have extremely limited resources, the span of their public sector functions matches that of many large countries. Given their size and although most governments have undertaken steps to privatize or commercialize some of their functions, their mandate continues to be too wide vis-à-vis their ability to deliver on it. Another critical deficiency of the public sector in the OECS is the insufficiency of qualified persons to run the business of the State—again due to their small size, which is compounded by the migration of skilled staff.

67. In several areas, capacity constraints and diseconomies of small scale can be addressed through regional integration and cooperation, yet the principle hurdles remain the perceived protection of sovereignty, insufficient public information on the benefits of integration, and a wide gap between political support and implementation. The OECS countries have made some progress in regional integration and cooperation. Recognizing these efforts, under the 2002-2005 CAS the Bank has been supporting OECS regional integration efforts in the areas of telecommunications, environmental management, HIV/AIDS and education sector reform. However, it is broadly acknowledged by clients and donors alike that the scope of regional and sub-regional economic integration and functional cooperation have not been exploited to their full potential.

68. In light of the above, the Bank has recently been working with the ECCB and the OECS Secretariat on the formulation of an OECS public sector transformation strategy, pulling together a group of respected change agents from the region to present approaches to the Heads. Under this strategy, public opinion polling on attitudes towards public service delivery were conducted.<sup>29</sup> This approach of trying to crystallize home-grown strategies offers a model for reform in a number of other areas in the CAS, such as youth and social protection. The strategy would focus on actions to modernize public administration, enhance growth supporting public services, rationalize the delivery of social services through more effective and affordable modes of service delivery, and improve their targeting. Interventions could include: refocusing the scope of public sector activities to match capacity; intensifying efforts to reap economies of scale and improve efficiency by enhancing regional and sub-regional integration and cooperation; completing institutional and capacity building reforms and improving the institutional framework of human resource management in the public sector; improving the investment climate to promote private sector development; and increasing the transparency of the public sector by improving dissemination of information to the public and intensifying civil society consultation and participation, including the use of public service delivery “score-cards”. Increased regional cooperation and integration of selected public sector services (e.g., procurement, auditing) and regulatory frameworks for public utilities (see para 40) are other critical areas for public sector transformation in the OECS countries which can help overcome their diseconomies of scale.

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<sup>29</sup> As a first step in this process, the OECS Heads of Government were presented with a note on “Public Sector Transformation”, prepared by the ECCB and OECS with Bank support, at the OECS Heads of Government meeting on November 11, 2004.

### **III. The OECS Governments' Development Strategy**

#### **The OECS Secretariat and the OECS Development Charter**

69. Recognizing the need for a sub-regional organization to assist the OECS countries in their development efforts, a series of institutions were established post-independence. The most recent incarnation of these is the OECS Secretariat, which was established in 1981. Its original mandate, set out in the Treaty of Basseterre, was to promote cooperation and economic integration among the Member States, and defend their sovereignty, territorial integrity and independence; this has recently evolved to include a focus on research and strategic policy advice, resource mobilization and technical support.

70. Following a period of weak management, the new Director-General assumed the helm of the Secretariat, which has 100 staff (half the size of the Caribbean Development Bank) just over two years ago. Since then the organization has undergone restructuring to reflect the new policy and advisory focus of its work. The Secretariat's ability to deliver on its mandate has to date been severely constrained by: (i) its lack of capacity at all levels; (ii) its limited financial resources, exacerbated by members countries' inability to pay; and (iii) the lack of much needed political support to move forward on regional initiatives.

71. In October 2002, the OECS Member States ratified the OECS Development Charter, which was developed over several years by the OECS Secretariat and the Eastern Caribbean Central Bank. The Charter maps out, in broad terms, a vision for the long-term development of the OECS and seeks to stimulate a dialogue around the following:

- The definition of new economic parameters for growth;
- Integrating social and environmental parameters into the development agenda;
- Mobilizing a wider cross-section of donors as partners in the development agenda; and;
- A greater inclusion of the private sector, civil society and communities.

72. While the core socio-economic development priorities contained in the Charter form the framework within which the OECS Secretariat can begin a dialogue between the sub-region's Governments and with donors, the Charter lacks focus, making it difficult for donors to plan their assistance in line with regional priorities. Covering everything from reducing poverty to the development of sports, increasing access to quality education to good governance, the Charter lacks specificity and a prioritization of key interventions and reforms needed in light of the OECS countries' multiple challenges and limited capacity.

73. There are a number of sectoral strategies in place, progress on which appears to be stagnant, and all of which have entailed the establishment of a unit within the Secretariat to address thematic or sectoral challenges, be they environmental management, educational or judicial reform. What appears to be a stumbling block, however, is the ability to draw up implementation plans and policy directives.

#### **Progress made on OECS regional integration**

74. To date, there have been limited, but noteworthy success stories on regional integration. The Eastern Caribbean Central Bank (ECCB) is widely recognized as a firm and steady hand on maintaining the stability of the EC dollar and the integrity of the OECS members' banking system. That said, notwithstanding a common central bank and a common currency, the OECS countries conduct fiscal policy independently and the deterioration of fiscal positions in recent years has re-initiated discussion among its members on the need to better coordinate fiscal policies.

75. Subordinating national interests to a regional entity has been fully achieved elsewhere: (i) ECTEL (discussed earlier), the world's first regional telecommunications authority, broke the monopoly of Cable and Wireless, resulting in greater competition and improved access; (ii) the OECS Pharmaceutical Procurement Service (PPS), a successful regional apparatus which regulates, negotiates and procures pharmaceuticals region-wide; (iii) the Eastern Caribbean Supreme Court (ECSC), which has unlimited jurisdiction across the sub-region's states and territories; and (iv) the Directorate of Civil Aviation (DCA), a vehicle for facilitating a collective and uniform approach to civil aviation matters affecting the Eastern Caribbean.

76. Finally, there are a multitude of pan-regional bodies and initiatives, including CARICOM, the Regional Negotiating Machinery, CARICAD, the Caribbean Forum for Development and others, in which the OECS members are all represented and are actively involved. Despite these initiatives, and as indicated

above the scope of regional and sub-regional economic integration and functional collaboration still remains to be exploited to its full potential.

### **Development Partners and other stakeholders in the OECS**

77. Although donor assistance has been declining to the sub-region<sup>30</sup>, the OECS is well served by several bilateral and multilateral agencies, including the CDB (which also on-lends IDB funds), EU, OAS, the World Bank and the UN, and, for the bilaterals, CIDA, DFID, USAID, China, Japan, Kuwait, France, and Taiwan, China. Within the overall context of external assistance, the Bank's contribution is relatively small, accounting for around 10 percent of total disbursements. While relations with the donor community are good, and the dialogue active, overall coordination in the OECS is fragmented. In some countries and some sectors, there is overcrowding (as in the case of education in St. Vincent and the Grenadines, or regional trade issues), while in other areas (youth) there appears to be a lack of technical expertise, matched by an absence of resources. Donors and OECS Governments alike recognize the need to move beyond meetings and analysis to implementation, but the rhetoric has yet to be matched by action on the part of both governments and donors.

78. There have, however, been recent positive moves towards greater coordination and harmonization. In Dominica, which has undertaken a major economic stabilization and adjustment effort, the donors have rallied to support this program by closely coordinating and prioritizing the provision of their financial support and technical assistance to strengthen government capacity for implementation. In part due to these concerted efforts and together with government commitment, the Dominica program is being implemented with reasonable success. Similarly, in Grenada, following the devastation caused by Hurricane Ivan, donors not only turned out in force at two major donor meetings (one hosted by the Bank in Washington, the other by the Government in Grenada), but have also agreed to harmonize procedures, synchronize missions and reporting, and select lead donors in the main sectors so as to avoid duplication of efforts. This is the first such coordinated response to a natural disaster in the Caribbean.

79. The Bank is the only major donor that does not have a physical presence in Barbados, making representation and coordination more challenging and costly, albeit significantly cheaper than establishing an office in the sub-region. It should be noted, also, that the Bank does not lend to Barbados. There are, however, numerous fora where donors meet (including the Caribbean Forum for Development (formerly the CGCED), CDB Annual Meetings, OECS Secretariat and UNDP Donor Meetings) and CARTAC Steering Committee Meetings, and recent efforts to host videoconferenced planning meetings have been well received.

80. In addition to greater harmonization and collaboration with the donors generally, the Bank plans to collaborate more closely at both the project and analytical and advisory levels, particularly with the EU, which has expressed an interest in exploring the provision of grant-financed budgetary support against Bank and/or IMF programs. In recognition of the Bank's technical expertise and global knowledge, the EU is channeling increasing amounts of (concessional) funding through the Bank's projects, using both bilateral and Multi-Donor Trust Funds<sup>31</sup>. The first of these Trust Funds has recently been established in Grenada: the EU has allocated €8.4 mn in grant funds for a School Rehabilitation Project, to be administered by the World Bank. The Trust Fund will also cover technical assistance for Bank-executed activities.

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<sup>30</sup> Net ODA to the six OECS countries, which spiked from US\$78 mn in 2001 to US\$121 mn in 2002, decreased to US\$49 mn in 2003.

<sup>31</sup> Since the late 1990s, use of the Bank as a conduit for other donors' funds has been steadily increasing, from about \$10million in the late 1990s to about \$450 million in 2004.

**TABLE 4. SCOPE FOR COLLABORATION WITH DEVELOPMENT PARTNERS**

<b>Pillar</b>	<b>Specific Intervention</b>	<b>Development Partners</b>
<b>Supporting Growth and Improving Competitiveness</b>	Skills Enhancement	WB
	Public Sector Modernization	WB, CIDA, DFID
	Public Utilities Reform	WB
<b>Reducing Vulnerability</b>	Catastrophe Risk Insurance	WB, CDB, Commonwealth Secretariat
	Social Protection	CDB, DFID, EU, WB
	Environmental Protection	WB

81. Focusing on trade, support for agricultural diversification and private sector development and with projects that run the gamut from the health and educations sectors to airport expansion and, sea defences, **the European Union** is the largest donor to the sub-region. To date, Stabex and SFA funds totaling more than €300 million (US\$360 million) have been earmarked for the OECS countries, but a large proportion of un-earmarked funds (around €80 million – US\$98 million), accumulated over a series of National Indicative Programs (NIPs), has yet to be disbursed. A further €80 million is expected to be allocated to the sub-region’s countries during the next round of SFA allocations together with an additional €57 million (US\$68 million) allocated for Caribbean-wide regional projects. Among the OECS, Antigua and Barbuda has the smallest total allocation of funds and St. Lucia has the largest. Common to all the EU allocations for the OECS is the slowness to move these concessional funds against projects and the Governments of the OECS lament the taxing procedures all EU initiatives involve. Funds for Caribbean regional projects are channeled through CARIFORUM, through the Guyana office.

82. **The Caribbean Development Bank** is the second largest donor to the OECS sub-region contributing around a quarter of the total external financial assistance, which includes on-lending from the Inter-American Development Bank. From 2001-04, the CDB disbursed more than US\$220 million. Its main areas of focus are in promoting sustainable economic growth, governance and inclusive social development, and in fostering regional cooperation and integration for development and improving organizational efficiency and effectiveness.

83. The UK’s **Department for International Development (DFID)** has three key themes outlined in its latest development strategy: (i) to support economic and fiscal management and public service delivery, (ii). to address the trade, competitiveness, and economic integration agenda; and (iii) to support the Pan Caribbean Partnership against HIV/AIDS and violent crime in the region. Between 2001 and 2005, DFID disbursed about US\$5 million for country-specific and OECS regional interventions, of which 37.9 percent was disbursed for public administration, followed by 17.6 percent for education.

84. Like DFID, **CIDA** is focusing its efforts on regional projects, and has taken such an approach to foster increased integration, seeking to improve capacity in four sectors: trade and private sector development; public sector; governance; and environmental management. CIDA provided total annual bilateral disbursements of C\$9.4 million (US\$7.6 million) in FY2003-04 and approximately C\$1.1 million (US\$0.9 million) to support additional projects through its internal Canadian Partnership Branch. CIDA has also recently approved an Institutional Capacity Building Grant for the OECS Secretariat for C\$3.75 million (US\$3 million).

85. The **United Nations Development Program’s (UNDP)** most recent strategy for 2005-2009 outlines the following thematic areas of concentration: (a) governance reform and institutional development; (b) poverty reduction and social sector development; (c) capacity building for environmental and natural resources management; and (d) risk reduction and disaster risk management. The OECS region benefited from an overall UNDP Caribbean-wide budget for 2001-2004 of \$18.5 million – OECS specific funds are not available but are estimated at \$3.5 million. After a hiatus, **USAID** reopened its office in Barbados in August 2004. Focusing on HIV/AIDS, judicial reform and economic growth Caribbean-wide, the OECS received US\$29 million from the US over the 2000-2004 period, excluding emergency aid to Grenada post-Hurricane Ivan, in the order of US\$ 40 million. The **Organization of American States (OAS)** has committed just under US\$4.75 million to the OECS countries over the period 2002-2006 in the areas of education, trade, sustainable development and environment, disaster management, social development and tourism.

86. Donors from East Asia have played a significant role in the sub-region's development. In the period from 1999 to 2003, **Japan** disbursed approximately US\$116 million to the OECS (US\$17 million of which was disbursed in 2003, the most recent figures available), with the fisheries sector being the primary recipient. But it is **China** (including **Taiwan, China**) --which have recently committed significant amounts for development in the sub-region, the former offering US\$100 million to Grenada alone for development projects over the next ten years—which are the largest bilateral contributors to the sub-region.

87. Other bilateral donors include **France**--which over the last five years has committed and disbursed approximately US\$2.5 million towards the health sector, culture and capacity building across the OECS countries in addition to annual bilateral cooperation agreements for Dominica and St. Lucia of US\$500,000--and **Kuwait**, which has committed grant funds, over the period 2000-2005 of US \$496,000 for the housing sector in Grenada and US\$334,000 for roads in St. Lucia. A Donor Harmonization Table is attached (Appendix 4).

88. **Relations with the IMF.** The Fund conducts biannual regional surveillance discussions on the Eastern Caribbean Currency Union and individual Article IV consultations with each of the six OECS countries. Financial support is currently being provided by the Fund to Dominica through a 3-year PRGF arrangement for SDR 7.7 million (94 percent of quota) from 2003-2006. Dominica's performance under this program has so far been satisfactory. Moreover, following Hurricane Ivan, financial support in the amount of SDR 2.93 million (25 percent of quota) was extended to Grenada in November 2004 under the Fund's emergency assistance policy for natural disasters. A similar amount was extended to Grenada under the same policy in January 2003 following Tropical Storm Lili. IMF technical assistance is being provided to member countries in the sub-region on tax policy and tax administration reform, including the introduction of a Value-Added Tax. Assistance is also being provided through CARTAC in statistics, public finance management, tax administration, and regulation and supervision of the financial sector.

89. **NGOs and Media.** The NGO community in the OECS sub-region, while vibrant, remains small and tends to be community or country specific in its interests. Given its size, and resource constraints, there is limited scope for much needed cross-fertilization of ideas and concerns across islands. Governments have not appeared to consistently include NGOs in the development of regional strategies and there is significant scope to increase their role in this regard.

90. The media, however, which is deep-rooted within OECS society – particularly in the area of radio broadcasts – is often dependent on party affiliation and can be highly critical of Governments. There are around a dozen newspapers across the sub-region, none of which are dailies. Readership among the middle-classes is high and it is not uncommon for households to receive two or three competing newspapers per week. Coverage tends to be localized and the lack of a deeply entrenched sub-regional media makes the task of mobilizing support for regional integration more challenging. While Bank engagement of the media in the sub-region has been limited in the past, recent Bank efforts to engage the media have been successful. An OECS public information strategy is currently under development, for implementation through a newly established Public Information Center, based in St. Lucia. Ongoing dissemination of the two recently completed Growth and Competitiveness Reports (the OECS-specific and the broader Caribbean-wide study) presents an excellent opportunity to broaden the public debate around key development challenges facing the OECS countries.

## IV The World Bank and the OECS

### History of Bank Engagement

91. Up until 1987, the bulk of Bank lending to the OECS was conducted via on-lending from lines of credit to the Caribbean Development Bank (CDB). The goal of this approach was to: (i) channel resources to member countries “at a lower cost than the Bank could do directly”, and (ii) strengthen CDB as a regional development institution. In 1997, this lending approach was discontinued following the poor performance of the last three lines of credit and a request from the OECS Heads of Government that the Bank assume direct lending. The 2001-2005 CAS was the first CAS to provide Bank lending and AAA directly to OECS clients. It had two overarching objectives: (i) reduce income insecurity and vulnerability at the aggregate and household levels; and (ii) building human and institutional capacity. The CAS also called for increasing use of group operations under sub-regional umbrella mechanisms (such as horizontal APLs) with the aim of promoting sub-regional integration and achieving cost-effectiveness in Bank operations. Financial assistance was provided on blend terms (50 percent IDA; 50 percent IBRD), under the small island economies exception.

### The Bank’s Lending Portfolio under the last CAS

92. Of the \$107 million lending program which was envisaged, \$79 million (not including the HIV/AIDS program for which the regional commitment was made during the earlier CAS) has been delivered as of July 2005. The majority of these projects were part of horizontal APLs or regional programs. Non-programmed lending comprised the Emergency Recovery operations, the follow-on regional telecommunications reform project, the follow-on St. Lucia Water Reform project and the Dominica Economic Recovery Support Operation (ERSO) as well as the post-Hurricane Ivan Emergency Recovery loan to Grenada.

**TABLE 5: TOTAL (IBRD AND IDA) LENDING BY COUNTRY (FY02-05) – US\$ MN**

	Programmed Lending Realized	Non-Programmed Lending Realized	Total Lending d
Dominica	0	6.74	6.74
Grenada	14.04	14.34	28.38
St. Kitts and Nevis	9.05	4.94	13.99
St. Lucia	28.50	14.54	43.04
St. Vincent & the Grenadines	19.11	3.74	
OECS regional projects	8.7	0	
<b>Total</b>	<b>79.4*</b>	<b>44.36</b>	<b>123.7</b>

\*includes two projects to be taken to the Board in May 2005, prior to presentation of the new CAS.

93. The Bank’s OECS project portfolio (which currently has 21 ongoing projects) covers disaster risk management, emergency recovery, education, HIV/AIDS and the environment (GEF). The CAS Base Case lending scenario was implemented: the lending that took place was largely consistent with CAS priorities of selectivity and comparative advantage while avoiding areas where other donors were active. The post 9/11 Emergency Recovery projects, the Economic Recovery Support Operation (ERSO) in Dominica and the Emergency Recovery Program in Grenada following Hurricane Ivan, reflected the Bank’s rapid response to emergency situations.

## BOX 5: OECS FIDUCIARY RISK ASSESSMENT

The World Bank and other financing agencies have seen their business change considerably in recent years—the relative increase in adjustment lending, debt relief, and sector programs, in place of traditional investment projects—has reduced the relative importance of tracking individual borrower transactions as a source of fiduciary assurance and highlighted the importance of assessing the country’s own PFM system. Meanwhile, the increasing emphasis by donors on working with, and improving, government institutions and systems, also has indicated a need to better understand opportunities for enhancing public sector performance and thus reducing fiduciary risk.

There are other reasons to assess fiduciary risk in the OECS countries. For example, the Eastern Caribbean Central Bank (ECCB) has sought to develop and integrate the ECCU money and capital markets into a single financial space and has launched a number of initiatives including the Eastern Caribbean Securities Market (ECSM). The more investors know about a country’s policies and institutions, the lower the perception of risk and the lower the cost of capital. Member countries will see political advantages in aligning their governance practices to regional or international standards and being more transparent so as to position themselves better for membership and influence in regional and international institutions. There is also a domestic demand for government transparency and accountability. This is expressed through citizen groups and the media, as recently witnessed in Antigua and Barbuda with regard to the social security funds. The rapid spread of national and international networking has strengthened these groups and amplified their voice.

At present, there is little overall difference among the OECS countries in terms of their level of fiduciary risk. Their ratings range from moderate to moderately high fiduciary risk, indicating that the fiduciary arrangements are not completely adequate and the procedures and practices are not observed most of the time. As such, there is a clear indication that there is room for improvement and the next steps should be for national and sub-regional authorities to agree on the priority level for addressing this issue and to reach a consensus on the actions that need to be taken. More precisely – what is to be done, by whom, how, when, and how it will be funded.

94. Two of the twenty-one projects have been rated unsatisfactory: the Grenada and St. Kitts and Nevis HIV/AIDS Prevention and Control Projects.

### **The Bank’s AAA under the last CAS**

95. There was a significant increase in AAA delivered during the last CAS, the majority of which was core diagnostic work such as PERs, CFAAs and CPARs, the latter two of which were undertaken and presented jointly as pan-sub-regional analyses, as was the Institutional and Organizational Capacity Review (IOCR)<sup>32</sup>. A number of reports, including those on youth and income instability were prepared for discussion at the 2002 Caribbean Group for Cooperation in Economic Development (CGCED). The Growth and Competitiveness reports were presented at the Caribbean Forum for Development in Barbados in May 2005.

96. The OECS lending and AAA portfolio has benefited from a number of assessments, conducted by both the Quality Assurance Group and the Operations Evaluation Department. Quality at Entry Assessments were conducted for three of the projects launched under the 2001-05 CAS and a further two projects from the previous CAS were evaluated for the quality of supervision. One Quality of ESW Assessment was undertaken for the OECS CPAR.

97. In addition, the sub-region benefited from a comprehensive QAG Review of the Bank’s work in the OECS, which covered both active and closed projects. The QAG assessment was a critical input to both the CAS Completion Report and to the formulation of this CAS.

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<sup>32</sup> With the exception of Dominica, which had a stand-alone CFAA, CPAR, and social protection study.

**TABLE 6: AAA DELIVERED IN FY02- 05**

Dominica	PER (04), CFAA, CPAR (04); Social Protect. Study (04)
Grenada	PER (04), CFAA (03), CPAR (03), ICA (05)
St. Kitts and Nevis	PER (04), CFAA (03), CPAR (03)
St. Lucia	PER (05), CFAA (03), CPAR (03)
St. Vincent and the Grenadines	PER (05), CFAA (03), CPAR (03)
OECS-wide	CEM (05) Growth and Competitiveness (05) Environmentally Sustainable Tourism (05) FSAP (04) Educational Achievement (03) IOCR (03) Large Scale Energy Options (ESMAP) Study (ongoing)
Caribbean Wide	Infrastructure Assessment (05) Youth and Development (03) Growth and Competitiveness
Other Activities (ongoing)	Income Volatility, Macroeconomic Vulnerability (03) MECOVI, CARTAC

### Lessons Learned

98. The CAS Completion Report (attached in Appendix 1) gives detailed analysis of the key lessons learned over the last CAS period. On lending<sup>33</sup>, there is broad recognition that the Bank’s technical expertise in project design has made a significant contribution to the sub-region’s development. However, project implementation has not always gone smoothly and a number of areas were cited as contributing to the often lackluster implementation of Bank projects. One area is the overly complex project design, which has led to lengthy delays in effectiveness and a sense that the project timetable was more Bank-driven than client-led. This is particularly the case for APL projects. While, by using APLs, the Bank captured economies of scale of preparation and supervision, the OECS clients did not always capture the regional economies of scale and the envisaged “cross-country learning” that underscores the APL was not exploited. Greater attention to client preparedness will be key moving forward to ensure that regional approaches are more successful and that the knowledge gains are fully harnessed.

99. The Bank’s procedures are particularly cumbersome to small states and often, the knowledge of the plethora of processes and their paperwork hinges upon the performance of a Project Management Unit (PMU) which in turn may translate to one or two persons. The absence or departure of key staff has left a disproportionate number of projects pending, further exacerbating tensions between PMUs, Central Tender Boards and line ministries. This underscores the need for two new approaches: (i) simplified procedures embodied in simplified instruments, as proposed through the new SCUP (see Box 7); and (ii) additional training in the fiduciary areas of financial management and procurement for future operations. Roll-out of these two elements would ensure that (a) projects are implemented when the client is ready and (b) that, once effective, the client has the capacity to bring the projects to timely and successful fruition.

100. Arguably, where the Bank has had the greatest impact in its lending, has been in two areas. First, interventions involving policy reform, such as the Dominica ERSO and the ECTEL project – which sought, respectively, to restore fiscal balance and encourage a resumption of growth and to dismantle a crippling telecommunications monopoly while establishing a regulatory framework. Second, interventions which responded to unforeseen crises—such as the post 9-11 Emergency Recovery Loans and the Hurricane Ivan contingency facility. The Bank’s work in such situations has been broadly recognized as demonstrating the Bank’s ability to bring its global knowledge to bear in the first instance and to work flexibly and swiftly with both clients and donors under pressure in the second.

101. There is similarly broad acknowledgement for the Bank’s analytical rigor in its AAA. But while AAA and ESW are highly valued by governments and regional institutions and are well regarded by the

<sup>33</sup> It should be noted, however, that the Bank’s programs have moved relatively swiftly and smoothly compared with other donors’ projects.

academic establishment, the lack of capacity, and its subsequent lack of client ownership, is a key concern going forward. The Bank’s decision to refocus its core diagnostic work and, for example, to consolidate the CFAA and CPAR into one report, takes heed of small states’ inability to digest, and therefore utilize fully, “big country AAA” Following discussions with OECS clients, it is envisaged that more AAA will take the form of “just-in-time” policy notes.

102. In both lending and AAA activities, adoption of recommendations or implementation of projects has often faltered due to a lack of buy-in at the level of line ministries. The Bank’s counterpart interlocutors, typically at the highest political levels, are often the sole conduit through which projects and AAA are channeled. In order to strengthen ownership, projects would benefit significantly from greater stakeholder involvement--from concept to completion--an approach that is currently being applied to the Public Sector Modernization Strategy which involves stakeholder workshops, polling and development of a broad dissemination plan. In addition, new approaches to strengthen client ownership--such as (i) preparing the reports jointly with other donors in order to have a joint voice that conveys a cohesive approach to a sector or theme; (ii) defining and partnering with key institutions that can “champion” AAA work; (iii) aligning AAA with current government programs or reforms so that the resulting analysis and recommendations are relevant and timely; and (iv) follow up to Action Plans, post-delivery of AAA--should be explored. The Bank recently convened a workshop of over fifty senior civil servants from across the region to discuss regional priorities as outlined in this CAS. This approach of reaching out to key ministries should be leveraged going forward.

103. In the arena of donor coordination and harmonization, the Bank was able to convene more than seventy donors and other stakeholders in less than a fortnight to formulate an action plan for Grenada’s reconstruction, the first such meeting to take place in the wake of a natural disaster.

104. The Bank has also been approached by donors (the EU and DFID) to take the lead in spearheading a number of initiatives which would use mechanisms such as the Multi-Donor Trust Fund to leverage un-disbursed donor grant resources.

105. Finally, and underpinning all of the areas highlighted above, while the Bank has taken a regional approach, wherever possible, the Bank’s commitment to such a framework has sometimes usurped the region’s capacity and timeframe for moving forward on the Development Charter . In the absence of any region-led prioritization of the challenges and opportunities facing the OECS countries, the Bank and other donors have often been reactive rather than strategic in their interventions, resulting in overcrowded sectors in some instances, and absence in others. In order to better leverage limited resources and weak capacity, the region needs to better develop its priorities around which donors can coordinate their support. While recent efforts at greater donor coordination and harmonization appear to be bearing fruit, those efforts can only be fully realized by a client-driven development agenda.

**IFC’s portfolio under the last CAS**

106. Investment Activities Five regional projects and one direct financing were committed during FY01-FY04 for a total amount of US\$104 million.

**IFC Investment Activity (US\$ million)**

	<b>FY01</b>	<b>FY02</b>	<b>FY03</b>	<b>FY04</b>	<b>FY05*</b>
IFC Original Commitments	17.5	21	50	15	0
IFC's own account	17.5	21	50	15	0
Syndication	0	0	0	0	0

*\*as of end FY 05*

107. Regional projects over the period of the last CAS, included (i) a US\$17.5 million regional credit line with Royal Merchant Bank (FY01); (ii) two regional credit line operations (US\$20 million in FY02, and US\$50 million in FY03) with the Republic Bank: these two operations facilitate the regional integration of the financial services industry, allowing Republic Bank to enter Barbados and the Eastern Caribbean market of St. Lucia, in addition to Trinidad and Tobago, Guyana, Grenada and the Cayman Islands; (iii) an up to US\$4.6 million equity investment and a US\$10 million IFC loan to finance the expansion of the Digicel Group’s mobile telephony into the Eastern Caribbean; and (iv) University of the West Indies-Institute of Business (UWI-IOB) – a US\$5 million IFC loan to the Institute of Business in Port-of-Spain, Trinidad and Tobago

financing the construction of a new US\$10 million campus. IOB is a private business school affiliated with UWI, an autonomous regional institution backed by and serving 15 Commonwealth countries in the Caribbean. The Institute's new campus will provide modern, well-equipped facilities for its core activities in graduate business education, as well as short-term training, research, and consulting activities. UWI includes students from Antigua and Barbuda, Anguilla, Dominica, Grenada, St. Kitts and Nevis, St. Lucia (which has its own university center), and St. Vincent and the Grenadines, among others. In addition, IFC provided direct financing of US\$1 million for the Bel Air Plantation in Grenada, a tourism sector project in FY02.

108. **Non-investment activities included ongoing assistance with the development of the Caribbean Small Hotel Brands** (as part of the larger OAS Caribbean Small Hotels Assistance Project) targeted to small hoteliers in the Caribbean, and a study to identify the major legal, regulatory and institutional barriers to investment in OECS countries. In a similar vein, the **Caribbean Business Toolkit**, (see Box 6) was launched.

#### **BOX 6: SME TOOLKIT PROGRAM IN THE EASTERN CARIBBEAN**

With support from Canadian Trust Funds and IFC, the SME Toolkit was localized and implemented in the Caribbean as a collaboration between the SME Department and the LAC Department: the result is the Caribbean Business Toolkit ([www.caribbeantoolkit.org](http://www.caribbeantoolkit.org)).

Integral to the project was the innovation of a computer-based workshop curriculum that leverages the Toolkit as the basis for teaching core business management topics to SMEs. The project was launched in mid-2003 through a series of 10 high-profile pilot workshops for entrepreneurs and business development service (BDS) providers in Antigua and Barbuda, Dominica, Grenada, St. Lucia and St. Kitts and Nevis. The initial workshops in the Caribbean were extremely well-received and there is also demand for more targeted workshops on business planning, accounting and finance, and marketing and sales in a number of other markets.

##### **Summary of outcomes**

A total of 100 BDS providers and 120 SME owners and managers attended the initial workshops. An estimated 500 employees, partners and co-workers of these participants have also benefited from direct use of the Caribbean Business Toolkit.

Through hands-on, computer-based training for agencies that service the small business sector, and inclusion of those agencies in the delivery of training to SMEs, IFC has helped begin to build the capacity of local Eastern Caribbean institutions to offer their own follow-up training activities.

Approximately 1,000 copies of the Toolkit CD-ROM were made available to the local coordinators for further distribution and training. The CDs and Web site provide participants quick access to further information and continuing study.

The project team has sought to identify a regional partner that would actively manage and market the Caribbean Business Toolkit going forward. While the team has had extensive discussions with the Organization of American States (OAS) and the Organization of Eastern Caribbean States-Export Development Unit (OECS-EDU), no organization has yet agreed to serve as the managing partner for the region.

#### **Bank Exposure**

109. As of June 2005, total OECS debt to the Bank was US\$123 million, of which US\$37 million is IBRD debt. There is an additional US\$49.8 million of un-disbursed IBRD. St. Kitts and Nevis has the highest IBRD debt exposure at US\$13.5 million and St. Vincent and the Grenadines the lowest, at less than US\$1 million. With no IBRD lending planned for the base case, existing exposure levels under this scenario would improve. Under the high case scenario, IBRD exposure and risk indicators would remain at reasonable levels (see Annexes 4-9 for respective countries).

## V. Country Assistance Strategy, FY06-09

### A New Way of Doing Business

110. In January 2005, the six OECS Heads of Government, the Governor of the ECCB and the Director-General of the OECS Secretariat met with the President of the World Bank in Grenada. Cognizant of the need for increased growth and improved competitiveness of their economies, their susceptibility to natural disasters, and the potential erosion of social gains, their discussions focused on the opportunities and challenges facing the sub-region. Key among the challenges identified were (i) the need to stimulate growth and improve competitiveness; (ii) growing unemployment, particularly among young people; (iii) weak social safety nets; (iv) the impact of skills migration and its consequences on the labor market; (v) the need for efficiency gains through modernizing the public sector; (vi) the need for increased resilience to natural disasters; and (vii) the need to protect the environment. Finally, the challenge of realizing regional economies of scale was clearly articulated and the example of ECTEL was lauded as best practice for future interventions.

111. Against this background, and taking into account the lessons learned from the previous CAS, Heads of Government and the Bank agreed on the basic parameters for a new development partnership.

112. For its part, the World Bank Group would:

- support regional integration through regional interventions – in such areas as catastrophe risk insurance; public sector reform; skills enhancement and youth-at-risk; and the regulatory framework for utilities;
- help to (i) establish a new partnership between the OECS and the donor community, based on CDF principles and (ii) leverage other donor concessional support through innovative mechanisms such as the creation of Multi Donor Trust Funds;
- simplify Bank processes to make them more user-friendly to small states; and
- support capacity building efforts in key areas of project implementation.

113. In turn, the sub-region would:

- restore medium-term fiscal and debt sustainability through a mix of fiscal adjustment, growth-enhancing structural reforms, improved debt management and possible debt restructuring;
- flesh out the Development Charter by defining 3-4 key development objectives with clear timelines and benchmarks which donors can support, in a coordinated and harmonized fashion, based on their comparative advantage; and
- work closely with the Bank and other donors to unlock hitherto un-disbursed donor grant financing for key projects and programs in the sub-region.

114. The Heads agreed on the need to refine their development agenda, prioritizing those areas needing more urgent attention while incorporating specific outcome indicators and monitorable benchmarks. They also concurred with Bank management that given high debt levels, additional IBRD lending would exacerbate already tight fiscal positions and that, wherever possible, concessional resources from other donors should be dovetailed with the Bank's well-respected analytical work and technical assistance, and IDA financing.

115. Given limited resources and weak institutional capacity, the Bank proposed a number of ways to strengthen coordination and to take steps to expedite harmonization efforts. The Bank also discussed a number of measures to simplify procedures which are small-state unfriendly and to take steps to enhance capacity building efforts in government, beginning at the project implementation level. This proposed approach was echoed in the area of AAA, where there was general agreement that more "just-in-time" analytical work would help to support their reform agenda as a complement to diagnostic work.

### FY06-09 Bank Program of Assistance

116. Reflecting the challenges laid out during the meeting, the lessons learned from the previous CAS and building on thematic and sectoral areas where the Bank has a comparative advantage, Bank activities will be guided by three main principles:

- (i) supporting regional integration and coordination efforts;

- (ii) partnering and harmonization in both lending and analytical work with other development partners; and
- (iii) active pursuit of simplification and capacity building initiatives tailored to these small states.

117. Specifically, the Bank would seek to strengthen its role vis-à-vis other donor agencies by increasing collaboration on convergent sectors of interest, as is currently being piloted with DFID in the area of education and the EU on education and ICT. In a similar vein, the Bank would build on the broad dialogue on stabilization and structural reform measures that took place in Dominica in 2004-05; the extensive amount of economic and sector work conducted by the Bank and other donors; and the EU's expressed interest in marrying the EU's significant concessional resources with Bank technical expertise and lighter operational procedures. To pilot this approach, a Multi-Donor Trust Fund would be established to provide EU complementary financing to Dominica for a reform agenda supported by a PRSC, with a view to extending this modality to other countries in the region if successful.

118. In an effort to encourage coordination and foster transparency around donor activities in the sub-region, the Bank will continue to develop and share tools to facilitate information on aid flows. The RedBook Online--a web-based e-resource for tracking aid flows and sectoral and thematic knowledge--which was designed in collaboration with UNDP, has recently been piloted to donors and will be rolled out to OECS clients in early 2006, complementing the Client Connections tracking system which was delivered in late 2004.

119. In a continued effort to simplify and streamline procedures, and to ensure that efficiency gains in project design and management are achieved, the Bank has proposed a pilot of a Simplified Country Umbrella Program (SCUP – see box 7) in the OECS.

120. Responding to pervasive weaknesses in the project implementation units, and in an effort to rationalize and harmonize the existing duplicative functions undertaken by multiple ministries within single countries, the Bank will deliver an intensive training program in the areas of procurement, financial management, and project management. The OECS Capacity Building Program will be delivered to both Project Management Unit staff working on ongoing projects and to staff within line ministries. The Central Tender Boards, which have oversight on their respective country's procurement, will also benefit from this training.

121. Given capacity constraints within these small states and the need to reach a broader range of stakeholders, the Bank will pursue approaches that closely engage regional and national agencies and actors. The recent example of workshops, focus groups and public opinion polling used for the preparation of an OECS Public Sector Transformation strategy, undertaken with the OECS Secretariat and the ECCB, is a model that the Bank plans to follow for other AAA activities.

### **FY06-09 Bank Lending Program and Terms**

122. The lending strategy has two main pillars:

1. stimulating growth and improving competitiveness; and
2. reducing vulnerability, by promoting greater social inclusion and strengthening disaster risk management.

123. Recognizing the OECS countries' weakened creditworthiness due to high debt ratios, Bank activities will focus on leveraging available donor grant financing. Following the recommendations of the recently completed growth and competitiveness study for the OECS, IBRD and IDA support would focus on providing technical and financial assistance for interventions to support the two main pillars. To stimulate growth and improve competitiveness, projects would address: public sector modernization and competitiveness, and public utilities reform; to help reduce vulnerability, projects would address catastrophe risk insurance, skills enhancement, social protection and environmental management.

**TABLE 7: LENDING DURING FY06-09 CAS**

<b>Fiscal Year</b>	<b>Pillar 1: Supporting growth and Competitiveness</b>	<b>Pillar 2: Reducing Vulnerability</b>
FY06	Public Sector Modernization* PRSC I (Dominica)+	GEF Adaptation to Climate Change
FY07	OECS Infrastructure and Utilities Reform Skills Enhancement* PRSC II (Dominica)+	Caribbean-wide Catastrophe Risk Insurance Environmental Protection OECS Social Protection Program I*
FY08	Public Sector Modernization II	OECS Social Protection Program II
FY09	Skills Enhancement II	

\*These are pilot projects that will be rolled out across the sub-region over the CAS period

+Development Policy Lending is also envisaged for the other OECS IDA-blend countries.

### **Supporting growth and competitiveness**

- **Stimulating growth and competitiveness:** this includes support for Governments' efforts to facilitate and encourage private sector development, including public sector modernization, and the provision of key utility services on a sub-regional basis.

