Annex

Saint Vincent and the Grenadines – European Community

Country Strategy Paper

and

National Indicative Programme

for the period 2008 – 2013

(10th EDF)

The Government of Saint Vincent and the Grenadines and the European Commission hereby agree as follows:

(1) The Government of Saint Vincent and the Grenadines, (represented by Mrs. Laura Anthony-Browne, the National Authorising Officer,) and the European Commission, (represented by Mr Amos Tincani, and subsequently by Mr Valeriano Diaz, Heads of the European Commission Delegation to Barbados and the Eastern Caribbean) hereinafter referred to as the Parties, held discussions in Barbados from June 2006 to April 2008 with a view to determining the general orientations for cooperation for the period 2008 –2013.

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

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

(2) As regards the indicative programmable financial resources which the Community envisages to make available to Saint Vincent and the Grenadines for the period 2008 -2013, an amount of EUR 7 800 000 is foreseen for the allocation referred to in Article 3.2 (a) of Annex IV of the ACP-EC Partnership Agreement (A-allocation) and of EUR 1 900 000 for the allocation referred to in Article 3.2 (b) (B-allocation). These allocations are not entitlements and may be revised by the Community, following the completion of mid-term and end-of-term reviews, in accordance with Article 5.7 of annex IV of the ACP-EC Partnership Agreement.

(3) The A-allocation is destined to cover macroeconomic support, sectoral policies, programmes and projects in support of the focal or non-focal areas of Community Assistance. The Indicative Programme under Part 2 concerns the resources of the A-allocation. It also takes into consideration financing from which Saint Vincent and the Grenadines benefits or could benefit under other Community resources. It does not pre-empt financing decisions by the Commission.

(4) The B-allocation is destined to cover unforeseen needs such as emergency assistance where such support cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to mitigate adverse effects of instability in export earnings. The B-allocation shall be triggered according to specific mechanisms and procedures and does therefore not yet constitute a part of the Indicative Programme.

(5) Resources can be committed within the framework of the present Country Strategy Paper and Indicative Programme upon the entry into force of the 10th EDF multi-annual financial framework for the period 2008-2013 of the revised ACP-EC Partnership but not before 1 January 2008. Financing decisions for projects and programmes can be taken by the Commission at the request of the Government of Saint Vincent and the Grenadines within the limits of the A- and B-allocations referred to in this document. Financing decisions can also be taken on the basis of Article 15(4) in conjunction with Article 4(1)(d) of Annex IV to the APC-EC Partnership Agreement for support to non-State actors or on the basis of Article 72(6) to the ACP-EC Partnership Agreement for humanitarian and emergency assistance funded from the B-allocations. Financing decisions shall be taken and implemented according to the rules and

procedures laid down in the EC Council regulations on the implementation of the 10th EDF and on the financial regulation applicable to the 10th EDF and in Annex IV to the ACP-EC Partnership Agreement.

(6) The European Investment Bank may contribute to the implementation of the present Country Strategy Paper by operations financed from the Investment Facility and/or from its own resources, in accordance with Paragraphs 2(c) and 3 of Annex Ib to the ACP-EC Partnership Agreement regarding the 10th EDF multi-annual financial framework for the period 2008-2013.

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

The mid-term review shall be undertaken in 2010 and the end-of-term review in 2012. Following the completion of the mid- and end-of-term reviews, the Community may revise the resource allocation in light of current needs and performance.

Without prejudice to Article 5.7 of Annex IV concerning reviews, the allocations may be increased in order to take account of special needs or exceptional performance.

(8) The agreement of the two parties on this Country Strategy Paper and the National Indicative Programme, subject to the ratification and entry into force of the revised ACP-EC Partnership Agreement and the 10th EDF multi-annual financial framework of for the period 2008-2013, will be regarded as definitive within eight weeks of the date of the signature, unless either party communicates the contrary before the end of this period.

Done at Kingstown (SVG) on 3.12.2008

Signatures

Ralph Gonsalves

Prime Minister of St. Vincent and the Grenadines Dr. Ralph Gonsalves

For the Government of
Saint Vincent and the Grenadines

Head of Delegation Mr. Vazleriano Diaz

For the European Commission

LIST OF ACRONYMS

A&CE	Adult and Continuing Education
ACP	Africa, Caribbean, Pacific
ACS	Association of Caribbean States
CARICAD	Caribbean Centre for Development Administration
CARICOM	Caribbean Community
CARIFORUM	Caribbean Forum
CARTAC	Caribbean Regional Technical Assistance Centre
CDB	Caribbean Development Bank
CDE	Centre for the Development of Enterprise
CEHI	Caribbean Health Institute
CIDA	Canadian International Development Agency
COTS	Caribbean Open Trade Support Program
CPA	Country Poverty Assessment
CRIP	Caribbean Regional Indicative Programme
CRNM	Caribbean Regional Negotiating Machinery
CSM	CARICOM Single Market
CSME	CARICOM Single Market and Economy
CSP(s)	Country Strategy Paper(s)
CTA	Centre for the Development of Agriculture
DFID	Department for International Development
DIPECHO	Disaster Preparedness Programme
EC	European Commission
XCD / XCD	Eastern Caribbean Dollars
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
ECE	Early Childhood Education

ECHO	European Commission Humanitarian Aid Office
ECLAC	Economic Commission for Latin America and the Caribbean
EDF	European Development Fund
EEZ	Exclusive Economic Zone
EIB	European Investment Bank
EPA(s)	Economic Partnership Agreement(s)
EPPU	Economic Policy and Planning Unit
ESDP	Education Sector Development Plan
ESRO	Economic Recovery Support Operation
EU	European Union
FA	Financing Agreement
FMO	Framework of Mutual Obligations
FPSR	Fiscal and Public Sector Reform
GDP	Gross Domestic Product
GSPTAC	Growth and Social Protection Technical Assistance Credit
GSPTAC	Growth and Social Protection Technical Assistance Credit
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
HRMIS	Human Resource Management Information System
ICC	International Criminal Court
ICT	Information Communication Technology
IDB	Inter-American Development Bank
IFIs	International Financial Institutions
ILO	International Labour Organisation
IMF	International Monetary Fund
IOCR	Institutional and Organisational Capacity Review
IOM	International Organisation for Migration
IWC	International Whaling Commission
LAC	Latin America and Caribbean

LTARP	Land Tenure and Administration Reform Programme
MDG(s)	Millennium Development Goal(s)
MEAs	Multilateral Environmental Agreements
MOH	Ministry of Health
MTESP	Medium Term Economic Strategy Paper
MTR	Mid-Term Review
MTS	Medium-Term Strategy
NAO	National Authorising Officer
NDP	New Democratic Party
NESDEC	National Economic and Social Development Council
NHIP	National Health Insurance Programme
NIP	National Indicative Programme
NIPI	National Investment Promotions Incorporated
NRMU	Natural Resources Monitoring Unit
NSA(s)	Non-State Actor(s)
OAS	Organisation of American States
OCT	Overseas Countries and Territories
ODS	Ozone Depleting Substances
OECD	Organisation for Economic Cooperation and Development
OECS	Organisation of Eastern Caribbean States
PMU	Project Management Unit
PPA	Participatory Poverty Assessment
PSD	Private Sector Development
PSIP	Public Sector Investment Programme
PWLAs	People Working and Living with AIDS
RAPCENs	Reception and Palletisation Centres
RDF	Regional Development Fund
RIP	Regional Indicative Programme

RSS	Regional Security System
RTA	Regional Technical Assistance
SALW	Small Arms and Light Weapons
SFA	Special Framework of Assistance
SIAs	Sustainable Impact Assessments
SLC	Survey of Living Conditions
SNE	Skills Training and Special Needs Education
SVG	Saint Vincent and the Grenadines
SVGSIF	Saint Vincent and the Grenadines Social Investment Fund
TA	Technical Assistance
TCF	Technical Cooperation Facility
TRIPS	Total Revenue Integrated Processing System
TRTA	Trade Related Technical Assistance
UK	United Kingdom
ULP	Unity Labour Party
UN	United Nations
UNCBD	United Nations Convention on Biological Diversity
UNCCD	United Nations Convention to Combat Desertification
UNCLOS	UN Convention on the Law of the Sea
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
UPP	United Progressive Party
US(A)	United States of America
USAID	United States Agency for International Development
WB	World Bank
WMD	Weapons Of Mass Destruction
WTO	World Trade Organisation

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SUMMARY

The purpose of this Country Support Strategy is to provide a framework for EU assistance programmes in Saint Vincent and the Grenadines (SVG) under the 10th EDF. It outlines the current status of the bilateral relations; elaborates a detailed country diagnosis; summarises the Government's development agenda; reviews the EC past and present cooperation and the activities of other major donors; and concludes with the proposed EU response strategy and its corresponding indicative work programme.

SVG is a parliamentary democracy within the Commonwealth. Queen Elizabeth II is Head of State represented by a Governor General. Control of the Government rests with the Prime Minister and the Cabinet. The parliamentary term of office is 5 years, although the Prime Minister may call elections at any time. The last general election was held in December 2005, which Prime Minister Gonsalves' Unity Labour Party (ULP) won for the second consecutive time. SVG is considered as a lower-middle income country with a small open economy. It is an archipelago of islands with a total area of 389 sq km; a population of about 106,000; a GDP per capita of EUR 2 830 (USD 4 300). The economy, highly vulnerable to external shocks and natural disasters, is largely agriculture-based (bananas and other crops) but with a growing services sector including tourism, telemarketing and a small offshore financial sector. Real economic growth averaged 4.4% per annum during the 2002-2006 period. Growth has been largely driven by construction sector - for tourism but also low-income housing, road maintenance and new highways-. On the contrary, agriculture contracted in the face of continued uncertainty surrounding the EU banana regime and adverse weather conditions. The share of agriculture in GDP declined from 21.2% in 1990 to 9.6% in 2006. The effects of high oil prices, unfavourable weather conditions and increased expenditure on the Universal Secondary Education Programme have led to an increase in the Central Government deficit since 2001 hence an increase in the overall debt. The fiscal performance weakened over the period 2002-6, mainly because of expansionary fiscal policy. The overall deficit deteriorated from 2.3% of GDP in 2002 to 4.6% in 2006. The total public debt rose from 72.9% of GDP in 2002 to 86.9% in 2006. Unemployment, especially among women and the youth, is a serious problem. Although social indicators are good, illegal drug production (marijuana cultivation) and substance abuse have negative social implications. SVG is the poorest country in the OECS with a poverty headcount index of 37.5%.

The Government has drafted a Medium Term Economic Strategy Paper (MTESP), which lays out its policy agenda, goals and objectives, economic prospects and strategy and the financing requirements necessary to achieve sustained growth and reduce poverty. A fundamental contribution to this MTESP is a draft National Health Sector Strategic Plan which seeks to modernise the sector thereby ensuring social equity, the provision of sustainable health care and improving social contributions to the macro-economic plan.

The Government's economic approach include maintenance of macro-economic fundamentals; placement of social equity at the centre of consideration; consummation of the CSME "single market"; pursuance of balanced growth to reduce inequality and create long-term employment; and rebalancing of the state-market relationship for the private sector to assume a more pivotal role. As traditional ACP banana producer, SVG has received significant levels of EC funding from Stabex, SFA and NIP, making it one of the top beneficiaries of EU assistance on a per capita basis. Both 8th and 9th EDF focused on Human Resource Development.

The EC and the SVG Government hereby propose to allocate 80% of the 10th EDF "A Envelope" to ***Modernisation of the Public Service in the Health Sector*** as the single focal sector, with special attention to Health Sector Reform. The intervention is aimed at enhancing accountability, transparency and responsiveness of ministries and departments; measuring performance and encouraging change management, manpower planning, and training. Special attention will be given to the needs related to the delivery of health services to the population. A 10% will be reserved for the ***Technical Cooperation Facility*** (TCF), particularly to ***support Non-State Actors*** (NSAs) and to provide ***Trade-Related Technical Assistance*** (TRTA). The remaining 10% will be allocated to ***Technical Assistance to the NAO Office***.

PART I - STRATEGY PAPER

CHAPTER 1 – THE FRAMEWORK OF THE RELATIONS BETWEEN THE EC AND SAINT VINCENT AND THE GRENADINES (SVG)

1.1. General Objectives of the EC's External Policy

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

- The sustainable economic and social development of the developing countries, and more particularly the most disadvantaged among them;

- The smooth and gradual integration of the developing countries into the world economy;

- The campaign against poverty in the developing countries.

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

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

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

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

1.2. Strategic Objectives of the Cooperation with Saint Vincent and the Grenadines

The Treaty objectives are confirmed in Article 1 of the *ACP-EU Partnership Agreement*, signed in Cotonou on 23 June 2000 and revised in Luxembourg on 25 June 2005. The overarching objective of the *Cotonou Agreement* is to promote the development of a common strategic approach to poverty reduction, consistent with the objectives of sustainable development and the gradual integration of ACP countries into the world economy. Cooperation between the Community and Saint Vincent and the Grenadines shall pursue these objectives, taking into account the fundamental principles set out in Article 2, in particular the encouragement of "ownership" of the strategy by the country and populations concerned, and the essential elements and fundamental element as defined in articles 9 and 11b of the Agreement.

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

The Community pays particular attention to the promotion of good governance in the tax, financial and judicial area, as a mean to contribute to sustainable financial and tax systems in a globalised economy.

From a general point of view, the Commission considers that the development of the offshore financial services sector should go in parallel with the development of an appropriate regulatory framework based on principles of good governance in the financial and tax areas, so as to contribute to improve the sustainability of the financial and tax systems of sovereign countries, while reducing their potential vulnerability towards exploitation by taxpayers abusing other countries' tax systems.

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

Policy coherence for development will advance in a number of areas. The purpose is that all EU non-aid policies make a positive contribution to developing countries' efforts to attain the MDGs.

The principle of concentration will guide the Community country and regional programming. This means selecting a limited number of priority areas of action, through the dialogue with partner countries, rather than spreading efforts in too many sectors. In this context the Community will be primarily active in the following nine areas, keeping into account its comparative advantages in a number of these: trade and regional integration; the environment and the sustainable management of natural resources; infrastructure, communications and transport; water and energy; rural development, territorial planning, agriculture and food security; governance, democracy, human rights and support for economic and institutional reforms; conflict prevention and fragile states; human development; social cohesion and employment.

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

Main Bilateral Agreements

To date, Saint Vincent and the Grenadines signed the following bilateral agreements with member states of the European Union: Protection and Promotion of Investment Agreement with Germany; and the Agreement on Mutual Legal Assistance in extradition with the Commonwealth.

CHAPTER 2 – COUNTRY DIAGNOSIS

2.1 Analysis of the SVG Political, Economic, Social and Environmental Situation

2.1.1 Political and institutional situation

SVG is an archipelago of islands, comprising of Saint Vincent (the main island), and a chain of 34 smaller islands and cays, (the Grenadines), which extends to the south over a distance of 64 km. With an area of 389 sq. km. and a population of 106,000, SVG is a parliamentary democracy within the Commonwealth of Nations. Queen Elizabeth II is head of state and is represented on the island by a Governor General, an office with mostly ceremonial functions. Control of the government rests with the Prime Minister and the cabinet. The parliament is a unicameral body with a 15-member elected house of assembly and a six-member appointed senate. The Governor General appoints senators, four on the advice of the prime minister and two on the advice of the leader of the opposition. The parliamentary term of office is 5 years, although the prime minister may call elections at any time. The judiciary in Saint Vincent is rooted in British common law. There are 11 courts in three magisterial districts. The Eastern Caribbean Supreme Court, comprising a High Court and a Court of Appeals, is known in Saint Vincent as the Saint Vincent and the Grenadines Supreme Court. The court of last resort is the Privy Council. There is no local government and all six parishes are administered by the central government.