### **Reducing Vulnerability:**

- **Promoting greater social inclusion:** this includes development of social protection strategies for the sub-region, particularly targeting youth-at-risk and other disadvantaged groups; skills enhancement; and
- **Strengthening disaster risk management:** this includes support for catastrophe risk insurance and strengthened environmental protection.

Specifically, Bank activities in support of the two pillars include:

### **Pillar 1: Supporting Growth and Competitiveness**

124. The OECS countries recognize that public sector modernization will be critical to ensure continued economic growth and competitiveness in the global market and improve efficiency in the delivery of public services. In this area, they acknowledge that there is significant scope for greater regional cooperation and integration of selected public sector services (e.g., procurement, auditing). A series of Public Sector Modernization Projects would support the OECS countries in improving public sector management through: (i) improved human resource management and training in the civil service; (ii) conversion of public entities into executive agencies or commercialization/outsourcing of public services within formal monitoring procedures to improve service delivery; (iii) design and implementation of performance-based functioning for a service-oriented and accountable public sector; and (iv) supporting greater regional coordination and integration of public services, starting with those "low hanging fruits" where economies of scale can be easily reaped (e.g. pooled procurement of selected goods and services). PRSC I and II would provide support to Dominica for implementation of reforms aimed at improving competitiveness and supporting private sector development, on the basis of the PRSP currently being prepared by the Government. In addition to the PRSCs for Dominica, DPLs for Grenada, St. Lucia and St. Vincent and the Grenadines could be provided in the base case lending scenario at the request of the respective governments, subject to meeting the relevant triggers in Table 9.

125. The *Skills Enhancement Project* would address the lack of relevant skills in the labor force, one of the greatest impediment to growth and competitiveness in the OECS. Accelerated curriculum reform, together with modernizing assessment systems are proposed, to make the curriculum relevant to labor market needs. A parallel skills enhancement program targeting youth-at-risk will equip young persons with marketable skills for gainful employment and foster public/private partnerships to provide alternative opportunities for secondary graduates such as transition from school to work programs. The ongoing Caribbean Knowledge and Learning Network will become operational under this CAS period and will provide distance learning opportunities for post-secondary students.

126. The *OECS Infrastructure and Utilities Reform Investment/TA program* would be a regional benchmarking and regulatory assistance project for the water and electricity sectors, building on the successful establishment of ECTEL, the OECS regional telecommunications regulator, and the nearly-completed PPIAF assistance to Dominica that has developed a performance-based regulatory regime to replace the cost-plus framework. The project would explore reforms in pricing as well as operation and oversight of electricity and water companies and would undertake a regional and international benchmarking of the utilities with the objective of lowering prices, increasing efficiency and raising awareness both in government and with the public of the relative performance of the local utility.

127. *Environmental Management Project.* To remain competitive in the tourism sector, the OECS countries will need to enhance the management of their natural environment. This includes (i) strict enforcement of environmental policies for land use planning, urban-rural zoning regulations and landscaping; (ii) conservation and expansion of natural areas; (iii) monitoring of the quality of coastal waters and beaches; and (iv) additional efforts in solid waste management, waste water treatment and water and air pollution control. Moreover, to reduce vulnerability to natural disasters (under pillar II below), measures to reduce erosion and promote reforestation are also necessary. To improve environmental management, the project would focus on policy reforms, region-wide monitoring of critical ecosystems and water quality, regional and national institutional strengthening, infrastructure investments and increasing public awareness. Cooperation with the private (tourism) sector and communities will be an integral part of the program to participate in international environmental certification schemes. The project would use a simplified lending instrument, as described below, to enable governments to obtain just-in-time small Bank loans and possibly grants from the Global Environment Facility and other grant agencies.

## **Pillar 2: Reducing Vulnerability**

128. The OECS Governments have signaled their interest in participating in a CARICOM-wide *Catastrophe Risk Insurance Project*, institutionalizing a comprehensive risk management approach. The project will strive to deepen insurance markets to allow for the improved sharing of insurable and uninsurable risks among the public sector, private sector, international insurance industry, international capital markets, and the domestic 'self-insured' population. The leveraging of scarce capital to diversify and better spread risks, as well as to significantly increase the efficiency of risk transfer mechanisms, would require a sub-regional risk pooling mechanism. The CARICOM countries have indicated their commitment to increase their limited leverage while exploiting the best terms for reinsurance protection through shared risk diversification and faster accumulation of domestic insurance reserves. The project will be designed to ensure that the "productive purposes" test is satisfied and efforts would be made so that reporting mechanisms are in place to fully ensure that reconstruction of productive capacity is the primary target for such funding under a pre-planned risk mitigation approach, and used to reimburse the government for budgets displaced toward reconstruction due to emergencies. There is a precedent for the Bank providing assistance for premia via loans (Turkey Narmara Earthquake reconstruction project), but the proposed Caribbean CRI project is clearly more complex given the multi-country and shared risk approach proposed.

129. While efforts will be focused on promoting ex post emergency relief/reconstruction facilities through insurance pooling, attention will also be directed towards continuing the dialogue with both the Governments and the international community to reinforce ex ante vulnerability reduction.

130. Building on the recent analytical work undertaken through the OECS on social protection strategies, the *OECS Social Protection program* would have a two-pronged approach: (i) to scale up community-driven micro-projects, targeting the poor and vulnerable segments of the population; and (ii) to support implementation of country-level reforms, including improving systems for monitoring and targeting, and rationalizing of existing social assistance programs under one social fund. Reforms at the national level would be supported in different phases under an umbrella OECS program – St. Lucia is expected to be the first “roll-out” country to receive assistance, where efforts would focus on strengthening the institutional framework. These efforts would dovetail with the ongoing work at the CARICOM level on reform in such areas as social insurance and labor mobility.

131. The *GEF-funded Mainstreaming Adaptation to Climate Change project* seeks to assist in the incorporation of climate change concerns in sector and regional planning for the OECS nations and to identify critical vulnerabilities.

132. **IDA and IBRD lending scenarios and instrument choice:** As indicated earlier, a critical problem of the OECS countries is their high levels of debt and consequent weakened (or lack of) creditworthiness. At

the same time, the social and economic restructuring challenges faced by these small states call for continued Bank engagement. This engagement should, however, be contingent on progress in improving fiscal balances and reducing debt levels. On this basis, Bank assistance to the OECS over the period FY06-09 would be structured along the following (See Table 8):

- A Base Case lending scenario consisting of US\$51.3 million in IDA resources for the four OECS blend countries (Dominica, Grenada, St. Lucia and St. Vincent and the Grenadines).
- A High Case lending scenario consisting of US\$52.1 million in commitments additional to the Base Case, bringing the total lending envelope to US\$103.4 million. The High Case would consist of IBRD resources for investment and development policy lending.
- A Low Case lending scenario consisting of US\$31 million in IDA resources for the four OECS blend countries (Dominica, Grenada, St. Lucia and St. Vincent and the Grenadines); this includes an IDA Regional allocation of \$15.2 million for two regional projects: US\$12 million for Catastrophe Risk Insurance and US\$3.2 million for Infrastructure and Utilities Reform (these funds, which are counted as additional to the ceilings established for country allocations, must be matched with one-third of IDA funds from those country allocations<sup>34</sup>).

133. While most of the planned operations would be for investment lending, the CAS includes in the base case PRSCs for Dominica and possible DPLs for Grenada, St. Lucia and St. Vincent and the Grenadines to enable the Bank to support the early phases of ambitious stabilization and policy reform programs if these countries decide to undertake them. Under the high case (IBRD only) lending scenario, development policy lending would be available for these four same countries to pursue policy reform efforts in the areas of growth and competitiveness and to St. Kitts and Nevis and Antigua and Barbuda (which are IBRD only) to support them in policy reform programs to restore fiscal and debt sustainability, and to stimulate growth and improve competitiveness of their economies.

134. The two regional projects—catastrophe risk insurance and the regional Public Utilities Project, which would seek to duplicate the successful approach employed to establish the regional regulatory authority in the telecommunications sector, ECTEL—would be prepared for simultaneous multi-country implementation. The other projects would be prepared and rolled out to countries on a sequential basis, using an APL approach with those countries most ready and interested going first and others coming on-stream later during the CAS period

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<sup>34</sup> Regional projects, eligible for funding from this source are defined as operations:

- (i) that involve three or more countries, all of which need to participate for the project's objectives to be achievable (i.e. the project would not make sense without the participation of all countries);
- (ii) whose benefits, either economic or social, spill over country boundaries (i.e. that generate significant positive externalities or mitigate negative ones);
- (iii) where there is clear evidence of country or regional ownership which demonstrates commitment of the majority of participating countries;
- (iv) that provide a platform for a high level of policy harmonization between countries (this is key to the success of a regional initiative); and importantly
- (v) are part of a well-developed and broadly supported regional strategy.

**TABLE 8: LENDING SCENARIOS (US\$ MN)**

	Low Case			Base Case			High Case		
	IDA	IBRD	Total	IDA	IBRD	Total	IDA	IBRD	Total
Antigua and Barbuda								10.0	10.0
Dominica	7.8*		7.8	10.2 (Low case +2.4)		10.2	10.2	6.4	16.6
Grenada	7.8*		7.8	11.8 (Low case +4.0)		11.8	11.8	4	15.8
St. Kitts and Nevis								10.0	10.0
St. Lucia	7.8*		7.8	16.7 (Low case +8.9)		16.7	16.7	12.9	29.6
St. Vincent and the Grenadines	7.8*		7.8	12.6 (Low case +4.8)		12.6	12.6	8.8	21.4
Total	31.2		31.2	51.3 (Low case + 20.1)		51.3	51.3	52.1	103.4

\* The low-case allocation for the IDA-eligible countries is comprised of US\$4mn per country plus an additional amount of US\$3.8 mn from the regional IDA allocation for two regional projects (see para. 129).

135. **Results-Based Monitoring and Evaluation.** Timely data collection and their accuracy in the OECS remains a problem, not least because of human resource constraint. This makes it difficult for results-based monitoring and evaluation. Two activities supported by the Bank and the sub-region's major donors are expected to improve data collection and analysis. The OECS-MECOVI project is expected to improve social statistics and CARTAC is expected to further improve macroeconomic data and policy discussions. Appendix 2D provides a framework for the results-based monitoring and evaluation but a more comprehensive results framework would be developed during the CAS Progress Report and as each project is developed. For all new operations, the Bank will collect baseline data and put in place a results-based monitoring and evaluation system in each country.

**TABLE 9: LENDING TRIGGERS**

Trigger Areas	To be in the Base Case (IDA only)  US\$ 51.3 million	To shift to the High Case (use of IBRD resources)  US\$103.4 million
Macroeconomic performance	<p><i>For investment lending for Dominica, Grenada, St. Lucia and St. Vincent and the Grenadines</i> Governments' ongoing efforts at fiscal stabilization continue as evidenced by stable macroeconomic indicators.</p> <p><i>For Development Policy Lending (DPL) for Dominica, Grenada, St. Lucia and St. Vincent and the Grenadines</i> Satisfactory macroeconomic performance as evidenced for example by the successful implementation of the Government stabilization program monitored <i>inter alia</i> by the IMF under intensified surveillance.</p>	<p><i>For investment lending and/or DPL for Antigua and Barbuda, and St. Kitts and Nevis:</i> Successful implementation of Governments' stabilization programs (monitored <i>inter alia</i> by the IMF under intensified surveillance) to ensure significant debt reduction leading to medium-term debt sustainability</p> <p><i>For investment lending for Dominica, Grenada, St. Lucia and St. Vincent and the Grenadines:</i> At least a 12-month track record of satisfactory macroeconomic performance.</p> <p><i>For Development Policy Lending for Dominica, Grenada, St. Lucia and St. Vincent and the Grenadines:</i> At least a 18-month track record of satisfactory macroeconomic performance as evidenced for example by the successful implementation of Governments' stabilization programs (monitored <i>inter alia</i> by the IMF under intensified surveillance).</p>
Portfolio performance	<p>Adequate and timely provision of counterpart funding for Bank-supported projects.</p> <p>Percentage of problem projects in individual country portfolios at or below 30 percent.</p>	Base case trigger.
Regional integration and collaboration	For projects with a regional focus, regional (OECS) agreement on a sectoral/thematic medium-term framework would be required.	Base case trigger.

**TABLE 10: IBRD/IDA LENDING PROGRAM**

	<b>Low Case</b>	<b>Base Case Same as low case plus:</b>	<b>High Case Same as base case plus:</b>
Antigua and Barbuda	Catastrophe Risk Insurance*		<i>Investment lending and/or Development Policy Lending</i> to support policy reform efforts in the areas of growth and competitiveness (including interventions on Public Sector Modernization and Public Utilities Reform)
Dominica	Catastrophe Risk Insurance Skills Enhancement	Infrastructure and Utilities Reform PRSCs**	<i>Investment lending and/or Development Policy Lending</i> to support policy reform efforts in the areas of growth and competitiveness
Grenada	Catastrophe Risk Insurance Skills Enhancement	Public Sector Modernization Infrastructure and Utilities Reform	<i>Investment lending and/or Development Policy Lending</i> to support policy reform efforts in the areas of growth and competitiveness
St. Kitts and Nevis	Catastrophe Risk Insurance*		<i>Investment lending and/or Development Policy Lending</i> to support policy reform efforts in the areas of growth and competitiveness (including interventions on Public Sector Modernization and Public Utilities Reform)
St. Lucia	Catastrophe Risk Insurance Skills Enhancement	Public Sector Modernization Infrastructure and Utilities Reform Social Protection Program***	<i>Investment lending and Development Policy Lending</i> to support policy reform efforts in the areas of growth and competitiveness
St. Vincent and the Grenadines	Catastrophe Risk Insurance Skills Enhancement	Public Sector Modernization Infrastructure and Utilities Reform	<i>Investment lending and Development Policy Lending</i> to support policy reform efforts in the areas of growth and competitiveness
OECS-wide	GEF Adaptation to Climate Change Environmental Protection		

\*In order for the catastrophe risk insurance to be viable, a pooled arrangement involving all the OECS countries is required. The source of Antigua and Barbuda and St. Kitts and Nevis's contribution to this projects is anticipated to be through on-lending, possibly through the Caribbean Development Bank.

\*\*In addition to the PRSCs for Dominica, DPLs for Grenada, St. Lucia and St. Vincent and the Grenadines could be provided--in the base case--at the request of the respective governments, subject to meeting the relevant triggers in Table 9.

\*\*\* This may be rolled out across additional countries.

## **Analytical and Advisory Activities (AAA)**

136. During 2003-2005, the Bank prepared a comprehensive series of analytical studies related to fiscal and debt sustainability, growth and competitiveness, the financial sector, public sector management and social protection. The ongoing dissemination of these reports represents a key instrument for policy dialogue with the OECS Governments on the country's development priorities and the Bank's assistance strategy, and is intended to build broad ownership for economic and social reforms.

137. The AAA covered by this CAS will address issues of economic growth and vulnerabilities, and will provide valuable input to the policy dialogue linked with the lending program. New AAA would be of a regional nature to capture economies of scale in the preparation of analytical studies and to strategically support greater sub-regional integration and coordination efforts in the focus areas of the two pillars. The AAA will be of two types: formal and informal. A brief account of each study is provided below. Partnership with other donors, including the CDB, DFID, CIDA and the EU, in the preparation of AAA will be sought. Discussions with a number of development partners to this effect are ongoing to avoid duplication, maximize the use of available technical and financial resources, and build consensus around critical policy issues.

138. An OECS policy-note on Skills Development and Enhancement will be prepared in FY06 to examine the determinants of education quality and relevance, focusing in particular on the disconnect between labor markets and educational content offered at secondary and post-secondary levels. The broad thrust of the note would be to (i) assess the relevance of the curricula for general secondary and post-secondary vocational education in the OECS countries to the needs of a modern and competitive economy; (ii) examine the potential for increasing public-private partnerships in vocational education/skill training, drawing from international best practice models (e.g. Malaysia, Colombia, Chile); and (iii) outline the policy implications for shifting the currently supply-driven, publicly dominated provider system to a more demand-driven system with greater private sector involvement. The findings of this note would feed into a Caribbean-wide report on Curriculum Reform and Quality Improvement (FY07).

139. To help create a positive enabling environment for private sector driven growth, FIAS recently completed a Diagnostic Review of the Investment Climate for Grenada which provided policy recommendations as an input to the recently completed study on growth and competitiveness issues in the OECS. Similar analyses for the other OECS countries could be undertaken by FIAS at the request of Governments as an input to their growth and competitiveness strategies. An OECS Country Fiduciary Assessment (CFA) will be undertaken (FY07) to review progress in public financial management and procurement reform and to identify remaining issues to be addressed.

140. Given the vulnerabilities of the OECS countries, the Bank will continue the informal monitoring of macroeconomic developments. In addition, the Bank will continue its ongoing support (through the MECOVI IDF grant) and provide additional TA for improved collection and analysis of household survey and poverty data to underpin poverty reduction and social development strategies. The Bank will also undertake just-in-time policy notes to follow-up on specific findings and recommendations of the studies undertaken during the CAS period and other issues jointly identified with the authorities. Dissemination of key analytical work will be ensured during the CAS period to build wide and strong ownership for further structural reforms. In addition, the Bank will intensify its support in the areas of project and financial management, and procurement.

**TABLE 11. ONGOING AND PLANNED ANALYTICAL AND ADVISORY ACTIVITIES**

<b>Fiscal Year</b>	<b>Pillar1: Supporting growth and Competitiveness</b>	<b>Pillar 2: Reducing Vulnerability</b>
FY06	Caribbean Air Transport Rationalization OECS Skills Enhancement (Policy Note)	Caribbean Social protection strategy review (ongoing)  Ongoing support (through the MECOVI IDF grant) and additional TA for improved poverty and social indicators measurement
FY07	OECS Investment Climate Assessments (ICA)  Caribbean Skills and Curriculum Study  Caribbean Recent Economic Developments in Infrastructure  OECS Country Fiduciary Assessment (CFA)	Crime, violence and exclusion in the Caribbean  Ongoing support (through the MECOVI IDF grant) and additional TA for improved poverty and social indicators measurement
FY08	Caribbean Financial Sector and Regulation	Caribbean Pension Reform  Caribbean Health Financing
FY09		
	During FY06-09: Economic monitoring; just-in-time policy notes (including on public sector modernization and public utilities reform); ongoing support for CARTAC; OECS Capacity Building Program (capacity enhancement/training in project management, financial management and procurement).	

141. In addition to the country specific analytical work, the OECS countries will benefit from ongoing and planned regional studies. A Caribbean regional study on Crime, Violence and Exclusion would focus on the impact of crime on poverty, social cohesion, tourism, investment and migration. This would be a multi-sectoral endeavor aimed at developing recommendations that would build on the work done in FY03 on youth and development issues in the Caribbean. The Bank is also currently developing a *Social Protection Strategy Review* paper for the Caribbean, which will include a focus on the OECS countries. The objective of the strategy is to strengthen the Bank's ability to support clients on social protection through: (i) better understanding the key socio-economic risks, existing country-level social protection programs, coverage and implementation gaps, and outstanding country-level needs; (ii) stronger coordination with country counterparts and donors; and (iii) more strategic emphasis on the Bank's comparative advantage in the region.

142. The proposed FY08 Pension Reform AAA will take an in-depth look at social insurance programs in the Caribbean, focusing in particular on reforms that would be needed to address the challenges of limited coverage, increasing dependency ratios and fiscal sustainability: this study will be a joint deliverable of the Human Development (HD) and Poverty Reduction and Economic Management (PREM) Sector staff.

143. Potential areas covered by the study on *Air Transport Rationalization* (FY06) could address (i) an analysis of regional air transport routes (external, internal) and classification of their commercial viability; (ii) an evaluation of the current air service arrangements and assessment of the extent national flag carriers are liabilities vs. assets; (iii) the feasibility of entering into "open skies" arrangements for commercially viable routes and assessment of likely impact on prices and service; (iv) an evaluation of least-cost means to assure adequate "social services" via least subsidy bidding or other means; and (v) an assessment of the impact of direct and indirect taxation on extent of competition and service.

144. Other regional studies envisaged over the period of this CAS include a review of economic developments in infrastructure, health financing, financial sector and regulation.

145. Established in 2001 and supported by various donors, including the World Bank, the IMF-managed Caribbean Technical Assistance Center (CARTAC) is a regional resource, based in Barbados, which provides technical assistance and training in four core areas of economic and financial management at the request of its participating countries: public finance management; tax/customs policy and administration; financial sector regulation and supervision; and economic and financial statistics. The OECS countries have benefited significantly from this program, accounting for more than half of the total training offered. The Bank will sustain its support of CARTAC through the FY06-09 period, with an IDF grant of US\$1 million approved in FY05.

**BOX 7: INNOVATIVE INSTRUMENTS FOR SMALL COUNTRIES:  
THE PROPOSED SMALL COUNTRY UMBRELLA PROGRAM (SCUP)<sup>35</sup>**

The proposed Small Country Umbrella Program (SCUP) has been developed in response to the unique demands of small countries for the Bank to modernize its approach to development and to simplify and accelerate the disbursement of Bank financing. The objective of the SCUP is to keep the procedures simple, the fiduciary risks low and the processing time below three months. Thus, the projects and activities to be financed under this instrument would be relatively small, simple to procure and not trigger complex safeguard measures.

The model for this new instrument for investment operations for small states would allow countries to borrow small amounts (up to US \$3 million) for projects through a procedure comparable to obtaining a mortgage loan in the USA. Governments would be able to apply for small loans/credits under an umbrella program. It is anticipated that once the umbrella program has been approved, drill-down operations would be approved on a non-objection basis or through delegated authority to the Regional Vice-President. Allowing the Board to approve the operations on a non-objection basis or through similar delegation would greatly speed the process of resource disbursement.

There would be two approaches to implementing this umbrella program: (i) through a multi-sector country program (i.e. one umbrella program for several sectors in one country); and (ii) through a one-sector multi-country program (i.e. one sector in several countries or a simplified horizontal APL). The SCUP operations- defined by the CAS' objectives- would allow the relevant small country authorities to simplify the application process to finance projects.

Countries' eligibility for the proposed SCUP would be part of the CAS envelope detailed in Table 8 and stringently linked to the overall lending triggers outlined in Table 9.

## **IFC**

146. IFC's strategy will be to support projects which will enhance the competitiveness of the OECS economies helping them meet the challenges of globalization, especially trade liberalization, focusing on environmentally sustainable business practices and improving standards of corporate governance. IFC will seek to finance and partner with those companies able to diversify the region's sources of growth, further regional economic integration (including with the bigger island economies such as Barbados, Trinidad and Tobago, and Jamaica), and develop linkages with the smaller locally based island businesses. Some of the sectors of focus will entail: (i) the financial sector (corporate finance, financial services, insurance) with emphasis on operations with a capacity to mobilize funds from the larger island economies and receptive to creative approaches to reach out to the smaller locally based business operators (MSMEs); (ii) infrastructure, favoring Public-Private Partnerships, together with the Bank, to facilitate the leveraging of the larger economies to address some of the key issues related to power, water and wastewater, transport and logistics; (iii) services (IT, tourism) through corporate finance deals by the expansion of the larger corporations active elsewhere in the Caribbean, and seeking to better leverage the OECS location and language with respect to the US market, and with a priority to clients interested in developing linkages with the local economy (e.g. tourist operators with agro/food processing suppliers); (iv) health and education, notably to address the labor skills shortages, and support the effective delivery of health services. Catastrophic risk insurance is another area of focus where IFC will be working together with the Bank.

<sup>35</sup> Work on the proposed SCUP was funded by an award from the President's Simplification Fund and recently approved in an OVP meeting. Final adoption will be contingent upon Executive Board approval.

147. Given the particular issues and constraints faced by island economies (critical mass, collateral), IFC very often cannot finance stand alone projects. This is especially true for tourism and agribusiness projects, as it is difficult to mitigate the commercial risks associated for example with stand-alone Greenfield hotel projects. The availability of grant financing by notably European donors provides an opportunity to develop some funding mechanism through which donor monies could be used to share/layer the commercial risk, and thereby facilitate IFC's financing. The ability to structure effective risk sharing structures will be key to IFC's ability to support private sector development in the OECS countries.

148. IFC will also seek to partner with donors to continue its non-investment activities, for example to maximize the impact of the SME toolkit, or to provide the necessary business skills to MSMEs. Advisory Services is another IFC product which could assist in addressing some of the regulatory issues in infrastructure, complementing PPIAF support.

## **MIGA**

149. MIGA's involvement in the OECS region has primarily been through technical assistance in FDI attraction and the agency is scheduled to undertake a benchmarking exercise in FY06. MIGA has marketed its guarantee projects to foreign investors in the region. Past requests for guarantees have been mostly related to infrastructure investments, although no contract of guarantee has been signed to date. MIGA will continue to review requests at the regional or country levels as they arise. Currently the agency does not have any active technical assistance programs.

150. Under the Global Enterprise Benchmarking Program, MIGA is planning to conduct a benchmarking exercise of the Eastern Caribbean States in FY06, to be funded by the Commonwealth Secretariat (Eastern Caribbean region), which has committed and remitted to MIGA a grant contribution of \$75,000. The benchmarking exercise will focus on the investors perspective and will give the participating countries a comparative view of their competitiveness vis-à-vis FDI. The recently completed Asia benchmarking study provides an example (<http://www.miga.org/screens/pubs/benchmark/asiareport.pdf>) of the format and depth of analysis. MIGA's on-line investment promotion services ([www.fdixchange.com](http://www.fdixchange.com) and [www.ipanet.net](http://www.ipanet.net)) feature over 160 documents on investment opportunities and the related legal and regulatory environment in the OECS countries.

151. **FIAS** conducted a Diagnostic Review of the Investment Climate for Grenada in early 2004 and there is a possibility it may undertake similar reviews in other OECS countries.

## **Managing Risks**

152. As highlighted in the previous CAS, there are two key external factors which pose the greatest risk to the successful implementation of the proposed strategy: (i) natural disasters – as outlined earlier, the OECS islands remain vulnerable to weather-related shocks such as hurricanes, tropical storms and earthquakes which could cause significant damage, as witnessed most recently in Grenada. While the Catastrophe Risk insurance project seeks to mitigate against the public sector portion of the potential damage from such events, there is a risk that a natural catastrophe occurs prior to the project's effectiveness thus necessitating additional assistance. Weather related shocks also have a spillover effect on critical sectors such as tourism and agriculture; (ii) Given their strong reliance on the rest of the world, particularly for commodities (both imports and exports) and service industries such as tourism, the sub-region is susceptible to other external shocks such as an increase in oil prices, interest rate increases or a further expansion of the tourism sector in Cuba and other competing destinations. While difficult to mitigate, the strategy seeks to manage these risks through its main focus on reducing vulnerabilities and support for economic diversification and fiscal prudence.

153. At the country level, Dominica has an ongoing issue to resolve with regard to an outstanding negative pledge. The Government has taken significant steps to clarify and resolve the situation. The lien over Dominica's public assets has limited impact on IBRD debt servicing. The Bank believes that this issue can be resolved satisfactorily.

154. Within the OECS sub-region itself, a major risk is the potential deterioration of the macro situation, which could be potentially triggered in the event of any number of exogenous shocks as outlined above, or in the case of policy slippage. The continued build up of imbalances could impose difficulties for the management of the currency union, which has its cornerstone in fiscal discipline. The triggers for the proposed CAS lending reflect the need for restoring fiscal balances and reducing debt to sustainable levels. The high debt levels necessitate the leveraging of concessional funding to the extent possible and IBRD

lending is only envisaged after satisfactory progress has been made to improve fiscal and debt sustainability. In essence, half of the potential new pipeline in the high case lending scenario hinges upon addressing this lack of creditworthiness.

155. A further potential risk lies in the region's weak capacity to subordinate national sovereignty interests to regional priorities. The benefits of multi-country approaches can only accrue if there is political will to empower regional institutions. Similarly, the lack of Government commitment to enact social and economic transformations that these small economies require to a changing external environment also presents a challenge. There is a risk that OECS countries will opt out of a Bank assistance strategy altogether and turn to other sources of support. The rigorous triggers, while sending a strong message of "ongoing support under reformed circumstances", may render the Bank's assistance politically unpalatable for some countries, which would have an impact on the regional projects being proposed. A sustained program of communications, dialogue, and empowerment of change agents in the region will help mitigate these risks.

156. Finally, at the level of project implementation, without a comprehensive training and knowledge sharing effort, the development effectiveness of the proposed projects will be hampered by the current weak capacity in all areas of project management. The proposed OECS Capacity Building Program will address these weaknesses.

# APPENDICES & ANNEXES

## Appendices

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## Standard CAS Annexes<sup>36</sup>

- Annex 1: Country Profile
- Annex A2: Country At a Glance- Key Economic and Social Indicators
- Annex B2: Selected Indicators of Bank Performance and Management
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- Annex B5: Poverty and Social Indicators
- Annex B6: Key Economic Indicators
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- Annex B8: Operations Portfolio (IBRD/IDA and Grants)
- Annex B8: Statement of IFC's Held and Disbursed Portfolio

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<sup>36</sup> Note only relevant annexes are included per country. The following annexes are omitted for Antigua and Barbuda: Annex B2, Annex B3, Annex B8. Annex B8: Statement of IFC's Held and Disbursed Portfolio are omitted for Dominica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.

## APPENDIX 1: CAS COMPLETION REPORT

**Countries:** The Eastern Caribbean Sub-Region      **Date of CAS:** June 4, 2001

**Period Covered by the CAS Completion Report:** FY02 – FY05

**CAS Completion Report completed by:** Tribhuwan Narain (Consultant) and Kevin Tomlinson

**Date:** March 13, 2005

### Introduction

1. The CAS Completion Report (CCR) reviews the experience in implementing the Bank's Country Assistance Strategy (CAS) for the Eastern Caribbean Sub-Region, which was presented to the Board in June 2001 and covered the period July 2001 to June 2006. Barbados was included in this CAS exceptionally to allow the country to participate in a Bank-supported program of HIV/AIDS prevention and control across in the Caribbean region. The focus of this Report is on the five OECS borrowing member countries – Dominica, Grenada, St. Lucia, St. Kitts and Nevis, and St. Vincent and the Grenadines. The other OECS Bank member, Antigua and Barbuda, has never borrowed from the Bank although recently it has expressed an interest in the Bank's assistance. Of these, Dominica, Grenada, St. Lucia and St. Vincent and the Grenadines are IDA/IBRD (50:50) blend countries.

2. The CCR reflects, to a large extent, the OECS Country Program Quality Enhancement Review completed by the Bank's Quality Assurance Group (QAG) Panel in December 2004. The Panel reviewed 17 lending operations<sup>37</sup>, including two on-going operations from the previous CAS, and eight AAAs<sup>38</sup>. The Panel review covered 75 percent of the 20 projects approved under the current CAS. The reviews were followed by extensive interviews of Bank staff and management; government officials and other stakeholders as well as key donor representatives.

3. This CCR concludes that while the Bank has contributed only about 10 percent of total disbursements to the OECS sub-region, its contributions were significant to the sub-region's development. Specifically, the greatest impact has been achieved in interventions involving policy reforms as was the case for the Dominica ERSO and ECTEL projects. The ERSO sought to restore fiscal balance and encourage a resumption of growth, and was approved in response to emerging country needs; the ECTEL project—which was an ongoing project from the last CAS—was successful in dismantling a crippling telecommunications monopoly and established a regulatory framework, leading to improved services and lower prices. In the area of AAA, the Bank's analytical rigor and policy advice are also widely acknowledged as useful by key stakeholders across the sub-region, although it was suggested that shorter, more timely policy notes would be more appreciated because of capacity constraints in the OECS, and because of the need for more timely analysis.

4. This Report is organized as follows. Section A reviews the OECS' development goals and their relation to the Bank CAS objectives. Section B reviews CAS outcomes to the extent that available data and other information permit. Section C reviews Bank's performance in delivering this assistance, including an analysis of portfolio performance. Section D discusses consultation and coordination with other donors. Section E summarizes the lessons learned to inform the preparation of the new CAS. Annex 1 contains the CAS Results Summary Matrix, Annexes 2 and 3 provide information on planned and non-programmed projects and AAA services and actual deliveries respectively.

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<sup>37</sup> The 17 lending operations consisted of two OECS-wide projects (telecom reform and protected areas and associated livelihood), one in Dominica (emergency recovery project), four in Grenada (HIV/AIDS prevention and control, education development, disaster risk management, and emergency recovery), three in St. Kitts and Nevis (HIV/AIDS prevention and control, education, and emergency recovery), five in St. Lucia (water sector reform, disaster risk management II, emergency recovery, education and poverty reduction fund), and two in St. Vincent and the Grenadines (disaster risk management and economic recovery).

<sup>38</sup> The QAG Panel reviewed the following AAAs: OECS CFA, OECS Environmental Management, Grenada and Dominica Analysis of Fiscal Issues, OECS FSAP and Dominica CFA, CPAR and Social Protection Study.

## **A. OECS' Development Goals and Bank CAS Objectives**

5. The 2001-2006 Bank CAS for the Eastern Caribbean benefited from the articulation of long-term development objectives, formulated by the two key sub-regional organizations, the OECS Secretariat and the ECCB. Building on their work<sup>39</sup>--which had followed a participatory process over an 18-month period involving the Governments, parliaments, the private sector, civil society groups, the media, donors and other stakeholders in all OECS countries--the Bank developed its assistance strategy, itself employing an extensive consultative approach to underscore country ownership. Other inputs to the development of the CAS included the country Medium Term Economic Strategy Papers, the Small States Task Force Report, and a broad range of analytical work undertaken for the 1998 and 2000 CGCED meetings. The emergent CAS sought to build on these consultations and to avoid duplication with other planned or ongoing efforts by other development partners: it sought to focus on areas of Bank expertise and comparative advantage

6. Aligning itself with sub-regional development goals, the Bank's CAS for the Eastern Caribbean had two pillars: (i) to support reduced income insecurity and vulnerability at the aggregate and household levels; and (ii) to support building human and institutional capacity. The six key OECS' development objectives (country goals), identified in the CAS, are juxtaposed with the CAS objectives in Table 1.

## **B. CAS Outcomes**

7. Neither the CAS nor the OECS' development objectives made an explicit link to the Millennium Development Goals (MDGs), but the objectives overlapped with MDG targets. Overall, the social indicators in the OECS are strong and almost all of the major MDGs have been met. Nevertheless, the impressive social development gains made in the past 30 years now risk being eroded by the current challenging fiscal and debt situations (see below) and by the economic transformation that may be required to adapt to the changing external environment. Signs of the erosion are already emerging in the shape of rising poverty in both rural and urban areas, disenfranchised youth and high unemployment, and a corresponding increase in crime.

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<sup>39</sup> The document prepared by the OECS Secretariat and the ECCB that informed the 2001 CAS was further revised and the OECS member states ratified it as the OECS Development Charter in October 2002.

<b>Annex Table 1: OECS' Development Goals and CAS Objectives</b>	
<b>OECS' Development Goals</b>	<b>CAS Objectives</b>
<i>(i) Reduce income insecurity and vulnerability</i>	
Enhance <b>economic cooperation and macroeconomic stability</b> through concerted action on trade and sound fiscal and monetary policies, focusing in the short to medium term on improving fiscal discipline and public savings.	Foster a favorable <b>macroeconomic environment</b> with a focus on economic stability and growth, and vulnerability measures.
Increase <b>private sector-led economic growth and diversification</b> , including through direct support to the private sector, and indirect support for growth through improved financial services, infrastructure and maintenance of the environmental heritage.	Support <b>economic diversification</b> with a focus on the financial sector, infrastructure, environmental management, disaster risk management, and agricultural diversification.
Reduce <b>vulnerability to natural phenomena</b> through better disaster information, mitigation measures and catastrophe insurance options.	
<i>(ii) Build human and institutional capacity</i>	
Develop <b>human capital</b> through continued investments in better quality health and education, especially improved access to secondary and tertiary education.	Foster <b>human development</b> with a focus on education, health, and social issues.
Address pressing <b>social issues</b> , particularly chronic unemployment and problems associated with youth.	
Build greater <b>organizational capacity</b> , through public sector reform, sub-regional integration, better aid coordination and private sector training.	Foster <b>institutional development</b> through addressing public sector management and strategic aid coordination issues.

8. The OECS sub-region made substantial progress towards achieving a number of key goals, despite the fact that, during the period of the last CAS, economic indicators have deteriorated and all six countries (including Antigua and Barbuda) are among the top fifteen of the world's most indebted emerging market countries in relation to their respective GDP. This conclusion is based on reviews of CAS outcomes and their likely impact on the OECS' development goals:

- *To support the OECS goal of enhanced economic cooperation and macroeconomic stability, the CAS focused on fostering a favorable macroeconomic environment.*
  - In the CAS, direct operations to achieve the stability and growth objectives were few. However, the Bank responded in a timely and appropriate manner to support the sub-region in coping and adjusting with external shocks in the early 2000s. In particular, previously unplanned Emergency Recovery Projects (ERP) (Dominica, Grenada, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines) were approved in FY02 to help the sub-region cope with higher security concerns and the impact of the reversal in tourism following the events of September 11 2001. The Dominica ERP closed with satisfactory ratings and the other four will close at the end of 2005. These other projects currently have satisfactory ratings for the two development effectiveness indicators – achievement of development objectives and implementation progress. In addition, the Bank delivered two other previously unplanned operations to meet emergency needs in the OECS – the Dominica ERSO in FY04 and the Grenada Hurricane Ivan emergency recovery in FY05. Noteworthy in the first instance was the Bank's participation with other multilateral and key bilateral agencies in policy dialogue and support for structural reforms in Dominica, a timely but previously unplanned Bank response to client needs. In the case of the support provided to Grenada, funding was available in a Contingent Facility of the original disaster risk management projects (see below). Finally, the Bank provided, as planned, a water sector technical assistance loan in FY02 to St. Lucia

- and proceeded with the preparation of a follow-up operation in FY05 to introduce private sector participation and to address critical water sector needs in the country.
- In terms of outcomes, macroeconomic stability (fiscal deficit and debt ratios) worsened during the period. A deteriorating trend was exacerbated in the early 2000s by a number of negative external shocks (natural disasters, the 9/11 events, the slowdown in the global economy, oil price increases and eroding trade preferences). The OECS governments sought to offset the slowdown and sustain employment as well as meet the financing requirements through expansionary fiscal policies, mainly financed through increased public investments funded with domestic and external borrowing on commercial terms. The large fiscal and debt imbalances are now further dampening growth and private investment. Although some countries are exercising increased fiscal discipline, comprehensive adjustment policies with a multi-faceted approach to address the excessive debt overhang would need to be taken. In Dominica, the Government is already implementing such a strategy with support from the Bank, the other multilateral organizations and bilateral agencies. In Grenada, the authorities have recently announced plans for a comprehensive debt restructuring package. Antigua and Barbuda has announced an ambitious fiscal reform agenda including civil service retrenchments and the reintroduction of a personal income tax; and St. Kitts and Nevis has announced the closure of the sugar state-owned company which will ease fiscal pressure.
  - In particular, the real GDP growth in the OECS was -1.5 percent in 2001. The economy rebounded the next years to 0.7, 3.4, and 3.2 percent during 2002-2004. Together with a global upturn in economic growth, the economies of the OECS are projected to grow by 3.2 percent in 2005. Also, the overall fiscal deficit has improved from 10.9 percent of GDP in 2002 to a deficit of 4.9 in 2004, with a projected deficit of 7.1 percent in 2005. Despite gains in terms of restoration of growth, debt continued to rise as a result of expansionary fiscal policies. The current pace of fiscal consolidation has been insufficient to reverse the massive buildup of public debt (reaching 106 percent of GDP at end-2004 compared with 83 percent in 2000).
  - Over the course of the CAS period, the Bank produced a wealth of AAA, much of it pan-Caribbean in nature, in addition to a number of both sub-regional and country-specific studies. Notable among these was the FY05 OECS growth and competitiveness study, "Towards a New Agenda for Growth" which was broadly disseminated across the region to a wide and diverse range of stakeholders. This work has already fostered a dialogue around potential new sources of growth in the sub-region and key factors supporting growth have been reflected in the new CAS. Other donors, notably the European Union, have already expressed an interest in using a number of the recommendations of this study as the basis for EU programming in the sub-region. A Caribbean Economic Overview was produced and presented in FY02 to the last CGCED organized by the Bank (responsibility for this event has since been transferred to the CDB, which has renamed it the Caribbean Forum for Development (CFD)). A Diagnostic Review of the Investment Climate for Grenada was completed just prior to the devastation of Hurricane Ivan. In addition, all five planned public expenditure reviews were completed during FY04 and FY05, albeit with delays to the anticipated schedule. These documents are rich in analysis and the authorities could benefit from the analysis at a time of emerging macroeconomic imbalance and should use these reports as an input for widespread discussion on policy options going forward.
  - Overall, although it is difficult to measure in any tangible way the outcome of AAA services in any precise way, the QAG Panel mentioned earlier noted the Bank's analytical work occupies a special leadership position in the OECS countries because the governments' own analytical capacity is limited, and because most donors also tend to rely heavily on the Bank. Key stakeholders shared the view with the QAG Panel that the Bank's AAA services are supportive of the policy dialogue with the countries and provide a useful input into the policy agenda.
  - The objectives focusing on vulnerability measures were not fully achieved in the current CAS period but are expected to be achieved in the next CAS period. The Bank approved an IDF grant in FY02 for the OECS-MECovi as Bank's contribution to a sub-regional initiative, Support Program for Poverty Assessment and Reduction for the Caribbean (SPARC). It became effective in early FY2004 and agreed analytical work is under way including a training workshop in April 2005 on living condition surveys and poverty analysis. However, the planned poverty assessments for Dominica, St.