The last general election was held on 7 December 2005, which Prime Minister Gonsalves' Unity Labour Party (ULP) won convincingly for the second consecutive time. The ULP held on to its 12 seats, while the opposition New Democratic Party (NDP) kept the same 3 seats it had in the previous legislature. The ULP won 55% of the vote (a negative swing of 1% from 2001) while the NDP garnered the support of 44% of the electorate (a positive swing of 4% from the previous polls). Despite opposition claims of irregularities affecting the results in three admittedly tight constituencies, both international (OAS and CARICOM) and domestic monitors considered the polls free and fair. A key issue during the election concerned the planned large-scale infrastructure projects that the government deemed necessary to ensure medium-term growth as the country transitions away from its dependence on agriculture.

On international matters, SVG maintains close ties to the U.S., Canada, and the U.K., and cooperates with regional political and economic organizations such as the Organization of Eastern Caribbean States (OECS) and CARICOM. SVG is a member of the United Nations, the Commonwealth of Nations, the Organization of American States, and the Association of Caribbean States (ACS). SVG also maintains close relations with Cuba, which provides a number of scholarship and other exchange programs for its citizens, particularly in the field of health care. SVG develops relations with Venezuela. Among the OECS, Saint Vincent, Saint Kitts and Nevis and now Saint Lucia recognise the Republic of China (Taiwan).

2.1.2 Economic and commercial situation

Regional Context Overview

The six countries of the Eastern Caribbean (OECS) are at a critical juncture in their development. After three decades as independent states, they are facing new sources of growth and reduce vulnerability in a milieu characterised by increasing competition at a global level; ending of trade preferences; and declining donor resources. These challenges are coupled with internal fiscal imbalances and high debt ratios, and the inherent weakness as small island states. As the first decade of the 21st Century enters its second half, all OECS countries are in the top fifteen of the world's most indebted (relative to GDP) emerging markets. The impressive gains in terms of social development achieved over the last 30 years risk to be eroded by the fiscal and debt circumstances and by the economic transformation that may be required to adapt to the external changing environment. Signs of this erosion are already emerging in the form of rising levels of poverty in rural and urban areas in some of the OECS countries; disenfranchised youth and high unemployment; and a related increase of crime. All countries also face the risk posed by the growing HIV/AIDS epidemic affecting the entire Caribbean.

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

SVG's Overview

SVG is a lower-middle income country with a small open economy that has increasingly relied on its tourism sector. It has a population of 106,000 and a GDP per capita of about EUR 2 830 (USD 4 300). The following table, although dated 2005, depicts the relative position of SVG within the OECS and makes an interesting comparison and shows the relatively small dimension of SVG's economy.

	GDP (current market prices) *			GDP per Capita *		GDP per Capita (USD-PPP) **	Population***		Area (sq km)	Population Density (per sq km)
	(USD mn)	% OECS	% Barbados	(USD)	% Barbados		('000)	% OECS		
Antigua & Barbuda	818.4	26.2%	29.1%	10,213	98.9%	10,294	69.1	12.5%	442	156
Dominica	285.6	9.2%	10.2%	4,056	39.3%	5,448	68.9	12.5%	754	91
Grenada	437.1	14.0%	15.5%	4,183	40.5%	7,959	89.7	16.2%	344	261
St Kitts & Nevis	404.5	13.0%	14.4%	8,440	81.7%	12,404	39.1	7.1%	261	150
St Lucia	764.7	24.5%	27.2%	4,708	45.6%	5,709	168.4	30.5%	620	272
St Vincent & the Gr.	407.9	13.1%	14.5%	4,054	39.3%	6,123	117.5	21.3%	389	302
TOTAL OECS	**3,118**	**100.0%**	**110.9%**				**553**	**100.0%**	**2,810**	**197**
Barbados	2,813			10,326		15,720	279.9		430	651

* CDB 2005 Annual Economic Review - 2004 data

** UNDP 2005 Human Development Report – 2003 data

*** CIA World FactBook - 2006 estimates

The SVG economy is largely agriculture-based (bananas and other crops) but with a growing services sector including tourism, telemarketing and a small offshore financial sector.

Presently, there are 6 licensed offshore banks, approximately 8,573 registered international business companies (IBCs), 13 licensed offshore insurance companies and 55 mutual fund companies operating in Saint Vincent and the Grenadines. Currently, there are 154 trust companies and 27 agents operating in Saint Vincent and the Grenadines.

The offshore financial sector plays a role in the development of Saint Vincent and the Grenadines. It is a direct and indirect employer of labour and also a generator of revenue for government. The potential also exists for foreign direct investment which would provide the necessary base for continued economic growth and development.

Work related to international business companies and international trust companies dominate activities within the sector.

Saint Vincent and the Grenadines is a small island developing state (SIDS) with all the inherent challenges such as a narrow economic base and a high vulnerability to external shocks and natural disasters.

The economic growth performance of SVG over the last two decades reflected the inherent vulnerability to external shocks and natural disasters. Growth fluctuated widely during the 1990s. Real economic growth averaged 4.4% per annum during the 2002-2006 period. Growth has been largely driven by construction sector - for tourism but also low-income housing, road maintenance and new highways-. On the contrary, agriculture contracted in the face of continued uncertainty surrounding the EU banana regime and adverse weather conditions. The share of agriculture in GDP declined from 21.2% in 1990 to 9.6% in 2006. According to the 2006 IMF Article IV Report more than a quarter of the labour force of SVG emigrated to OECD countries in the period 1970–2000. This large-scale emigration has produced a steady flow of remittances from Vincentians abroad. The IMF suggested that there was scope to boost the growth potential of remittances, including through the reduction of regulatory barriers that discourage remittance flows and investment by returning nationals.

A 2006 World Bank study of the developmental impact of workers' remittances in Latin America and the Caribbean (LAC) confirms that remittances have increased dramatically over the past 25 years (from USD5bn/1980 to USD 45bn/2005). In 2004 remittances in the OECS and Barbados accounted for on average less than 10% of respective GDP with the exception of Grenada with almost 20% of GDP in remittances Post Hurricane Ivan. Per Capita receipts in 11 LAC countries in 2004 were highest in Grenada (<USD800), followed by Jamaica (USD>500) and Barbados (<USD500) while other OECS countries received the equivalent of less than USD 200.

The report confirms that such increases have had a positive impact on recipient country economies and importantly on poverty levels (improved risk mitigation, school enrolment, health indicators) but they are logically preceded by important migration flows. Once reductions in households' earning generating potential are taken into account, net income increases fall well below observed remittances inflows - simply because the migrant was usually economically active. As a result, the poverty and inequality reduction potential of remittances is in most cases quite modest. Similarly, while there are some positive growth-enhancing effects associated with remittances - e.g. higher savings, human capital investments, increased entrepreneurship, and higher bank deposits - the bottom line effects on investment rates and per capita GDP growth are relatively small.

Recent Economic Performance

The economic activity has rebounded in 2006 with further acceleration expected in 2007. The improved performance in 2006 was largely driven by a pick up in construction and tourism-related services, as well as a rebound in weather-affected agricultural production. However fiscal imbalances continued and this persistence has engendered a sharp increase in the stock of public debt.

The rapid pace of globalisation, the inauguration of the CSME, the continued outward migration of skilled labour and the phasing out of preferential access to markets for the primary export commodity (bananas) are but a few of the many challenges facing the SVG economy and which make it imperative for economic diversification to reduce vulnerability and sustain real living standards. The agricultural sector, in particular because of the high employment it provides, is especially vulnerable to both climatic and market conditions – two factors which have been changing rapidly over the last few years. The recent rise in the cost of agricultural inputs (especially for bananas) were subsidised by Government in an effort to maintain production levels and keep interest rates contained in an industry characterised by low productivity and minimal profitability.

Real GDP slowed to 2.2% in 2005 but rebounded to 6.5% in 2006. The cumulative rate of inflation in 2006 was 4.8% compared to 3.9% in 2005.

In recent years, the external current account deficit has widened, driven by a decline in exports, and a general rise in imports, especially of energy products, food, equipment, and building materials largely related to private housing and tourism related investment. In 2006 the current account deficit widened slightly (to about 24.5 percent of GDP), mainly on account of continued high oil imports and imports related to private construction and public capital expenditure. The current account is largely financed by FDI inflows. External competitiveness has improved in recent years. The depreciation of the U.S. dollar since end-2001 has helped depreciate the customer-based exchange rate index by 13 percent in real effective terms which has lead to a steady increase in its share of stayover visitors in the ECCU and the wider Caribbean. Increases in wage levels have been modest (including relative to other ECCU[1] countries), in part due to a partial wage freeze for public servants during 2002, although the number of public servants, especially teachers has increased considerably. Rising oil prices and flat export prices have caused the terms of trade to deteriorate since 2002, domestic inflation has been contained and the real effective exchange rate does not appear to be misaligned.

Structure and management of public finances

Public finances in SVG have generally benefited from prudent management. During the last quarter of 2006 an assessment of SVG Public Finance Management systems using the PEFA/PFM methodology was carried out under the lead of the European Commission (EC).

[1] ECCU = Eastern Caribbean Currency Union

The analysis highlights the overall positive performance of SVG's PFM system, in addition to its relative strengths and weaknesses:

- The main areas of strength include credibility, comprehensiveness and transparency, policy-based budgeting and functioning financial management and information systems.
- Weaknesses are primarily in the area of procurement, compliance to internal controls and follow-up of recommendations of the Audit Department. There are significant delays in the audit of public accounts and the executive does not follow up on annual audit reports which reduce to some extent the confidence in the effective functioning of PFM systems.

The Government is in the process of revamping the outdated legal and regulatory framework in public financial management as part of its overall strategy to improve budgeting in the country. In 2003, rolling three-year medium-term budgeting was introduced. The legal framework for PFM was strengthened with the adoption of the Customs and Management Act in 1999, the Finance Administration Act (FAA) in 2004 and the Audit Act in 2005. Moreover, the authorities have in recent years embarked on tax reform with a view to simplifying the tax system. The most important reform in this area is the preparation for a value-added tax, which has started more than three years ago. The VAT was introduced in May 2007. The authorities have also committed to the introduction of a market-valuation based property tax.

Fiscal imbalances continued to expand and public debt is accelerating. The IMF recommended more prioritizing and properly phasing of infrastructure projects and ensuring that they are funded with grants. The fiscal performance weakened over the period 2002-6, mainly because of expansionary fiscal policy. The overall deficit deteriorated from 2.3% of GDP in 2002 to 4.6% in 2006. The total public debt rose from 72.9% of GDP in 2002 to 86.9% in 2006. Positive economic growth since 2001 has been a noticeable feature of the SVG economy, both within a regional and a global context, but shocks encountered within the last few years have given rise to concerns about the high debt level and its sustainability.

Trade policy and external environment, in particular regional cooperation agreements and EPAs

SVG is a Member of the OECS, the CARICOM and the Association of Caribbean States (ACS). It is engaged in CARIFORUM-EU EPA negotiations, FTAA, and WTO negotiations (DDR).

The OECS Countries have already achieved a high level of integration with a common judiciary, a common currency and central bank (OECS Countries together with Anguilla have formed the Eastern Caribbean Currency Union), joint foreign representation, a common directorate of civil aviation, pharmaceutical procurement, telecommunications regulation, banking regulation, and close collaboration in health, education and security matters.

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

Both the LDC category and the related protection have been incorporated under Art. 164 in the Revised Treaty of Chaguaramas establishing the CSME.

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

On 16 December 2007, the European Commission initialled a comprehensive EPA with the Bahamas and the other CARIFORUM countries (CARICOM plus the Dominican Republic) covering all areas under negotiation.
The general approach is to build on and reinforce regional integration in the Caribbean (market building) and, in subsequent market opening, to use asymmetric flexibility for the benefit of the Caribbean in terms of product coverage and periods for tariff elimination, thereby helping to promote sustained wealth creation and development.

In this context, traditional ACP banana producers are also faced with the challenges of a changing EU trade regime for bananas. The changes implemented in 2006, while preserving ACP preferential market access, led to a more open EU market with increased competition. The phasing out of import licenses may also require adjustment in some ACP operators' commercial strategies. However, a large part of Windward banana exports shifted to the Fair Trade market through a successful market differentiation strategy. The sector will have to continue upgrading its competitiveness in the view of future challenges and opportunities i.e. continued pressure on the MFN tariff on the one hand side and the potential of EPAs to secure and improve ACP market access on the other.

Medium-term Economic Prospects and Assessment of the Reform Process

According to IMF assessments[2], progress has been made in structural reforms. The restructuring of the banana industry has continued with European Union support, and the authorities continue in their efforts to diversify production (under the Agricultural Diversification Program) into non-banana agriculture. Progress has been made in raising domestic prices of energy inputs and in tax administration, and in efforts to improve labor skills through training programs. The authorities have restated their intention to introduce a VAT and market valuation-based property taxation in 2007, as recommended by the OECS Tax Reform and Administration Commission. A one-stop shop for foreign investment enquiries and facilitation has been created with the establishment of the National Investment Promotions Incorporated (NIPI). Efforts have also been made to monitor and reduce the operational losses of public enterprises, through the establishment of a Monitoring Committee on Public Enterprises, headed by the Prime Minister.

Whilst the SVG economy has been performing rather strongly in recent times, the fundamentals for continued growth have been deteriorating and there are several factors which threaten continued strong performance. The prospect of a tariff-only system for market access in the EU and a sharp rise in input costs during the year, the banana industry confronts the daunting task of remaining competitive in a fully liberalised market. An additional challenge is the need to modernise and maintain agricultural health and safety systems for

[2] IMF - Saint Vincent and the Grenadines—Staff Report for the 2006 Article IV Consultation, November 2007

domestic and export trade. The use of irrigation and higher planting densities will partly assist in increasing production but the industry still persistently faces the longer-term structural challenges such as small holdings and mountainous terrain.

Prospects for the services sector are more promising. The establishment of a major hotel chain in Canouan, coupled with the construction of the jet port there, will likely see some increase in stay-over arrivals. However, the prospects could be further enhanced by a combination of new investments in the sector and an upgrading of the existing room stock. Additionally, an expansion of the service offered by the hub in St. Lucia and the travel desk in Barbados could also relieve much of the congestion which now occurs at the arrival hall at the airport in Saint Vincent, thus adding to the overall visitor experience.

2.1.3 Social situation, including decent work and employment

According to the UNDP Human Development Report for 2007, SVG is ranked 93 out of 177 countries on the basis of literacy, school enrolment, life expectancy at birth, and per capita GDP. With marijuana cultivation being prevalent in Saint Vincent and the Grenadines, illegal drug production and substance abuse are important issues.

Education

The SVG Government has recognised the critical importance of Education to poverty alleviation, economic competitiveness and social development. It has therefore accorded greatest priority to the sector in its Medium Term Economic Strategy Paper 2002-2004 and Poverty Reduction Strategy. In order to streamline its intervention in this sector, the Government through a consultative and participatory process, has developed an Education Sector Development Plan (ESDP). The ESDP (2002-2007) and its accompanying five-year Action Plan aims to address structural and institutional weaknesses at all levels of the education system. The ESDP gives high priority to institutional development and reform of education management; to improved quality of primary and secondary education; and to improved access to Early Childhood Education (ECE), Adult and Continuing Education (A&CE) and Skills Training and Special Needs Education (SNE). The plan is being implemented with Government resources as well as development assistance from a number of international donors including the European Commission (EC), World Bank (WB), UK Department for International Development (DFID) and the Caribbean Development Bank (CDB).

Health

SVG has health indicators within the range of those from OECD countries. Life expectancy is 72.6 years for women and 70.8 years for men. Infant mortality is 18 per thousand. Maternal deaths have averaged less than 1 per year for the past 10 years. However, the 42% of the population under the poverty line most likely show a quite different picture.

The first cause of morbidity and mortality are cardiovascular diseases which have an annual mortality rate of 58 per 1000, more than 8 times higher than the mortality due to all communicable diseases. However, HIV sieroprevalence is estimated at 1.8% and has the potential to soon become a major cause of morbidity and mortality. Some of the non-communicable diseases are related to genetic influence, lifestyle and epidemiological and demographic transition. The Government of SVG funds all EPI vaccines and the full vaccination coverage is close to 100%.