Kitts and Nevis and St. Lucia were not undertaken. Grenada and St. Vincent and the Grenadines poverty assessments were to be undertaken in FY06. In order to avoid unnecessary duplication and to promote donor coordination, the Bank took the decision to support having CDB take the lead on poverty assessment work with financial support from DFID.

- *To support the twin OECS development objectives of (i) increasing private sector-led economic growth and diversification and (ii) reducing vulnerability to natural phenomena, the CAS focused on support for economic diversification:*
  - The *financial sector* objective of a joint Bank-Fund FSAP was achieved in FY04. The report highlighted a number of emerging risks, including the impact that central government fiscal pressures are likely to have on indigenous banks. Several of these banks are highly exposed to their local public sector, and the rapid build-up in government borrowings in some countries, combined with sizable domestic arrears by these governments, raises a key concern that, if the current situation continues or deteriorates, the central bank may be called upon to meet a liquidity need attributable to government arrears. While the central bank handles monetary policy, prudential regulation and market development, the fiscal policy is set by countries independently. The central bank has revised its prudential guidelines on capital adequacy, risk-based supervision, and corporate governance standards in line with some of the recommendations of the FSAP report. Other areas of the report will need to be enacted by the individual governments, including uniform banking law and supervision of off-shore banks. Although the financial sector strengthening loan, programmed for FY05, has not materialized, informal policy dialogue continues with central bank officials and is centered on FSAP findings.
  - The *infrastructure* objectives were substantially achieved in telecommunication and progress in other areas are expected in the next CAS period. Testament to the success of the first project, which established the world's first regional telecommunications regulatory agency, a follow-on project was approved in FY05. The first project helped liberalize the sector, increasing network capacity and competition among operators. As a result, telecommunication density increased significantly and caused prices to drop for most services. For example, average prices for calls from the region to the United States have been reduced by more than 70 percent since the start of the liberalization process. This fiscal year, the Water Sector Reform project has produced a sector law, sector investment program, and a PSD strategy that will lead to the region's first public-private partnership in water. To buttress the upcoming transaction, the Bank also passed a Water Supply Infrastructure Improvement Project. The investments will double the off-take from the nation's main water supply source to relieve water shortages throughout the north of St. Lucia.
  - Similarly, with Bank support, Dominica is actively pursuing an electricity sector reform program to improve the regulatory environment. The full extent of these reforms could be scaled up significantly by rolling-them out to the other countries in a manner similar to that adopted for telecommunication regulation.
  - The *environmental management* objectives of consolidating legal, institutional, and regulatory frameworks in the OECS have not been achieved. The environment study, which was ultimately refocused as a study on environmentally sustainable tourism, was completed in FY05, one year later than originally planned. The analytical report was discussed with the governments and widely disseminated to other key stakeholders including hoteliers, cruise-ship operators and environmental NGOs. It is expected that the report's findings will inform future support in environmental management. In addition, the GEF project on protected areas was also approved in FY05 but has only just started disbursements. Given the importance of tourism in the sub-region -- accounting for 29 percent of GDP, 39 percent of employment and 54 percent of export earnings -- the Bank needs to remain engaged in the area of environmental management.
  - The *disaster risk management* objectives have been substantially met, although the catastrophe risk insurance project, which was planned for FY03, did not materialize because of the lack of a critical mass of participating countries at the time. The Bank delivered two disaster risk management projects: in St. Vincent and the Grenadines, as planned in FY02, and in St. Lucia in FY04, two years ahead of the original plan. Grenada already had a project on-going in 2001. Overall, all three projects under implementation have satisfactory development effectiveness indicators and are

examples of good practice both in terms of technical expertise the Bank can provide as well as the close accompaniment by Bank staff during implementation to provide support to weak implementation units in the countries. During the recent devastation by Hurricane Ivan in Grenada, the only two secondary schools on the island that withstood its impact were both built under this project. Given the recent natural disasters (including hurricanes, earthquakes and tropical storms, there is now renewed interest across the wider Caribbean, including the OECS, for a catastrophe risk insurance program, and the Bank has been asked by CARICOM to take the lead in preparing such a multi-country operation. All Caribbean countries are also expected to benefit from the GEF project on adaptation to climate change, approved in FY03, and still in its early stages of implementation.

- In the *agricultural diversification* objectives the Bank did not participate directly as FAO and EU have taken the lead in this area. The Bank has, however, continued to remain engaged with clients and donors on those areas relating to agricultural diversification, particularly the area of social protection.
- *To support the twin OECS' development goals of (i) human capital development and (ii) addressing pressing social issues, the CAS focus was to foster human development:*
  - The *education sector* objectives of building on previous projects have not been fully achieved but are expected to be achieved during the next CAS period. The Bank delivered, on time, three education projects (Grenada, St. Kitts and Nevis and St. Lucia) in FY03, and, with a one year delay, in St. Vincent and the Grenadines (FY04). The programmed education project for Dominica did not materialize as the country focused instead on stabilization and structural adjustments with support from the Bank and others. The education projects were developed and rolled out as part of a horizontal APL. All four approved projects are expected to achieve their development objectives but progress in implementation of the St. Lucia and St. Kitts and Nevis projects has been marginally satisfactory. Disbursements have been particularly low given that the average age of the projects is 2.5 years. As of July 2005, disbursements were 6 percent in St. Lucia, 7.5 percent in Grenada, 22 percent in St. Kitts and Nevis, and 5 percent in St. Vincent and the Grenadines which is the youngest project in the education portfolio having only become effective recently. The low disbursement reflects the fact that in Grenada, St. Lucia and St. Vincent and the Grenadines, DFID is financing both curricula reform and bid preparation for civil works; with Bank support focused mainly on the latter. With the DFID project nearly completed, implementation of the Bank components are expected to accelerate and become satisfactory. To expedite progress on implementation and the achievement of development objectives at this critical time, the team has moved from six-monthly to three monthly schedules for implementation missions. In the case of Grenada, a major setback was due to the devastation of Hurricane Ivan and the project has been retooled to address reconstruction needs.
  - The St. Vincent and Grenadine project has benefited from an exchange of information with St. Lucia and St. Kitts and Nevis project management units. For this project also, the Bank collaborated and coordinated with all other donors to discover that there had been uncoordinated duplications and remedial action is being taken to better centralize all donor education interventions under one common unit. The model of a central project implementation unit with a separate project coordinating unit in the Finance Ministry for all World Bank projects is being piloted in St. Vincent and the Grenadines – i.e., covering education, disaster risk management and economic recovery. A similar approach is being implemented in Grenada, and the European Union has recently opted to channel its funding for the education sector through a Multi-Donor Bank-administered Trust Fund. In the area of AAA, the Bank produced a report on monitoring educational achievement in the Caribbean in FY03, and its findings informed project designs in the education sector. The Bank has also been the lead donor in spearheading the initiative to enhance skills through distance learning through the establishment of the Caribbean Knowledge and Learning Network (CKLN).
  - The *health sector* objectives are in the process of being achieved. With the exception of Dominica for reasons mentioned earlier, the Bank approved HIV/AIDS projects in the other four countries. Grenada and St. Kitts and Nevis were approved in FY03, one year later than originally planned. The St. Lucia and St. Vincent and the Grenadines projects were approved in FY05. The projects were rolled out as part of the Caribbean horizontal APL for HIV/AIDS. The outcomes of the projects are

again too soon to gauge since they are mostly at the early stages of implementation. As of July 2005, the Grenada and St. Kitts and Nevis projects are rated unsatisfactory for the two development effectiveness indicators. The two projects in St. Lucia and St. Vincent and the Grenadines are rated as satisfactory. Disbursement rates range from 0.3 percent in St. Lucia to 6.5 percent in St. Kitts and Nevis.

- The *social sector* objectives remain unachieved but this is difficult to ascertain given the unavailability of timely and comparable data on poverty incidences across the sub-region. An IDF grant on improving social statistics (MECOVI) was approved in FY02 and became effective in FY04. While its implementation has been slow, the grant is expected to lead to better social statistics when it is completed in two years time. The Caribbean MECOVI is a multi-donor effort to make social data available in the future. Currently, the estimate is that a third of the poor households remain chronically poor; the others do not receive satisfactory incomes. Similarly, poverty estimates range from 12 percent of the population of Antigua and Barbuda, to 25 percent of that of St. Lucia, to 31 percent of that of St. Kitts and Nevis, 32 percent of that of Grenada, 33 percent of that of Dominica, and 38 percent of that of St. Vincent and the Grenadines. Poverty is prevalent in the rural and agricultural areas and its incidence is higher among the youth, female-headed households, and larger families. It is significantly linked to the unemployed and to those with low educational skills. In terms of AAA services, the Bank delivered a Caribbean wide youth and social development in FY02, but this did not lead to any project due to lack of commitment from countries to borrow for such interventions. In addition, the Bank also produced a social protection strategy for Dominica in FY04 to provide input into the PRSP the Government is preparing. The other planned study on social protection and social safety net mechanisms for the OECS will be delivered as a wider Caribbean AAA in early FY06. More importantly, although the Bank intended to undertake poverty assessments in all five borrowing member countries, when it discovered subsequent to the CAS approval that the CDB and DFID were jointly undertaking these assessments in the OECS, it supported CDB's taking the analytical lead. The St. Lucia Poverty Reduction Fund closed successfully recently and the authorities have expressed an interest to continue with a next phase operation.
- *To support OECS' development objective of building greater organizational capacity, the CAS focus was on fostering institutional development:*
  - The *public sector management* objectives have not been achieved, although significant progress has been made in Dominica since the Emergency Recovery Support Operation (ERSO) was approved in FY04. This operation, which was not planned, is another example of a Bank response to emerging client needs and has been rated as satisfactory in terms of the two development effectiveness indicators. The Institutional and Organizational Capacity Review was completed in FY03, one year later than originally planned, but the five planned public sector reform operations planned for FY04 have yet to materialize. Renewed interest, however, spearheaded by the Government of Grenada, has meant that the Bank is working towards preparing and approving these operations under the next CAS. To ensure a home-grown public sector transformation agenda, the Bank has been working closely with sub-regional change agents--led by the ECCB-- to foster development of the reform agenda. The Bank also delivered two other AAAs: re-alignment of sub-regional development strategy, as planned in FY02, and country financial accountability assessment, as planned in FY03. The planned medium term economic strategies for each country in FY04 were not done as this responsibility was transferred to the CDB as part of the broader CFD work program.
  - The *strategic aid coordination* objective has been partially achieved but is no longer under the leadership of the Bank. Among the donors, UNDP out of Barbados has taken the lead in coordinating donor activities, but in addition the OECS Secretariat now hosts and chairs OECS donor meetings once a year. The focus of these meetings has been on information-sharing and on the activities of the Secretariat itself is on regional projects as the individual governments have indicated to the Secretariat that they wished to deal with the donors separately.

## C. Measuring Bank Performance

9. The CAS envisaged a lending envelope of US\$110 million for a five year period to June 2006, covering 24 projects. By July 2005, with about 80 percent of the CAS period having elapsed, the Bank had delivered 13 projects for a total of \$79.40 million. In addition, the Bank was quick to provide timely response to the sub-region's needs in light of external shocks (e.g., natural disasters and the aftermath of September 11) and structural reforms (e.g.,

	2002	2003	2004	2005
OECS w/o Ed. & HIV/AIDS APLs	24	39	20	33
<i>avg. age</i>	2.1	2.4	2.3	2.2
OECS (actual)	24	34	14	21
<i>avg. age</i>	2.3	1.9	2.0	2.1
LCR	19	19	20	22

Dominica). An additional 13 projects were approved for another \$41.6 million, for a total of \$121 million over a four year period. The non-programmed projects were: five post-September 11 emergency projects aimed at strengthening air and seaport security and safeguarding tourism revenues; an Economic Recovery Support Operation for Dominica following the fiscal crisis; an emergency project for Grenada in response to Hurricane Ivan (Annex 2); a follow-on telecommunications reform project for the sub-region, and a follow-on Water Project in Saint Lucia. In terms of the AAA, the Bank delivered 19, including an unplanned Dominica social protection strategy, against a program of 26 over the same period. Under the CAS, the Bank has been pursuing the Base Case lending. In the four years to FY05, the number of projects has more than doubled (from 9 to 21) and net commitments have increased by almost 50 percent.

10. *Portfolio performance.* The results of the portfolio implementation improvements as envisioned in the CAS were mixed. The CAS identified many systemic and project-specific issues that had hampered the implementation of the earlier portfolio: limited institutional capacity which demonstrated itself in poor implementation of financial management and procurement procedures. By lending directly to countries, instead of through the Caribbean Development Bank, and lending on a sub-region approach versus a country-by-country approach, the Bank had hoped to maximize scarce specialized human resources, establish core capacity and continuity for consistent procurement and financial management, and allow for more effective monitoring. While identification and responsiveness to emerging problems have increased and examples of continuity that have led to smoother project implementation exist, institutional capacity constraints remain a significant risk to the portfolio.

11. Over the period of the CAS, portfolio performance has been generally satisfactory. However, in FY04, the percentage of projects and commitments at risk increased significantly with 31% of commitments at risk. To address this, over the past eighteen months, the CMU has increased supervision and has undertaken a number of cross-country and cross-sectoral training sessions for staff in the PCUs and PIUs to build capacity in key fiduciary areas.

	FY02	FY03	FY04	FY05
No. of projects under supervision	16	18	18	21
Net commitments (US\$ mil)	107	103	99	128
Commitments at risk (%)	4	6	31	18
No. of projects at risk	1	1	4	3
Average project age	2.3	1.9	2.0	2.1

12. Performance has varied among countries and sectors. At the multi-country level, Bank lending made significant contributions to protected areas, telecommunications, waste management, and disaster risk management and emergency recovery. The disaster risk management APL has strengthened implementation capacity among countries through pooling resources and sharing information among implementation units. This APL also paved the way for a smooth rollout of the Emergency Recovery projects.

13. Implementation progress across the education and HIV/AIDS prevention and control APLs<sup>40</sup> has proved more challenging. In FY04, education and HIV/AIDS projects accounted for three out of the four

<sup>40</sup> The Education APL intends to: increase access to secondary education; improve teaching quality; and strengthen management of schools. The HIV/AIDS Prevention and Control APL intends to: scale up prevention programs; strengthen treatment and care facilities; and strengthen multi-sector institutional capacity to better respond to the epidemic. Both APLs are active in all of the OECS countries except Dominica.

projects at risk (75 percent. In FY05, this situation improved and the HIV/AIDS projects now account for two of the three projects at risk. Limited disbursements to date, can in part, be explained by the composition of the projects, of which approximately 65 percent of commitments are large-scale infrastructure components, which have less of an impact on development outcomes of the projects. Deficiencies in the National Tender Board processes have proven to be a bottleneck<sup>41</sup> to procurement and, hence disbursement, especially for these infrastructure components. The other ‘software’ components of the projects, which focus on quality and capacity are progressing well, but account for a much smaller portion of commitments and as such are not necessarily reflected in performance indicators. It is also useful to acknowledge that all HIV/AIDS programs in the region are moving slowly and a joint analysis with DFID has shown very slow movement of the Global Fund resources for HIV/AIDS programs. Although tender board issues are essentially beyond the Bank’s control, the Bank will continue to seek to remove bottlenecks by familiarizing and training board members to Bank processes and fiduciary requirements. Disbursement levels are expected to be on track within 12 to 15 months. In addition, the CMU is undertaking a Caribbean Region-wide HIV/AIDS Review of the individual projects and programs against their original objectives, looking at programs available from bilateral and other multi-lateral partners: the objective is to arrive at a coordinated approach to tackling systemic issues within this area.

14. Another reason – and a manifestation of limited available institutional capacity – for implementation delays in education and HIV/AIDS prevention and control projects has been the long delays from Board approval to effectiveness. Of the projects approved during the CAS period, education and HIV/AIDS prevention and control projects had a median of 6.7 months to effectiveness, compared to 4.2 month median for infrastructure sector projects. While these projects also had the highest policy-making support, typically at the level of the Prime Minister, the performance of project teams needed to build support at the stakeholder level has been lackluster. During the roll-out of the CAS, start-up delays were somewhat mitigated in infrastructure sector projects by ensuring certain criteria were in place prior to Board approval, including: terms of references for consultants, tender documents for works, and requests for quotation for goods but much remains to be done. Attaching draft procurement and financial management plans to the Minutes of Negotiations has, however, helped to further reduce time between Board approval and effectiveness.

15. A CPPR undertaken in November 2003 highlighted the fiduciary areas of procurement and financial management as well as implementation capacity as ongoing problems. Supervision intensity was increased, significantly for education and health sector projects and, for FY05, significant improvements have already been seen.

	<b>Supervision Intensity (US\$ ths per project)</b>		
	<u>FY03</u>	<u>FY04</u>	<u>FY05</u>
Ed. and HIV/AIDS projects	19	40	73
OECS	43	50	68

16. Despite the problem projects in the current portfolio, project ratings and flags are considered to be realistic. Generally there are different project flags for each project in each year, indicating that identified problems are solved on a project-by-project basis. Three projects in FY05 maintain project flags<sup>42</sup> and last fiscal year four of the projects are rated unsatisfactory. Due to intensified supervision efforts, however, the portfolio has improved. The Bank recently has been working with Grenada, St. Kitts and Nevis, and St. Lucia to consolidate their Project Management Units and Project Implementation Units into one Project Coordinating Unit per country<sup>43</sup>, an area highlighted in two previous CPPRs as a potential way to address limited implementation capacity, particularly in the areas of financial management and procurement.

17. Five projects have been subjected to Quality Assurance Group (QAG) reviews: two Quality at Entry Assessments, which both received satisfactory ratings; and three Quality of Supervision Analyses, two of which were rated satisfactory and one moderately satisfactory<sup>44</sup>. A QAG Quality Enhancement Review

<sup>41</sup> Many implementation units complained about the capacity and quality of their National Tender Boards., and that the way in which they operated was very inefficient and exacerbated implementation delays. For example in St. Kitts and Nevis the tender process for an important infrastructure component for the HIV/AIDS project expired because a key person on the tender board was on extended sick leave.

<sup>42</sup> St. Kitts and Nevis HIV/AIDS Prevention and Control Project; St. Lucia Education APL; and Grenada 2<sup>nd</sup> Phase APL HIV/AIDS Prevention and Control

<sup>43</sup> St. Kitts and Nevis showed little interest in consolidating its projects into a PCU. Dominica has only one project under supervision; consideration of a PCU will be considered as the number of supervision projects grow.

<sup>44</sup> QAG’s Quality of Supervision Analysis for FY03-04 rated the St. Lucia education project as moderately satisfactory.

(QER) of the OECS Country Program in December 2004 recognized that AAA is well aligned with CAS objectives and provides useful input into the countries' policy agendas, while noting that both timeliness and dissemination efforts could be enhanced.

18. Benchmarking the costs for the 2001 CAS implementation against Bank norms is difficult; the small size, number of countries, location and portfolio make-up make the OECS a unique case. Benchmarking the OECS against Honduras, a country in the same region with a similar number of projects, and Bhutan, a country with a population only slightly larger than the combined population of the OECS, suggests that resources over the CAS period were tight. Lending spiked in FY04 due to the OECS protected areas GEF project, which incurred preparation costs of US\$ 280 thousand.

<b>Key CAS Implementation Costs -- % of Program Expenditure (BB)</b>						
	<b>2003</b>			<b>2004</b>		
	<u>OECS</u>	<u>Honduras</u>	<u>Bhutan</u>	<u>OECS</u>	<u>Honduras</u>	<u>Bhutan</u>
Project Supervision (%)	40	30	23	38	34	26
Lending (%)	30	41	37	39	49	39
Cntry ESW (%)	30	17	16	21	10	19
<b>Average Implementation Costs -- US\$ ths per Project (Unit)</b>						
Project Supervision (US\$)	45	62	68	51	65	86
Lending (US\$)	34	103	215	91	88	105
Cntry ESW (US\$)	52	69	46	37	41	51

#### **D. Consultations and Coordination**

19. *Consultations with other donors.* The Bank is the only major donor without a permanent presence in Barbados, where most donors are based. Nevertheless, the Bank has built on its good relationship with the donor community through a combination of high level visits, audio- and video conferencing. As a result, for example, discussion is at an advanced stage to establish a Multi-Donor Trust Fund to be administered by the Bank in support of projects and programs in the sub-region. Dominica and Grenada are being considered for pilots. The Bank is also participating in discussions with the Barbados-based donors in order to harmonize donor fiduciary and reporting requirements for Grenada.

20. *Aid coordination.* With the evolution of the CGCED's scope evolved from a pledging forum to that of a broader development forum, the Bank's role in aid coordination diminished over time. The Bank continues, however, to play strategic role in support of the OECS, notwithstanding its absence from Barbados, where the majority of donors are based. When the CGCED was first established in the 1970s, it was chaired by the Bank and the forum was partially devoted to aid mobilization and coordination. Over time, aid mobilization was no longer relevant but there used to be coordination among the main donors during the CGCED meetings. From 2002, the responsibility of organizing and chairing the CGCED has been assumed by the CDB, which hosted the first meeting of the renamed Caribbean Forum for Development (CFD), is scheduled in May 2005.

21. Although no longer convening the CGCED, the Bank has continued a coordination role in a number of areas, as evidenced by three examples: First, in the first event of its kind, the Bank moved quickly to mobilize and coordinate donor support for Grenada in the aftermath of Hurricane Ivan in late 2004. An initial donor meeting at Bank Headquarters brought together Heads of Development Agencies with the Grenadian authorities and the regional and sub-regional stakeholders for a preliminary discussion on the shorter-term reconstruction and longer-term development priorities and funding needs. This event was followed by a Government hosted donor conference in Grenada, which raised over US\$100 million. Another example has been the deepening dialogue between the Bank and key donors, as noted above, to leverage donor grant funds in support of projects and programs developed by the Bank, matching concessional resources with Bank technical expertise. Finally, the Bank has developed, with UNDP support, a Caribbean wide Red Book Online that provides an internet-based platform for knowledge sharing and coordination between development partners.

## E. Lessons Learned

22. The preceding analysis supports the continued relevance of the Bank's participation in the sub-region. The Bank's ability to leverage other donor grant funds in support of projects and programs it prepares using the global knowledge and expertise its staff possess is unique and highly valued by the beneficiary and donor countries.

23. The following lessons emerge from the implementation of the last CAS:

- **The areas of CAS focus and the adaptation to emerging crises in the OECS, in general, and particularly in Dominica and Grenada were appropriate. The mix of interventions supported the objectives generally well.** The next CAS will need to build on the lessons learned from preparing horizontal APLs sequentially and, in particular, should ensure that the benefits reaped by the Bank in preparing horizontal APLs are accrued to the countries. In the past CAS, this has been achieved to an extent with the St. Vincent and the Grenadines education project as information on civil works design and bid contract samples were shared from St. Lucia and St. Kitts and Nevis project management units. In general, however, horizontal APLs have not reaped the economies of scale in capacity-building, information-sharing, and technical expertise that had originally been envisaged. This is in large part because the regional aspects of the APLs have under-performed.
- **The best results were achieved when the Bank staff closely accompanied the implementation with country counterparts, and was able to exploit the synergies between well sequenced analytical works, well designed operations, and to leverage trust funds and donor activities.** The experience of disaster risk management projects and the Dominica ERSO are examples of positive outcomes when the projects are very closely accompanied by close Bank staff support and supervision. The example of St. Vincent and the Grenadines education project shows how important it is to coordinate with other donors to avoid wasteful duplications. The experience of Grenada, St. Lucia and St. Vincent and the Grenadines are that better results are achieved when the Bank leverages other donor funds and activities. With a growing debt overhang in the OECS countries, the next CAS will serve the sub-region well by using IDA resources to leverage available donor grants for programs designed and implemented with Bank expertise.
- **Creating a common project coordinating unit to handle all fiduciary aspects of different Bank projects and establishing a common project management unit for all donor projects in the line ministry, together with simplification and harmonization of donor requirements would be a significant step towards addressing the problem of capacity weaknesses in the sub-region.** Common project coordinating and management units are being piloted in St. Vincent and the Grenadines and are expected to be the model followed in Grenada. It is anticipated that this will partly address the perennial shortage of skilled staff and allow for greater synergies with other donors. Similarly, work on harmonization of fiduciary and reporting requirements for Grenada's reconstruction efforts will be watched closely. If this can be achieved, it would be worth replicating in the other countries.
- **The CAS was not realistic enough about staff availability and programming.** Several interventions programmed in the previous CAS were delivered one to three years behind schedule. This was due to a variety of factors, some beyond the control of Bank team members or management. In some cases, particularly for some analytical work, the slippage was due to staffing and resource issues. Greater attention needs to be paid to the fact that, within the Bank, small countries not only often have to compete with larger borrowers for the attention of quality staff, but demand considerable institutional support which is very costly.. Greater attention also needs to be paid to the provision of customized products for small countries, including more just-in-time policy notes. The latter would be particularly valuable to country counterparts who are often the sole points of contact for a plethora of donors and are stretched extremely thin in the OECS.

- **The CAS did not focus enough on institutional development in the areas of Bank fiduciary requirements.** While individual project managers delivered training on fiduciary aspects either in a country or across country for the same project type (e.g., disaster risk management projects), capacity building and knowledge-sharing has been thin. Given the difficulty of finding qualified staff and rapid turn-over of key staff in the country project units, the Bank should institute a more systematic capacity development program in project management for the OECS countries and, in this regard, should undertake a comprehensive review of the efficacy of Project Management Units to ensure that capacity-building efforts are more broadly undertaken.
- **The OECS countries themselves did not define their development objectives with sufficient prioritization or with benchmarks capable of being monitored, and outcome indicators.** Although the OECS Development Charter broadly charts a way forward, it has proved too general to serve as an adequate framework for either leveraging regionalism or facilitating donor co-ordination around a set of agreed priorities. In a series of meetings with OECS Heads of Government, the ECCB and the OECS Secretariat, it has now been agreed to coordinate donor intervention around a clear set of priorities with attendant benchmarks and timelines.
- **Donor co-ordination, while improving, has been historically weak, and duplication of programs and interventions are common.** The reluctance of OECS Heads of Government to give responsibility to the OECS Secretariat for coordinating donor assistance has meant that ad-hoc national agendas have continued to undermine the formulation and implementation of a strong regional agenda. Going forward, the decision to hold an annual high-level donor meeting with the Heads of Government will facilitate donor co-ordination around agreed programs and principles.
- **Given the fact that the OECS countries are among the most highly indebted emerging economies in the world, greater attention will need to be paid to the leveraging of available donor grant resources.** The new CAS should explore the establishment of alternative mechanisms, possibly Multi-Donor Trust Funds, particularly with EU involvement, to help catalyze the considerable amount of EU grant financing (committed but not yet disbursed) around critical OECS priorities. Greater attention will also need to be paid to working with the IMF to mobilize donor and political support for economic reform and adjustment programs, as, for example, was successfully undertaken in Dominica last year.
- **Political economy issues need special attention in small states.** The fact that the planned Public Sector Reform programs did not ultimately materialize under the CAS, highlights the importance of working with governments, donors and civil society on innovative approaches to consultation and consensus-building. The recent analytical work on public sector reform which has included public opinion polling, working with locally based change agents to build consensus, offers a model for the future which, along with more innovative dissemination and communication strategies, will need to be addressed in the next CAS.
- **Finally, greater emphasis is needed on simplified instruments and simplified processes that address the realities of small states.** The proposed SCUP would address a number of the issues highlighted in this Completion Report.

## APPENDIX 2A: CARIBBEAN SUB-REGION CAS COMPLETION REPORT

### CAS RESULTS SUMMARY MATRIX

CAS Objectives	Status at CAS Design	Status at Completion (Outcomes) <i>As of July 2005</i>	Lessons Learned
<b>Overarching objective: Support poverty reduction through reduced income insecurity/volatility and human and institutional development:</b>			
<i>I. Reduce income insecurity and vulnerability</i>			
<b>A. Foster Favorable Macroeconomic Environment</b>			
<p><b>(i) Stability and Growth</b></p> <ul style="list-style-type: none"> <li>• Improve fiscal management so as to assure higher public saving and lower overall deficits and external debt accumulation.</li> <li>• Enhance the environment for private sector-led economic diversification and growth.</li> </ul>	<ul style="list-style-type: none"> <li>• Fiscal slippage in some countries has led to low public saving, high overall deficits, and the accumulation of public debt. Particularly in light of the monetary union, overall macro discipline needs to be pursued at the country level through sound fiscal management.</li> <li>• Need to further deepen the process of economic diversification, particularly through the identification of sustainable sources of growth.</li> </ul>	<ul style="list-style-type: none"> <li>• Five emergency recovery projects were approved in FY02, which were not programmed in the CAS but needed after series of external shocks in 2001 and helped the countries to better withstand some of the shocks. Two other non-programmed lending included the Dominica ERSO and the Grenada Hurricane Ivan emergency recovery: the funding for the latter was specified in the original disaster risk mitigation projects as a Contingency Facility.</li> <li>• The Dominica emergency project execution was completed with satisfactory ratings for achievement of development objectives and implementation progress. The other four projects are under execution and are also rated satisfactory for the two development indicators. Their current disbursements range from 63 percent in St. Kitts and Nevis; 71 percent in St. Vincent and the Grenadines; 82 percent in St. Lucia; to 89 percent in Grenada. The remaining four projects are scheduled to close in December 2005.</li> <li>• The Bank provided, as planned, a water sector technical assistance loan in FY02 to St. Lucia. Although the market conditions for the proposed changes within the sector were not at the time conducive to full implementation, the Bank and the authorities did proceed with the preparation of a follow-up operation in FY05 to introduce private sector participation and to address critical water sector needs in the country.</li> <li>• In terms of the AAA, the Bank produced a Caribbean Economic Overview in FY02 but not in FY04 as the responsibility for producing this report as well for organizing the CFD meetings were assumed by the CDB in FY02. The planned business environment study was completed as two separate reports, A Diagnostic Review of the Investment Climate for Grenada and a growth and competitiveness study for the OECS. All planned five public expenditure reviews were completed during FY04 and FY05, with delays from the original plan by 2 to 3 years. However, they are rich in analysis. The strategy now should be to articulate a communication mechanism to ensure that these reports serve their purpose well.</li> <li>• In spite of exogenous shocks, economic growth was maintained during a difficult adjustment and transition phase. Driven by a revival in tourism and the absence of major natural disasters, real GDP growth recovered to</li> </ul>	<ul style="list-style-type: none"> <li>• The Bank should remain flexible and respond to emerging need in the sub-region due to unforeseen shocks. The assistance the Bank could provide include lending, AAA and policy dialogue, and mobilization of donor funds.</li> <li>• The Bank should continue to provide close accompaniment of projects in implementation to ensure timely implementation and achievement of the development objectives.</li> <li>• The fiscal and debt imbalances that resulted primarily in response to external shocks and the subsequent engagement of the Bank in the Dominica stabilization and structural reform efforts (see below) point to the need for the Bank to prepare just-in-time policy notes and engage in dialogue with the authorities.</li> <li>• The Bank should develop effective communication strategy to disseminate its large analytical work in order to foster wide discussions on developmental issues and the adoption of strategies that are broadly backed by all key stakeholders. The importance of effective communication strategy is particularly important in small states with weak capacity at all levels because of limited total human capital.</li> </ul>

## APPENDIX 2A: CARIBBEAN SUB-REGION CAS COMPLETION REPORT

### CAS RESULTS SUMMARY MATRIX

CAS Objectives	Status at CAS Design	Status at Completion (Outcomes) <i>As of July 2005</i>	Lessons Learned
		<p>3.4 percent in 2003 following a contraction in 2001. Despite the adverse impact of hurricane Ivan in 2004 real GDP growth in 2004 is estimated at 3.2 percent. This momentum is expected to continue during 2005 with growth at around 3.2 percent.</p> <ul style="list-style-type: none"> <li>• Despite gains in terms of restoration of growth, debt continued to rise. Fiscal policies were relaxed in early 2000s, mainly to support increased public investments (at times for unproductive purposes and financed by commercial borrowing) to sustain employment and growth as well as meet natural disaster related costs. Recently, fiscal positions have strengthened (the aggregate OECS fiscal balance improved from -10.9 percent of GDP in 2002 to -4.9 percent in 2004). However, the current pace of fiscal consolidation has been insufficient to reverse the massive buildup of public debt (reaching 106 percent of GDP at end-2004).</li> <li>• The Grenada Diagnostic Review of the Investment Climate was completed just prior to destruction caused by Hurricane Ivan. More importantly, in FY05 an OECS Growth and Competitiveness study has been completed and this is expected to foster a new growth strategy in the sub-region. Both these studies were delivered on time and were originally envisaged as one study on business environment.</li> </ul>	
<p><b>(ii) Vulnerability Measures</b></p> <ul style="list-style-type: none"> <li>• Build capacity at the OECS Secretariat and country Central Statistical Offices to produce high-quality/more reliable statistical indicators to be used, <i>inter alia</i>, in the monitoring of poverty and income insecurity.</li> </ul>	<ul style="list-style-type: none"> <li>• Need to strengthen social statistical base, including the use of more standard methodology to make indicators compatible/comparable across countries, on a regional basis, and over time</li> </ul>	<ul style="list-style-type: none"> <li>• The Bank approved an IDF grant in FY02 for the OECS-MECOVI as Bank's contribution to a sub-regional initiative, Support Program for Poverty Assessment and Reduction for the Caribbean (SPARC). It became effective in early FY2004 and agreed analytical work is under way. A training workshop was held in April 2005 on living condition surveys and poverty analysis.</li> <li>• The planned poverty assessments for Dominica, St. Kitts and Nevis and St. Lucia were not undertaken and Grenada and St. Vincent and the Grenadines poverty assessments were to be undertaken in FY06. The Bank took this decision to avoid duplication and allow CDB to take lead with DFID financial support. However, these assessments have been stretched over time.</li> </ul>	<ul style="list-style-type: none"> <li>• In light of capacity constraints in the sub-region, the Bank should continue to work with other donors to leverage resources and to limit excessive burden on sub-regional organizations through Bank-administered Trust Fund for technical assistance.</li> <li>• The Bank could consider providing technical support to the CDB for undertaking poverty assessments in the sub-region to improve timeliness and quality.</li> </ul>
<b>B. Foster Economic Diversification</b>			
<p><b>(i) Financial sector</b></p> <ul style="list-style-type: none"> <li>• Strengthen regulatory and supervisory frameworks for both on- and off-shore financial institutions.</li> </ul>	<ul style="list-style-type: none"> <li>• Needed to undertake a comprehensive assessment of the financial sector to strengthen regulation and supervision practices in order for the financial sector to underpin sustained economic development.</li> </ul>	<ul style="list-style-type: none"> <li>• A joint Bank-Fund FSAP was concluded in FY04, two years behind schedule, and highlighted a number of emerging risks. Informal policy dialogue with the central bank continues on issues identified in the FSAP.</li> </ul>	<ul style="list-style-type: none"> <li>• The Bank should continue dialogue in important policy areas, even where there is no lending pipeline. The financial sector is a case in point. The risks associated with fiscal pressures in the sub-region in particular could have serious consequences for the indigenous banks where these carry sizable government securities in their portfolio and governments have been in arrears.</li> </ul>

## APPENDIX 2A: CARIBBEAN SUB-REGION CAS COMPLETION REPORT

### CAS RESULTS SUMMARY MATRIX

CAS Objectives	Status at CAS Design	Status at Completion (Outcomes) <i>As of July 2005</i>	Lessons Learned
<ul style="list-style-type: none"> <li>• Further development of financial markets and instruments.</li> </ul>	<ul style="list-style-type: none"> <li>• Needed to further integrate and strengthen OECS financial space to assure more efficient financial intermediation.</li> </ul>		
<p><b>(ii) Infrastructure</b></p> <ul style="list-style-type: none"> <li>• Strengthen/establish regulatory framework in telecommunications, power, and water and sanitation.</li> </ul>	<ul style="list-style-type: none"> <li>• Monopolistic pricing in utilities. Cost of doing business is relatively high in light of diseconomies of scale and the presence of unregulated monopolies. This situation hinders the deepening of private sector activities and, thereby impeding to growth.</li> </ul>	<ul style="list-style-type: none"> <li>• The monopoly in the telecommunication sector has been removed and an effective regulatory agency, together with competition, has contributed to increased services and generally lower prices. A follow-on Bank operation is being prepared.</li> <li>• The Bank has supported electricity regulation in Dominica, which could be a basis to develop an OECS-wide regulatory agency to reap the benefits of effective regulation.</li> <li>• The Bank provided, as planned, a water sector technical assistance loan in FY02 to St. Lucia. Although the market conditions for the proposed changes within the sector were not at the time conducive to full implementation, the Bank and the authorities did proceed with the preparation of a follow-up operation in FY05 to introduce private sector participation and to address critical water sector needs in the country.</li> </ul>	<ul style="list-style-type: none"> <li>• The Bank should build on the success of the telecommunication regulation in the sub-region and electricity in Dominica to broaden the benefits of effective regulation throughout the OECS, especially in water and electricity sectors.</li> </ul>
<p><b>(iii) Environmental Management</b></p> <ul style="list-style-type: none"> <li>• Consolidation of legal, institutional, and regulatory framework for environmental management in the OECS.</li> </ul>	<ul style="list-style-type: none"> <li>• Increased utilization of natural resources for agriculture and tourism has put added burden on the environment.</li> </ul>	<ul style="list-style-type: none"> <li>• The environmental study was completed in FY05, a year later than originally planned. The focus of the study was changed from Economic Valuation and Environmental Management, because it was seen as “Bank-driven”, to Environmentally Sustainable Tourism after discussion with country officials.</li> <li>• Another GEF project, OECS Protected Area and Associated Livelihood, was approved in FY05 and it is too early to gauge its impact. No funds have yet been disbursed.</li> </ul>	<ul style="list-style-type: none"> <li>• The Bank should remain engaged in the environmental work in the OECS given the importance of environment to tourism and the national economies.</li> </ul>
<p><b>(iv) Disaster Risk Management</b></p> <ul style="list-style-type: none"> <li>• Strengthen early warning and response mechanisms, enforcement of building codes, preparation of hazard mapping, and increased insurance coverage.</li> </ul>	<ul style="list-style-type: none"> <li>• Exposure to natural disasters contributed to income insecurity and a need for preventative actions to enable faster recovery at lower costs.</li> </ul>	<ul style="list-style-type: none"> <li>• The Grenada disaster risk management project was approved in 2001 preceding the current CAS and is still in execution. Disbursement has reached 89 percent and the project is rated as satisfactory on the achievement of development objectives and implementation progress. It is a credit to the project that the central disaster risk management center and the lone school it financed for retrofitting survived the passage of Hurricane Ivan.</li> <li>• The other two disaster risk management projects are in St. Vincent and the Grenadines, delivered as planned in FY02, and in St. Lucia, delivered in FY 04 two years ahead of the original plan due to country situation. Both projects are rated satisfactory in terms of achieving their development objectives and implementation progress. Disbursement for the St. Vincent and Grenadines project has reached 28 percent, while it is 9.6 percent in</li> </ul>	<ul style="list-style-type: none"> <li>• The Bank should revive the Catastrophe Risk Insurance project, taking into account any new development, and develop it at the earliest.</li> <li>• The Bank should improve its communication strategy and promote intra-country learning within the OECS. The survival from the wrath of Hurricane Ivan, for example, of two Bank-funded buildings is a testimony to Bank expertise and is worth sharing with the other countries.</li> </ul>

## APPENDIX 2A: CARIBBEAN SUB-REGION CAS COMPLETION REPORT

### CAS RESULTS SUMMARY MATRIX

CAS Objectives	Status at CAS Design	Status at Completion (Outcomes) <i>As of July 2005</i>	Lessons Learned
		<p>St. Lucia. Similar disaster risk management projects were programmed for FY06 in the other countries.</p> <ul style="list-style-type: none"> <li>• The GEF project, adaptation to climate change II, is Caribbean wide and its progress is satisfactory in terms of the two development effectiveness indicators. The project was approved in FY03 and has disbursed only 26 percent.</li> <li>• The catastrophe risk management and insurance project, slated for FY03, did not materialize as countries did not buy-in to the idea of paying for feasibility work. However, there is now strong interest from throughout the Caribbean for catastrophe risk insurance.</li> <li>• In terms of AAA delivery, the Bank delivered the Caribbean wide comprehensive disaster risk mitigation study.</li> </ul>	
<p><b>(v) Agriculture Diversification</b></p> <ul style="list-style-type: none"> <li>• Continue to consolidate the banana industry, including incentives to improve quality; program to support diversification toward alternative crops.</li> </ul>	<ul style="list-style-type: none"> <li>• Banana industry needed to increase its competitiveness through higher quality and yields; in addition, there was need for diversification away from bananas with the agricultural sector.</li> </ul>	<ul style="list-style-type: none"> <li>• The Bank has not taken an active role in this sector as the EU and the FAO have taken the lead. The Bank is, however, maintaining an active role in the donors' response to the transition from agriculture.</li> </ul>	
<i>II .Build human and institutional capacity</i>			
<b>A. Human Development</b>			
<p><b>(i) Education</b></p> <ul style="list-style-type: none"> <li>• Build on recent Bank and other development partner education projects, including the implementation of the Bank's new sub-regional Education Reform Program.</li> </ul>	<ul style="list-style-type: none"> <li>• Despite nearly universal primary education, much needed to be done to provide school-age population with the basic skills required for productive engagement in new sectors of economic activity.</li> </ul>	<ul style="list-style-type: none"> <li>• The Bank delivered, on time, three education projects (Grenada, St. Kitts and Nevis and St. Lucia), and with one year delay in St. Vincent and the Grenadines. The programmed education project for Dominica did not materialize as the country focused on stabilization and structural adjustments with support from the Bank and others. The education projects were developed and rolled out as part of a horizontal APL in education.</li> <li>• It is too early to assess the outcomes of these projects. All four approved projects are expected to achieve their development objectives but progress on implementation of the St. Lucia and St. Kitts and Nevis projects is unsatisfactory. Disbursements have also been low and do not correlate with the time the projects have been in implementation. Disbursements as of early March 2005 were none in St. Vincent and the Grenadines, 5.8 percent in St. Lucia, 7.5 percent in Grenada and 22 percent in St. Kitts and Nevis. The low disbursement reflects the fact that in Grenada, St. Lucia</li> </ul>	<ul style="list-style-type: none"> <li>• The Bank should work more on stakeholder buy-ins and simplify the bureaucratic requirements of the Bank for small countries. The effectiveness and start-up delays for education projects suggest the need for these two efforts.</li> <li>• The Bank should build on the successful collaboration with the EU and DFID on education projects in the sub-region.</li> </ul>

## APPENDIX 2A: CARIBBEAN SUB-REGION CAS COMPLETION REPORT

### CAS RESULTS SUMMARY MATRIX

CAS Objectives	Status at CAS Design	Status at Completion (Outcomes) <i>As of July 2005</i>	Lessons Learned
		<p>and St. Vincent and the Grenadines, the UK DFID is financing curricula reform and bid preparation for civil works, which is the bulk of what the Bank would support. With the DFID components of the project nearing completion, implementation of the Bank components is expected to be expedited.</p> <ul style="list-style-type: none"> <li>In terms of AAA, the Bank produced a report on monitoring educational achievement in the Caribbean in FY03, and its findings informed project designs in the education sector.</li> </ul>	
<p><b>(ii) Health</b></p> <ul style="list-style-type: none"> <li>Institutionalize the HIV/AIDS plan of action to: manage epidemic in the short and medium term, and make it sustainable in the long term.</li> </ul>	<ul style="list-style-type: none"> <li>The incidence of HIV/AIDS in the Caribbean region was among the highest in the world.</li> <li>Need to finalize and implement a plan of action to combat HIV/AIDS.</li> <li>Need to improve quality of health clinics.</li> </ul>	<ul style="list-style-type: none"> <li>Again with the exception of Dominica, the Bank approved HIV/AIDS projects in the other four countries. Grenada and St. Kitts and Nevis were approved in FY03, one year later than originally planned. The St. Lucia and St. Vincent and the Grenadine projects were approved in FY05, respectively, three and four years behind the CAS timeline. The projects were rolled out as part of the Caribbean horizontal APL for HIV/AIDS.</li> <li>The outcomes of the projects are again too soon to gauge. As of July 2005, the Grenada and St. Kitts and Nevis projects are rated unsatisfactory both in terms of achieving their development objectives and implementation progress. The two projects in St. Lucia and St. Vincent and the Grenadines, which are just over a year old, are rated as satisfactory for both these indicators. Disbursements are currently 5 percent in St. Lucia, 6 percent in Grenada, 7 percent in St. Kitts and Nevis and 4 percent in St. Vincent and the Grenadines.</li> </ul>	<ul style="list-style-type: none"> <li>The effectiveness and start-up delays for health projects reinforce the need to focus on stakeholder buy-ins at all levels critical to implementation progress and to simplify the bureaucratic requirements of the Bank for small countries.</li> <li>The Bank should re-examine the continued relevance of the original project scope for the HIV/AIDS projects in the sub-region in light of slow implementation progress against a background of large number of donors in the sector. It is understood that funds of other donors, including the Global Fund for HIV/AIDS, is disbursing at even slower pace than that of the Bank.</li> <li>The Bank should focus on delivering national projects on a sub-regional basis but design the projects to have wide stakeholder buy-ins and the benefits of the sub-regional approaches are reaped by the OECS implementation agencies.</li> </ul>
<p><b>(iii) Social</b></p> <ul style="list-style-type: none"> <li>Reduce poverty rates by around five percentage points (depending on country) over the next five years.</li> </ul>	<ul style="list-style-type: none"> <li>Available indicators suggested poverty headcount index in the OECS (Antigua and Barbuda aside) in the range of 25-38 percent [and around 14 percent in Barbados]. In addition, high and persistent unemployment rates challenged the governments in the region.</li> </ul>	<ul style="list-style-type: none"> <li>The unavailability of timely and comparable data on poverty incidences across the sub-region remains a problem and the poverty reduction objective probably has not been achieved. Currently, the estimate is that a third of the poor households remain chronically poor; the others do not receive satisfactory incomes. Current poverty estimates range from 12 percent of the population of Antigua and Barbuda, to 25 percent of that of St. Lucia, to 31 percent of that of St. Kitts and Nevis, 32 percent of that of Grenada, 33 percent of that of Dominica, and 38 percent of that of St. Vincent and the Grenadines. Poverty is prevalent in the rural and agricultural areas and its incidence is higher among the youth, female-headed households, and larger families. It is significantly linked to the unemployed and to those with low educational skills. See also I.A.(i) above.</li> <li>In the area of AAA, the Bank delivered a Caribbean wide youth and social development in FY02, but this did not lead to any projects due to the reluctance of OECS countries to borrow for projects or programs on youth and social development. In addition, the Bank also produced a social</li> </ul>	<ul style="list-style-type: none"> <li>The Bank should support the sub-region in addressing the persistent poverty and safety net related structural issues in order for the countries to reach a higher growth trajectory and reduce poverty especially through regional cooperation.</li> <li>To improve results, CDF and CAS targets need to be linked through a Social Protection Strategy to ensure regional, macro and fiscal adjustments and targeted investments reduce poverty especially for those at risk, displaced by agricultural declines, unemployed youth and the aged.</li> <li>The Bank should explore rolling out social safety projects based on the successful pilot in St. Lucia and continued government interest for a follow-up.</li> </ul>

## APPENDIX 2A: CARIBBEAN SUB-REGION CAS COMPLETION REPORT

### CAS RESULTS SUMMARY MATRIX

CAS Objectives	Status at CAS Design	Status at Completion (Outcomes) <i>As of July 2005</i>	Lessons Learned
		<p>protection strategy for Dominica in FY04 to provide input into the PRSP the Government is preparing. The other planned study on social safety net mechanisms for the Caribbean is planned to be delivered as a wider Caribbean AAA in early FY06.</p> <ul style="list-style-type: none"> <li>The on-going St. Lucia Poverty Reduction Fund closed successfully and the authorities have indicated their interest in a follow-up operation. The Bank is exploring interest in other countries to roll out the project to the other countries.</li> </ul>	
<b>B. Institutional</b>			
<p><b>(i) Public Sector Management</b></p> <p>Strengthen strategic planning and budget management procedures, including PSIP preparation; pursue efficient service delivery and monitor outcomes.</p>	<ul style="list-style-type: none"> <li>In light of the small size of the countries, the public sector undertakes a wide range of activities under diseconomies of scale. Hence, there was a need for rationalization of functions, strengthening of organizational capacity, and streamlining of the institutional framework to ensure effective use of fiscal resources and quality in service delivery.</li> </ul>	<ul style="list-style-type: none"> <li>The Bank approved an Emergency Recovery Support Operation (ERSO) in Dominica in FY04 which was not programmed but was needed to support critical structural adjustment. The project is fully disbursed. It has been rated as satisfactory in terms of the two development effectiveness indicators.</li> <li>The Institutional and Organizational Capacity Review was completed in FY03, one year later than originally planned, but the planned public sector reform operations for the next FY have not materialized. The Bank is working towards supporting these operations under the next CAS and is working with sub-regional change agents to foster development of the reform agenda.</li> <li>The Bank also delivered two other AAAs: trust-funds for the re-alignment of sub-regional development strategy as planned in FY02, and country financial accountability assessment as planned in FY03. The former was largely unsuccessful in attaining its goals of capacity-building at the OECS Secretariat and closed with disbursements at less than 20 percent. The planned medium term economic strategies for each country in FY04 were not undertaken as these were envisaged under the auspices of the CGCED, responsibility for which was transferred to the CDB.</li> </ul>	<ul style="list-style-type: none"> <li>The Bank should foster home-grown reform for politically charged reforms such as public sector transformation for more effective and efficient public service.</li> </ul>
<p><b>(ii) Strategic Aid Coordination</b></p> <ul style="list-style-type: none"> <li>Besides the regional activities entailed by the CGED, aid-coordination meetings for the OECS member countries will be held twice a year, involving country representatives, sub-</li> </ul>	<ul style="list-style-type: none"> <li>There was a need for high-level aid coordination for the OECS to enhance development effectiveness in the sub-region.</li> </ul>	<ul style="list-style-type: none"> <li>The responsibility for organizing the CGCED meetings, now renamed the Caribbean Forum for Development, was shifted to the CDB at the conclusion of the last meeting in 2002. The first CFD meeting took place in May 2005 and the Bank presented its Growth and Competitiveness studies at that forum.</li> <li>The UNDP has taken the lead in organizing donor thematic groups for the OECS based in Barbados. The Bank is a member of some of these groups but it is the only donor organization that is not represented in Barbados.</li> </ul>	<ul style="list-style-type: none"> <li>The Bank should continue to work with other donors to harmonize procurement, financial management and reporting requirements, which are particularly burdensome for small states with weak institutional capacity. In this context, the political economy of the difficulty in sub-regional collaboration for institutional development at the level of a "regional entity" should be factored in.</li> <li>The Bank should focus on donor coordination aspects where it has the largest value added. The Red Book Online and the donor meetings in the aftermath of the Hurricane Ivan</li> </ul>

**APPENDIX 2A: CARIBBEAN SUB-REGION CAS COMPLETION REPORT  
CAS RESULTS SUMMARY MATRIX**

<b>CAS Objectives</b>	<b>Status at CAS Design</b>	<b>Status at Completion (Outcomes)</b> <i>As of July 2005</i>	<b>Lessons Learned</b>
regional organizations, and international development agencies		<ul style="list-style-type: none"> <li>• UNDP organized the first donor coordination meeting in 2003 for the OECS sub-region and it has since been organized as an annual event by the OECS Secretariat. However, the Heads of Government have mandated the Secretariat to coordinate only donor support for regional projects and programs, leaving national authorities to coordinate donors on national projects and programs.</li> <li>• The Bank and UNDP are collaborating on a “Red Book” Online, a web-based platform to facilitate improved donor coordination and collaboration through the sharing of information on development activities and knowledge resources (such as studies and statistics). This online service has recently been rolled out to the OECS donors for their input and the goal is to broaden the knowledge sharing base to capture information from development agencies across the entire Caribbean region in the next 18 months.</li> </ul>	devastation in Grenada in 2004 are examples of what the Bank can mobilize. The Bank convened over 70 donors in Washington soon after the hurricane hit Grenada and supported the Government in hosting a successful follow-up pledging conference by donors.

## APPENDIX 2B: OECS PLANNED AND NON-PROGRAMMED PROJECTS AND ACTUAL DELIVERIES

Planned Projects	CAS Objectives	Planned Amount US\$ mil		Realized	Actual Amount US\$ mil	
		IBRD	IDA		IBRD	IDA
<b>Dominica</b>						
Education Development (FY02)	Human Development	2.00	2.00			
HIV/AIDS Prevention & Control (FY03)	Human Development	1.50	1.50			
Disaster Mgmt II (FY06)	Economic Diversification	1.20	1.20			
<i>Total Planned</i>		4.70	4.70			
<b>Non-programmed projects</b>						
Emergency Recovery Project	Macroeconomic Env.			FY02	0.96	2.24
Economic Recovery Support Operation	Macroeconomic Env. / Institutional Devel.			FY04		3.00
OECS Telecommunications and ICT Development	Economic Diversification			FY05		0.54
<b>Total Actual Dominica</b>					<b>0.96</b>	<b>5.78</b>
<b>Grenada</b>						
HIV/AIDS Prevention & Control (FY02)	Human Development	1.50	1.50	FY03	3.00	3.04
Education Development (FY03)	Human Development	3.38	3.38	FY03	4.00	4.00
Disaster Mgmt II (FY06)	Economic Diversification	1.20	1.20			
<i>Total Planned</i>		6.08	6.08		7.00	7.04
<b>Non-programmed projects</b>						
Emergency Recovery Project <sup>1/</sup>	Macroeconomic Env.			FY02	1.14	2.66
Hurricane Ivan Emergency Recovery	Macroeconomic Env.			FY05	5.00	5.00
OECS Telecommunications and ICT Development	Economic Diversification			FY05	0.27	0.27
<b>Total Actual Grenada</b>					<b>13.41</b>	<b>14.97</b>
<b>St. Kitts and Nevis</b>						
Education Development (FY02)	Human Development	6.00		FY02	5.00	
HIV/AIDS Prevention & Control (FY02)	Human Development	3.00		FY03	4.05	
Disaster Mgmt II (FY06)	Economic Diversification	2.40				
<i>Total Planned</i>		11.40			9.05	
<b>Non-programmed projects</b>						
Emergency Recovery Project <sup>1/</sup>	Macroeconomic Env.			FY02	4.40	
OECS Telecommunications and ICT Development	Economic Diversification				0.54	
<b>Total Actual St. Kitts and Nevis</b>					<b>13.99</b>	
<b>St. Lucia</b>						
Education Development (FY02)	Human Development	4.00	4.00	FY02	6.00	6.00
HIV/AIDS Prevention & Control (FY02)	Human Development	1.50	1.50	FY05	3.20	3.20
TA Water Sector Reform (FY02)	Economic Diversification	1.25	1.25	FY02	1.30	1.30
Disaster Mgmt II (FY06)	Economic Diversification	1.20	1.20	FY04	3.70	3.80
<i>Total Planned</i>		7.95	7.95		14.20	14.30
<b>Non-programmed projects</b>						
Emergency Recovery Project <sup>1/</sup>	Macroeconomic Env.			FY02	1.89	4.41
OECS Telecommunications and ICT Development	Economic Diversification			FY05	0.27	0.27
Water Sector Reform II (FY05)	Economic Diversification			FY05	3.85	3.85
<b>Total Actual St. Lucia</b>					<b>20.21</b>	<b>22.83</b>
<b>St. Vincent and the Grenadines</b>						
Disaster Mgmt (FY02)	Economic Diversification	3.00	3.00	FY02	3.00	2.91
HIV/AIDS Prevention & Control (FY03)	Human Development	1.50	1.50	FY05	3.50	3.50
Education Development (FY03)	Human Development	3.38	3.38	FY04	3.10	3.10
Disaster Mgmt II (FY06)	Economic Diversification	1.20	1.20			
<i>Total Planned</i>		9.08	9.08		9.60	9.51
<b>Non-programmed projects</b>						
Emergency Recovery Project <sup>1/</sup>	Macroeconomic Env.			FY02	0.96	2.24
OECS Telecommunications and ICT Development	Economic Diversification			FY05	0.27	0.27
<b>Total Actual St. Vincent and the Grenadines</b>					<b>10.83</b>	<b>12.02</b>
<b>OECS Regional Projects</b>						
Catastrophe Risk Mgmt & Insurance (FY03)	Economic Diversification	2.40	1.60			
Public Sector Reform (FY04)	Institutional Development	3.60	2.40			
Regional Environmental Management (FY04)	Economic Diversification	3.60	2.40			
Financial Sector Strengthening (FY05)	Economic Diversification	3.60	2.40			
Regional Regulatory Strengthening (FY05)	Economic Diversification	3.60	2.40			
Adpat. To Climate Change II (GEF - Caribbean)	Economic Diversification		5.00	FY03		5.00
OECS Protected Areas and Associated Live (GEF)	Economic Diversification		3.70	FY05		3.70
<i>Total Planned</i>			36.70			8.70
<b>Total Actual OECS Regional</b>						
<b>Total Planned</b>		<b>56.00</b>	<b>39.00</b>			
<i>including GEF</i>			8.70			
<b>Total Actual</b>					<b>59.40</b>	<b>55.60</b>
<i>including GEF</i>					8.70	
		<b>IBRD</b>	<b>IDA</b>	<b>GEF</b>	<b>Total</b>	
Planned Projects Realized		39.85	30.85	8.70	79.40	
Non-programmed Projects		19.55	24.75		44.30	
					<b>123.70</b>	

## APPENDIX 2C: OECS PLANNED AND NON-PROGRAMMED AAA AND ACTUAL DELIVERIES

FY	CAS Plans Product	CAS Objectives	Progress Report Status
2002	Medium Term Economic Strategies (Caribbean)	<i>Institutional Development Economic</i>	Actual
	Comprehensive Disaster Mitigation <sup>1/</sup> (Caribbean)	<i>Diversification</i>	Actual
	Realignment of Sub-Regional Develop. Strategy (OECS)	<i>Institutional Development</i>	Actual
	Youth and Social Development <sup>1/</sup> (Caribbean)	<i>Human Development</i>	Actual
	Caribbean Economic Overview	<i>Macroeconomic Env.</i>	Actual
	Institutional and Organizational Capacity Review (OECS)	<i>Institutional Development Economic</i>	Completed in FY03
	Financial Sector Assessment Program (OECS) Public Expenditure Analysis I <sup>2/</sup> (DM, GD, KN, LC) Improving Social Statistics (MECOVI) (OECS)	<i>Diversification Macroeconomic Env. Macroeconomic Env.</i>	Completed in FY04 DM, GD, KN completed in FY04; LC completed in FY05 IDF ongoing
2003	Educational Achievement in the Caribbean <sup>3/</sup> (Caribbean)	<i>Human Development</i>	Actual
	Country Financial Accountability Assessment (OECS)	<i>Institutional Development</i>	Actual
	Public Expenditure Analysis II <sup>2/</sup> (VC)	<i>Macroeconomic Env.</i>	Completed in FY05
2004	Poverty Assessment I <sup>4/</sup> (DM, KN, LC)	<i>Macroeconomic Env.</i>	Completed in FY05
	Economic Valuation and Environmental Management <sup>5/</sup> (OECS)	<i>Economic Diversification</i>	
	Medium Term Economic Strategies <sup>6/</sup> (Caribbean)	<i>Institutional Development</i>	
	Caribbean Economic Overview <sup>6/</sup> (Caribbean)	<i>Macroeconomic Env.</i>	
2005	Business Environment Study <sup>7/</sup> (OECS)	<i>Macroeconomic Env.</i>	Actual
	Social Safety Net Mechanisms Review <sup>8/</sup> (OECS)	<i>Human Development</i>	Ongoing (to be completed in FY06)
2006	Poverty Assessment II <sup>4/</sup> (GD, VC)	<i>Macroeconomic Env.</i>	
	Health Financing (OECS)	<i>Human Development</i>	
	Medium Term Economic Strategies <sup>6/</sup> (Caribbean)	<i>Institutional Development</i>	
	Caribbean Economic Overview <sup>6/</sup> (Caribbean)	<i>Macroeconomic Env.</i>	

1/ Studies completed for the biennial Caribbean Group for Cooperation and Economic Development (CGCED) conference. Following the 2002 CGCED it was decided the conference would be managed by the CDB and take place in the region instead.

2/ Titled changed to "Analysis of Fiscal Issues".

3/ Title changed to "Monitoring Educational Achievement in the Caribbean".

4/ Since preparation of the CAS, CDB and DFID have made Poverty Assessments priorities in their OECS strategies and have supported the assessments in the OECS.

5/ Titled changed to "Environmentally Sustainable Tourism".

6/ Responsibility for the Medium Term Economic Strategies and Caribbean Economic Overview, which are prepared for the biennial CGCED, has been assumed by the CDB.

7/ The Investment Climate Assessment (GD) and the OECS Growth and Competitiveness Study.

8/ Title changed to "Caribbean Social Protection Strategy Review".

## APPENDIX 2D : OECS CAS RESULTS MATRIX

Long-term OECS development goals	Issues that hinder OECS' ability to achieve their long-term goals	Outcomes that IBRD/IDA expects to influence during CAS period	Intermediate indicators	Bank program to support OECS Governments
<i>Goal 1: Stimulating Growth and Improving Competitiveness</i>				
<ul style="list-style-type: none"> <li>○ Restore fiscal and debt sustainability as per the ECCU convergence criteria.</li> </ul>	<p>Current revenues and expenditures are quite high and the deficits mirror capital expenditures. Restoring balance is compounded by low economic growth and high starting debt ratios.</p>	<ul style="list-style-type: none"> <li>• Debt reduction leading to debt sustainability within medium to long-term.</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Fiscal balance-to-GDP</i></li> </ul>	<p><i>Lending</i></p> <ul style="list-style-type: none"> <li>• Public Sector Modernization</li> <li>• OECS Public Utilities Reform</li> <li>• Development Policy Lending (high case)</li> </ul>
<ul style="list-style-type: none"> <li>• Improve efficiency in the delivery of public services.</li> </ul>	<ul style="list-style-type: none"> <li>• Relatively bureaucratic and burdensome civil service.</li> <li>• Poor incentives for accountability and performance.</li> <li>• Excessive span of public sector functions.</li> <li>• Lack of sufficient number of qualified staff.</li> </ul>	<ul style="list-style-type: none"> <li>• Improved human resource management and training in the civil service.</li> <li>• Design and implementation of performance-based functioning for a service-oriented and accountable public sector.</li> <li>• Conversion of public entities into executive agencies or commercialization/outsourcing of public services within formal monitoring procedures to improve service delivery and reduce costs to the public or users.</li> <li>• Supporting greater regional coordination and integration of public services, such as procurement and auditing.</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Baseline data and a system for monitoring and evaluation would be put in place as part of the lending operation in each country.</i></li> </ul>	<p><i>Lending</i></p> <ul style="list-style-type: none"> <li>• Public Sector Modernization</li> <li>• OECS Public Utilities Reform</li> </ul> <p><i>AAA</i></p> <ul style="list-style-type: none"> <li>• Caribbean Air Transport</li> <li>• Caribbean Recent Economic Developments in Infrastructure</li> <li>• OECS Country Fiduciary Assessment</li> <li>• Caribbean Financial Sector and Regulation</li> <li>• OECS Capacity Building Program for training in project management, financial management and procurement.</li> </ul>
<ul style="list-style-type: none"> <li>• Foster the use of ICT to expedite development of emerging and existing growth poles.</li> </ul>	<ul style="list-style-type: none"> <li>• Monopoly pricing in remaining telecom segments.</li> </ul>	<ul style="list-style-type: none"> <li>• Reduction of communication tariffs as a result of competitive network charges among operators on local and international routes.</li> <li>• Reduction in the cost of broadband services.</li> </ul>	<ul style="list-style-type: none"> <li>• A 40 percent reduction in each country in a basket of equally weighted prices of leased lines (international leased lines, Mobile retail tariffs and international rate per minute to US) in increments of 10% reduction each year from the original price index of 100.</li> <li>• Monthly cost of broadband access declines from US\$92 to \$83 after two years of project implementation and to \$74 by the fourth year.</li> </ul>	<p><i>Lending</i></p> <ul style="list-style-type: none"> <li>• OECS Telecommunication and ICT Development.</li> </ul>

## APPENDIX 2D : OECS CAS RESULTS MATRIX

Long-term OECS development goals	Issues that hinder OECS' ability to achieve their long-term goals	Outcomes that IBRD/IDA expects to influence during CAS period	Intermediate indicators	Bank program to support OECS Governments
<ul style="list-style-type: none"> <li>• Reduce the cost and improve services of public utilities for the consumers and businesses.</li> </ul>	<ul style="list-style-type: none"> <li>• Absence of independent regulators.</li> <li>• Weak regulatory capacity.</li> <li>• Existing regulations do not offer incentives for better performance.</li> </ul>	<ul style="list-style-type: none"> <li>• Improved operation and oversight of electricity and water companies.</li> </ul>	<ul style="list-style-type: none"> <li>• Undertake a regional and international benchmarking of the utilities.</li> <li>• Raise public awareness of the relative performance of the national utilities.</li> <li>• Draft new legislative framework in each country.</li> <li>• Adopt performance-based regulations for electricity in Dominica.</li> <li>• Explore reforms in water and electricity pricing in all countries.</li> </ul>	<p><i>Lending</i></p> <ul style="list-style-type: none"> <li>• OECS Infrastructure and Utilities Reform Investment/TA program.</li> </ul> <p><i>Ongoing</i></p> <ul style="list-style-type: none"> <li>• Dominica PPIAF grants for electricity</li> <li>• St. Lucia Water Sector Reform TA</li> <li>• St. Lucia Water Supply Improvement project</li> </ul>
<ul style="list-style-type: none"> <li>• Strengthen management of natural environment.</li> </ul>	<ul style="list-style-type: none"> <li>• Weak environmental management in terms of institutions, legislation and regulations.</li> </ul>	<ul style="list-style-type: none"> <li>• Stricter enforcement of environmental policies for land use planning, urban-rural zoning regulations and landscaping.</li> <li>• Conservation and expansion of natural areas.</li> <li>• Monitoring of the quality of coastal waters and beaches.</li> <li>• Additional efforts in solid waste management, waste water treatment and water and air pollution control.</li> </ul>	<ul style="list-style-type: none"> <li>• Policy reforms to strengthen the environmental units.</li> <li>• Environmental impact assessment recommendations publicized and adhered to.</li> <li>• Increased public awareness of the environmental issues.</li> <li>• Region-wide monitoring of critical ecosystems and water quality.</li> <li>• Established protected areas are adequately staffed and managed.</li> </ul>	<p><i>Lending</i></p> <ul style="list-style-type: none"> <li>• Environmental Management Project.</li> </ul> <p><i>Grants</i></p> <ul style="list-style-type: none"> <li>• Global Environment Facility and other grant agencies.</li> </ul> <p><i>Ongoing</i></p> <ul style="list-style-type: none"> <li>• OECS Protected Areas and Livelihoods Project</li> </ul>
<p><i>Goal 2: Reducing vulnerabilities, by promoting greater social inclusion and strengthening disaster risk management</i></p>				

## APPENDIX 2D : OECS CAS RESULTS MATRIX

Long-term OECS development goals	Issues that hinder OECS' ability to achieve their long-term goals	Outcomes that IBRD/IDA expects to influence during CAS period	Intermediate indicators	Bank program to support OECS Governments
<p>Improve the quality, coverage and sustainability of social protection programs.</p>	<ul style="list-style-type: none"> <li>• Large number of uncoordinated social assistance programs with weak system of monitoring and targeting.</li> <li>• Growing dependency ratios, and limited coverage by social insurance schemes facing risks to long-term financial sustainability.</li> </ul>	<ul style="list-style-type: none"> <li>• Rationalized and better targeted social assistance programs.</li> </ul>	<ul style="list-style-type: none"> <li>• Assessments of social assistance programs, including recommendations for improvement in targeting.</li> <li>• Close coordination by the Bank with the other major donors (EC/DFID/CDB/UNDP), and reduced overlapping initiatives/programs.</li> <li>• Completed review of financial management reform options, benefit levels and options to extend coverage of social insurance schemes.</li> <li>• Ministries of Finance and Labor have embraced importance of improvements in coverage and financial management of pension fund investment portfolios.</li> </ul>	<p><i>Lending</i></p> <ul style="list-style-type: none"> <li>• OECS Social Protection program</li> <li>• PRSC 1 (Dominica)</li> </ul> <p><i>AAA</i></p> <ul style="list-style-type: none"> <li>• Caribbean Social Protection Strategy Review (<i>ongoing</i>)</li> <li>• Caribbean MECOVI (<i>ongoing</i>) and additional TA for improved poverty and social indicators measurement.</li> <li>• Caribbean Crime, Violence and Exclusion</li> <li>• Caribbean Pension Reform</li> <li>• Caribbean Health Financing</li> </ul>
<ul style="list-style-type: none"> <li>• Reduce the incidence of HIV/AIDS.</li> </ul>	<ul style="list-style-type: none"> <li>• Inadequate prevention and care system.</li> </ul>	<ul style="list-style-type: none"> <li>• Reduction in new HIV/AIDS, and better prevention and care system in place.</li> </ul>	<ul style="list-style-type: none"> <li>• Population requesting an HIV test, receiving a test and getting the test results.</li> </ul>	<p><i>Ongoing</i></p> <ul style="list-style-type: none"> <li>• HIV/AIDS projects (Grenada, St. Kitts &amp; Nevis, St. Lucia, and St. Vincent &amp; the Grenadines).</li> </ul>
<ul style="list-style-type: none"> <li>• Foster higher levels of human capital development and increased and more equitable enrolment in secondary education.</li> </ul>	<ul style="list-style-type: none"> <li>• Curriculum not relevant for the needs of a modern economy.</li> <li>• Limited opportunities for post-secondary education.</li> </ul>	<ul style="list-style-type: none"> <li>• Higher proportion of skilled workers in the labor force.</li> </ul>	<ul style="list-style-type: none"> <li>• Assessments of curriculum reform and proposal for reform formulated.</li> <li>• Increased enrolment of youth at post-secondary education.</li> </ul>	<p><i>Lending</i></p> <ul style="list-style-type: none"> <li>• Skills Enhancement</li> </ul> <p><i>Ongoing</i></p> <ul style="list-style-type: none"> <li>• Education projects (Grenada, St. Kitts &amp; Nevis, St. Lucia, St. Vincent &amp; the Grenadines).</li> </ul> <p><i>AAA</i></p> <ul style="list-style-type: none"> <li>• OECS Skills Enhancement Study</li> <li>• Caribbean Knowledge and Learning Network (<i>ongoing</i>)</li> </ul>
<ul style="list-style-type: none"> <li>• Strengthen disaster risk management.</li> </ul>	<ul style="list-style-type: none"> <li>• Vulnerable to natural disasters and other external shocks because of location, size and dependence on tourism.</li> </ul>	<ul style="list-style-type: none"> <li>• Ability to withstand adverse effects of man-made disasters such as the 9/11 attacks.</li> <li>• Reduction of vulnerability and strengthening response to natural disasters.</li> </ul>	<ul style="list-style-type: none"> <li>• Assessments of assets at risk, vulnerability and actuarial risks for all countries.</li> <li>• Design of appropriate risk mitigation mechanism (i.e., a combination of pooled insurance</li> </ul>	<p><i>Lending</i></p> <ul style="list-style-type: none"> <li>• Catastrophe Risk Insurance Project</li> </ul> <p><i>Ongoing</i></p> <ul style="list-style-type: none"> <li>• Emergency Recovery Projects (Dominica, Grenada, St. Kitts &amp; Nevis, St. Lucia, and St. Vincent &amp; the Grenadines).</li> </ul>

## APPENDIX 2D : OECS CAS RESULTS MATRIX

Long-term OECS development goals	Issues that hinder OECS' ability to achieve their long-term goals	Outcomes that IBRD/IDA expects to influence during CAS period	Intermediate indicators	Bank program to support OECS Governments
		<ul style="list-style-type: none"> <li>• Implementation of a pooled financial mechanism for specified disaster events (e.g., hurricanes).</li> </ul>	and contingent finance). <ul style="list-style-type: none"> <li>• Commitments by each country to implement the recommended catastrophe risk insurance scheme.</li> </ul>	
<ul style="list-style-type: none"> <li>• Mitigate vulnerability to natural disasters.</li> </ul>	<ul style="list-style-type: none"> <li>• Erosion and deforestation increase vulnerability.</li> </ul>	<ul style="list-style-type: none"> <li>• Reduction of erosion and promotion of reforestation.</li> </ul>	<ul style="list-style-type: none"> <li>• Measures to reduce erosion and promote reforestation. <i>Baseline data and a system for monitoring and evaluation would be put in place as part of the lending operation</i></li> </ul>	<i>Lending</i> <ul style="list-style-type: none"> <li>• Environmental management project.</li> </ul>

## APPENDIX 3: OECS: COUNTRY FINANCING PARAMETERS<sup>1</sup>

The country financing parameters for the Eastern Caribbean States, approved by the Regional Vice President, Latin America and the Caribbean Region, are set out below. These were established 9 months ago and remain broadly the same. Since that time, however, Antigua and Barbuda has reintroduced personal income tax and is considering the introduction of property tax and VAT.

Item	Parameter	Explanation/Remarks
<p><b>A. Cost Sharing</b> Limit on the proportion of individual projects costs that the Bank may finance.</p> <p><b>B. Recurrent Cost Financing</b> Any limits that would apply to the Overall amount of recurrent expenditures that the Bank may finance.</p>	<p>Up to 100 percent</p> <p>No country level limit.</p>	<p>The Bank may finance up to 100 percent of project costs of individual projects, which would also apply to grant financing. In most individual projects, the Bank expects to continue financing less than 100 percent of project costs. The actual cost-sharing percentages would be determined during the preparation of each project. Recurrent cost financing associated with Bank operations is expected to remain relatively small in countries where the Bank has a lending program. The Bank will continue to monitor the fiscal position and prospects of each of the Eastern Caribbean States (OECS) countries, and its implications for recurrent cost financing in these countries. In determining Bank financing of recurrent costs in individual projects, the Bank will take into account sustainability issues at the sector and project levels, including a careful consideration of implied future budgetary outlays. In the case of Antigua and Barbuda, which is not currently a Bank borrower, should borrowing resume at a future date, the country's fiscal and debt situation and implications for recurrent cost financing would also be examined during project appraisal.</p>
<p><b>C. Local Cost Financing</b> Are the requirements for Bank financing of local expenditures met, namely that: (i) financing requirements for the country's development program would exceed the public sector's own resources (e.g., from taxation and other revenues) and expected domestic borrowing; and (ii) the financing of foreign expenditures alone would not enable the Bank to assist in the financing of individual projects.</p>	<p>Yes.</p>	<p>The two requirements for Bank financing of local expenditures are met in the Bank borrowing countries. Therefore, the Bank can finance local costs in the proportions needed in individual projects. In the case of Antigua and Barbuda, should borrowing resume at a future date, the second criterion for local cost financing would also be examined during project appraisal.</p>
<p><b>D. Taxes and Duties</b> Are there any taxes and duties that the Bank would not finance?</p>	<p>None.</p>	<p>Taxes in the OECS countries are neither excessive nor discriminatory; therefore, the Bank may finance taxes and duties associated with project expenditures. The OECS countries are making efforts (working with the IMF and CARTAC) to improve their tax systems, that are generally complex, difficult to administer and non transparent. At the project-level, the Bank would consider whether taxes and duties constitute an excessively high share of projects costs.</p>

<sup>1</sup> For the purpose of the country financing parameters, the Organization of Eastern Caribbean States (OECS) includes six countries: Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines, the six independent countries of the OECS and all members of the World Bank Group. There is a seventh full OECS member (Montserrat) and two associate members (Anguilla and the British Virgin Islands) which are overseas territories of the United Kingdom.