Health is one of the priorities for the Vincentian Government, as expressed by the accorded benefit of 10% of total Government expenditure and 4% of GDP to this sector. The health sector allocation for the fiscal year 2007/2008 was XCD 53 000 000, and for 2008/2009, XCD 72 000 000. Primary Care Services consume the largest share of the health sector budget, in 2007/2008 XCD 36 000 000 and 2008/2009, XCD 39 000 000. This underscores the emphasis the government has placed on primary care services. The Milton Cato Memorial Hospital (MCMH) in 2007/2008 was allocated XCD 18 000 000 and in 2008/2009 XCD 18 500 000. The Mental Health Centre was allocated XCD 2 800 000 in 2007/2008 and XCD 3 300 000 in 2008/2009. The pharmaceutical programme was allocated XCD 5 000 000 in 2007/2008 and XCD 6 000 000 in 2008/2009.

The Government of SVG views health care as a fundamental right of all Vincentians. The Government aims to provide comprehensive health care to all its citizens at an affordable cost to the country and to ensure that environmental concerns are considered in all aspects of national development. Further, the Government is committed to ensuring that all citizens have access to clean drinking water, proper sanitation, and a safe environment free from health hazards.
The Ministry's priority programs are committed to improving the conditions of vulnerable, high-risk population groups such as the elderly, the disabled, women of childbearing age, children, adolescents, the physically challenged, and the mentally ill.

Health care is primarily the responsibility of the Ministry of Health. The Government runs the Milton Cato Memorial Hospital (MCMH), which is a 211-bed facility. The MCMH is the main component of the health care system providing secondary and emergency care. The hospital houses more than 95% of the country’s acute care beds. One Geriatric Care Centre, the Lewis Punnett Home with 104 beds, provides inpatient care for the elderly; and bears an annual bed occupancy rate of 103%. There is a Mental Health Centre and a drug abuse rehabilitation unit is being established at the MCMH with 8th EDF EU funding from a Drug Demand Reduction Project. In addition, at the primary care level, thirty nine Health Centres spreading over nine health districts provide services to the users of these facilities. On an average, each health centre is equipped to cater to a population averaging 2,900 with no one required to travel more than three miles to access care. The primary care services available include emergency care, medical care, prenatal and postnatal care, midwifery services and child health services including immunization, school health, family planning services, and communicable and non-communicable diseases control. Dental health services are delivered at selected health centres throughout the state while Mental Health Services are offered on a visiting basis at all health centres.

Although there are nine physicians for every 10,000 citizens and two and a half times as many nurses, only the primary health care level is well developed and the services offered at secondary care need upgrading to provide services that complement those offered at the primary care level.

Services at government facilities are not free of cost at the point of delivery, but small user’s fees are paid by clients. In this respect, government health services mainly cover health care of the less favoured.

Private care is also available, and although it is not known what percentage of Vincentians are covered by private health insurance, this sector is accessed mainly by those in the mid and high socioeconomic levels who can afford it. The private sector is not well developed, with about fifteen general practitioners and consultants (senior doctors working in government

hospitals or polyclinics) who also have private practices. There is only one small private hospital in the country—The Mary Field Hospital—with 10 beds, representing under 4% of the country's total acute bed capacity. Private sector health services and facilities also include pharmaceutical, laboratory, diagnostic, and dental services.
However, the collaboration between the public and private sectors with respect to the delivery of health care needs to be extended. The importance of community participation in the provision and delivery of health care cannot be over-emphasised. Therefore the empowering of individuals and communities to accept responsibility for their personal health, as most of referred diseases are originated by personal behaviour, will require the strengthening of linkages between the public and private sector agencies as well as NGOs. The present administrative structure of the Ministry of Health has been experiencing difficulties in responding effectively to the challenges presented by an increasingly complex health care system.

The health sector has been undergoing reforms in response to the changing social and economic environment as SVG has had to face an increasing number of new and demanding challenges. These include, among other factors, an ageing population, violence, environmental risks, HIV/AIDS and new and re-emerging diseases. The demographic profile of SVG reflects an ageing population with an increase in life expectancy from 69 years in the 1960's to 71.5 years in the 1990's, relatively low infant mortality (18.0 per 1000) and low death rates. Statistics confirm this tendency for the growth of ageing population. The 45-80 age group is estimated to increase from 23.6% to 34.3% between 2001 to 2015, which constitutes a radical change in the structure of the population age and will press the health system to find new solutions to deal with the elderly.

With respect to health care financing, the challenge facing the Ministry of Health is to ensure equity in access to care, improved efficiency in the delivery of care and the sustaining of the current levels of health care. To achieve this, it will be necessary to explore an appropriate mix of financing mechanisms in order to ensure sustainability in the quality of health services. Furthermore it will also have to find ways and means to influence the life style of the less well -informed and health-aware segments of the population, i.e. the poor.

The main challenge for the MOH is to develop pro-poor health approaches, coordinate public and private service delivery and increase efficiency and affordability of health policies.

To cope with these major challenges, a draft Strategic Plan for Health 2008 – 2013 has been produced by the Government with the assistance of PAHO which when finalised is intended to shape the future orientation of health reforms in light of the current challenges facing the country. It is now a real opportunity for SVG to involve main partners and develop a comprehensive and coherent sector strategy and co-ordinate inputs around a sector wide approach. The EC together with the main partners in health, such as PAHO, can play a lead role.

Employment

Unemployment, especially among women and the young, is a serious problem. Many people are only seasonally employed. Temporary migration within the Caribbean and to industrial countries brings in remittances which are essential to many families.

With extremely high unemployment and underemployment, population growth is a major problem. According to the National Report of Saint Vincent to the Beijing Conference, teenage pregnancy is an undisputed disadvantage to Vincentian women and to the society as a whole.

Rural Development

The contraction of the agricultural sector has badly affected rural employment and incomes and investment in agriculture. A survey in 2001 on the socio-economic impact of the restructuring of the banana industry in Saint Vincent indicated that 42% of banana farmers, 32% of ex-banana farmers and 52% of banana workers are poor. The numbers of registered banana growers have declined from an estimated 7,000 in 1990 to 2,309 in 2003 and workers deriving all or an important proportion of their earnings from bananas have fallen from about 23,000 to about 7,000 all of whom require access to alternative sources of income.

As a result of the above, SVG has witnessed, especially in its rural communities, a re-inforcement of unemployment and underemployment, poverty and social vulnerability. The Government's strategy as articulated in the Medium Term Economic Strategy Paper (MTESP) 2002-2004 aims 'to improve social safety-nets for the vulnerable, to develop the capacity to facilitate poverty eradication initiatives, to empower communities to identify, prepare and implement projects, and to encourage greater community participation in promoting national development.

The Government of Saint Vincent and the Grenadines is receiving assistance from the European Union to address the social impact in the rural areas particularly wrought by the above changes. The Special Framework of Assistance (SFA) Council Regulation (EC) No. 856/1999 of April 22, 1999 established a Special Framework of Assistance for traditional ACP suppliers of bananas to the European Union. The SFA 2002 allocation foresees EUR 4 200 000 for the establishment and the operation of a Social Investment Fund and EUR 300 000 for the conduct of a Country Poverty Assessment. As a direct response, the government has established the Saint Vincent and the Grenadines Social Investment Fund (SVGSIF), by an Act of Parliament in December, 2003.

2.1.4 Environmental situation

Environmental protection and conservation are critical to the socio-economic development of SVG. This is especially so given the proliferating devastation caused by global warming, the limited land space and mountainous topography. Also the biological resources in SVG, as in the other small OECS islands, are under pressure caused by economic interests (tourism, agriculture and fisheries). Furthermore, an increasing dependence on the environment for food protection and housing due to population growth has magnified the environmental degradation problems of the Country. In particular, the cultivation of bananas on mountain slopes has impacted negatively on the environment. Furthermore, pollution of coastal waters and shorelines from discharges by pleasure yachts and other effluents is a serious issue. In some areas, pollution is severe enough to even make swimming prohibitive.