## APPENDIX 4: DONOR HARMONIZATION

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

## APPENDIX 5: OECS CAS CONSULTATIONS

### Background

The preparation of this CAS followed a continuous and detailed dialogue involving the Governments of the OECS, sub-regional organizations, development partners, and representatives of civil society. The process entailed two rounds of consultations: (i) In January 2005, a meeting was held in St. George's, Grenada, between the six OECS Heads of Government, the Governor of the ECCB and the Director-General of the OECS Secretariat and a Bank delegation comprised of the President of the World Bank, the Vice President for the LAC region and the Country Director, Lead Economist and Sector Leaders of the Caribbean Country Management Unit. IFC's Regional representative and the Executive Director for the Caribbean were also in attendance; (ii) in March 2005, during in-country consultations, the "Concept Note", which detailed key directions for the CAS was presented to Government and NGOs (including the private sector, civil society and other stakeholders). In addition, the CAS preparations benefited from an extensive Country Program Quality Enhancement Review, conducted by the Bank's Quality Assurance Group in November 2004, which involved meetings with stakeholders, including Government and Barbados-based donors. Finally, the Lessons Learned and new approaches presented are informed by the CPPR and supervision missions conducted over the last two years.

The consultations in March 2005 took place as follows:

- *Dominica:*  
A meeting organized by the Ministry of Finance, including participants representing the public sector, NGOs, trade organizations, and the private sector.
- *St. Kitts and Nevis:*  
Meeting organized by the Ministry of Finance, including approximately a dozen participants representing the public sector, NGOs, trade organizations, and the private sector.  
In addition: a meeting with the Governor of the ECCB and his senior advisors was held.
- *St. Lucia:*  
A meeting, organized by the Bank's Public Information Center, included participants representing the public sector, NGOs, trade organizations, and the private sector. A later meeting with the Director of Economic Affairs at the Ministry of Finance was held.
- *St. Vincent and the Grenadines:*  
Meeting organized by the Ministry of Planning, including participants representing the public sector, NGOs, trade organizations, and the private sector.
- *Grenada:*  
Meeting organized by the Ministry of Finance, including participants representing the public sector, NGOs, trade organizations, and the private sector.
- *Barbados:*  
A meeting hosted by UNDP involving representatives from the Caribbean Development Bank, CIDA, DFID, the European Union and USAID.

### **SUMMARY OF COMMENTS RECEIVED DURING THE CONSULTATION PROCESS**

The consultations consisted of a brief presentation by the Bank team, explaining the proposed assistance strategy for the OECS, including lending and non-lending activities by areas of intervention; and the rationale for selection of these areas. This was followed by comments, questions and answers on the proposed strategy as well as on broader issues and concerns.

Overall, the thrust and focus of the proposed CAS was well received by stakeholders. There was engaging discussion about the CAS and additionally a number of areas outside of the CAS' scope which stakeholders felt should be national and/or regional priorities. There was, however, a degree of skepticism about the validity of the consultations and a sense that input from NGOs in particular was pro-forma rather than a real input to the country strategic planning process. NGOs impressed upon the Bank team the need for greater inclusion in project design and implementation.

## Key Messages Received

### Skills Enhancement

- A broad support for the need for skills enhancement and curriculum reform was voiced;
- Need for greater private sector led development including a better match of relevant skills to competitive industries;
- Current curriculum does not serve the need of the modern competitive environment- leading to a lack of entrepreneurship in society;
- Need for a regional skills enhancement center;
- Broad agreement on the need for early childhood interventions as well as post-secondary interventions specifically targeted for youth-at-risk.
- Need for more professionals to address learning difficulties in a multi-dimensional approach to teaching;

### Social Protection

- Broad support of existing MECOVI project
- The continued need for better data collection to more accurately identify vulnerable groups;
- NGO's voiced a desire for greater inclusion in social protection strategies, particularly in rural areas;
- Social exclusion was cited as a major and growing problem, including of people with disability "*cutting off swaths of the population because of their lack of conformity to Victorian norms*";
- The private sector voiced some concern regarding the level of welfare programs without increasing the emphasis on the development charter.

### Catastrophe Risk

- Broad support for the need of catastrophe risk insurance or a similar risk mitigation initiative;
- Concern that previous attempts at operationalizing the project had failed;
- Further concern existed for the domestic housing market and those for private assets;
- There was a lack of clarity about the scope of the project, particularly the costs of the initial assessment, and how it would be rolled out;
- The feasibility of the proposed Catastrophe Risk Insurance project was called into question due to its' need for joint regional buy-in, large up-front costs, and moral hazard of governments to rely on donors to lend their support post-natural disaster;

### Public Sector Transformation

- Support for this initiative was unilateral;
- There was particular support for (i) improved human resource management and training in the civil service, which was regarded as "*pre-historic*"; (ii) design and implementation of a performance-based public sector;
- There was broad support for more in depth re-structuring of the public sector;
- Skepticism surfaced about the role/mandate of ECCB in public sector transformation efforts;
- Concern was expressed about potential duplication of efforts in light of CIDA's ecamp program;
- There was a desire for technical support to assist in a complete overhaul of the antiquated public sector which is still widely based on the old colonial system and has resulted in a high centralization of power—"*a Control Bureaucracy*"-- which has significantly slowed down the government and concentrated decision-makers to a few bodies.
- The existing weak capacity and lackluster performance in the public sector was directly correlated to deficiencies in the education sector, particularly the skills attained;
- A dichotomy exists between the need for greater training and the challenge to attract and retain highly trained civil servants- an issue which is exasperated by the small pool of potential middle and senior managers;
- The need for greater training particularly in Accountancy was highlighted;

### Public Utilities

- The success of the Bank's role in establishing an effective regulatory framework in telecommunications was widely recognized and supported;
- There was concern about the long-standing contracts on public utilities and how the Bank proposed to break those contracts;

- There was an issue about the CDB already doing work in both the water and electricity sectors;

#### New Ways for Doing Business

- There was wide support for the Bank's initiative to streamline procedures, build capacity, and leverage concessional funding from development partners;
- The Government's stressed the need to match the proposed capacity building efforts around project implementation with efforts to build capacity for project design within line ministries;
- There was concern that the proposed Multi-Donor Trust Fund would add another layer of bureaucracy;
- There was wide interest in learning more about the timing and modalities of the MDTF;
- Based on previous efforts, skepticism was expressed about donors' efforts to harmonize;
- Just-in-time Technical Assistance was widely supported as a modality going forward;
- Within the NGO meetings, the Bank's efforts to improve information-sharing to a wider group of stakeholders was encouraged;

#### Regionalism

- It was broadly agreed that regional initiatives should have flexibility to adjust to domestic programs.
- There was some concern that the regional approach could result in some countries being left behind.

#### Private Sector Issues

- Development and greater access to funds for Micro, Small, and Medium Size Enterprises;
- The need for greater enterprise development a la JAMPRO was cited alongside multi-island business clusters;
- Weak capacity in umbrella business organizations;
- Need for stronger export promotion, marketing strategies, and trade facilitation
- Key obstacles to growth in the private sector include the cost of shipping (there was a sense that the sub-region had regressed from the days of the Caribbean Shipping Federation), the un-coordinated regional and national approach to development, and overall need for greater private sector led development;
- The need for recognized accreditation of vocational skills;
- In St. Kitts and Nevis there was a sense that there was no longer a productive class and that the private sector had evolved into a "*Buy and Sell Merchant Class*";
- There was a lack of clarity in St. Kitts and Nevis about the future of sugar;
- Private sector voiced uncertainty about the CSME, citing the apparent lack of planning and rationalization by member governments;

#### Other Issues

- Increasing capacity of statistics- both economic and social- across the sub-region was seen as a priority;
- In light of the lending trigger for IMF intensified surveillance in two instances, there were questions about how formal the monitoring should be and what would precisely would be entailed;
- Technical assistance to build capacity in the Ministry of Finance was requested;
- The concerns of those affected by the agricultural transition are not being fully addressed;
- Debt sustainability issues

#### **Conclusions**

The consultations provided the Bank team with a deeper understanding of the issues and challenges facing the OECS countries both as a sub-region and as individual countries. Broad agreement that the Bank's proposed CAS focus of reducing vulnerability and building up human capital and organizational capacity reflected the concerns put forth in the OECS Development Strategy and the countries' Medium-Term Economic Strategy Papers (MTESPs). Overall, the thrust of the proposed World Bank strategy for the OECS was endorsed by the governments, sub-regional organizations, development partners, and well accepted by representatives of the civil society.

## ANTIGUA AND BARBUDA

**Population:** 79,000 (2003)  
**GNI per capita:** US\$9,950 (2004 est. Atlas methodology)

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**1. Profile.** Antigua and Barbuda is a three-island economy (Redonda is the third) which accounts for about 25 percent of the combined Eastern Caribbean Currency Union GDP. Antigua, the largest island, has a dry climate and a large number of white sand beaches. The cultivation of sugar that started in the late 1600's was abandoned in 1969. Aside from tourism—the island's most important industry—Antigua and Barbuda's economy depends heavily on the service sector, particularly offshore services. The unemployment rate is estimated at 7 percent, poverty is estimated to be relatively low, with a headcount index of 12 percent, but social indicators do not reflect the high per capita income. Adult literacy attainment, for example, lags the other OECS countries. The 2004 UNDP Human Development Report ranks Antigua 55<sup>th</sup>, out of 174 countries.

**2. Political Context.** Independence: 1981 Next election: 2009.

In March 2004, the United Progressive Party won a landslide victory in the general elections, ending the political dynasty of the Bird family, which had dominated the country's politics for more than half a century and run a populist, non-transparent regime, during which there was a severe erosion of governance and policy slippage. Antigua and Barbuda is currently not a borrowing member of the Bank due to creditworthiness issues and its high per capita income. It has, however, benefited from economic and sector work, and regional analytical work undertaken across the OECS sub-region and the wider Caribbean region. The new administration has recently made overtures to the donor community (including the World Bank) for assistance in the area of macroeconomic management.

**3. Economic Developments and Prospects.** Rapid private sector-led growth in the 1980s, mainly tourism-sector driven, gave way to public sector-led growth, accompanied by deteriorating institutions and broad fiscal mismanagement. As in the other OECS countries, growth slowed down considerably in recent years due to a combination of exogenous shocks (natural disasters, the impact of the 9/11 events on tourism and tightened regulation of offshore activities) and policy slippages during the two Bird (father and son) administrations, including fiscal mismanagement and widespread governance issues. The public sector has been used as an employer of last resort, with the result that about 40 percent of the labor force is employed in the public sector and 60 percent of government revenues go to meet the wage bill, leaving little room for other expenditure. The large fiscal deficits that resulted were financed through arrears to both external creditors as well as domestic banks, suppliers and the social security system. Continued borrowing from select institutions, both domestic and external, was secured through earmarking tax revenues to pay debt service to creditors and through non-transparent loans (at end-2003, almost 35 percent of revenues were estimated to be earmarked for debt service).

Growth has strengthened since 2003 due to a rebound in tourism, but fiscal imbalances remain very large and the debt stock is high. The public sector debt stock in 2003 was estimated at 142 percent of GDP (external debt at 75 percent of GDP). Antigua and Barbuda's debt profile is somewhat different from the other OECS countries. Multilateral debt is negligible and there is no debt outstanding to the World Bank Group. Debt sustainability analysis by the IMF shows that under a passive scenario, with no adjustment, the public debt would rise to over 157 percent of GDP by 2009. However, it is unlikely that Antigua and Barbuda would find the financing required by this scenario. A strong fiscal adjustment, as detailed in the attached table, would lead to the public sector debt ratio to GDP coming down to 86 percent of GDP by 2009. However, this adjustment would require primary surpluses during 2007-09 in the range of 1.5-3.5 percent of GDP and a comprehensive debt restructuring.

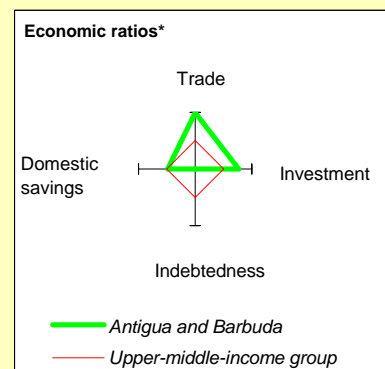
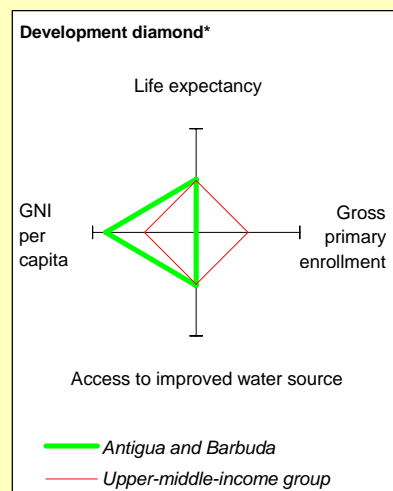
The new administration that took office in March 2004 has shown commitment to address the country's problems but the challenges are significant. Fiscal imbalances and the level of external debt (including arrears) are high. The Government announced an ambitious fiscal reform in the 2005 budget, including the re-introduction of a personal income tax (introduced in April 2005)-and of a modern system of property taxes (to become effective in January 2006), and measures to curtail the growth in expenditures, including a significant downsizing of the public sector, together with the establishment of an adequate safety net. Also, the authorities recently announced in June that a VAT will be introduced in 2006. At the same time, new

fiscal initiatives were introduced to stimulate growth and for social objectives, thus limiting the near term improvement in the fiscal accounts.

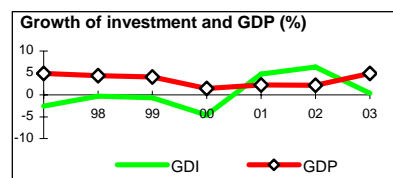
Since fiscal adjustment alone would not be sufficient to bring debt to a manageable level, after taking office in March 2004 the Government initiated a dialogue with creditors with a view to regularizing relations (most loans have been in arrears for several years). A major step included an agreement with the Italian Government to clear US\$196 million (one third of external debt) through a bullet payment of US\$18.5 million. Also, the authorities have requested assistance from donors to hire financial advisors to facilitate the debt restructuring process. A Debt Coordinating Committee was formed in mid-2005 with representatives from the public and private sectors to facilitate this process. Even with a large fiscal adjustment and robust growth performance, the economy will remain vulnerable and public debt high for many years to come. In particular, the combination of high debt, susceptibility to external (economic and natural) shocks and a tourism dependent economy point to an unusually high level of risk.

## Antigua and Barbuda at a glance

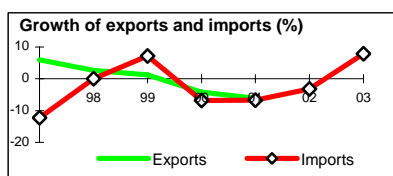
	Antigua and Barbuda	Latin America & Carib.	Upper-middle-income		
<b>POVERTY and SOCIAL</b>					
<b>2003</b>					
Population, mid-year (millions)	0.08	534	335		
GNI per capita (Atlas method, US\$)	9,330	3,260	5,340		
GNI (Atlas method, US\$ billions)	0.72	1,741	1,788		
<b>Average Annual Growth 1990-2003</b>					
Population (%)	1.6	1.6	1.3		
Labor force (%)	..	2.1	1.8		
<b>Most recent estimate (latest year available, 1997-03)</b>					
Poverty (% of population below national poverty line)	12	..	..		
Urban population (% of total population)	38	77	76		
Life expectancy at birth (years)	75	71	73		
Infant mortality (per 1,000 live births)	12	28	19		
Child malnutrition (% of children under 5)	..	..	..		
Access to an improved water source (% of population)	91	86	89		
Illiteracy (% of population age 15+)	..	11	9		
Gross primary enrollment (% of school-age population)	..	129	104		
Male	..	131	104		
Female	..	126	104		
<b>KEY ECONOMIC RATIOS and LONG-TERM TRENDS</b>					
	<b>1983</b>	<b>1993</b>	<b>2002</b>	<b>2003</b>	
GDP (US\$ billions)	0.15	0.46	0.73	0.76	
Exports of goods and services/GDP	61.3	96.2	58.9	60.2	
Current account balance/GDP	-5.9	..	-15.2	-13.7	
Interest payments/GDP	1.3	1.1	4.0	3.8	
Total debt/GDP	22.2	61.4	129.3	141.8	
	<b>1983-93</b>	<b>1993-03</b>	<b>2002</b>	<b>2003</b>	<b>2003-07</b>
(average annual growth)					
GDP	5.9	3.2	2.2	4.9	4.0
GDP per capita	5.4	1.3	0.6	3.3	2.4
Exports of goods and services	9.7	0.3	..	..	..

**STRUCTURE of the ECONOMY**

	1983	1993	2002	2003
Agriculture	6.1	4.1	3.8	3.7
Industry	14.2	18.2	20.9	20.9
Manufacturing	4.9	2.4	..	..
Services	79.6	77.7	75.3	75.4
Imports of goods and services	76.5	90.7	68.4	71.3



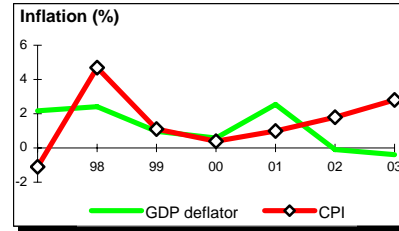
	1983-93	1993-03	2002	2003
(average annual growth)				
Agriculture	4.9	1.1	0.9	2.6
Industry	9.5	6.5	3.4	6.8
Manufacturing	1.1	3.2	2.8	5.8
Services	5.0	2.9	1.7	5.9



\* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will

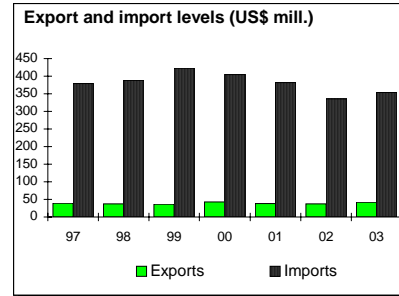
**PRICES and GOVERNMENT FINANCE**

	1983	1993	2002	2003
<b>Domestic prices</b>				
<i>(% change)</i>				
Consumer prices	..	3.2	1.8	2.8
Implicit GDP deflator	6.1	2.2	-0.1	-0.4
<b>Government finance</b>				
<i>(% of GDP, includes current grants)</i>				
Current revenue	..	..	20.2	20.8
Current budget balance	..	..	-6.9	-3.0
Overall surplus/deficit	..	..	-10.7	-6.7



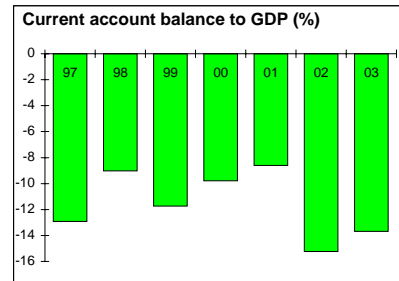
**TRADE**

	1983	1993	2002	2003
<i>(US\$ millions)</i>				
Total exports (fob)	..	62	37	42
Commodity 1	..	47	17	..
Commodity 2	..	..	..	..
Manufactures	..	..	..	..
Total imports (cif)	..	338	336	353
Food	..	..	..	..
Fuel and energy	..	..	..	..
Capital goods	..	..	..	..



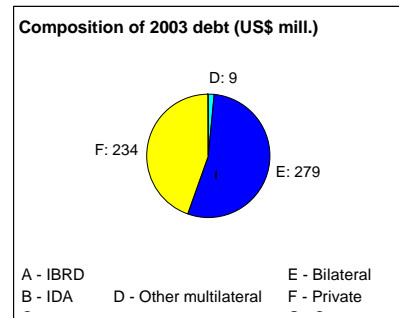
**BALANCE of PAYMENTS**

	1983	1993	2002	2003
<i>(US\$ millions)</i>				
Exports of goods and services	99	484	428	457
Imports of goods and services	118	488	205	221
Resource balance	-19	-3	223	236
Net income	-1	-23	-41	-41
Net current transfers	11	..	6	13
Current account balance	-9	..	-111	-104
Financing items (net)	..	..	119	124
Changes in net reserves	..	11	-8	-26
<b>Memo:</b>				
Reserves including gold (US\$ millions)	..	..	88	114
Conversion rate (DEC, local/US\$)	2.7	2.7	2.7	2.7



**EXTERNAL DEBT and RESOURCE FLOWS**

	1983	1993	2002	2003
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	..	..	521	569
IBRD	0.0	0.0	0.0	0.0
IDA	0.0	0.0	0.0	0.0
Total debt service	..	..	36.4	40.7
IBRD	0.0	0.0	0.0	0.0
IDA	0.0	0.0	0.0	0.0
World Bank program				
Commitments	0.0	0.0	0.0	0.0
Disbursements	0.0	0.0	0.0	0.0
Principal repayments	0.0	0.0	0.0	0.0
Net flows	0.0	0.0	0.0	0.0
Interest payments	0.0	0.0	0.0	0.0
Net transfers	0.0	0.0	0.0	0.0



## Antigua and Barbuda Social Indicators

	Latest single year			Same region/income group	
	1970-75	1980-85	1997-03	Latin America & Carib.	Upper-middle-income
<b>POPULATION</b>					
Total population, mid-year ( <i>millions</i> )	0.1	0.1	0.1	534.2	334.9
Growth rate ( <i>% annual average for period</i> )	-0.9	0.3	2.2	1.5	1.2
Urban population ( <i>% of population</i> )	34.2	35.0	37.8	76.6	75.8
Total fertility rate ( <i>births per woman</i> )	2.6	2.0	1.7	2.5	2.4
<b>POVERTY</b>					
<i>(% of population)</i>					
National headcount index	..	..	..	..	..
Urban headcount index	..	..	..	..	..
Rural headcount index	..	..	..	..	..
<b>INCOME</b>					
GNI per capita ( <i>US\$</i> )	..	3,010	9,170	3,260	5,340
Consumer price index ( <i>1995=100</i> )	..	..	112	..	..
Food price index ( <i>1995=100</i> )	..	..	..	..	..
<b>INCOME/CONSUMPTION DISTRIBUTION</b>					
Gini index	..	..	..	..	..
Lowest quintile ( <i>% of income or consumption</i> )	..	..	..	..	..
Highest quintile ( <i>% of income or consumption</i> )	..	..	..	..	..
<b>SOCIAL INDICATORS</b>					
<b>Public expenditure</b>					
Health ( <i>% of GDP</i> )	..	..	3.3	3.3	3.7
Education ( <i>% of GNI</i> )	..	..	..	4.5	4.4
Social security and welfare ( <i>% of GDP</i> )	..	..	..	..	..
<b>Net primary school enrollment rate</b>					
<i>(% of age group)</i>					
Total	..	..	..	94	93
Male	..	..	..	94	93
Female	..	..	..	95	94
<b>Access to an improved water source</b>					
<i>(% of population)</i>					
Total	..	..	91	86	89
Urban	..	..	95	94	93
Rural	..	..	89	65	77
<b>Immunization rate</b>					
<i>(% of children ages 12-23 months)</i>					
Measles	..	69	99	91	94
DPT	..	99	99	88	90
Child malnutrition ( <i>% under 5 years</i> )	..	10	..	..	..
<b>Life expectancy at birth</b>					
<i>(years)</i>					
Total	67	72	75	71	73
Male	65	70	73	68	70
Female	69	74	78	74	77
<b>Mortality</b>					
Infant ( <i>per 1,000 live births</i> )	..	..	11	28	19
Under 5 ( <i>per 1,000</i> )	..	..	12	34	22
Adult (15-59)	..	..	..	..	..
Male ( <i>per 1,000 population</i> )	..	..	183	222	197
Female ( <i>per 1,000 population</i> )	..	..	133	125	103
Maternal ( <i>per 100,000 live births</i> )	..	..	..	..	..
Births attended by skilled health staff (%)	..	..	100	..	..

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

04/13/05

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age.

Antigua and Barbuda - Key Economic Indicators<sup>a</sup>

Indicator	Actual			Estimate		Projected				
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>National accounts (as % of GDP)</b>										
Gross domestic product <sup>b</sup>	100	100	100	100	100	100	100	100	100	100
Agriculture	3.9	3.9	3.8	3.7	3.7	3.7	3.6	3.5	3.4	3.5
Industry	20	23	21	21	21	21	21	20	20	20
Services	76	73	75	75	75	76	76	76	77	77
<i>Memorandum items</i>										
Gross domestic product (US\$ million at current prices)	678	710	727	759	802	834	881	936	981	1043
GNI per capita (US\$, Atlas method)	8670	8800	8770	9330	9950	..	..	..	..	..
Real annual growth rates (% , calculated from 1990 prices)										
Gross domestic product at factor cost	3.3	1.5	2.2	4.9	4.1	2.5	4.1	4.6	3.2	4.9
Real annual per capita growth rates (%)										
Gross domestic product at factor cost	1.7	-0.1	0.6	3.3	2.5	0.9	2.5	3.0	1.6	3.3
<b>Balance of Payments (US\$ millions)</b>										
Trade Balance	-290	-281	-299	-311	-329	-354	-384	-405	-424	-451
Merchandise Exports FOB	52	41	37	42	45	47	50	53	55	59
Merchandise Imports FOB	342	321	336	353	374	401	434	457	479	510
Tourist receipts	290	272	274	300	327	357	396	441	467	507
Net current transfers	9	9	6	13	9	9	10	10	10	11
Current account balance	-65	-65	-111	-104	-106	-116	-130	-119	-121	-118
Net private foreign direct investment	28	44	37	74	59	64	70	78	85	94
Change in reserves <sup>c</sup>	6	-16	-8	-26	11	-2	-2	-2	-2	-2
<i>Memorandum items</i>										
Resource balance (% of GDP)	38.3	32.5	30.7	31.1	31.7	33.3	34.9	36.6	37.0	37.8

(Continued)

**Antigua and Barbuda - Key Economic Indicators**  
(Continued)

Indicator	Actual			Estimate		Projected				
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Public finance (as % of GDP at market prices)<sup>e</sup></b>										
Total revenues and grants	21.7	19.2	21.5	21.0	21.4	24.4	26.4	27.4	27.4	27.4
Total expenditures and net lending	26.7	30.3	32.2	27.7	26.8	35.0	34.7	33.0	32.0	31.0
Central government overall balance	-5.0	-11.1	-10.7	-6.7	-5.4	-10.6	-8.3	-5.6	-4.6	-3.6
Capital expenditure	2.1	4.7	5.1	4.0	1.8	4.0	..	..	..	..
Primary balance	-0.3	-6.8	-6.7	-3.0	-1.9	-4.6	-1.6	1.4	2.4	3.4
<b>Monetary indicators</b>										
M2/GDP	75.8	75.8	78.7	91.3	91.3	91.2	..	..	..	..
Growth of M2 (%)	5.7	4.8	6.3	21.1	5.7	3.9	..	..	..	..
Consumer price index (% change, average)	-0.6	-0.4	1.8	2.8	1.5	1.5	1.5	1.5	1.5	1.5

a. Projections for 2005-09 are based on an adjustment scenario including regularizing the stock of total arrears in 2005 through issuing long-term bonds.

b. GDP at factor cost

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

d. Includes net unrequited transfers excluding official capital grants.

e. Includes use of IMF resources.

f. Consolidated central government.

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

## Antigua and Barbuda - Key Exposure Indicators

Indicator	Actual			Estimate			Projected			
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total debt outstanding and disbursed (TDO) (US\$m) <sup>a</sup>	850	878	940	1076	910	698	768	817	860	893
External Debt (US\$)	449	471	521	569	375	..	..	..	..	..
Debt and debt service indicators (%)										
External public debt/GDP	66.2	66.3	71.7	75.0	46.7	..	..	..	..	..
(of which: arrears)/GDP	12.6	13.9	17.4	21.6	18.0	..	..	..	..	..
TDO/GDP	125.4	123.6	129.3	141.8	113.4	83.7	87.2	87.3	87.7	85.6
IBRD exposure indicators (%)										
IBRD TDO (US\$m) <sup>d</sup>	..	..	..	..	..	..	..	..	..	..
IDA TDO (US\$m) <sup>d</sup>	..	..	..	..	..	..	..	..	..	..
IFC (US\$m)										
Loans	..	..	..	..	..	..	..	..	..	..
Equity and quasi-equity /c	..	..	..	..	..	..	..	..	..	..
MIGA										
MIGA guarantees (US\$m)	..	..	..	..	..	..	..	..	..	..

- a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.
- b. "XGS" denotes exports of goods and services, including workers' remittances.
- c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.
- d. Includes present value of guarantees.
- e. Includes equity and quasi-equity types of both loan and equity instruments.

## DOMINICA

**Population:** 71,000 (2003)  
**GNI Per Capita:** US\$3,650 (2004 est. Atlas method)

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**1. Profile.** Dominica, the most northerly and largest of the Windward Islands, is predominately a lush mountainous area with plentiful water resources, excellent for cultivating bananas, which together with other agricultural products are the base of the economy and its largest source of employment. Mainstream tourism was never developed due to the small number of white-sand beaches, high rainfall and poor air connections; however, given its other natural characteristics, eco-tourism is being promoted. Agriculture is the mainstay of the economy and accounts for about 18 percent of GDP, 60 percent of total merchandise exports and employs 40 percent of the labor force. The unemployment rate is estimated to be 25 percent, and the poverty head count index is 33 percent. Dominica ranks 95th out of 174 countries in UNDP's 2002 Human Development Index.

**2. Political Context.** Independence: 1978 Next Election: before July 2010.

Dominica is the only commonwealth member of the OECS, and the only island with a substantial surviving population of indigenous people, the Caribs. In May 2005, the Labour Party--which had formed a coalition with the more conservative Dominica Freedom Party following the death of the former Labour Party Prime Minister--won twelve of the twenty-one seats in Parliament, increasing its majority by two seats. The current Government has continued the difficult economic transition begun by the previous administration.

**3. Economic Development and Challenges.** Following a contraction of the economy of 9 percent in 2001-03 and a fiscal crisis in 2003, Dominica has made significant progress at macroeconomic adjustment and fiscal consolidation. Despite an earthquake that struck Dominica in late 2004, the real GDP growth rate for 2004 is estimated at 3.5 percent, on the back of strong performance by the banana sector, manufacturing and construction, and resumed market confidence. With resolute implementation of the stabilization and structural adjustment program supported by the IMF under a three-year SDR 7.7 million Poverty Reduction and Growth Facility, an IDA adjustment credit (a US\$3 million Economic Governance Reform Credit disbursed as a single tranche in February 2004), and other donors' technical and financial support, the fiscal position has strengthened considerably.

The conduct of fiscal policy has been prudent, with large savings realized above programmed amounts on account of stronger than expected revenues. As a result, the primary balance improved from -1.6 percent of GDP in FY2002-03 to a surplus of 5.6 percent in FY2003-04, and the overall fiscal balance improved from -5.4 percent of GDP in FY2002-03 to -1.3 percent in FY2003-04, largely exceeding its -4.2 target. The FY2004-05 primary balance and the overall fiscal balance are projected to reach 2.7 percent and -2.5 percent of GDP, respectively. Reforms of the tax system (through the introduction of a VAT), the public sector, financial management and social security are ongoing. The IMF-supported PRGF program remains on-track with the third and fourth programs successfully completed in February 2005.

In April 2004, as part of its macroeconomic program, Dominica launched a debt exchange aimed at reducing debt to a sustainable level. The debt exchange offer was closed in September 2004. Thus far, agreements (in principle) have been reached to restructure about 70 percent of the eligible debt. The authorities continue to make good faith efforts to reach understandings with creditors who have not yet agreed to participate in the restructuring, and have committed to making payments into escrow accounts on restructured terms for such creditors. Debentures have been issued to creditors with finalized agreements and payments under restructured terms started. Taking into account the actual terms of the agreed restructurings and assuming that the remaining creditors will accept the offered terms, the debt ratio would remain sustainable. However, the debt trajectory is very sensitive to the assumed economic growth rate and primary surplus (detailed in the attached table). Furthermore, rising global interest rates present an additional vulnerability.

Under the IDA-financed Economic Governance Reform Credit, the Government implemented actions to (i) restore fiscal stability by improving financial and debt management, and (ii) encourage a resumption of growth by strengthening the financial sector, improving the productivity of public investment and improving the climate for private investment. Government's reform efforts for 2005 under the IMF PRGF arrangement will focus on improving the fiscal framework and public finances, and strengthening the social security and the financial sector. Specific measures include improving the regulation and oversight of non-bank financial

institutions, institutionalizing fiscal discipline through legislative amendments, and carrying out a comprehensive review of the pension system, jointly with the World Bank. Following the preparation of an Interim Poverty Reduction Support Strategy (shared with the Board on December 11, 2003), a full Poverty Reduction Support Strategy is expected to be completed by the Government in the second half of 2005. Raising Dominica's growth potential is an integral element of the strategy to ensure fiscal and debt sustainability and poverty reduction. In their draft PRSP, the authorities target a medium-term growth rate of 3 percent, capitalizing on the country's nature-based tourism opportunities and its potential to export geothermal electricity to the neighboring French islands of Martinique and Guadalupe.

# Dominica at a glance

7/26/05

## POVERTY and SOCIAL

### 2003

	Dominica	Latin America & Carib.	Upper-middle-income
Population, mid-year (millions)	0.07	534	335
GNI per capita (Atlas method, US\$)	3,380	3,260	5,340
GNI (Atlas method, US\$ billions)	0.24	1,741	1,788

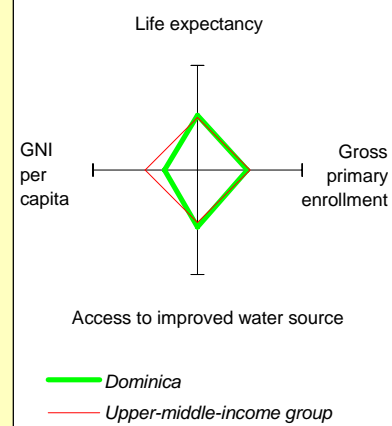
### Average annual growth, 1997-03

	Dominica	Latin America & Carib.	Upper-middle-income
Population (%)	-0.1	1.6	1.3
Labor force (%)	..	2.1	1.8

### Most recent estimate (latest year available, 1997-03)

	Dominica	Latin America & Carib.	Upper-middle-income
Poverty (% of population below national poverty line)	33	..	..
Urban population (% of total population)	72	77	76
Life expectancy at birth (years)	77	71	73
Infant mortality (per 1,000 live births)	12	28	19
Child malnutrition (% of children under 5)	..	..	..
Access to an improved water source (% of population)	97	86	89
Illiteracy (% of population age 15+)	..	11	9
Gross primary enrollment (% of school-age population)	100	129	104
Male	102	131	104
Female	97	126	104

### Development diamond\*



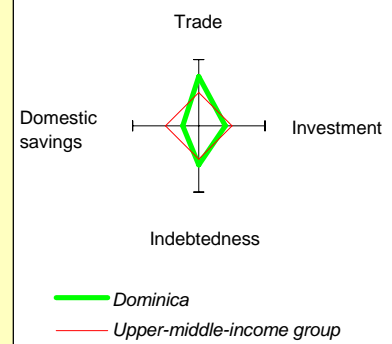
## KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1983	1993	2002	2003
GDP (US\$ billions)	0.08	0.20	0.26	0.27
Gross domestic investment/GDP	28.1	26.8	9.6	14.8
Exports of goods and services/GDP	41.1	48.6	47.8	43.7
Gross national savings/GDP	23.7	15.5	3.0	10.7

	1983	1993	2002	2003
Current account balance/GDP	-2.1	-11.3	-14.8	-11.4
Total debt/GDP	42.8	48.1	121.9	122.0

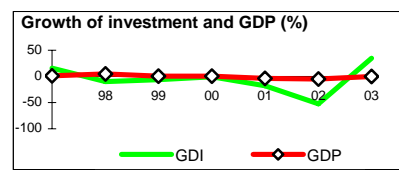
	1983-93	1993-03	2002	2003	2003-07
(average annual growth) GDP	4.1	0.7	-4.7	0.0	2.5
GDP per capita	4.5	0.9	-4.6	0.1	2.6

### Economic ratios\*

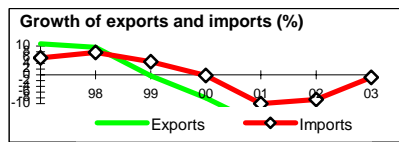


## STRUCTURE of the ECONOMY

	1983	1993	2002	2003
(% of GDP)				
Agriculture	29.1	21.5	18.6	17.9
Industry	18.4	20.6	21.0	22.5
Manufacturing	7.8	8.2	7.9	7.8
Services	52.5	57.9	60.4	59.6
Imports of goods and services	60.6	61.0	60.5	54.8



	1983-93	1993-03	2002	2003
(average annual growth)				
Agriculture	1.7	-2.1	-0.7	-3.7
Industry	6.5	0.6	-10.3	1.7
Manufacturing	5.6	-0.5	-0.4	-1.8
Services	4.6	3.1	-4.0	37.2

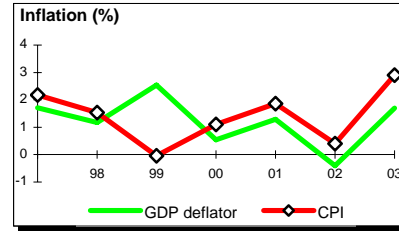


Note: 2003 data are preliminary estimates.

\* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

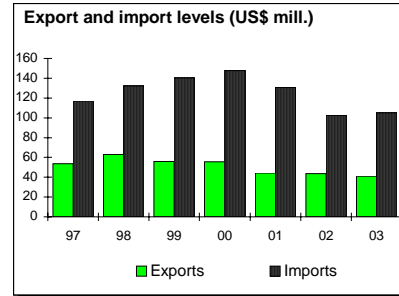
**PRICES and GOVERNMENT FINANCE**

	1983	1993	2002	2003
<b>Domestic prices</b> (% change)				
Consumer prices	2.3	1.6	0.4	2.9
Implicit GDP deflator	8.0	2.8	-0.4	1.7
<b>Government finance</b> (% of GDP, includes current grants)				
Current revenue	..	26.9	28.0	31.0
Current budget balance	..	0.9	-5.1	-0.2
Overall surplus/deficit	..	-3.4	-5.4	-1.3



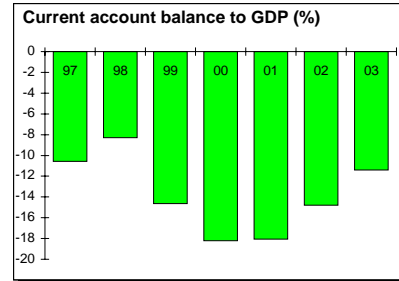
**TRADE**

	1983	1993	2002	2003
<i>(US\$ millions)</i>				
Total exports (fob)	..	49	44	41
Bananas	..	25	8	..
Commodity 2	..	7	6	..
Manufactures	..	16	33	..
Total imports (cif)	..	92	102	105
Food	..	21	26	..
Fuel and energy	..	6	11	..
Capital goods	..	18	25	..
Export price index (1995=100)	..	86	74	..
Import price index (1995=100)	..	88	92	..
Terms of trade (1995=100)	..	97	80	..



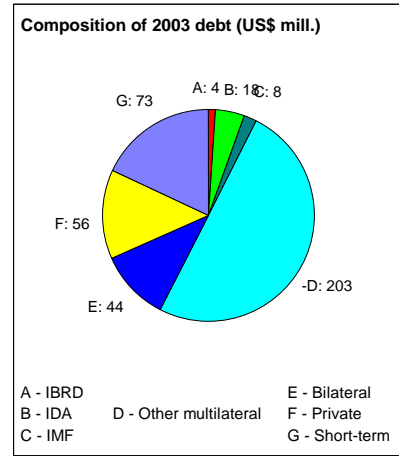
**BALANCE of PAYMENTS**

	1983	1993	2002	2003
<i>(US\$ millions)</i>				
Exports of goods and services	36	97	123	118
Imports of goods and services	50	122	156	149
Resource balance	-14	-25	-33	-30
Net income	0	-6	-18.4	-12.1
Net current transfers	12	9	14	13
Current account balance	-2	-23	-37	-29
Financing items (net)	-3	23	49	31
Changes in net reserves	4	0	-12	-1
<b>Memo:</b>				
Reserves including gold (US\$ millions)	-8	20	43.6	44.0
Conversion rate (DEC, local/US\$)	2.7	2.7	2.7	2.7



**EXTERNAL DEBT and RESOURCE FLOWS**

	1983	1993	2002	2003
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	34.2	96.4	213	237
IBRD	0.0	0.0	3.7	4.1
IDA	1.2	11.1	16.6	18.2
Total debt service	2.1	7.1	14.5	23.1
IBRD	0.0	0.0	0.2	0.3
IDA	0.0	0.2	0.4	0.7
Composition of net resource flows				
Official grants	2.3	5.3	21.4	2.8
Official creditors	3.0	2.2	12.9	8.4
Private creditors	0.0	0.0	13.0	-0.7
Foreign direct investment	0.2	13.2	11.4	19.8
Portfolio equity	0.0	0.0	0.0	0.0
World Bank program				
Commitments	0.0	0.0	3.2	0.0
Disbursements	1.2	0.1	1.7	2.7
Principal repayments	0.0	0.1	0.1	0.2
Net flows	1.2	0.0	1.6	2.4
Interest payments	0.0	0.1	0.3	0.3
Net transfers	1.2	-0.1	1.3	2.1



**CAS Annex B2 -**  
**Selected Indicators\* of Bank Portfolio Performance and Management**  
As Of Date  
07/28/2005

Indicator	2003	2004	2005	0
<b>Portfolio Assessment</b>				
Number of Projects Under Implementation <sup>a</sup>	1	1	0	0
Average Implementation Period (years) <sup>b</sup>	1.3	2.3	0.0	0.0
Percent of Problem Projects by Number <sup>a, c</sup>	0.0	0.0	0.0	0.0
Percent of Problem Projects by Amount <sup>a, c</sup>	0.0	0.0	0.0	0.0
Percent of Projects at Risk by Number <sup>a, d</sup>	0.0	0.0	0.0	0.0
Percent of Projects at Risk by Amount <sup>a, d</sup>	0.0	0.0	0.0	0.0
Disbursement Ratio (%) <sup>e</sup>	49.9	33.1	68.9	0.0
<b>Portfolio Management</b>				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	6	3
Proj Eval by OED by Amt (US\$ millions)	21.3	11.5
% of OED Projects Rated U or HU by Number	16.7	33.3
% of OED Projects Rated U or HU by Amt	12.1	22.5

a. As shown in the Annual Report on Portfolio Performance (except for current FY).

b. Average age of projects in the Bank's country portfolio.

d. As defined under the Portfolio Improvement Program.

e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

\* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

**CAS Annex B3 - IBRD/IDA Program  
Summary**

**Dominica**

As Of Date 07/28/2005

**Proposed IBRD/IDA Base-Case Lending Program <sup>a</sup>**

<i>Fiscal year</i>	<i>Proj ID</i>	<i>US\$(M)</i>	<i>Strategic Rewards b (H/M/L)</i>	<i>Implementation b Risks (H/M/L)</i>
2006	DM PRSC I	1.4		
	Result	1.4		
Overall Result		1.4		

## Dominica Social Indicators

	Latest single year			Same region/income group	
	1970-75	1980-85	1997-03	Latin America & Carib.	Upper-middle-income
<b>POPULATION</b>					
Total population, mid-year ( <i>millions</i> )	0.1	0.1	0.1	534.2	334.9
Growth rate ( <i>% annual average for period</i> )	0.7	0.1	-0.2	1.5	1.2
Urban population ( <i>% of population</i> )	55.3	66.0	72.0	76.6	75.8
Total fertility rate ( <i>births per woman</i> )	5.5	3.5	1.9	2.5	2.4
<b>POVERTY</b>					
<i>(% of population)</i>					
National headcount index	..	..	..	..	..
Urban headcount index	..	..	..	..	..
Rural headcount index	..	..	..	..	..
<b>INCOME</b>					
GNI per capita ( <i>US\$</i> )	..	1,170	3,470	3,260	5,340
Consumer price index ( <i>1995=100</i> )	11	72	114	..	..
Food price index ( <i>1995=100</i> )	..	..	..	..	..
<b>INCOME/CONSUMPTION DISTRIBUTION</b>					
Gini index	..	..	..	..	..
Lowest quintile ( <i>% of income or consumption</i> )	..	..	..	..	..
Highest quintile ( <i>% of income or consumption</i> )	..	..	..	..	..
<b>SOCIAL INDICATORS</b>					
<b>Public expenditure</b>					
Health ( <i>% of GDP</i> )	..	..	4.6	3.3	3.7
Education ( <i>% of GNI</i> )	..	..	..	4.5	4.4
Social security and welfare ( <i>% of GDP</i> )	..	..	..	..	..
<b>Net primary school enrollment rate</b>					
<i>(% of age group)</i>					
Total	..	..	81	94	93
Male	..	..	83	94	93
Female	..	..	79	95	94
<b>Access to an improved water source</b>					
<i>(% of population)</i>					
Total	..	..	97	86	89
Urban	..	..	100	94	93
Rural	..	..	90	65	77
<b>Immunization rate</b>					
<i>(% of children ages 12-23 months)</i>					
Measles	..	93	99	91	94
DPT	..	91	99	88	90
Child malnutrition ( <i>% under 5 years</i> )	..	..	..	..	..
<b>Life expectancy at birth</b>					
<i>(years)</i>					
Total	..	71	77	71	73
Male	..	70	75	68	70
Female	..	73	79	74	77
<b>Mortality</b>					
Infant ( <i>per 1,000 live births</i> )	..	..	12	28	19
Under 5 ( <i>per 1,000</i> )	..	..	14	34	22
Adult (15-59)	..	..	..	..	..
Male ( <i>per 1,000 population</i> )	..	..	183	222	197
Female ( <i>per 1,000 population</i> )	..	..	105	125	103
Maternal ( <i>per 100,000 live births</i> )	..	..	..	..	..
Births attended by skilled health staff (%)	..	..	100	..	..

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

04/13/05

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age.

## Dominica - Key Economic Indicators

## Annex B6: Key Economic Indicators

Indicator	Actual			Estimate			Projected			
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>National accounts (as % of GDP)</b>										
Gross domestic product <sup>a</sup>	100	100	100	100	100	100	100	100	100	100
Agriculture	18.1	17.7	18.6	17.9	17.5	17.5	17.2	17	16.7	16.7
Industry	23.4	22.2	21.0	22.5	22.6	22.1	21.8	22	21.9	22.4
Services	58.4	60.1	60.4	59.6	59.9	60.4	61	61	61.4	60.9
Total Consumption	89.7	97.0	103.1	96.3	95.0	91.9	91.4	90.8	91.1	89.5
Gross domestic investment	24.7	21.2	9.6	14.8	17.7	18.9	19.0	19.0	19.0	19.0
Government investment	16.6	5.7	5.1	10.1	9.4	9.5	9.5	9.5	9.5	9.5
Private investment	8.1	15.5	4.5	4.7	8.3	9.4	9.5	9.5	9.5	9.5
Exports (GNFS) <sup>b</sup>	53.7	48.0	47.8	43.7	45.4	48.5	48.3	48.3	47.7	49.0
Imports (GNFS)	68.1	66.3	60.5	54.8	58.2	59.3	58.7	58.1	57.8	57.5
Gross national savings <sup>c</sup>	5.5	5.3	3.0	10.7	11.0	10.5	11.7	12.5	13.0	13.4
<i>Memorandum items</i>										
Gross domestic product (US\$ million at current prices)	269.0	252.0	258.2	271.0	282.7	295.1	308.4	322.3	336.8	352.0
GNI per capita (US\$, Atlas method)	3300	3370	3190	3380	3650	..	..	..	..	..
Real annual growth rates (%)										
Gross domestic product at factor cost	1.4	-4.2	-4.7	0.0	3.5	3.0	3.0	3.0	3.0	3.0
Real annual per capita growth rates (%)										
Gross domestic product at market prices	1.5	-4.1	-4.6	0.1	3.6	3.1	3.1	3.1	3.1	3.1
<b>Balance of Payments (US\$ millions)</b>										
Exports (GNFS) <sup>b</sup>	144.4	121.1	123.3	118.3	128.5	143.0	147.0	153.6	160.5	172.5
Merchandise FOB	54.7	44.4	43.6	41.0	42.2	44.1	46.2	48.4	50.7	53.2
Imports (GNFS) <sup>b</sup>	183.1	167.0	156.1	148.5	164.5	175.0	181.1	187.4	194.6	202.5
Merchandise FOB	130.4	115.3	102.4	104.9	118.6	126.2	130.6	135.1	140.3	146.0
Resource balance	-38.7	-45.9	-32.8	-30.2	-36.0	-32.0	-34.1	-33.8	-34.1	-30.0
Net current transfers	18.1	17.5	13.8	12.8	15.9	14.7	14.8	15.4	16.1	16.8
Current account balance	-52.5	-47.6	-37.3	-29.4	-41.8	-44.9	-45.2	-44.7	-45.0	-45.6
Net private foreign direct investment	10.8	11.9	11.4	19.8	18.1	21.1	21.7	22.4	23.0	23.7
Change in reserves <sup>d</sup>	2.5	-1.5	-12.1	-1.4	10.3	-0.4	-3.7	-3.5	-2.4	-3.2
<i>Memorandum items</i>										
Resource balance (% of GDP)	-14.4	-18.2	-12.7	-11.1	-12.7	-10.8	-11.1	-10.5	-10.1	-8.5

(Continued)

**Dominica - Key Economic Indicators  
(Continued)**

Indicator	Actual			Estimate			Projected			
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Public finance (as % of GDP at market prices)<sup>e</sup></b>										
Current revenues	27.8	28.4	28.0	31.0	30.7	29.4	29.4	29.4	29.4	29.4
Current expenditures	31.9	33.1	33.1	31.2	30.3	29.4	28.6	28.4	28.1	27.9
Current account surplus (+) or deficit (-)	-4.1	-4.7	-5.1	-0.2	0.4	0.0	0.8	1.0	1.3	1.5
Capital expenditure	16.6	5.7	5.1	10.1	9.4	9.5	9.5	9.5	9.5	9.5
Primary balance	-3.3	-2.1	-1.6	5.6	2.7	3.0	3.0	3.0	3.0	3.0
<b>Monetary indicators</b>										
M2/GDP	64.3	71.0	78.8	75.8	76.9	78.1	..	..	..	..
Growth of M2 (%)	0.6	7.4	8.5	1.0	5.9	6.0	..	..	..	..
Consumer price index (% eop)	1.1	1.9	0.4	2.9	0.8	1.5	1.5	1.5	1.5	1.5

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. Data presented on a fiscal year basis (July - June).

Figures shown for a given calendar year relate to the fiscal year beginning on July 1 of that year.

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

Dominica - Key Exposure Indicators<sup>a</sup>

Indicator	Actual			Estimate			Projected			
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total debt outstanding and disbursed (TDO) (US\$m) <sup>b,g</sup>	234	245	309	323	..	..	..	..	..	..
External Debt (US\$)	159	179	213	237	..	..	..	..	..	..
External debt service (US\$)	10.7	13.1	15.2	21.9	..	..	..	..	..	..
Debt and debt service indicators (%)										
TDO/XGS <sup>c</sup>	161.8	202.4	250.7	272.9	..	..	..	..	..	..
TDO/GDP	87.3	95.4	121.9	122.0	..	..	..	..	..	..
External Debt/GDP	59.1	71.0	82.4	87.4	..	..	..	..	..	..
External Debt service/XGS	7.4	10.8	11.8	19.5	..	..	..	..	..	..
IBRD exposure indicators (%)										
IBRD DS/XGS	0.1	0.1	0.2	0.3	0.5	..	..	..	..	..
IBRD TDO (US\$m) <sup>c</sup>	2.4	2.7	3.7	4.1	4.1	4.4	3.8	3.0	2.4	2.0
IDA DS/XGS	0.2	0.3	0.3	0.6	0.8	..	..	..	..	..
IDA TDO (US\$m) <sup>c</sup>	13.6	13.8	16.6	18.2	23.2	23.3	25.1	27.4	27.9	28.4
IFC (US\$m)										
Loans	..	..	..	..	..	..	..	..	..	..
Equity and quasi-equity /d	..	..	..	..	..	..	..	..	..	..
MIGA	..	..	..	..	..	..	..	..	..	..
MIGA guarantees (US\$m)	..	..	..	..	..	..	..	..	..	..

a. In 2004, Dominica launched a debt restructuring exercise whose exchange offer was closed in September 2004. Thus far, agreements have been reached in principle to restructure about 70% of Dominica's eligible debt, resulting in a reduction in the NPV-to-face value ratio from 122% of GDP at end 2003 to 66% of GDP (or an NPV-to-GDP ratio of roughly 81%). Debt projections are not presented pending confirmation of the details of the individual creditor agreements.

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

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

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

e. Includes present value of guarantees.

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

g. Data presented on a fiscal year basis (July - June).

**CAS Annex B8 - Dominica**  
**Operations Portfolio (IBRD/IDA and Grants)**  
As Of Date 07/28/2005

Closed Projects 7

**IBRD/IDA \***

Total Disbursed (Active)	
of which has been repaid	0.00
Total Disbursed (Closed)	24.55
of which has been repaid	2.44
Total Disbursed (Active + Closed)	24.55
of which has been repaid	2.44
No Applicable Data Found.	0.00
0.00	0.00
0.00	0.00

**Active Projects**

Project ID	Project Name	Last PSR		Fiscal Year	Original Amount in US\$ Millions				Undisb.	Difference Between Expected and Actual Disbursements <sup>a/</sup>	
		Supervision Rating			IBRD	IDA	GRANT	Cancel.		Orig.	Frm Rev'd
		<u>Development Objectives</u>	<u>Implementation Progress</u>								

## GRENADA

**Population:** 105,000 (2003)  
**GNI per capita:** US\$3,760 (2004 est. Atlas methodology)

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**1. Profile.** Grenada, which includes the two smaller islands of Carriacou and Petit Martinique, to its north, is the southernmost of the Windward Islands. Dubbed the “Spice Island”, Grenada was, until late 2004, the world’s second largest exporter of nutmeg and mace. On September 7, 2004, Hurricane Ivan—one of the strongest storms ever to strike the Caribbean region—passed directly over Grenada, decimating the housing stock, severely damaging the nutmeg plantations and inflicting significant damage on the tourism sector. An Organization of Eastern Caribbean States (OECS) Secretariat assessment team estimated the damage at US\$900 million, more than 200 percent of the 2003 GDP, two thirds of which was housing stock. Unemployment rates and poverty levels, already among the highest in the OECS, are expected to worsen as a result. Prior to Hurricane Ivan, the unemployment rate was estimated to be 13 percent, and Grenada was ranked 93<sup>rd</sup> on UNDP’s Human Development Index out of 174 countries.

**2. Political Context.** Independence: 1974 Last election: 2003

Following the Marxist military coup and subsequent US invasion in 1983, power has fluctuated regularly between the New National Party and New Democratic Party, with the former winning the majority of seats during the most recent three terms, albeit by a significantly reduced margin (one seat majority) in the most recent elections.

**3. Economic Developments and Prospects.** Prior to Hurricane Ivan, the economy was recovering from the 2001-02 downturn that affected all the OECS countries and progress was taking place in addressing fiscal imbalances and offshore financial sector weaknesses. Aided by the recovering economy, the central government primary balance improved from a deficit of -14.5 percent of GDP in 2002 to a surplus of 0.4 and 3.7 percent of GDP in 2003 and 2004, respectively. This was achieved by broadening the tax base, curtailing tax and import duty exemptions and controlling expenditures. Public debt had increased in the late 1990s and early 2000s, notably in 2002 owing to the purchase of leases associated with public-private partnerships and the granting of guarantees. Notwithstanding the fiscal adjustment in 2003-04, total public debt at end-2004 increased to 129 of GDP.

Following Hurricane Ivan, the near-term economic outlook is very difficult. The economy contracted by 3 percent in 2004 and is expected to expand by only 1 percent in 2005<sup>1</sup>, with depressed conditions in tourism and agriculture nearly offsetting the stimulus from the construction sector. Inflation has remained low, notwithstanding large increases in input prices such as construction materials. The external current account deficit is expected to deteriorate sharply in 2005 (to 34 percent of GDP), as a result of the sharp increase in reconstruction-related imports and slow recovery of exports. Social conditions, already weaker than in other OECS countries, deteriorated after Hurricane Ivan with about 8 percent of the labor force displaced from their jobs in the immediate aftermath of the hurricane.

In the fiscal area, with support from the international community, the authorities were able to close the 2004 financing gap. Non-essential expenditures were reduced, donor pledges of US\$150 million (34 percent of 2004 GDP) were mobilized quickly at a donors conference held in October 2004 and a follow-up formal pledging session in November 2004. An Agency for Reconstruction and Development was established in November 2004 to coordinate domestic and international efforts to rebuild Grenada. Grenada also accessed the IMF’s emergency assistance for natural disasters (US\$4.4 million) in November 2004. The World Bank reallocated US\$10 million from existing projects to address reconstruction needs, and a further loan of US\$10 million (IDA/IBRD) from the OECS Disaster Management Project Contingency Facility was provided.

The 2005 budget, approved in April, includes revenue-enhancing measures yielding over 2 percent of GDP. Yet, the fiscal situation remains challenging and financing gaps for 2005 and beyond remain. Post-hurricane relief and rehabilitation expenditures are required, revenues sources remain weak and the high debt levels require setting tight limits to further borrowing. The fiscal deficit is expected to reach 8.5 percent of GDP in

---

<sup>1</sup> Estimates and projections included in this and following paragraphs and in attached tables do not take into account the impact of Hurricane Emily which passed over Grenada on July 14, 2005. An assessment of the damage is underway by the OECS Secretariat (initial tentative estimates of the damage were placed at US\$107 million, or about 24 percent of GDP, by the Ministry of Finance.

2005 (and the primary balance -2.5 percent of GDP) and, despite the Government's revenue effort and exceptional donor support, a financing gap estimated at about 4.5 percent of GDP remains for 2005 due to high reconstruction expenditures, and of 12-14 percent of GDP per year between 2006 and 2009. In the absence of debt restructuring, public debt would continue to rise, reaching nearly 144 percent of GDP by 2009 and public debt service would range between 32 and 42 percent of revenue in 2005-09.

For 2006 and beyond, the financing gaps could be filled through fiscal adjustment, cooperative debt restructuring agreements and donor support. Fiscal adjustment measures could include implementing petroleum price reform, reducing tax concessions and improving tax collection; and containing the growth of non-interest current spending and capital expenditure prioritization. Debt sustainability analysis by the IMF shows that a combination of fiscal adjustment (with a primary fiscal surplus reached by 2008 and maintained thereafter), a comprehensive debt restructuring in 2005 and additional foreign grants would reduce the public debt to GDP ratio gradually (to 100 percent by 2009 and below 50 percent by 2020) and make the debt service burden more manageable (10 to 18 percent of GDP) (see attached table). Even under this scenario, the economy would remain vulnerable and public debt high for many years to come. In particular, the combination of high debt, susceptibility to external (economic and natural) shocks and a tourism dependent economy points to an unusually high level of risk.

The authorities recognize that a comprehensive medium-term economic program is needed to fill financing gaps, restore debt sustainability and ensure medium-term growth and plan to design it with the support of CARTAC. Already, the authorities are designing a public sector modernization program, with assistance from the World Bank, to enhance public sector efficiency and productivity, including through the commercialization of public services and improving the procurement system. With respect to debt management, in October 2004, Grenada announced that its debt was unsustainable and that it planned to pursue a cooperative solution with its creditors. Because interest payments on two large international bonds were missed in late December, Grenada was downgraded to "selective default" by Standard and Poor's. In January 2005, the Government hired legal and financial advisors to help in the preparation of a comprehensive debt reduction strategy. Pending the development and outcome of the strategy, Grenada has discontinued servicing most commercial and official bilateral debt obligations. In April 2005, a creditor committee representing a majority of the country's commercial debt obligations was formed. A debt exchange offer to commercial creditors is expected to be launched in the coming months. The Government has also approached official creditors to negotiate debt and debt-service relief on at least comparable terms. Debt restructuring with bilateral creditors is complicated by the severance of diplomatic relationship between Grenada and its largest creditor, Taiwan, China. A successful outcome of the debt strategy, which is currently being developed, could considerably narrow the financing gaps.

# Grenada at a glance

8/5/05

## POVERTY and SOCIAL

### 2003

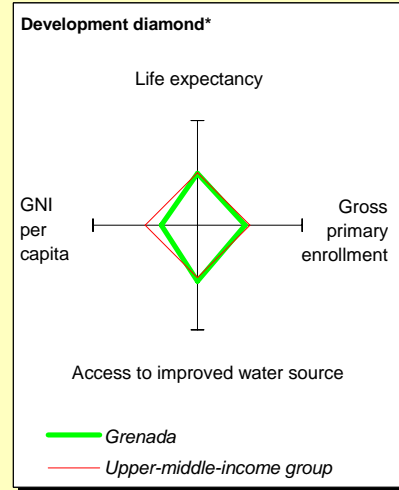
	Grenada	Latin America & Carib.	Upper-middle-income
Population, mid-year (millions)	0.10	534	335
GNI per capita (Atlas method, US\$)	3,690	3,260	5,340
GNI (Atlas method, US\$ billions)	0.39	1,741	1,788

### Average annual growth, 1997-03

	Grenada	Latin America & Carib.	Upper-middle-income
Population (%)	0.8	1.6	1.3
Labor force (%)	..	2.1	1.8

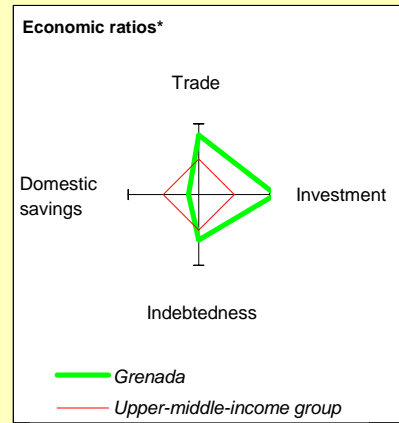
### Most recent estimate (latest year available, 1997-03)

	Grenada	Latin America & Carib.	Upper-middle-income
Poverty (% of population below national poverty line)	32	..	..
Urban population (% of total population)	41	77	76
Life expectancy at birth (years)	73	71	73
Infant mortality (per 1,000 live births)	18	28	19
Child malnutrition (% of children under 5)	..	..	..
Access to an improved water source (% of population)	95	86	89
Illiteracy (% of population age 15+)	..	11	9
Gross primary enrollment (% of school-age population)	95	129	104
Male	97	131	104
Female	92	126	104



## KEY ECONOMIC RATIOS and LONG-TERM TRENDS

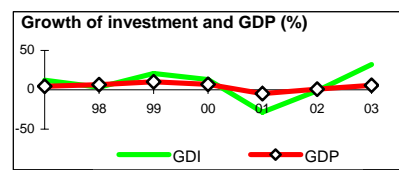
	1983	1993	2002	2003
GDP (US\$ billions)	0.10	0.25	0.41	0.44
Gross domestic investment/GDP	37.2	31.2	34.7	39.8
Exports of goods and services/GDP	38.5	49.0	42.2	40.7
Gross national savings/GDP	..	15.0	3.3	6.4
Current account balance/GDP	-11.8	-16.1	-32.0	-32.7
Interest payments/GDP	0.9	0.7	4.7	5.2
Total debt/GDP	56.0	59.1	109.6	110.0
Total debt service/exports	11.8	6.4	..	..



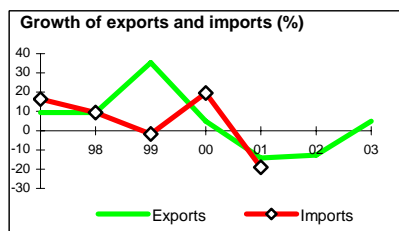
	1983-93	1993-03	2002	2003	2003-07
(average annual growth)					
GDP	5.2	4.0	0.8	5.8	3.2
GDP per capita	4.6	2.8	0.0	5.0	2.4
Exports of goods and services	5.8	4.5	-12.7	5.0	..

## STRUCTURE of the ECONOMY

	1983	1993	2002	2003
(% of GDP)				
Agriculture	20.4	10.6	9.7	9.0
Industry	16.8	18.9	22.6	23.7
Manufacturing	4.7	6.1	7.2	6.2
Services	62.8	70.5	67.7	67.3
Imports of goods and services	70.9	68.1	66.9	70.7



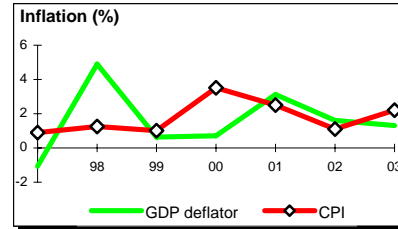
	1983-93	1993-03	2002	2003
(average annual growth)				
Agriculture	-0.2	0.3	19.0	-2.4
Industry	7.2	6.8	-0.8	11.2
Manufacturing	10.6	6.4	-3.8	-2.4
Services	5.9	3.5	-0.8	5.2
Private consumption	3.1	3.8	-3.0	27.8
General government consumption	5.5	2.4	-2.8	-9.3
Gross domestic investment	6.1	5.2	-1.1	32.2
Imports of goods and services	3.7	4.5	..	..



\* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

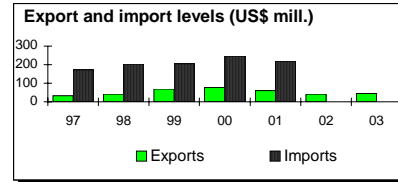
**PRICES and GOVERNMENT FINANCE**

	1983	1993	2002	2003
<b>Domestic prices</b> (% change)				
Consumer prices	6.1	-1.2	1.1	2.2
Implicit GDP deflator	3.3	2.4	1.6	1.3
<b>Government finance</b> (% of GDP, includes current grants)				
Current revenue	..	26.0	26.6	27.5
Current budget balance	..	2.1	0.6	3.2
Overall surplus/deficit	..	-2.4	-19.2	-4.8



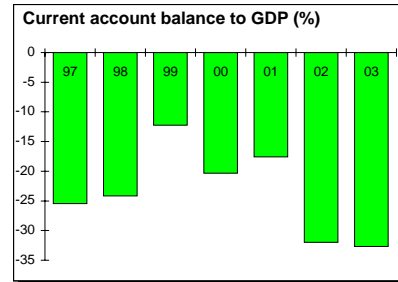
**TRADE**

	1983	1993	2002	2003
<b>TRADE</b> (US\$ millions)				
Total exports (fob)	..	22	41	46
Manufactures	..	10	..	..
Total imports (cif)	..	126	202	254
Food	..	29	38	39
Fuel and energy	..	16	20	19
Capital goods	..	25	51	78



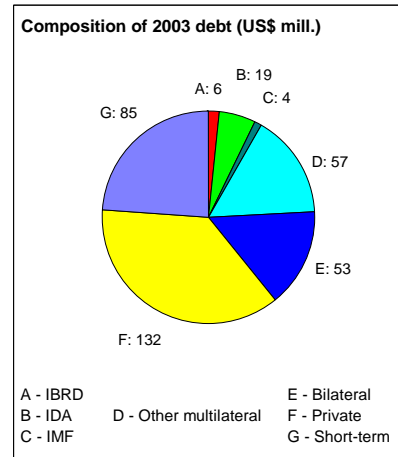
**BALANCE of PAYMENTS**

	1983	1993	2002	2003
<b>BALANCE of PAYMENTS</b> (US\$ millions)				
Exports of goods and services	39	123	172	181
Imports of goods and services	72	170	273	314
Resource balance	-33	-48	-101	-133
Net income	..	-10	-53	-48
Net current transfers	21	17	23	37
Current account balance	-12	-40	-130	-145
Financing items (net)	13	41	103	92
Changes in net reserves	-1	-1	24	-5
<b>Memo:</b>				
Reserves including gold (US\$ millions)	..	28	88	83
Conversion rate (DEC, local/US\$)	2.7	2.7	2.7	2.7



**EXTERNAL DEBT and RESOURCE FLOWS**

	1983	1993	2002	2003
<b>EXTERNAL DEBT and RESOURCE FLOWS</b> (US\$ millions)				
Total debt outstanding and disbursed	56.7	147.9	340	356
IBRD	0.0	0.0	4.2	6.4
IDA	0.0	6.9	16.2	19.3
Total debt service	4.6	8.7	3.4	3.6
IBRD	0.0	0.0	0.2	0.3
IDA	0.0	0.1	0.1	0.2
Composition of net resource flows				
Official grants	3.5	2.3	2.6	8.4
Official creditors	15.7	2.7	4.0	4.4
Private creditors	-2.4	-1.1	99.5	3.8
Portfolio equity	0.0	0.0	0.0	0.0
World Bank program				
Commitments	0.0	0.0	3.8	14.0
Disbursements	0.0	0.0	2.6	7.3
Principal repayments	0.0	0.0	0.1	0.1
Net flows	0.0	0.0	2.6	7.2
Interest payments	0.0	0.1	0.3	0.3
Net transfers	0.0	-0.1	2.3	6.9



CAS Annex B2 -  
Selected Indicators\* of Bank Portfolio Performance and Management

As Of Date  
07/28/2005

Indicator	2003	2004	2005	2006
<b>Portfolio Assessment</b>				
Number of Projects Under Implementation <sup>a</sup>	4	4	5	5
Average Implementation Period (years) <sup>b</sup>	1.2	2.2	2.7	2.8
Percent of Problem Projects by Number <sup>a, c</sup>	0.0	25.0	20.0	20.0
Percent of Problem Projects by Amount <sup>a, c</sup>	0.0	21.6	15.9	15.9
Percent of Projects at Risk by Number <sup>a, d</sup>	0.0	25.0	20.0	20.0
Percent of Projects at Risk by Amount <sup>a, d</sup>	0.0	21.6	15.9	15.9
Disbursement Ratio (%) <sup>e</sup>	58.1	6.7	31.3	0.0
<b>Portfolio Management</b>				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	2	1
Proj Eval by OED by Amt (US\$ millions)	13.5	7.2
% of OED Projects Rated U or HU by Number	0.0	0.0
% of OED Projects Rated U or HU by Amt	0.0	0.0

a. As shown in the Annual Report on Portfolio Performance (except for current FY).

b. Average age of projects in the Bank's country portfolio.

c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).

d. As defined under the Portfolio Improvement Program.

e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

\* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

**CAS Annex B3 - IBRD/IDA Program  
Summary**  
As Of Date 07/28/2005

**Grenada**

**Proposed IBRD/IDA Base-Case Lending Program <sup>a</sup>**

<i>Fiscal year</i>	<i>Proj ID</i>	<i>US\$(M)</i>	<i>Strategic Rewards b (H/M/L)</i>	<i>Implementation b Risks (H/M/L)</i>
2006	GD Public Sector Modernization	3.0		
	Result	3.0		
	Overall Result	3.0		

## Grenada Social Indicators

	Latest single year			Same region/income group	
	1970-75	1980-85	1997-03	Latin America & Carib.	Upper-middle-income
<b>POPULATION</b>					
Total population, mid-year ( <i>millions</i> )	0.1	0.1	0.1	534.2	334.9
Growth rate ( <i>% annual average for period</i> )	-0.7	0.0	0.8	1.5	1.2
Urban population ( <i>% of population</i> )	32.6	33.3	39.6	76.6	75.8
Total fertility rate ( <i>births per woman</i> )	..	..	3.0	2.5	2.4
<b>POVERTY</b>					
<i>(% of population)</i>					
National headcount index	..	..	..	..	..
Urban headcount index	..	..	..	..	..
Rural headcount index	..	..	..	..	..
<b>INCOME</b>					
GNI per capita ( <i>US\$</i> )	..	..	3,710	3,260	5,340
Consumer price index ( <i>1995=100</i> )	..	80	117	..	..
Food price index ( <i>1995=100</i> )	..	..	..	..	..
<b>INCOME/CONSUMPTION DISTRIBUTION</b>					
Gini index	..	..	..	..	..
Lowest quintile ( <i>% of income or consumption</i> )	..	..	..	..	..
Highest quintile ( <i>% of income or consumption</i> )	..	..	..	..	..
<b>SOCIAL INDICATORS</b>					
<b>Public expenditure</b>					
Health ( <i>% of GDP</i> )	..	..	4.0	3.3	3.7
Education ( <i>% of GNI</i> )	..	..	..	4.5	4.4
Social security and welfare ( <i>% of GDP</i> )	..	..	..	..	..
<b>Net primary school enrollment rate</b>					
<i>(% of age group)</i>					
Total	..	..	84	94	93
Male	..	..	89	94	93
Female	..	..	80	95	94
<b>Access to an improved water source</b>					
<i>(% of population)</i>					
Total	..	..	95	86	89
Urban	..	..	97	94	93
Rural	..	..	93	65	77
<b>Immunization rate</b>					
<i>(% of children ages 12-23 months)</i>					
Measles	..	49	99	91	94
DPT	..	61	97	88	90
Child malnutrition ( <i>% under 5 years</i> )	..	..	..	..	..
<b>Life expectancy at birth</b>					
<i>(years)</i>					
Total	..	..	73	71	73
Male	..	..	70	68	70
Female	..	..	76	74	77
<b>Mortality</b>					
Infant ( <i>per 1,000 live births</i> )	..	..	18	28	19
Under 5 ( <i>per 1,000</i> )	..	..	23	34	22
Adult (15-59)	..	..	..	..	..
Male ( <i>per 1,000 population</i> )	..	..	202	222	197
Female ( <i>per 1,000 population</i> )	..	..	159	125	103
Maternal ( <i>per 100,000 live births</i> )	..	..	..	..	..
Births attended by skilled health staff (%)	..	..	99	..	..

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

04/13/05

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age.

## Grenada - Key Economic Indicators

Indicator	Actual			Estimate			Projected			
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>National accounts (as % of GDP)</b>										
Gross domestic product <sup>a</sup>	100	100	100	100	100	100	100	100	100	100
Agriculture	8.1	8.2	9.7	9.0	8.6	7.7	7.6	7.5	7.3	7.3
Industry	24.1	22.9	22.6	23.7	22.5	22.9	22.2	21.7	21.6	21.0
Services	67.8	68.8	67.7	67.3	69.0	69.4	70.2	70.9	71.1	71.7
Total Consumption	75.8	89.0	90.0	90.2	105.9	102.7	96.7	95.3	95.1	92.8
Gross domestic investment	42.1	32.4	34.7	39.8	27.7	43.3	33.3	30.8	29.1	28.5
Government investment	12.2	15.3	22.4	15.0	7.9	19.2	14.0	12.0	10.5	10.0
Private investment	29.9	17.1	12.3	24.8	19.8	24.1	19.3	18.8	18.6	18.5
Exports (GNFS) <sup>b</sup>	57.5	49.9	42.2	40.7	40.3	37.1	35.9	37.3	37.7	39.2
Imports (GNFS)	75.4	71.3	66.9	70.7	73.9	83.1	65.9	63.4	61.9	60.5
Gross domestic savings	24.2	11.0	10.0	9.8	-5.9	-2.7	3.3	4.7	4.9	7.2
Gross national savings <sup>c</sup>	21.0	6.5	3.3	6.4	-4.7	..	..	..	..	..
<i>Memorandum items</i>										
Gross domestic product (US\$ million at current prices)	410.4	394.6	407.5	443.7	437.3	454.3	497.8	537.3	572.7	610.3
GNI per capita (US\$, Atlas method)	3650	3390	3290	3690	3760.0	..	..	..	..	..
Real annual growth rates (% , calculated from 1990 prices)										
Gross domestic product at market prices	7.0	-4.4	0.8	5.8	-3.0	0.9	7.0	5.4	4.5	4.5
Real annual per capita growth rates (% , calculated from 1990 prices)										
Gross domestic product at market prices	6.2	-5.2	0.0	5.0	-3.8	0.1	6.2	4.6	3.7	3.7
<b>Balance of Payments (US\$ millions)</b>										
Trade Balance	-137	-133	-140	-181	-200.7	-246.4	-207.1	-218.6	-225.6	-233.2
Exports FOB	83.0	63.6	41.4	45.5	35.0	30.4	30.6	28.4	31.1	33.8
Imports FOB	220.4	196.4	181.0	226.4	235.7	276.8	237.7	247.0	256.7	267.0
Services (net)	63.7	48.4	38.8	47.9	53.7	37.7	57.9	78.4	86.8	103.2
Resource balance	-68.5	-67.1	-101.0	-133.0	-177.6	-191.4	-87.7	-94.9	-80.4	-63.6
Current account balance	-88.1	-105.0	-130.3	-144.9	-76.0	-154.0	-179.3	-170.0	-167.7	-157.8
Net private foreign direct investment	37.4	58.7	57.6	82.1	39.6	56.7	78.6	84.8	86.8	89.9
<i>Memorandum items</i>										
Resource balance (% of GDP)	-16.7	-17.0	-24.8	-30.0	-40.6	-42.1	-17.6	-17.7	-14.0	-10.4

(Continued)

**Grenada - Key Economic Indicators  
(Continued)**

Indicator	Actual			Estimate			Projected			
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Public finance (as % of GDP at market prices)<sup>e</sup></b>										
Current revenues	26.8	26.7	26.6	27.5	25.5	27.8	27.3	29.0	29.9	30.6
Current expenditures	20.8	24.2	25.9	24.3	27.9	31.0	27.6	26.2	25.2	24.5
Current account surplus (+) or deficit (-)	6.0	2.5	0.6	3.2	-2.4	-3.2	-0.3	2.8	4.7	6.1
Capital expenditure	12.2	15.3	22.4	15.0	7.9	19.2	14.0	12.0	10.5	10.0
Primary balance	-1.0	-5.8	-14.5	0.4	3.7	-2.5	-0.7	-1.1	1.4	2.5
<b>Monetary indicators</b>										
M2/GDP	89.0	102.3	106.1	105.2	125.6	123.7	..	..	..	..
Growth of M2 (%)	15.4	10.6	7.1	8.0	17.7	2.3	..	..	..	..
Consumer price index (% change, avg.)	2.2	1.7	1.1	2.2	2.3	3.0	2.0	2.0	2.0	2.0

- 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.