Cognisant of the importance of the environment to the development of the country, the Government has articulated policies and outlined strategies which are geared towards promoting the restoration, enhancement and protection of all natural resources; thereby encouraging sustainable use. In its attempt to implement environmental friendly programmes, the Government has not only reiterated the need for sound environmental management policies, but has, during 2005, undertaken important interventions. Among them, it has commenced the rationalisation of the environmental services function within the Ministry of Health and the Environment.

The Government has also ensured that SVG meets its obligations under various Multilateral Environmental Agreements (MEAs) including the United Nations Framework Convention on Climate Change (UNFCCC); United Nations Convention on Biological Diversity (UNCBD); United Nations Convention to Combat Desertification (UNCCD), the Basel Convention, the Montreal Protocol and the Bio-safety Protocol among others.

Furthermore, among other measures, the Government has developed and implemented a National Environmental Awareness Programme; updated the National Climate Change Adoption Policy; commenced the preparation of a Biodiversity Report; developed a National Action Plan to address issues related to land degradation; commenced the development of a National Bio-safety Framework; and implemented licensing and quota system for Ozone Depleting Substances (ODS).

2.1.5 SVG in the international context

SVG is a member of the Commonwealth, the United Nations and several of its specialised agencies, the World Bank and the International Monetary Fund, the Organization of American States, the Organisation of Eastern Caribbean States, the Eastern Caribbean Regional Security System (RSS), and the Caribbean Community and Common Market (CARICOM) and the Association of Caribbean States (ACS).

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

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

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

Saint Vincent and the Grenadines is a participating partner in the OECD Global Forum on Taxation, aiming at establishing a level playing field for the global economy by implementing agreed principles of transparency and exchange of information for tax purposes.

SVG is a member of the International Whaling Commission. At the 58th IWC Annual Meeting in June 2006, Member Countries adopted the “St. Kitts Declaration”, speaking against the whale hunting moratorium and in favour of restoring the IWC to its original whale stocks management mandate; the Declaration was sponsored by all OECS Countries. It addresses the issue of the sustainable use of marine resources.

The international affairs of the country are also affected by migration, which is the major force contributing to the variations in population change in SVG. It has reached the final stages of the demographic transition, demonstrating both low fertility and mortality rates. Although the emigration from SVG has decreased from -17.4/ 1000 population in 1990 to estimated -7.66/ 1000 population in 2003, SVG continues to be a major source of intra regional migrants. The main destinations for emigration have been Trinidad and Tobago, the British Virgin Islands and USA. The established OECS Economic Union is expected to have further influence on intra regional migration flows. Loss of the skilled labour force needed for economic growth is a challenge for the OECS countries experiencing heavy emigration.

2.2 Poverty reduction analysis

The social indicators are among the least favourable in the Caribbean, making SVG the poorest country in the Eastern Caribbean with a poverty rate of 33%[3]. In general, in households estimated to be poor, more heads of household were female. It was also found that rural communities have less secondary education facilities than the urban ones.

The first CPA was conducted in 1996 in collaboration with the Caribbean Development Bank. The overall objective of the poverty assessment was to identify policies, strategies, action programmes and projects that would reduce the extent and severity of poverty in the country. This assessment emphasized an analysis of the poverty situation, the pressures which generate and maintain conditions conducive to poverty, existing responses to the poverty situation and the means available for more vigorous and effective action to reduce poverty. The CPA showed an unacceptably high level of poverty (37.5% of the population). The Government can only guess about its improvement since then, but further investigation would be needed to substantiate this fact. In this regard the Government intends to use SFA 2002 funds to update poverty data.

In 2001, the Government established, administratively, the National Economic and Social Development Council (NESDEC), and placed the oversight and guidance of its poverty reduction strategy in that institution. In an effort to address the causes of poverty and in the elaboration of specific actions under the broad strategic thrust, the Interim Poverty Reduction Strategy Paper (I-PRSP) identified and assessed existing poverty reduction efforts, and proposed new or additional strategic components for action. The I-PRSP is intended to be the blue print for developing policies and programmes to address key elements of Poverty Reduction in the short, medium, and long term. It is considered the key instrument for identifying national priorities for poverty reduction and for establishing a basis for discussion and negotiation internally between national stakeholders and externally with the development partners. Although an initiative of the government, the Interim Poverty Reduction Strategy Paper (I-PRSP) is by no means, nor is it intended to be, a “government alone” strategy. It is a product of the National Economic Social and Development Council (NESDC), and intensive consultations of key stakeholders in the private, civic and public sectors contributed significantly to its formulation.

In the interim the infrastructural elements necessary for the operationalising of the Poverty Reduction Strategy will be established, and those activities identified for immediate action

[3] Source: 2002 OECS Human Development Report

will be undertaken. It is expected that appropriate changes will then be made to the document, and the final – though iterative, document will form the agreed national social policy strategy framework, which will present guidelines in policy and programme development for Public, Private and Civil Society sectors.

Through the SVG Social Investment Fund (SVGSIF) initiative, which came out of the abovementioned Poverty Strategy, the Government has prepared a strategy for targeting poor communities and groups considered as specially vulnerable, as well as identifying categories of projects to be funded to improve the well being of communities and groups identified as poor and especially vulnerable.

Through a concerted targeting strategy and clearly defined operating procedures, SVGSIF will provide direct assistance to poor communities in the development of social capital and community infrastructure. A clear mandate for the SVGSIF will be to develop the capacities of communities and vulnerable groups to identify, develop and implement assistance programmes for themselves as well as promoting these stakeholders' roles and influence within the wider development process.

When fully operational the SVGSIF is expected to achieve the following key results:

- Contribute to government's social and poverty reduction policy.

- Capacities of poor communities and vulnerable groups and/or local institutions which work with them to manage local development /support programmes strengthened.

- Poor communities' participation in development programmes improved through participatory planning, implementation and monitoring of projects.

- Vulnerable groups and agencies which support them strengthened through participatory planning, implementation and monitoring of projects.

- Monitoring and Evaluation system generating policy relevant information established.

The government has stressed its commitment to poverty through the establishment of a National Economic and Social Development Committee (NESDC), production of the Interim Poverty Reduction Strategy (I-PRSP) 2003. The 2006 Budget Address reaffirmed the commitment;

> *Poverty reduction, and its twin, education, continue to be the top priorities of my government. Every high area of public policy of the ULP administration is connected to poverty reduction; and the specially-targeted interventions to reduce poverty will be strengthened and consolidated.*

The authorities have launched a household survey and country poverty assessment in 2007. The results of the survey should provide the Government with the basis for the completion of a full Poverty Reduction Strategy.

2.3 The Development Strategy of SVG

The Government has drafted a Medium Term Economic Strategy Paper (MTESP), where it sets out both the broad parameters of its socio-economic policies and the implementation framework to promote high levels of sustained growth in the economy, create wealth and improve the standard of living and general welfare of the population. The MTESP lays out the policy agenda, the goals and objectives, the economic prospects and strategy and the financing requirements necessary to achieve sustained growth and reduce poverty.

A fundamental contribution to this MTESP is a draft National Health Sector Strategic Plan which seeks to modernise the sector thereby ensuring social equity, the provision of sustainable health care and improving social contributions to the macro-economic plan.

During the medium term (2006-2009) Government's overarching objective will be to attain and sustain high levels of real growth accompanied by a reduction in the levels of unemployment and poverty. This objective will be achieved through targeted interventions in the lead productive sectors as well as by policies specifically aimed at stimulating private sector activity. In addition, efforts at reducing poverty, developing human resource while achieving high rates of implementation on the Public Sector Investment Programme (PSIP), will be undertaken in the medium to long term.

Government's economic approach will contain the following central elements:

- The maintenance of macro-economic fundamentals of a stable currency, low inflation, fiscal prudence, enhanced competitiveness and increased productivity.

- The placement of social equity at the centre of consideration in the fashioning of economic policy, so that no group is excluded from the benefits of economic development.

- The implementation of the "single market" elements of the Caribbean Single Market and Economy (CSME).

- The pursuance of a policy of balanced growth which is sustainable and which reduces inequality and creates long-term employment.

- A rebalancing of the state-market relationship in such a way that the private sector assumes a more pivotal role in national development.

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

A country-driven macro-economic policy framework exists which is articulated in the Government's Medium Term Economic Strategy Plan 2002-4 (MTESP). This strategy has been updated in the MTESP 2006-9. The strategy is being used by the various Ministries in the preparation of their annual budgets. The authorities are in the process of developing a National Economic and Social Development Plan (NESDP) for the period 2008-2020 which will incorporate the MTESP. The first draft of the NESDP is expected to be ready by the end of November 2007. The interim Poverty Reduction Strategy (I-PRSP) was completed in June 2003 with revisions made in 2006. The MTESP, I-PRSP and the future NESDP will provide the framework for a sustainable macro-economy and demonstrate the commitment of Government to undertake a comprehensive package of fiscal reforms, make improvements in the investment climate and reduce vulnerabilities.

The latest IMF Article IV Consultation for SVG was conducted during the period July 25-August 3, 2006 and the report was published on November 21, 2007. According to the Report, a strong, up-front fiscal adjustment is necessary to reverse past increases in the debt burden. While the Fund commended the authorities for the planned adoption of the VAT and reduction of fuel subsidies, they stressed the importance of prioritising and properly phasing infrastructure-enhancing projects, and ensuring these are funded with grant financing and highly concessional loans. A number of reforms were discussed during the consultation which include (i) updating the economic feasibility study of the proposed new airport, given its cost and potential impact on the country's debt position; (ii) strengthening the investment climate through more transparent framework for providing incentives, that more effectively favoured new investment; (iii) taking advantage of regional integration to reduce the costs of doing business; (iv) prioritising the capital budget (v) limiting growth of civil service; and (vi) strengthening the debt strategy.

In 2006 the Monetary Council of the Eastern Caribbean Currency Union (ECCU) agreed that the member countries should develop policies aimed at reaching a total public sector debt target of 60 percent of GDP by the year 2020. These policies were articulated under the Structural Adjustment Technical Assistance Programme (SATAP) which is aimed at stabilising the central government finances, to stimulate growth and to encourage the transformation of the economies through a regional approach to economic development. Each year the Government of SVG (GOSVG) receive assistance from the Eastern Caribbean Central Bank (ECCB) and the Caribbean Technical Assistance Centre (CARTAC).

There is a proven need for modernisation and reform in general in the public administration. In the public health service this is necessary to increase efficiency, control cost of health care in an aging population and ensure sustainability. The main challenges to the performance of the health care system include bringing about fundamental behaviour change in the population in order to focus on prevention of lifestyle related illnesses. The absence of an adequate information system and lack of appropriate research agenda to facilitate evidence-based decision making are also hindrances to the effective performance of the health system. In addition, the health financing system needs to be re-organized for control and sustainability and human resource capabilities need to be improved.

CHAPTER III – OVERVIEW OF PAST AND PRESENT EC COOPERATION, COMPLEMENTARITY AND CONSISTENCY

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

As traditional ACP banana producer, SVG has received significant levels of funding from the EC, from Stabex, SFA and NIP, making it one of the top beneficiaries of EU assistance on a per capita basis. The total amount of European Community aid committed to Saint Vincent and the Grenadines since 1975 is estimated to be more than EUR 140 000 000, of which the biggest share is provided through the Stabex and SFA mechanisms and is being used to expedite the ongoing restructuring of the banana sector and to support economic diversification (in particular in the areas of tourism, private sector, education and ICT). The restructuring programme includes targeting efficient farms with EC-funded investment in irrigation and drainage and other infrastructure works to raise efficiency, quality, and labour productivity. A critical element of the programme is the implementation of programmes to help displaced farmers move into non-traditional agriculture and so minimise the adverse social impact from the restructuring of the industry.

The Government has provided very high priority to Education and has secured external assistance from a large number of donors, including the EC. Both 8th and 9th EDF focused on Human Resource Development. Stabex and SFA funds have also been mobilised to support this sector. An evaluation of the implementation of the Education Policy will be undertaken in the context of a Feasibility Study for a new 9th EDF-funded Education project.

SVG originally benefited from a 9th EDF allocation of EUR 5 000 000 under the A envelope and EUR 16 000 000 under the B-envelope. Following the Mid-Term Review and transfers from funds left over from previous EDF allocations, the amount of the A envelope is now EUR 15 150 000 and the B envelope is EUR 12 000 000. It was agreed that following a review of the Education sector plan, the additional funds coming from the B-envelope (EUR 4 000 000) should be earmarked towards the education sector.

Disbursements lag behind commitments on a significant way and this for a variety of reasons. Large levels of funding have been committed in both the education sector and public works, where serious capacity problems have been experienced, particularly in public works. Stabex funds have been used to finance a myriad of small projects in comparison to the significant yearly allocations. As for SFA, serious implementation delays have been exacerbated by the slow transposition of the new EC financial regulation into the FA. The country and the EC have been addressing this issue by agreeing in principle to commit the remainder of Stabex funds as targeted budget support and related feasibility studies have been launched in mid-2006. With regard to SFAs, the adaptation to the new financial regulation is being completed with a series of riders and it is expected that disbursements will catch up as from 2006 onwards. A specific effort has been made to improve performance of the large education portfolio. Total funds available for new commitments, including possible decommitments from on-going projects, amount to about EUR 9 000 000. In accordance with the addendum signed following the 9th EDF MTR, these funds have been committed to a new ICT for Education Project.

The total active aid portfolio for Saint Vincent and the Grenadines in 2007, including EDF, Stabex and SFA balances stands at EUR 72 900 000.

3.1.1 Focal sectors (and macroeconomic support)

9th EDF EUR 5 000 000 - Focal sector: Education Sector Development

The overall objective of the EC intervention is to support the sustainable development of human resources in Saint Vincent and the Grenadines, through the provision of learning opportunities to all persons in the State so as to equip them with the required values, skills, attitude and knowledge necessary for creating and maintaining a productive, innovative and harmonious society. Towards this end, 90% (EUR 4 500 000) of the “A envelope” was allocated to the education sector and, in particular, to the improvement of secondary level education and support for sectoral reforms in an effort to assist the Government in achieving universal access to comprehensive five year secondary education, with 75% enrolment by 2015. This was also supplemented by funds coming from both the Stabex and SFA instruments.

As a first step in the preparation of the programme of support to the secondary education sector under the 9th EDF, the EC provided the Government with technical assistance for the finalisation of the country’s Education Sector Development Plan 2002-2007. In consultation with other interested donors such as the Caribbean Development Bank, DFID and the World Bank, the EC financed early 2003 a consultancy team to prepare more detailed plans for the intervention in the education section. The Financing Proposal for the programme was approved by the EDF Committee in November 2003 and the Financing Agreement was signed by the Government of the Saint Vincent and the Grenadines in January 2004.

Despite early setbacks the Education Support Programme is now on a firm footing with the all major contract and programme estimates (under both the 9thEDF and SFA 2003) being committed prior to the d+3 deadline in December 2006. Implementation is progressing smoothly will all major activities expected to be completed by December 2008.

Lessons learnt

Implementation of earlier projects within SVG has demonstrated the need for closer alignment of all projects with government development policies. This suggests the need for an approach which engenders coherence between donor interventions guided by an implementation mechanism which is driven by reform priorities identified at the sector level, while effectively managing transaction costs. In the case of education-related projects, it was critical that interventions took into account the Education Sector Development Plan (ESDP) and its reforms. It was also essential that interventions should be predicated by specific needs while supporting capacity building within the technical ministry (Education) to carry out its mandate of improving access and quality at all levels of the education system.

The establishment of Education Project Management Unit with a mandate for managing several interventions within the sector has been a good starting point. The newly established Public Sector Implementation Project Unit (PSIPU) will further enhance this process, providing a holistic strategy for management of sector-based interventions.

A 2006 review of the implementation of the ESDP also observed that:

- In some instances, timescales and indicators for EC-funded projects were overly optimistic; not fully taking into account institutional capacity, communication mechanisms and resource requirements; and especially where progress was dependent on interventions funded by other EU-instruments or by other donors.