## Grenada - Key Exposure Indicators

Indicator	Actual			Estimate			Projected			
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total debt outstanding and disbursed (TDO) (US\$m) <sup>a</sup>	231	252	447	488	566	587	603	621	628	630
External debt (US\$)	140	173	340	356	415	450	465	484	491	493
Debt and debt service indicators (%)										
TDO/GDP	56.2	63.7	109.6	110	129.4	129.2	121.1	115.6	109.7	103.3
External debt/GDP	34.1	44.0	83.6	80.2	94.9	99.0	93.4	90.0	85.7	80.8
IBRD exposure indicators (%)										
IBRD TDO (US\$m) <sup>d</sup>	2.2	3.4	4.2	6.4	7.8	9.6	13.0	16.6	18.1	17.0
IBRD DS/XGS	0.0	0.1	0.1	0.2	0.3	..	..	..	..	..
IDA TDO (US\$m) <sup>d</sup>	9.6	9.2	16.2	19.3	21.3	24.7	29.8	34.1	35.8	37.6
IDA DS/XGS	0.1	0.1	0.1	0.1	0.1	..	..	..	..	..
IFC (US\$m)										
Loans	..	..	1.0	..	..	..	..	..	..	..
Equity and quasi-equity /c	..	..	..	..	..	..	..	..	..	..
MIGA										
MIGA guarantees (US\$m)	..	..	..	..	..	..	..	..	..	..

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

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

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

d. Includes present value of guarantees.

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

**CAS Annex B8 - Grenada**  
**Operations Portfolio (IBRD/IDA and Grants)**  
**As Of Date 07/28/2005**

**Closed Projects**      **2**

**IBRD/IDA \***

Total Disbursed (Active)	16.19
of which has been repaid	0.00
Total Disbursed (Closed)	13.54
of which has been repaid	1.43
Total Disbursed (Active + Closed)	29.73
of which has been repaid	1.43
Total Undisbursed (Active)	22.95
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	22.95

**Active Projects**

Project ID	Project Name	<u>Last PSR</u>		Fiscal Year	<u>Original Amount in US\$ Millions</u>				Undisb.	<u>Difference Between Expected and Actual Disbursements<sup>a/</sup></u>	
		Supervision Rating			IBRD	IDA	GRANT	Cancel.		Orig.	Frm Rev'd
		<u>Development Objectives</u>	<u>Implementation Progress</u>								
P092692	GD (4APL) Hurricane Ivan Emerg. Rec.	S	S	2005	5	5		7.158589	-0.691667		
P076715	GD 2nd Phase APL HIV/AIDS Prev.&Control	U	MU	2003	3	3.04		6.140324	4.017092		
P077759	GD EDUCATION DEV (2nd APL)	S	MS	2003	4	4		7.615597	1.5106806		
P069922	GD Grenada Disaster Management	S	S	2001	5.06	5.01		1.181064	1.2462836		
P077682	Grenada Emergency Recovery Project	S	S	2002	1.14	2.66		0.854719	0.4424203		
Overall Result					18.2	19.71		22.95029	6.5248098		

Statement of IFC's  
Held and Disbursed Portfolio  
As of 04/30/2005  
(In US Dollars Millions)

		Held				Disbursed			
FY Approval	Company	Loan	Equity	Quasi	Partic	Loan	Equity	Quasi	Partic
2002	Bel Air	1	0	1	0	1	0	1	0
Total Portfolio:		1	0	1	0	1	0	1	0

**Approvals Pending Commitment**

Loan	Equity	Quasi	Partic
------	--------	-------	--------

## ST. KITTS AND NEVIS

**Population:** 47,000 (2003)  
**GNI per capita:** US\$7,600 (2004 est. Atlas methodology)

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**1. Profile.** St. Kitts and Nevis lies in the Leeward Islands. The two islands are a federation: Nevis, the smaller island, has a population of 9,600, and exercises autonomy in most areas, with the exception of foreign, defense, and certain aspects of economic policy. The economy is based on tourism with a declining share of agriculture in St. Kitts. Unemployment is the lowest among OECS member countries and the 2004 UNDP Human Development Index ranks St. Kitts and Nevis 39<sup>th</sup> among 174 countries. Despite this positive picture, St. Kitts and Nevis has a poverty headcount index of slightly over 31 percent based on a recent assessment, which captures the vulnerability and the impacts of successive hurricanes in 1998 and 1999. Currently, St. Kitts and Nevis is the only IBRD-only borrower of the OECS.

**2. Political Context:** Independence: 1983 Last election: 2004

The current administration, representing the St. Kitts and Nevis Labour Party, was returned to office for a third term last year. St. Kitts and Nevis is a Federation, with a high degree of autonomy for Nevis, which has its own executive branch (Nevis Island Administration) and approximately one quarter of the federation's population. A number of referenda on secession from St. Kitts have been held, but have not passed.

**3. Economic Development and Prospects.** Growth rates in St. Kitts and Nevis averaged 6 percent in the 1980s and about 4 percent in the 1990s. Three major hurricanes hit the country in the late 1990s, including two of a catastrophic nature. Reconstruction spending and robust foreign investment in tourism continued to fuel growth but left the two-island federation with a high debt burden and serious fiscal imbalances. These were further exacerbated by public sector wage increases. The government has taken measures in 2003-04 to address the fiscal deficit (which led to a reduction in the primary deficit from 11.2 percent of GDP in 2002 to an estimated 0.5 percent in 2004, and a reduction in the overall fiscal deficit from 18.2 percent of GDP in 2002 to an estimated 8.5 percent in 2004), but the debt to GDP ratio remained high (170 percent of GDP in 2004)—the highest in the ECCU.

Key priority actions needed to bring down the very high debt stock include the closure of the insolvent sugar state-owned company (SSMC)<sup>46</sup>, which absorbs about 2 percent of GDP in subsidies each year, continued fiscal adjustment and a debt strategy to bring debt to a more sustainable level in an orderly fashion. The authorities have announced their decision to close the sugar state-owned company, and to put in place a safety net to mitigate the social impact. In addition, given the high debt levels, the fiscal adjustment required to underpin a significant debt reduction needs to be large and sustained, involving deep reforms on both the revenue side and civil service reform, and will require sustained strong political resolve.

Debt sustainability analysis by the IMF shows that under a passive scenario, with no significant adjustment, the public debt would rise to over 205 percent of GDP by 2009. However, it is unlikely that St. Kitts and Nevis will find the financing required by this scenario. A strong fiscal adjustment scenario is detailed in the attached table, including a combination of revenue measures, a freeze on nominal outlays for wages and goods and services, a cut in capital expenditure, the closure of SSMC and the cancellation of its debt in 2006 by transferring sugar lands to creditors, and privatization receipts of 4 percent of GDP a year during 2006-2009. This scenario would lead to the public debt ratio coming down to 117 percent of GDP by 2009. However, this adjustment would require high (about 8 percent of GDP) primary surpluses. In this respect, other options, including a significant restructuring of commercial debt accompanied by new borrowing at below market rates from bilateral and multilateral sources as well as fiscal adjustment, could be explored by the Government to reduce debt more rapidly.

Even with a large fiscal adjustment and robust growth performance, the economy would remain vulnerable and public debt high for many years to come. In particular, the combination of high debt, susceptibility to external (economic and natural) shocks and a tourism dependent economy points to an unusually high level of risk.

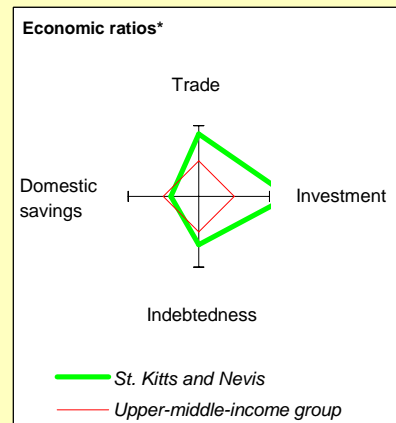
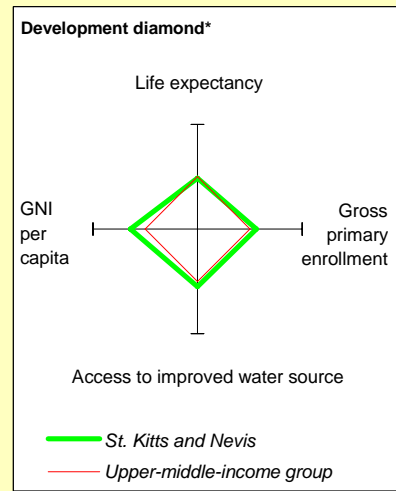
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<sup>46</sup> The St. Kitts Sugar Manufacturing Company (SSMC) employs about 1,000 people (7 percent of the labor force) and occupies about 4,000 hectares of land (30 percent of the island's surface).

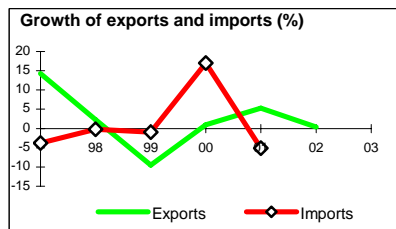
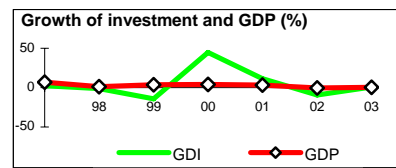
# St. Kitts and Nevis at a glance

7/26/05

	St. Kitts and Nevis	Latin America & Carib.	Upper-middle-income		
<b>POVERTY and SOCIAL</b>					
<b>2003</b>					
Population, mid-year (millions)	0.05	534	335		
GNI per capita (Atlas method, US\$)	6,860	3,260	5,340		
GNI (Atlas method, US\$ billions)	0.32	1,741	1,788		
<b>Average annual growth, 1997-03</b>					
Population (%)	0.8	1.6	1.3		
Labor force (%)	..	2.1	1.8		
<b>Most recent estimate (latest year available, 1997-03)</b>					
Poverty (% of population below national poverty line)	31	..	..		
Urban population (% of total population)	32	77	76		
Life expectancy at birth (years)	71	71	73		
Infant mortality (per 1,000 live births)	20	28	19		
Child malnutrition (% of children under 5)	..	..	..		
Access to an improved water source (% of population)	98	86	89		
Illiteracy (% of population age 15+)	..	11	9		
Gross primary enrollment (% of school-age population)	117	129	104		
Male	112	131	104		
Female	123	126	104		
<b>KEY ECONOMIC RATIOS and LONG-TERM TRENDS</b>					
	<b>1983</b>	<b>1993</b>	<b>2002</b>	<b>2003</b>	
GDP (US\$ billions)	0.06	0.20	0.36	0.37	
Gross domestic investment/GDP	37.2	45.3	47.7	47.1	
Exports of goods and services/GDP	48.9	58.3	43.5	47.1	
Gross national savings/GDP	11.7	30.6	10.9	17.5	
Current account balance/GDP	-36.9	-11.6	-36.8	-29.6	
Interest payments/GDP	0.3	0.7	7.0	7.7	
Total debt/GDP	15.9	27.1	160.5	169.4	
Total debt service/exports	..	4.0	..	..	
	<b>1983-93</b>	<b>1993-03</b>	<b>2002</b>	<b>2003</b>	<b>2003-07</b>
(average annual growth)					
GDP	6.5	3.5	-0.3	0.6	2.7
GDP per capita	7.2	1.8	-1.1	-0.2	..
Exports of goods and services	7.5	0.0	0.4	..	..



	1983	1993	2002	2003
<b>STRUCTURE of the ECONOMY</b>				
<i>(% of GDP)</i>				
Agriculture	11.6	6.8	3.4	3.0
Industry	24.8	25.2	26.8	25.4
Manufacturing	12.6	11.1	..	..
Services	63.6	68.0	69.8	71.6
Imports of goods and services	93.4	71.1	72.4	69.3
	<b>1983-93</b>	<b>1993-03</b>	<b>2002</b>	<b>2003</b>
(average annual growth)				
Agriculture	-0.8	0.2	13.4	-12.6
Industry	5.2	7.2	-3.6	-2.6
Manufacturing	1.6	5.9	-4.1	0.7
Services	7.9	3.7	2.1	30.0
Private consumption	1.7	2.9	23.9	-27.7
General government consumption	2.8	5.7	-6.3	26.5
Gross domestic investment	11.5	5.3	-9.4	0.8
Imports of goods and services	4.7	2.7	..	..



Note: 2003 data are preliminary estimates.

\* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

**CAS Annex B2 -  
Selected Indicators\* of Bank Portfolio Performance and Management**

As Of Date  
07/28/2005

<b>Indicator</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>Portfolio Assessment</b>				
Number of Projects Under Implementation <sup>a</sup>	4	3	3	3
Average Implementation Period (years) <sup>b</sup>	1.8	1.9	2.9	3.0
Percent of Problem Projects by Number <sup>a, c</sup>	0.0	33.3	33.3	33.3
Percent of Problem Projects by Amount <sup>a, c</sup>	0.0	37.2	30.1	30.1
Percent of Projects at Risk by Number <sup>a, d</sup>	0.0	33.3	33.3	33.3
Percent of Projects at Risk by Amount <sup>a, d</sup>	0.0	37.2	30.1	30.1
Disbursement Ratio (%) <sup>e</sup>	29.8	14.4	13.5	0.0
<b>Portfolio Management</b>				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

<b>Memorandum Item</b>	<b>Since FY 80</b>	<b>Last Five FYs</b>
Proj Eval by OED by Number	2	1
Proj Eval by OED by Amt (US\$ millions)	10.3	7.8
% of OED Projects Rated U or HU by Number	50.0	0.0
% of OED Projects Rated U or HU by Amt	25.0	0.0

- a. As shown in the Annual Report on Portfolio Performance (except for current FY).
- b. Average age of projects in the Bank's country portfolio.
- c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
- d. As defined under the Portfolio Improvement Program.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
- \* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

## St. Kitts and Nevis Social Indicators

	Latest single year			Same region/income group	
	1970-75	1980-85	1997-03	Latin America & Carib.	Upper-middle-income
<b>POPULATION</b>					
Total population, mid-year ( <i>millions</i> )	0.0	0.0	0.0	534.2	334.9
Growth rate ( <i>% annual average for period</i> )	-0.6	-0.8	2.3	1.5	1.2
Urban population ( <i>% of population</i> )	35.0	35.2	34.7	76.6	75.8
Total fertility rate ( <i>births per woman</i> )	3.5	3.3	2.1	2.5	2.4
<b>POVERTY</b>					
<i>(% of population)</i>					
National headcount index	..	..	..	..	..
Urban headcount index	..	..	..	..	..
Rural headcount index	..	..	..	..	..
<b>INCOME</b>					
GNI per capita ( <i>US\$</i> )	..	1,690	6,630	3,260	5,340
Consumer price index ( <i>1995=100</i> )	..	79	128	..	..
Food price index ( <i>1995=100</i> )	..	..	..	..	..
<b>INCOME/CONSUMPTION DISTRIBUTION</b>					
Gini index	..	..	..	..	..
Lowest quintile ( <i>% of income or consumption</i> )	..	..	..	..	..
Highest quintile ( <i>% of income or consumption</i> )	..	..	..	..	..
<b>SOCIAL INDICATORS</b>					
<b>Public expenditure</b>					
Health ( <i>% of GDP</i> )	..	..	3.4	3.3	3.7
Education ( <i>% of GNI</i> )	..	..	..	4.5	4.4
Social security and welfare ( <i>% of GDP</i> )	..	3.2	..	..	..
<b>Net primary school enrollment rate</b>					
<i>(% of age group)</i>					
Total	..	..	100	94	93
Male	..	..	91	94	93
Female	..	..	100	95	94
<b>Access to an improved water source</b>					
<i>(% of population)</i>					
Total	..	..	99	86	89
Urban	..	..	99	94	93
Rural	..	..	99	65	77
<b>Immunization rate</b>					
<i>(% of children ages 12-23 months)</i>					
Measles	..	91	98	91	94
DPT	..	92	99	88	90
Child malnutrition ( <i>% under 5 years</i> )	..	..	..	..	..
<b>Life expectancy at birth</b>					
<i>(years)</i>					
Total	..	64	72	71	73
Male	..	62	69	68	70
Female	..	66	74	74	77
<b>Mortality</b>					
Infant ( <i>per 1,000 live births</i> )	..	..	19	28	19
Under 5 ( <i>per 1,000</i> )	..	..	22	34	22
Adult (15-59)	..	..	..	..	..
Male ( <i>per 1,000 population</i> )	..	..	243	222	197
Female ( <i>per 1,000 population</i> )	..	..	148	125	103
Maternal ( <i>per 100,000 live births</i> )	..	..	..	..	..
Births attended by skilled health staff (%)	..	..	99	..	..

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

04/13/05

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age.

St. Kitts and Nevis - Key Economic Indicators<sup>a</sup>

Indicator	Actual			Estimate			Projected			
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>National accounts (as % of GDP)</b>										
Gross domestic product <sup>b</sup>	100	100	100	100	100	100	100	100	100	100
Agriculture	2.7	3.1	3.4	3.0	3.0	2.9	2.6	2.5	2.4	2.4
Industry	26.8	28.5	26.8	25.4	26.9	26.4	26.2	26.5	26.4	26.4
Services	70.5	68.4	69.8	71.6	70.1	70.7	71.2	71.0	71.2	71.2
Total Consumption	80	69	81	75	68	71	71	70	70	71
Gross domestic fixed investment	50	54	48	47	48	43	42	41	40	38
Government investment	10.3	8.4	13.9	6.9	8.2	8.6	8.2	6.2	5.6	5.6
Private investment	39.2	45.4	33.8	40.2	39.7	34.4	33.8	34.8	33.9	32.4
Exports (GNFS) <sup>b</sup>	46	46	44	47	52	54	53	54	55	56
Imports (GNFS)	75	69	72	69	68	67	66	65	64	64
Gross domestic savings	21	31	19	25	32	29	29	30	30	30
Gross national savings <sup>d</sup>	30	25	11	18	24	23	22	21	20	20
<i>Memorandum items</i>										
Gross domestic product (US\$ million at current prices)	330	345	355	369	397	421	442	467	492	516
GNI per capita (US\$, Atlas method)	6610	6420	6370	6860	7600					
Real annual growth rates (%)										
Gross domestic product at factor cost	6.5	1.7	-0.3	0.6	4.0	3.6	1.9	3.4	3.9	4.0
Real annual per capita growth rates (% , calculated from 1977 prices)										
Gross domestic product at market prices	5.7	0.9	-1.1	-0.2	3.2	2.8	1.1	2.6	3.1	3.2
<b>Balance of Payments (US\$ millions)</b>										
Trade Balance	-121	-112	-113	-118	-127	-130	-137	-140	-146	-151
Exports (GNFS) <sup>c</sup>	150	160	155	174	207	225	233	251	269	288
Merchandise Exports FOB	52	55	64	63	68	72	68	73	77	82
Imports (GNFS) <sup>c</sup>	247	238	257	256	271	283	290	302	317	332
Merchandise Imports FOB	173	167	178	180	195	202	206	213	223	233
Services Balance	24	34	10	36	63	73	80	89	98	107
Tourism receipts	58	62	56	73	91	102	111	121	131	141
Resource balance	-97	-78	-103	-82	-64	-57	-57	-51	-48	-44
Net current transfers	63	18	16	17	18	18	18	17	17	17
Current account balance	-65	-100	-131	-109	-95	-92	-95	-94	-94	-93
Net private foreign direct investment	96	88	80	51	54	56	63	59	62	65
Long-term loans (net)	10	62	44	43	22	6	9	6	4	3
Other capital (net, incl. errors & omissions)	-34	-73	-110	-83	-89	-74	-81	-73	-73	-75
Change in reserves <sup>e</sup>	-7	23	117	98	109	105	104	101	100	100
<i>Memorandum items</i>										
Resource balance (% of GDP)	-29.5	-22.7	-29.0	-22.2	-16.0	-13.6	-12.9	-11.0	-9.7	-8.5

(Continued)

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

Indicator	Actual			Estimate			Projected			
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Public finance (as % of GDP at market prices)<sup>f</sup></b>										
Total revenue and grants	29.9	29.0	34.8	33.1	35.4	39.6	38.6	36.8	36.7	36.8
Total expenditure and net-lending	44.3	41.4	53.0	41.9	43.9	44.7	42.2	39.2	38.2	38.1
Central government overall balance	-14.4	-12.4	-18.2	-8.9	-8.5	-5.1	-3.6	-2.4	-1.5	-1.4
Capital expenditure	10.3	8.4	13.9	6.9	8.2	8.6	8.2	6.2	5.6	5.6
Primary balance	-9.5	-6.7	-11.2	-1.2	-0.5	3.3	5.4	6.8	7.7	7.8
<b>Monetary indicators</b>										
M2/GDP	87.4	85.4	87.8	90.6	98.1	..	..	..	..	..
Growth of M2 (%)	27.9	2.3	6.4	6.9	16.4	..	..	..	..	..
Consumer price index (% change, eop)	3.1	2.6	1.8	2.3	2.3	2.0	2.0	2.0	2.0	2.0

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

b. GDP at factor cost

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

d. Includes net unrequited transfers excluding official capital grants.

e. Includes use of IMF resources.

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

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

St. Kitts and Nevis - Key Exposure Indicators

Indicator	Actual			Estimate			Projected			
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total debt outstanding and disbursed (TDO) (US\$m) <sup>a</sup>	401.1	483.3	570.2	625.5	676.7	713.1	592.7	598.9	601.3	603.4
Debt and debt service indicators (%)										
TDO/XGS <sup>b</sup>	267.5	302.8	369.0	359.7	326.6	316.4	254.3	238.3	223.4	209.3
TDO/GDP	121.7	140.2	160.5	169.4	170.5	169.3	134.0	128.2	122.2	117.0
IBRD exposure indicators (%)										
IBRD TDO (US\$m) <sup>d</sup>	4.51	6.59	8.67	11.89	13.20	16.3	17.7	18.6	18.6	17.5
IDA TDO (US\$m) <sup>d</sup>	1.44	1.36	1.43	1.53	1.55	1.31	0.95	0.59	0.17	0.00
IFC (US\$m)										
Loans	..	..	..	..	..	..	..	..	..	..
Equity and quasi-equity /c	..	..	..	..	..	..	..	..	..	..
MIGA										
MIGA guarantees (US\$m)	..	..	..	..	..	..	..	..	..	..

- a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.
- b. "XGS" denotes exports of goods and services, including workers' remittances.
- c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.
- d. Includes present value of guarantees.
- e. Includes equity and quasi-equity types of both loan and equity instruments.

CAS Annex B8 - St. Kitts and N

Operations Portfolio (IBRD/IDA and Grants)

As Of Date 07/28/2005

<b>Closed Projects</b>		2									
<b>IBRD/IDA *</b>											
Total Disbursed (Active)		4.21									
of which has been repaid		0.00									
Total Disbursed (Closed)		10.35									
of which has been repaid		2.29									
Total Disbursed (Active + Closed)		14.55									
of which has been repaid		2.29									
Total Undisbursed (Active)		9.24									
Total Undisbursed (Closed)		0.00									
Total Undisbursed (Active + Closed)		9.24									
<b>Active Projects</b>											
Project ID	Project Name	Last PSR			Original Amount in US\$ Millions				Difference Between Expected and Actual Disbursements <sup>a/</sup>		
		Development Objectives	Implementation Progress	Fiscal Year	IBRD	IDA	GRANT	Cancel.	Undisb.	Orig.	Frm Rev'd
P075978	60-KN EDUCATION (APL01) KN: HIV/AIDS PREVENTION AND CONTROL PROJ	S	MS	2002	5				3.901961	1.9852941	
P076798	St. Kitts and Nevis Emergency Recovery P	U	U	2003	4.045				3.783685	2.681185	
P077684		S	S	2002	4.4				1.554051	1.5540507	1.554051
Overall Result					13.44				9.239696	6.2205297	1.554051

## ST. LUCIA

**Population:** 161,000 (2003)

**GNI per capita:** US\$4,300 (2004 est. Atlas methodology)

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**1. Profile.** St. Lucia is the most densely populated of the four Windward Islands. The interior of the island is mountainous, but there is more flat land than in Dominica, Grenada or St. Vincent and the Grenadines. The soil is generally fertile and the banana industry (and other agriculture products) makes St. Lucia the biggest exporter of agricultural products among the OECS member countries. The pleasant climate and the sandy beaches have encouraged the development of tourism, particularly in the “honeymoon sector” which has become the main foreign exchange earner in the economy. Despite relatively strong social indicators, the UNDP Human Development Index classifies St. Lucia as 71st out of 174 countries. Twenty-five percent of the population is estimated to live below the locally defined poverty line, and 19 percent is estimated to be unemployed.

**2. Political Context.** Independence: 1979 Last elections: 2001

The current administration, representing the St. Lucia Labour Party (SLP) was returned to office for a second term in December 2001, gaining 14 of the 17 contested seats. The remaining seats were taken by the former ruling United Workers Party. Elections are expected before the end of next year.

**3. Economic Developments and Prospects.** Like the other OECS countries, St. Lucia experienced a marked decline in economic growth during the early 2000s, with average real GDP growth declining from an annual average of 2.5 percent in the 1990s to -1.3 percent during 2000-02. This marked slowdown was the result of exogenous shocks (the September 11 events and the global economic slowdown), the erosion of EU trade preferences for traditional banana exports, as well as increased competition from lower priced tourism destinations. The contraction and slowdown in growth was accompanied by an expansionary fiscal stance resulting in worsening primary balances (from 0.2 percent of GDP in FY2000/01 to -5.1 percent in FY2002/03) and rising public sector debt (from 44 percent of GDP in 2000 to 64 percent in 2002).

The economy rebounded in FY2003/04 and FY2004/05, with a growth rate of 3.1 and 3.7 percent, respectively, sustained by strong performance in the tourism sector. There was significant fiscal tightening in FY2003/04 resulting in a primary balance of -1.0 percent of GDP, due to higher revenue collection, reduced capital expenditure and a pick-up in economic activity. However, the primary deficit is estimated to have deteriorated slightly in FY2004/05 (-1.3 percent of GDP), due to rising capital expenditure. While the lowest in the OECS, in 2004 public debt stood at 73 percent of GDP. External debt represents 63 percent of total debt. The Government has been able to access the regional capital markets on increasingly favorable terms; this has allowed it to replace foreign with EC dollar-denominated debt with new issues at declining spreads over US treasury bills. Spending pressures in anticipation of the next elections may jeopardize progress towards fiscal consolidation and debt reduction.

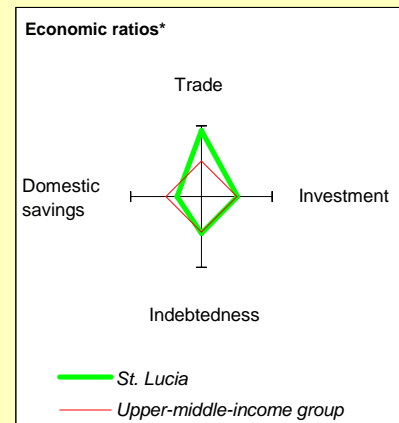
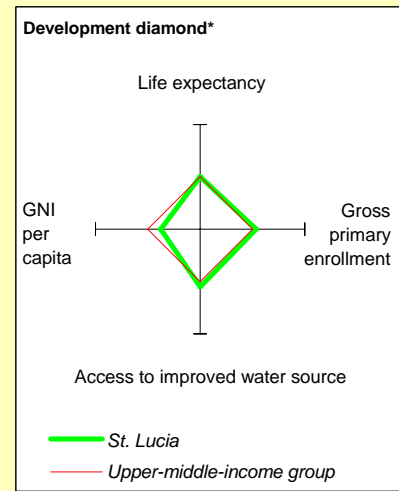
The attached table presents an active policy macroeconomic scenario with medium-term growth at 3 percent per year and fiscal adjustment over the medium-term leading to the central government primary balance moving from a deficit of 1.3 percent of GDP in FY2004/05 to a surplus of about 4.5 percent of GDP in FY2009/10. In this scenario, the debt stock would decline gradually to about 63 percent of GDP by 2009. However, a continuation of current fiscal policies would lead to an unsustainable level of debt, and crowd-out expenditures for social and economic goals. Under this scenario, the central government primary balance would be in the range of -2 to -8 percent of GDP and public debt would rise to 119 percent of GDP by 2009. This scenario is also subject to further downside risks—interest rate or natural disaster shocks—which would limit the government’s flexibility at high levels of debt.

Although St. Lucia is the most budget reform-minded of the OECS countries, with the most up-to-date legal framework for public financial management, the expansionary fiscal policy conducted by the country has not led to strong growth. Fiscal adjustment could be achieved by containing capital expenditures, reducing tax concessions, introduction of a broad based consumption tax, and containment of the public sector wage bill. Structural reforms to invigorate growth are also needed, particularly to reduce input costs and raise labor productivity.

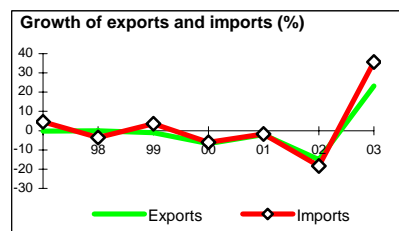
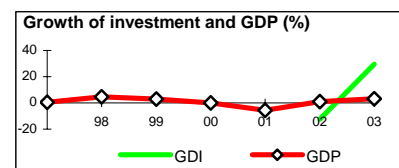
## St. Lucia at a glance

7/26/05

POVERTY and SOCIAL	St. Lucia	Latin America & Carib.	Upper-middle-income		
<b>2003</b>					
Population, mid-year ( <i>millions</i> )	0.16	534	335		
GNI per capita ( <i>Atlas method, US\$</i> )	4,030	3,260	5,340		
GNI ( <i>Atlas method, US\$ billions</i> )	0.65	1,741	1,788		
<b>Average annual growth, 1997-03</b>					
Population (%)	1.4	1.6	1.3		
Labor force (%)	..	2.1	1.8		
<b>Most recent estimate (latest year available, 1997-03)</b>					
Poverty ( <i>% of population below national poverty line</i> )	25	..	..		
Urban population ( <i>% of total population</i> )	31	77	76		
Life expectancy at birth ( <i>years</i> )	74	71	73		
Infant mortality ( <i>per 1,000 live births</i> )	17	28	19		
Child malnutrition ( <i>% of children under 5</i> )	..	..	..		
Access to an improved water source ( <i>% of population</i> )	98	86	89		
Illiteracy ( <i>% of population age 15+</i> )	..	11	9		
Gross primary enrollment ( <i>% of school-age population</i> )	111	129	104		
Male	111	131	104		
Female	112	126	104		
<b>KEY ECONOMIC RATIOS and LONG-TERM TRENDS</b>					
	<b>1983</b>	<b>1993</b>	<b>2002</b>	<b>2003</b>	
GDP ( <i>US\$ billions</i> )	0.15	0.49	0.68	0.70	
Gross domestic investment/GDP	21.7	24.8	23.6	18.8	
Exports of goods and services/GDP	63.6	67.7	51.2	54.9	
Gross domestic savings/GDP	14.3	18.9	16.8	15.2	
Current account balance/GDP	-8.0	-10.7	-15.4	-20.7	
Interest payments/GDP	0.4	1.0	1.5	2.3	
Total debt/GDP	12.2	20.5	64.3	65.5	
Total debt service/exports	1.3	3.2	..	..	
	<b>1983-93</b>	<b>1993-03</b>	<b>2002</b>	<b>2003</b>	<b>2003-07</b>
( <i>average annual growth</i> )					
GDP	9.0	1.2	1.0	3.1	3.4
GDP per capita	7.5	-0.2	-0.4	1.7	2.0
Exports of goods and services	10.7	-2.0	-2.2	..	..

**STRUCTURE of the ECONOMY**

	1983	1993	2002	2003
( <i>% of GDP</i> )				
Agriculture	15.0	10.9	6.4	5.4
Industry	18.3	21.0	18.5	18.0
Manufacturing	9.5	7.5	4.8	5.0
Services	66.7	68.1	75.1	76.6
Imports of goods and services	71.0	73.6	59.3	68.3
	<b>1983-93</b>	<b>1993-03</b>	<b>2002</b>	<b>2003</b>
( <i>average annual growth</i> )				
Agriculture	5.3	-8.3	-8.5	-11.8
Industry	9.8	1.7	-1.5	-1.1
Manufacturing	7.4	-0.5	5.0	0.6
Services	6.8	2.2	1.1	4.3
Private consumption	9.7	-1.2	0.7	3.9
General government consumption	4.6	9.5	-2.8	4.8
Gross domestic investment	11.1	3.1	-12.5	29.5
Imports of goods and services	10.7	-0.8	..	..



Note: 2003 data are preliminary estimates.

\* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

**PRICES and GOVERNMENT FINANCE**

**Domestic prices**

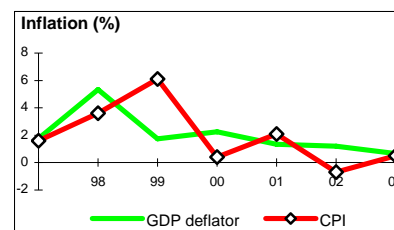
(% change)

	1983	1993	2002	2003
Consumer prices	1.4	0.8	-0.7	0.5
Implicit GDP deflator	3.2	0.4	1.2	0.7

**Government finance**

(% of GDP, includes current grants)

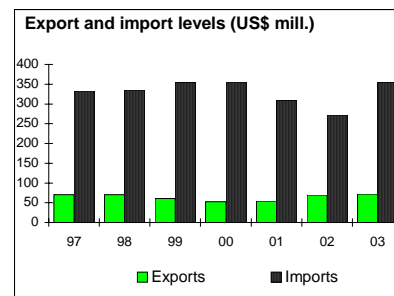
	1983	1993	2002	2003
Current revenue	..	26.3	24.0	25.8
Current budget balance	..	7.4	0.1	1.1
Overall surplus/deficit	..	-4.9	-7.6	-3.8



**TRADE**

(US\$ millions)

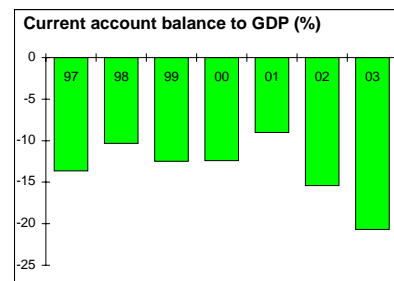
	1983	1993	2002	2003
Total exports (fob)	48	120	70	72
Bananas	19	51	17	..
Fruits and vegetables	0	1	1	..
Manufactures	14	35	25	..
Total imports (cif)	107	300	272	355
Food	24	59	63	71
Fuel and energy	13	19	31	42
Capital goods	18	64	72	122
Export price index (1995=100)	67	93	84	87
Import price index (1995=100)	83	92	84	87
Terms of trade (1995=100)	81	102	100	100



**BALANCE of PAYMENTS**

(US\$ millions)

	1983	1993	2002	2003
Exports of goods and services	102	333	346	386
Imports of goods and services	127	362	400	480
Resource balance	-25	-29	-55	-94
Net income	-1	-35	-35.8	-48.5
Net current transfers	14	12	12	12
Current account balance	-12	-52	-104	-146
Financing items (net)	12	57	109	163
Changes in net reserves	0	-5	-5	-17



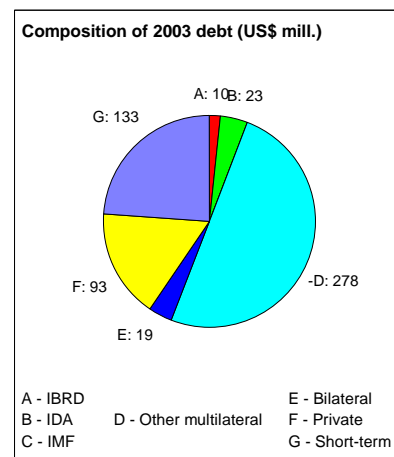
**Memo:**

Reserves including gold (US\$ millions)	8	58	80	..
Conversion rate (DEC, local/US\$)	2.7	2.7	2.7	2.7

**EXTERNAL DEBT and RESOURCE FLOWS**

(US\$ millions)

	1983	1993	2002	2003
Total debt outstanding and disbursed	18.9	100.9	304	324
IBRD	0.0	0.4	5.9	10.1
IDA	0.0	5.3	20.1	23.2
Total debt service	1.3	11.2	..	..
IBRD	0.0	0.0	1.0	1.5
IDA	0.0	0.0	0.2	0.3
Composition of net resource flows				
Official grants	3.1	14.3	15.4	11.6
Official creditors	2.1	10.0	10.7	8.5
Private creditors	0.0	-0.5	30.0	9.0
Portfolio equity	0.0	0.0	0.0	0.0
World Bank program				
Commitments	0.0	0.0	20.9	0.0
Disbursements	0.0	1.3	1.8	10.8
Principal repayments	0.0	0.0	0.8	1.2
Net flows	0.0	1.3	0.9	9.5
Interest payments	0.0	0.0	0.3	0.4
Net transfers	0.0	1.3	0.6	9.2



**CAS Annex B2 -**  
**Selected Indicators\* of Bank Portfolio Performance and Management**  
As Of Date  
07/28/2005

Indicator	2003	2004	2005	2006
<b>Portfolio Assessment</b>				
Number of Projects Under Implementation <sup>a</sup>	5	4	6	6
Average Implementation Period (years) <sup>b</sup>	2.5	1.7	2.0	2.1
Percent of Problem Projects by Number <sup>a, c</sup>	0.0	25.0	16.7	16.7
Percent of Problem Projects by Amount <sup>a, c</sup>	0.0	42.3	28.2	28.2
Percent of Projects at Risk by Number <sup>a, d</sup>	0.0	25.0	16.7	16.7
Percent of Projects at Risk by Amount <sup>a, d</sup>	0.0	42.3	28.2	28.2
Disbursement Ratio (%) <sup>e</sup>	25.9	15.0	13.1	0.0
<b>Portfolio Management</b>				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	5	2
Proj Eval by OED by Amt (US\$ millions)	28.4	8.9
% of OED Projects Rated U or HU by Number	20.0	0.0
% of OED Projects Rated U or HU by Amt	28.6	0.0

- a. As shown in the Annual Report on Portfolio Performance (except for current FY).  
b. Average age of projects in the Bank's country portfolio.  
c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).  
d. As defined under the Portfolio Improvement Program.  
e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

\* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

**CAS Annex B3 - IBRD/IDA Program Summary**      **St. Lucia**  
**As Of Date 07/28/2005**

**Proposed IBRD/IDA Base-Case Lending Program <sup>a</sup>**

<i>Fiscal year</i>	<i>Proj ID</i>	<i>US\$(M)</i>	<i>Strategic Rewards b (H/M/L)</i>	<i>Implementation b Risks (H/M/L)</i>
2007	OECS (LC) Social Protection Pilot	3.0		
	Result	3.0		
2009	LC Public Sector Modernization	3.0		
	Result	3.0		
Overall Result		6.0		

## St. Lucia Social Indicators

	Latest single year			Same region/income group	
	1970-75	1980-85	1997-03	Latin America & Carib.	Upper-middle-income
<b>POPULATION</b>					
Total population, mid-year ( <i>millions</i> )	0.1	0.1	0.2	534.2	334.9
Growth rate ( <i>% annual average for period</i> )	1.3	1.5	1.2	1.5	1.2
Urban population ( <i>% of population</i> )	38.6	37.3	38.6	76.6	75.8
Total fertility rate ( <i>births per woman</i> )	5.5	4.0	2.1	2.5	2.4
<b>POVERTY</b>					
<i>(% of population)</i>					
National headcount index	..	..	..	..	..
Urban headcount index	..	..	..	..	..
Rural headcount index	..	..	..	..	..
<b>INCOME</b>					
GNI per capita ( <i>US\$</i> )	..	1,450	4,030	3,260	5,340
Consumer price index ( <i>1995=100</i> )	31	68	112	..	..
Food price index ( <i>1995=100</i> )	..	..	..	..	..
<b>INCOME/CONSUMPTION DISTRIBUTION</b>					
Gini index	..	..	..	..	..
Lowest quintile ( <i>% of income or consumption</i> )	..	..	..	..	..
Highest quintile ( <i>% of income or consumption</i> )	..	..	..	..	..
<b>SOCIAL INDICATORS</b>					
<b>Public expenditure</b>					
Health ( <i>% of GDP</i> )	..	..	3.4	3.3	3.7
Education ( <i>% of GNI</i> )	..	..	..	4.5	4.4
Social security and welfare ( <i>% of GDP</i> )	..	1.5	..	..	..
<b>Net primary school enrollment rate</b>					
<i>(% of age group)</i>					
Total	..	..	99	94	93
Male	..	..	99	94	93
Female	..	..	100	95	94
<b>Access to an improved water source</b>					
<i>(% of population)</i>					
Total	..	..	98	86	89
Urban	..	..	98	94	93
Rural	..	..	98	65	77
<b>Immunization rate</b>					
<i>(% of children ages 12-23 months)</i>					
Measles	..	68	90	91	94
DPT	..	87	90	88	90
Child malnutrition ( <i>% under 5 years</i> )	..	..	..	..	..
<b>Life expectancy at birth</b>					
<i>(years)</i>					
Total	62	69	74	71	73
Male	61	67	72	68	70
Female	64	71	76	74	77
<b>Mortality</b>					
Infant ( <i>per 1,000 live births</i> )	..	..	16	28	19
Under 5 ( <i>per 1,000</i> )	..	..	18	34	22
Adult (15-59)					
Male ( <i>per 1,000 population</i> )	..	..	186	222	197
Female ( <i>per 1,000 population</i> )	..	..	112	125	103
Maternal ( <i>per 100,000 live births</i> )	..	..	..	..	..
Births attended by skilled health staff (%)	..	..	100	..	..

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

04/13/05

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age.

## St. Lucia - Key Economic Indicators

## Annex B6: Key Economic Indicators

Indicator	Actual			Estimate			Projected			
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>National accounts (as % of GDP)</b>										
Gross domestic product <sup>a</sup>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	7.4	6.8	6.4	5.4	5.3	5.3	5.2	4.9	5.0	5.0
Industry	19.6	19.4	18.5	18.0	18.1	18.3	18.1	17.5	17.8	17.7
Services	73.0	73.8	75.1	76.6	76.6	76.4	76.7	77.6	77.2	77.3
Total Consumption	84.2	80.5	84.5	94.6	83.3	74.3	78.2	78.6	77.9	78.2
Gross domestic investment	24.4	24.0	23.6	18.8	20.7	29.1	24.5	23.5	23.5	22.5
Government investment	7.3	7.5	10.7	7.1	8.1	10.0	7.5	7.5	7.5	7.5
Private investment	17.1	16.5	12.9	11.7	12.6	19.1	17.0	16.0	16.0	15.0
Exports (GNFS) <sup>b</sup>	55.6	53.2	51.2	54.9	56.3	56.8	57.8	58.9	60.0	61.1
Imports (GNFS)	64.1	57.7	59.3	68.3	60.3	60.2	60.5	61.0	61.4	61.9
Gross domestic savings	17.4	16.4	16.8	15.2	..	..	..	..	..	..
Gross national savings <sup>c</sup>	14.2	9.4	7.4	0.8	5.8	3.7	..	..	..	..
<i>Memorandum items</i>										
Gross domestic product (US\$ million at current prices)	687	664	675	704	739	784	825	866	910	955
GNI per capita (US\$, Atlas method)	4010	3790	3830	4030	4300	..	..	..	..	..
Real annual growth rates (%) <sup>e</sup>										
Gross domestic product at factor cost	0.1	-4.3	1.0	3.1	3.7	3.8	3.3	3.0	3.0	3.0
Real annual per capita growth rates (%)										
Gross domestic product at market prices	-1.3	-5.7	-0.4	1.7	2.3	2.4	1.9	1.6	1.6	1.6
<b>Balance of Payments (US\$ millions)</b>										
Trade Balance	-259	-218	-203	-283	-289	-389	-381	-373	-360	-342
Exports (GNFS) <sup>b</sup>	381.5	353.2	345.6	386.0	416.3	445.4	476.6	510.0	545.7	583.9
Merchandise FOB	52.9	54.5	69.5	71.8	93.9	112.9	141.7	170.2	204.6	245.9
Imports (GNFS) <sup>b</sup>	440.3	383.2	400.1	480.2	446.2	472.0	499.3	528.2	558.7	591.0
Merchandise FOB	312.4	272.4	272.1	354.6	383.0	502.4	522.4	543.3	565.1	587.7
Resource balance	-58.8	-30.0	-54.5	-94.2	-29.9	-26.6	-22.7	-18.2	-13.0	-7.2
Net current transfers	18.5	14.6	12.2	12.0	12.6	24.3	12.5	11.8	12.2	11.9
Current account balance	-96.8	-107.6	-104.0	-145.6	-118.3	-188.1	-149	-147	-146	-158
Net private foreign direct investment	53.5	59.1	50.0	97.1	105.7	149.7	117.5	124.3	130.5	124.1
Change in reserves <sup>d</sup>	-4.5	-10.1	-4.8	-17.2	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0

(Continued)

**St. Lucia - Key Economic Indicators**  
(Continued)

Indicator	Actual			Estimate		Projected			
	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Public finance (as % of GDP at market prices)<sup>e</sup></b>									
Current revenue	26.2	23.8	24.0	25.8	27.3	26.9	28.9	29.5	28.5
Current expenditure	20.8	22.2	23.9	24.7	24.0	24.9	24.9	24.5	22.9
Current balance	5.4	1.6	0.1	1.1	3.3	2.0	4.0	5.0	5.6
Capital expenditure	7.3	7.5	10.7	7.1	8.1	10.0	7.5	7.5	7.5
Primary balance	0.2	-1.8	-5.1	-0.9	-1.3	-1.3	2.7	4.2	4.7
<b>Monetary indicators</b>									
M2/GDP	63.6	68.8	69.9	72.1	75.6	75.6	..	..	..
Growth of M2 (%)	7.9	4.7	3.2	7.6	10.1	6.0	..	..	..
Consumer price index (% eop)	3.6	2.1	-0.7	0.5	3.5	2.0	2.0	2.0	2.0

- 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. Data presented on a fiscal year basis (April - March).  
f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.  
g. Data presented on a fiscal year basis (April - March)

## St. Lucia - Key Exposure Indicators

Indicator	Actual			Estimate			Projected			
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total debt outstanding and disbursed (TDO) (US\$m) <sup>f</sup>	301	340	434	461	538	583	599	602	601	600
External debt (% GDP)	28.6	33.0	45.0	46.0	45.8	47.4	46.2	44.3	42.1	40.1
Debt and debt service indicators (%)										
TDO/XGS <sup>b</sup>	79.0	96.3	125.6	119.4	129.3	130.9	125.7	118.1	110.2	102.7
TDO/GDP <sup>f</sup>	43.9	51.2	64.3	65.5	72.8	74.4	72.6	69.5	66.1	62.8
External debt service/XGS		8.1	12.1	7.9	8.5	7.8	9.8	12.2	9.3	9.0
IBRD exposure indicators (%)										
IBRD DS/XGS	0.2	0.3	0.3	0.4	0.4	..	..	..	..	..
IBRD TDO (US\$m) <sup>d</sup>	6.0	5.2	5.9	10.1	10.5	12.1	12.0	14.7	18.8	19.2
IDA TDO (US\$m) <sup>d</sup>	11.6	11.8	20.1	23.2	26.1	31.0	37.2	44.8	47.4	50.0
IDA DS/XGS	0.0	0.1	0.1	0.1	0.1	..	..	..	..	..
IFC (US\$m)										
Loans	..	..	..	..	..	..	..	..	..	..
Equity and quasi-equity /c	..	..	..	..	..	..	..	..	..	..
MIGA										
MIGA guarantees (US\$m)	..	..	..	..	..	..	..	..	..	..

- a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.
- b. "XGS" denotes exports of goods and services, including workers' remittances.
- c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.
- d. Includes present value of guarantees.
- e. Includes equity and quasi-equity types of both loan and equity instruments.
- f. Data presented on a fiscal year basis (April - March).

**CAS Annex B8 - St. Lucia**  
**Operations Portfolio (IBRD/IDA and Grants)**  
**As Of Date 07/28/2005**

<b>Closed Projects</b>	<b>5</b>
<b><u>IBRD/IDA</u> *</b>	
Total Disbursed (Active)	8.20
of which has been repaid	0.00
Total Disbursed (Closed)	28.44
of which has been repaid	5.60
Total Disbursed (Active + Closed)	36.64
of which has been repaid	5.60
Total Undisbursed (Active)	36.29
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	36.29

Project ID	Project Name	Last PSR			Original Amount in US\$ Millions					Difference Between Expected and Actual Disbursements <sup>3/</sup>	
		Supervision Rating		Fiscal Year	IBRD	IDA	GRANT	Cancel.	Undisb.	Orig.	Frm Rev'd
		<u>Development Objectives</u>	<u>Implementation Progress</u>								
P077712	60 LC Education (APL01)	MU	MU	2002	6	6			12.35024	8.0510839	
P086469	LC Disaster Management Project II	S	S	2004	3.7	3.8			6.793077	0.3731667	
P076795	LC HIV/AIDS PREVENTION & CONTROL	S	S	2005	3.2	3.2			6.255787	0.3948333	
P070244	LC Water Sector Reform Tech Assist	S	S	2002	1.3	1.3			1.579903	1.1181625	
P094416	LC Water Supply Infrastr. Improvement	#	#	2005	3.85	3.85			7.643764		
P077687	St. Lucia Emergency Recovery Project	S	S	2002	1.89	4.41			1.667462	1.1025188	
Overall Result					19.94	22.56			36.29023	11.039765	

## ST. VINCENT AND THE GRENADINES

**Population:** 109,000 (2003)  
**GNI per capita:** US\$3,650 (2004 est. Atlas methodology)

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**1. Profile.** St. Vincent and the Grenadines consists of 32 islands. St Vincent, the northernmost island, is the country's commercial and political center, accounting for 90 percent of both the land area and population. The volcanic island is lush and green, its deep valleys cultivated with bananas, coconuts and arrowroot. The others belong to the Grenadines, a chain of about 800 islets extending between St. Vincent and Grenada, which attract a large number of yachting tourists. St. Vincent and the Grenadines, the poorest country among the OECS, has a poverty headcount index of about 38 percent and an estimated unemployment rate of about 21 percent. St. Vincent and the Grenadines ranks 87<sup>th</sup> out of 174 countries on the 2004 UNDP Human Development Index.

**2. Political Context.** Independence: 1979 Last election: 2001

The current administration, representing the Unity Labour Party won a landslide victory in the March 2001 general elections, which ended 15 years of rule by the New Democrat Party. Parliamentary elections are due by no later than March 2006, but it is likely they will take place in late 2005.

**3. Economic Developments and Prospects.** Like the other OECS countries, the country experienced an economic growth slowdown in the late 1990s and early 2000s. While traditionally among the most fiscally responsible of the OECS countries, the authorities began in the late 1990s to implement expansionary fiscal policies to offset the economic slowdown. As a result, the fiscal situation weakened since the late 1990s, and public debt has risen rapidly since 1999, yet remains lower than the OECS average. This was compounded by the cost of rehabilitation expenditures to repair damage caused by a series of weather-induced natural disasters. Public debt rose from less than 50 percent of GDP in 1997 to 79 percent of GDP in 2004 (of which 32.5 percent is domestic and 67.5 percent is external; about 35 percent of public debt is to commercial banks). This increase was in large part due to the past administration's guarantee and, in 1999, assumption of a large private external debt of EC\$156 million (17.5 percent of GDP) for the construction of the Ottley Hall marina and shipyard. In 2001 the government obtained a moratorium on interest payments pending a settlement with creditors (foreign commercial banks) and continues to seek a debt restructuring.

Economic activity rebounded in 2003 and 2004 as a result of a revival of tourism, with real GDP growth of 3.4 and 4.3 percent respectively. A modest acceleration (4.9 percent) is expected in 2005 on the basis of continued expansion in tourism and tourism-related services, an increase in public sector investment and a high level of construction activity. Unlike neighboring Grenada, there was limited damage from Hurricane Ivan (about 5 percent of 2003 GDP). In fact, Grenada's demand for food, construction materials and transport services has boosted economic activity in St. Vincent and the Grenadines.

After a significant improvement in 2003, fiscal performance weakened in 2004 as a result of slower revenue growth. The primary balance deteriorated from a deficit of 0.6 percent of GDP in 2003 to 0.9 percent in 2004. The budget for 2005 reflects election spending pressures and, if fully implemented, would lead to a deterioration in the primary balance. However, on the basis of historical capital execution rates and existing implementation capacity, it is unlikely that all budgeted expenditures will materialize. The external current account deficit widened substantially in 2004 (25 percent of GDP) as a result of a general rise in imports, especially of energy products, food equipment and building materials largely related to private housing and tourism-related investment. In 2005, the external current account deficit is expected to deteriorate further (to about 28 percent of GDP) due to additional public capital expenditure and rising oil import costs, notwithstanding a rebound in banana export earnings. Current account imbalances continue to be largely financed by FDI flows.

The attached table presents an active policy macroeconomic scenario with medium-term growth at 4 percent per year and fiscal adjustment over the medium-term leading to the central government primary balance moving from a deficit of 0.9 percent of GDP in 2004 to a surplus of about 4 percent of GDP in 2009. In this scenario, the debt stock would decline gradually to about 71 percent of GDP by 2009. However, a continuation of current fiscal policies would lead to an unsustainable level of debt, and crowd-out expenditures for social and economic goals. Under this scenario, the central government primary balance would be in the range of -1.5 to -5 percent of GDP and public debt would rise to 95 percent of GDP by 2009.

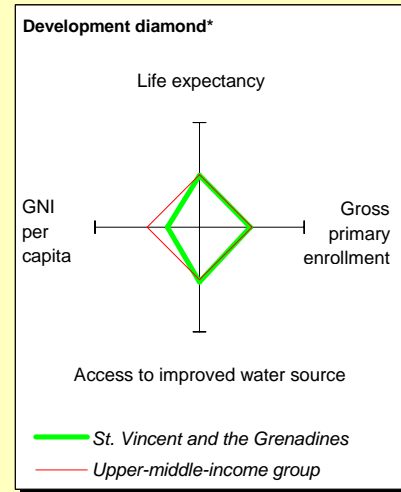
This scenario is also subject to further downside risks—interest rate or natural disaster shocks—which would limit the government’s flexibility at high levels of debt.

Although St. Vincent and the Grenadines is the poorest country in the OECS, it has relatively strong social indicators, including life expectancy at birth, immunization coverage and the infant mortality rate. The Government has recently developed a “social contract” with trade unions, the private sector and civil society aimed at fixing the general framework for cooperation in both policy formulation and monitoring. A Poverty Reduction Strategy also recently adopted by the Government follows a multi-faceted approach including the promotion of a micro-enterprise sector, new infrastructure projects in roads, airports and power plants and an enhanced safety net for the poor through public assistance. Looking forward, it is crucial that the authorities focus their efforts on strengthening the fiscal position and reducing public debt, and on accelerating structural reforms to promote private sector-led growth through productivity-enhancing policies, increasing public sector efficiency and regional integration. The planned adoption of a VAT and market valuation-based property taxation in 2007 would be steps in the right direction. The reduction in tax concessions, control of the wage bill and public sector modernization, and a prioritization of public investment projects would also be needed to strengthen the fiscal position and increase public sector efficiency.

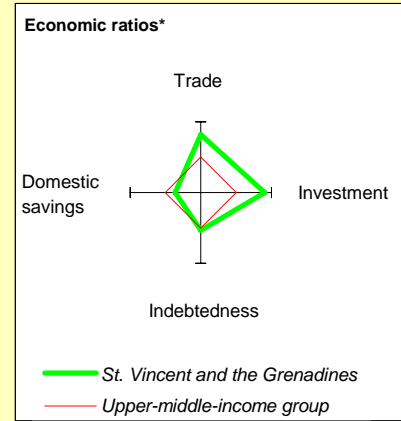
## St. Vincent and the Grenadines at a glance

7/26/05

POVERTY and SOCIAL	St. Vincent and the Grenadines	Latin America & Carib.	Upper-middle-income
<b>2003</b>			
Population, mid-year (millions)	0.11	534	335
GNI per capita (Atlas method, US\$)	3,250	3,260	5,340
GNI (Atlas method, US\$ billions)	0.36	1,741	1,788
<b>Average Annual Growth, 1990-2003</b>			
Population (%)	0.2	1.5	1.3
Labor force (%)	..	2.1	1.8
<b>Most recent estimate (latest year available, 1997-03)</b>			
Poverty (% of population below national poverty line)	38	..	..
Urban population (% of total population)	58	77	76
Life expectancy at birth (years)	73	71	73
Infant mortality (per 1,000 live births)	22	28	19
Child malnutrition (% of children under 5)	..	..	..
Access to an improved water source (% of population)	93	86	89
Illiteracy (% of population age 15+)	..	11	9
Gross primary enrollment (% of school-age population)	101	129	104
Male	103	131	104
Female	99	126	104



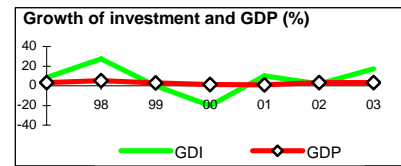
KEY ECONOMIC RATIOS and LONG-TERM TRENDS	1983	1993	2002	2003
GDP (US\$ billions)	0.09	0.24	0.36	0.38
Gross domestic investment/GDP	24.6	25.6	32.0	33.3
Exports of goods and services/GDP	61.3	50.0	49.4	45.5
Gross domestic savings/GDP	0.3	7.8	22.2	16.2
Gross national savings/GDP	18.5	9.9	20.7	13.3
Current account balance/GDP	-2.8	-17.4	-11.5	-19.9
Interest payments/GDP	0.7	1.0	2.7	2.7
Total debt/GDP	27.2	42.8	70.5	72.8
Total debt service/exports	2.5	7.9	8.7	8.7



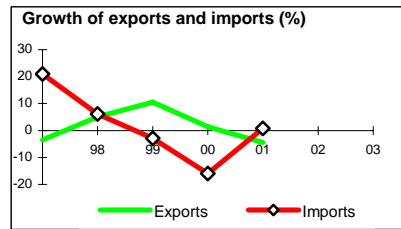
	1983-93	1993-03	2002	2003	2003-07
(average annual growth)					
GDP	5.7	2.1	3.2	3.4	4.2
GDP per capita	4.7	2.2	3.0	3.2	4.0
Exports of goods and services	3.0	2.1	..	..	..

**STRUCTURE of the ECONOMY**

	1983	1993	2002	2003
(% of GDP)				
Agriculture	17.3	14.9	8.5	8.5
Industry	24.8	25.3	20.4	20.8
Manufacturing	10.3	9.3	6.4	6.3
Services	57.9	59.8	71.1	70.7
Imports of goods and services	85.6	67.8	59.1	62.5



	1983-93	1993-03	2002	2003
(average annual growth)				
Agriculture	5.1	0.4	10.6	-2.2
Industry	6.0	1.9	1.1	5.9
Manufacturing	3.4	-2.0	-8.0	14.2
Services	6.2	4.0	0.2	4.5
Private consumption	6.3	0.9	-1.4	7.6
General government consumption	5.1	0.0	8.5	-4.3
Gross domestic investment	5.4	3.7	1.9	17.1
Imports of goods and services	3.8	1.0	..	..

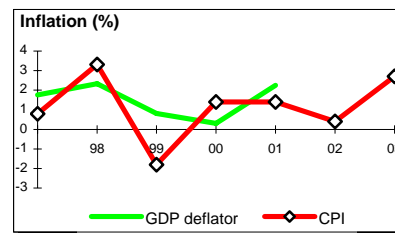


Note: 2003 data are preliminary estimates.

\* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

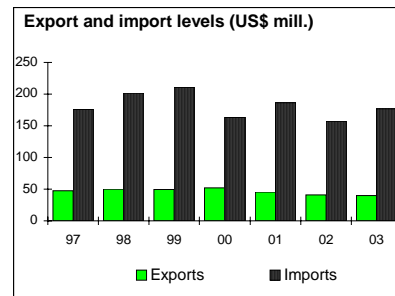
**PRICES and GOVERNMENT FINANCE**

	1983	1993	2002	2003
<b>Domestic prices</b> (% change)				
Consumer prices	5.5	4.3	0.4	2.7
<b>Government finance</b> (% of GDP, includes current grants)				
Current revenue	..	26.6	30.6	31.0
Current budget balance	..	4.1	2.6	4.1
Overall surplus/deficit	..	-3.1	-4.2	-3.4



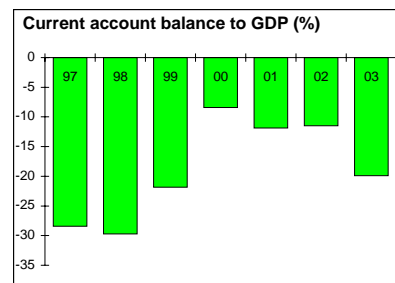
**TRADE**

	1983	1993	2002	2003
<i>(US\$ millions)</i>				
Total exports (fob)	..	52	41	40
Bananas	..	23	13	12
Eddoes and dasheens	..	2	2	..
Manufactures	..	19	30	38
Total imports (cif)	..	118	157	177
Food	..	28	44	..
Fuel and energy	..	7	17	..
Capital goods	..	21	63	..
Export price index (1995=100)	..	102	..	..
Import price index (1995=100)	..	102	..	..
Terms of trade (1995=100)	..	101	..	..



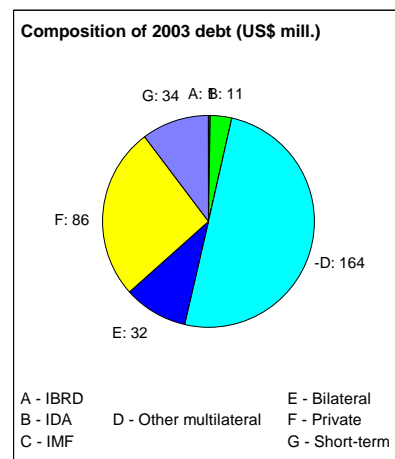
**BALANCE of PAYMENTS**

	1983	1993	2002	2003
<i>(US\$ millions)</i>				
Exports of goods and services	59	105	178	173
Imports of goods and services	79	152	213	237
Resource balance	-20	-47	-35	-65
Net income	-2	-8	-18	-24
Net current transfers	19	14	12	13
Current account balance	-3	-42	-41	-76
Financing items (net)	3	40	33	73
Changes in net reserves	0	2	8	2
<b>Memo:</b>				
Reserves including gold (US\$ millions)	..	35	54	..
Conversion rate (DEC, local/US\$)	2.7	2.7	2.7	2.7



**EXTERNAL DEBT and RESOURCE FLOWS**

	1983	1993	2002	2003
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	25.6	102.1	168	195
IBRD	0.0	0.4	0.5	0.6
IDA	0.0	7.6	10.1	11.5
Total debt service	1.5	8.5	11.6	12.8
IBRD	0.0	0.0	0.0	0.2
IDA	0.0	0.1	0.1	0.2
Composition of net resource flows				
Official grants	2.3	2.7	4.4	3.9
Official creditors	3.7	4.9	1.1	17.4
Private creditors	-0.2	0.0	7.5	20.7
Foreign direct investment	2.1	31.4	37.4	55.2
Portfolio equity	0.0	0.0	0.0	0.0
World Bank program				
Commitments	0.0	0.0	6.2	0.0
Disbursements	0.0	0.3	1.5	1.7
Principal repayments	0.0	0.0	0.1	0.3
Net flows	0.0	0.3	1.3	1.4
Interest payments	0.0	0.1	0.1	0.1
Net transfers	0.0	0.2	1.3	1.4



**CAS Annex B2 -  
Selected Indicators\* of Bank Portfolio Performance and Management**

As Of Date  
07/28/2005

<b>Indicator</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b><i>Portfolio Assessment</i></b>				
Number of Projects Under Implementation <sup>a</sup>	2	3	4	4
Average Implementation Period (years) <sup>b</sup>	1.2	1.5	2.1	2.2
Percent of Problem Projects by Number <sup>a, c</sup>	50.0	33.3	0.0	0.0
Percent of Problem Projects by Amount <sup>a, c</sup>	64.9	38.6	0.0	0.0
Percent of Projects at Risk by Number <sup>a, d</sup>	50.0	33.3	0.0	0.0
Percent of Projects at Risk by Amount <sup>a, d</sup>	64.9	38.6	0.0	0.0
Disbursement Ratio (%) <sup>e</sup>	15.6	8.8	16.0	0.3
<b><i>Portfolio Management</i></b>				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

<b>Memorandum Item</b>	<b>Since FY 80</b>	<b>Last Five FYs</b>
Proj Eval by OED by Number	2	0
Proj Eval by OED by Amt (US\$ millions)	7.6	0.0
% of OED Projects Rated U or HU by Number	0.0	0.0
% of OED Projects Rated U or HU by Amt	0.0	0.0

- a. As shown in the Annual Report on Portfolio Performance (except for current FY).
- b. Average age of projects in the Bank's country portfolio.
- c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
- d. As defined under the Portfolio Improvement Program.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
- \* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

## St. Vincent and the Grenadines Social Indicators

	Latest single year			Same region/income group	
	1970-75	1980-85	1997-03	Latin America & Carib.	Upper- middle- income
<b>POPULATION</b>					
Total population, mid-year ( <i>millions</i> )	0.1	0.1	0.1	534.2	334.9
Growth rate ( <i>% annual average for period</i> )	1.1	0.9	-0.4	1.5	1.2
Urban population ( <i>% of population</i> )	27.0	33.6	58.1	76.6	75.8
Total fertility rate ( <i>births per woman</i> )	5.0	3.3	2.1	2.5	2.4
<b>POVERTY</b>					
<i>(% of population)</i>					
National headcount index	..	..	..	..	..
Urban headcount index	..	..	..	..	..
Rural headcount index	..	..	..	..	..
<b>INCOME</b>					
GNI per capita ( <i>US\$</i> )	380	1,050	3,310	3,260	5,340
Consumer price index ( <i>1995=100</i> )	30	73	109	..	..
Food price index ( <i>1995=100</i> )	..	..	..	..	..
<b>INCOME/CONSUMPTION DISTRIBUTION</b>					
Gini index	..	..	..	..	..
Lowest quintile ( <i>% of income or consumption</i> )	..	..	..	..	..
Highest quintile ( <i>% of income or consumption</i> )	..	..	..	..	..
<b>SOCIAL INDICATORS</b>					
<b>Public expenditure</b>					
Health ( <i>% of GDP</i> )	..	..	3.9	3.3	3.7
Education ( <i>% of GNI</i> )	..	..	..	4.5	4.4
Social security and welfare ( <i>% of GDP</i> )	..	..	..	..	..
<b>Net primary school enrollment rate</b>					
<i>(% of age group)</i>					
Total	..	..	90	94	93
Male	..	..	90	94	93
Female	..	..	90	95	94
<b>Access to an improved water source</b>					
<i>(% of population)</i>					
Total	..	..	93	86	89
Urban	..	..	..	94	93
Rural	..	..	93	65	77
<b>Immunization rate</b>					
<i>(% of children ages 12-23 months)</i>					
Measles	..	74	94	91	94
DPT	..	90	99	88	90
Child malnutrition ( <i>% under 5 years</i> )	..	..	..	..	..
<b>Life expectancy at birth</b>					
<i>(years)</i>					
Total	63	68	73	71	73
Male	62	66	70	68	70
Female	64	70	76	74	77
<b>Mortality</b>					
Infant ( <i>per 1,000 live births</i> )	..	..	23	28	19
Under 5 ( <i>per 1,000</i> )	..	..	27	34	22
Adult (15-59)					
Male ( <i>per 1,000 population</i> )	..	..	246	222	197
Female ( <i>per 1,000 population</i> )	..	..	165	125	103
Maternal ( <i>per 100,000 live births</i> )	..	..	..	..	..
Births attended by skilled health staff (%)	..	..	100	..	..

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

04/13/05

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age.

## St. Vincent and the Grenadines - Key Economic Indicators

Indicator	Actual			Estimate			Projected			
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>National accounts (as % of GDP)</b>										
Gross domestic product <sup>a</sup>	100	100	100	100	100	100	100	100	100	100
Agriculture	9.1	8.0	8.5	8.5	8.6	8.3	8.1	7.9	7.7	7.5
Industry	20.1	21.2	20.4	20.8	21.4	20.5	19.8	20.3	20.0	19.5
Services	70.8	70.8	71.1	70.7	70.0	71.2	72.1	71.8	72.3	73.0
Total Consumption	78.9	79.9	77.8	83.8	85.9	82.4	81.3	80.5	80.4	80.0
Gross domestic investment	27.3	29.3	32.0	33.3	37.0	42.6	41.4	40.1	38.3	36.6
Government investment	7.1	5.0	6.5	8.0	7.3	8.3	7.6	7.4	7.2	7.1
Private investment	20.2	24.3	25.5	25.3	29.7	34.3	33.8	32.7	31.1	29.5
Exports (GNFS) <sup>b</sup>	53.4	50.8	49.4	45.5	43.3	44.0	45.3	45.9	46.6	47.7
Imports (GNFS)	59.6	60.0	59.1	62.5	66.2	69.0	68.0	66.5	65.3	64.3
Gross domestic savings	21.1	20.1	22.2	16.2	14.1	17.6	18.7	19.5	19.6	20.0
Gross national savings <sup>c</sup>	19.2	18.8	20.7	13.3	11.5	15.0	16.0	17.0	17.5	18.2
<i>Memorandum items</i>										
Gross domestic product (US\$ million at current prices)	335.4	346.4	360.7	379.6	404.1	428.1	448.5	473.0	502.2	532.6
GNI per capita (US\$, Atlas method)	2830	2950	3010	3250	3650	..	..	..	..	..
Real annual growth rates (% , calculated from 1990 prices)										
Gross domestic product at market prices	2.0	-0.1	3.2	3.4	4.3	4.9	4.3	4.1	4.2	3.8
Real annual per capita growth rates (% , calculated from 1990 prices)										
Gross domestic product at market prices	1.8	-0.3	3.0	3.2	4.1	4.7	4.1	3.9	4.0	3.6
<b>Balance of Payments (US\$ millions)</b>										
Exports (GNFS) <sup>b</sup>	179.3	175.9	178.1	172.6	174.8	188.5	203.0	217.0	234.1	254.1
Merchandise FOB	51.9	42.6	41.1	40.0	35.9	43.7	49.6	55.2	60.7	67.4
Tourism receipts	82.2	89.4	89.8	91.1	95.8	96.8	102.3	107.4	116.0	125.7
Imports (GNFS) <sup>b</sup>	200.0	207.8	213.3	237.4	267.4	295.6	304.8	314.4	328.1	342.2
Merchandise FOB	144.4	151.9	157.0	176.7	200.7	222.2	228.1	234.4	243.7	253.0
Resource balance	-20.7	-31.9	-35.2	-64.8	-92.6	-107.0	-101.9	-97.4	-94.1	-88.1
Net current transfers	16.3	12.6	12.2	13.0	12.6	13.3	14.4	15.6	17.4	19.3
Current account balance	-22.6	-36.3	-41.5	-75.6	-103.3	-118.1	-114.1	-108.9	-104.1	-97.8
Net private foreign direct investment	37.8	21.1	37.4	55.2	55.6	51.9	54.8	58.5	62.2	66.3

(Continued)

**St. Vincent and the Grenadines - Key Economic Indicators**  
(Continued)

Indicator	Actual			Estimate			Projected			
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Public finance (as % of GDP at market prices)<sup>e</sup></b>										
Current revenues	28.2	28.7	30.6	31.0	29.5	30.1	31.0	31.8	31.9	32.1
Current expenditures	26.6	27.7	28.0	26.9	26.4	27.5	27.5	27.2	26.4	25.9
Current account surplus (+) or deficit (-)	1.6	1.0	2.7	4.1	3.1	2.6	3.5	4.6	5.6	6.3
Capital expenditure	7.1	5.0	6.5	8.0	7.3	8.3	7.6	7.4	7.2	7.1
Primary balance	0.8	0.5	-1.6	-0.6	-0.9	-0.5	1.3	2.6	3.4	4.1
<b>Monetary indicators</b>										
M2/GDP	70.2	70.0	72.8	70.5	74.4	74.5	..	..	..	..
Growth of M2 (%)	9.5	3.0	8.3	1.9	12.4	6.0	..	..	..	..
Consumer price index (% eop)	1.4	-0.6	0.4	2.7	1.7	2.3	2.9	2.0	2.1	2.1

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. Vincent and the Grenadines - Key Exposure Indicators

Indicator	Actual			Estimate			Projected			
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total debt outstanding and disbursed (TDO) (US\$m) <sup>a</sup>	226	236	254	276	319	348	370	379	381	376
External debt (US\$)	160.3	170.1	167.7	194.8	221.0	241.5	252.1	256.3	258.6	257.8
Debt and debt service indicators (%)										
TDO/XGS <sup>b</sup>	126.3	134.3	142.8	160.1	182.4	184.6	182.5	174.8	162.6	148.0
TDO/GDP	67.5	68.2	70.5	72.8	78.9	81.3	82.6	80.2	75.8	70.6
External debt/GDP	47.8	49.1	46.5	51.3	54.7	56.4	56.2	54.2	51.5	48.4
External DS/XGS	5.7	6.7	6.5	7.4	10.6	11.5	13.1	12.1	11.7	12.0
IBRD exposure indicators (%)										
IBRD DS/XGS	0.03	0.02	0.02	0.14	0.04	..	..	..	..	..
IBRD TDO (US\$m) <sup>d</sup>	0.15	0.11	0.47	0.59	0.95	1.58	4.53	6.01	8.45	11.07
IDA TDO (US\$m) <sup>d</sup>	7.00	7.72	10.13	11.48	13.29	15.25	17.18	19.80	23.37	25.69
IDA DS/XGS	0.09	0.08	0.08	0.09	0.11	..	..	..	..	..
IFC (US\$m)										
Loans	..	..	..	..	..	..	..	..	..	..
Equity and quasi-equity /c	..	..	..	..	..	..	..	..	..	..
MIGA	..	..	..	..	..	..	..	..	..	..
MIGA guarantees (US\$m)	..	..	..	..	..	..	..	..	..	..

- a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.
- b. "XGS" denotes exports of goods and services, including workers' remittances.
- c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.
- d. Includes present value of guarantees.
- e. Includes equity and quasi-equity types of both loan and equity instruments.

**CAS Annex B8 - St. Vincent and  
Operations Portfolio (IBRD/IDA and Grants)**

**As Of Date  
07/28/2005**

<b>Closed Projects</b>	<b>2</b>
<b><u>IBRD/IDA</u> *</b>	
Total Disbursed (Active)	4.56
of which has been repaid	0.00
Total Disbursed (Closed)	7.59
of which has been repaid	1.75
Total Disbursed (Active + Closed)	12.15
of which has been repaid	1.75
Total Undisbursed (Active)	18.98
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	18.98

Project ID	Project Name	Last PSR		Fiscal Year	Original Amount in US\$ Millions					Difference Between Expected and Actual Disbursements <sup>a/</sup>	
		Supervision Rating			IBRD	IDA	GRANT	Cancel.	Undisb.	Orig.	Frm Rev'd
		Developme nt Objectives	Implement ation Progress								
P086664	60: VC EDUCATION (APL3)	S	S	2004	3.1	3.1			6.00588		
P076822	St Vincent Emergency Recovery Project	S	S	2002	0.96	2.24			7	1.1245	
P069923	VC Disaster Management	MS	S	2002	3	2.91			5	0.8881582	
P076799	VC HIV/AIDS PREVENTION & CONTROL	S	S	2005	3.5	3.5			4.81728	4.2309146	
Overall Result					10.56	11.75			7	6.6172395	

# THE CARIBBEAN AREA ORGANIZATION OF EASTERN CARIBBEAN STATES

 OECS MEMBERS



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