- There is also a need to strengthen the knowledge management capacity within technical ministries so as to encourage information-based decision making processes. Emphasis should be placed on strengthening and updating the system for collecting and analysing data to be used as performance indicators on a regular basis which will help to monitor and evaluate the effectiveness of donor interventions.

- In terms of the Education Sector in particular, earlier interventions have positively impacted access. However with the attainment of Universal Secondary Education there is a concomitant increase in academic diversity of those entering secondary school and later seeking employment or educational opportunities. Hence greater emphasis needs to be placed on policies and initiatives that will promote equity, quality and efficiency within the sector; as well as an improved socio-economic environment at the national level.

8th EDF NIP EUR 6 500 000 - Focal sector: Human Resources Development

The project under the focal sector was the further development of the Integrated Community College at the Calliaqua campus. This project is Phase II of an overall Community College Development project. Funds were allocated from the 7th EDF Regional OECS Tertiary Level Education Project (EUR 558 000) and EUR 1 500 000 of the 8th EDF allocation for the construction of a Learning Resource Centre at the Community College. The Financing Agreement was approved in 2002. The remainder of the 8th EDF funds (EUR 3 600 000) is to be used to further upgrade the Community College. Also a Learning Resource Centre has been constructed.

The effectiveness in the implementation of current operations

Following the completion of the Education Sector Development Plan (ESDP) in 2002, and the subsequent start of the implementation phase of the Action Plan, steady progress has been recorded in all key areas of concern, (including access, equity, quality and efficiency) focused on reform and development.

In relation to the issue of access, gross enrolments have improved at all levels (in the pre-primary sub sector, from around 35 % in 2002 to 66% in 2005; in the primary sector it has stabilized around 98 %, reflecting universal enrolment at this level; transitions rates from the primary to secondary cycle has reached 100 percent at the start of the academic year 2005/06, signalling a major milestone in the pursuit of Universal Secondary Education. At the post secondary and tertiary levels, increased enrolments of over 42 and 20 percent respectively over the period 2002/03 and 2005/06 have also been recorded.

In relation to equity, disparities in enrolment remain a preoccupying concern in some sub sectors. While the gap between the sexes is narrowing there are still some notable differences. For example, at the primary level, more boys are enrolled in education, though the gap has narrowed evidenced by a 3 percentage points decline in the number of boys compared to girls (56% males in 2002/03 compared to 53% in 2004/05). The transition rate from primary to secondary, secondary to post secondary and post secondary to tertiary is higher for girls; consequently more girls are enrolled in these levels. At the Secondary level for example, while the percentage of females enrolled remained unchanged at 56 percents between 2002/03 and 2004/05, this figure is still unacceptably low. At the Saint Vincent and the Grenadines Community College, while the gap between males and females closed by two percentage points (from 68% females in 2002/03 to 66% in 2005/06) more work is required to ensure equality.

On the quality side, the internal efficiency of the education sector has also shown improvements, evidenced by high promotion and pass rate rates. In 2002, the average pass rate on external(secondary) exams was 60 percent, this increased to 69 percent in 2005 (there was a similar improvement in the pass rate in rural secondary schools from 57% in 2002 to 61% in 2005). Over the same period, the average pass rate at the Saint Vincent and the Grenadines Community College was around 70 percent. These improvements may be attributed to a number of factors, including, government's high investments in the sector (which over the period accounted for 7% of GDP and 17% of the annual budgetary allocation) which has contributed to the reforms, including curricula and institutional strengthening. The high investments in the education sector have contributed to the increase in the percentage of trained teachers deployed at all levels (for example, in 2002/03, 73% of the teachers at the primary level were trained, this increased to 85% in 2000/05).

The use of resources set aside for Non-State Actors

No resources were initially set aside for NSAs under the 9th EDF. However during the MTR "in-country-meeting" of December 2004 and with the aim of strengthening civil society involvement in EU/ Saint Vincent and The Grenadines development partnership, it was agreed that a non state actor (NSA) advisory panel, representative of Saint Vincent and The Grenadines' civil society, would be established by the Government of Saint Vincent and The

Grenadines after close consultation between the EC Delegation in Barbados and the National Authorising Officer. The panel would provide a forum for tripartite dialogue, information and consultation on development cooperation between the EU and Saint Vincent and The Grenadines.

In the second half of 2005, a team of international consultants assisted the Government and the Delegation with the mapping of NSAs in Saint Vincent and the Grenadines and the selection of members of the Panel. It was later decided that a NSA Task Force of the National Economic and Social Development Council (NESDEC) would act as NSA Advisory Panel.

3.1.2 Projects and programmes outside focal sectors

9th EDF: 10% of the Indicative Programme, or EUR 500 000, has been earmarked for studies, audits and technical assistance under the Technical Cooperation Facility (TCF). The Financing Agreement was signed in April 2004. Approximately 10% of these funds have been used up to date.

8th EDF: Drug Demand Reduction Programme (EUR 185 000): The objective of the programme is to reduce the demand for illegal drugs in SVG through a community development, education & awareness communication programme, health treatment & rehabilitation programme, community based action and institutional strengthening via training. A Financing Agreement for four countries (Antigua and Barbuda, Dominica, St Lucia and SVG), the Multi-Country Drug Demand Reduction Project was signed in 2003 with Saint Vincent and the Grenadines having an allocation of EUR 185 000 with the EC Delegation playing the role of coordinator and each country implementing its own individual Work Programme. The third and final work programme was implemented during 2006 but there has been a lack of commitment to effective implementation of this project by the Government and low priority is given to it. There was poor cooperation by the other Government Ministries and implementation was very slow as a result of this.

Multi-Annual Training Programme (EUR 700 000): The objective of the programme was to assist the Government to implement its overseas training programme through the provision of scholarships in areas of study prioritised by the Government. All 18 students who were awarded scholarships have now successfully completed their studies and the NAO has requested financial closure of the project in 2005.

3.1.3 Utilisation of Envelope B

In 2004, the Commission increased the A-Envelope allocation by a transfer of EUR 4 000 000 from the "B-Envelope" allocation. SVG has received a Flex allocation of EUR 4 400 000. The remaining B-envelope amounts to EUR 12 000 000.

3.1.4 Other instruments

STABEX Transfers (EDF)

Article 186 of the Lomé IV Convention provides compensation for loss of export earnings on certain agricultural products on which countries' economies are dependent and which are affected by fluctuations in price or quantity or both these factors. The use of such Stabex allocations is governed by a Framework of Mutual Obligations (FMO), which stipulates the objectives, obligations, actions and results which are expected to be achieved through the utilisation of the Stabex transfers. Presently Saint Vincent and the Grenadines is implementing projects and programmes funded by Stabex allocations for 1993 – 1997. Saint Vincent and the Grenadines did not receive allocations for 1998 and 1999, but did receive funds in connection with repayment of available balances upon expiry of the Lomé Convention in 2000 (Article 195).

The broad approach which has been followed in the FMOs is to support different sectors of the economy in order to achieve economic growth, secure foreign exchange earnings and support poverty reduction. Four broad areas have been targeted; banana commercialisation, agricultural diversification, economic diversification and social sector and social protection measures. Following large allocations to Saint Vincent in 1995 – 1997, it was decided to disburse substantial parts of these allocations as direct budget support, in support of the national Public Sector Investment Programme (PSIP).

A brief status of Stabex finances as of 31 December 2007 is provided below:

Funding year	Total Funds[4]	Payments in 2007	Payments in total	Balance
Stabex 1993	6 443 536	0	6 265 975	177 561
Stabex 1994	32 457 873	1,113,481	22 549 613	9 908 260
Stabex 1995	16 017 029	1,184,526	13 602 473	2,414,556
Stabex 1996/97	17 716 610	196,217	9 631 307	8 085 303
Stabex Art. 195A	4 226 485	0	0	4 226 485
TOTAL	**76 861 533**	**2,494,224**	**52 049 368**	**24 812 165**

The Implementation Protocol for a EUR 5 000 000 Tourism Development Project under Stabex 1994 and 1996/97 was signed in June 2006. The last tranche of budget support under Stabex 1996-97 has not been released and requires an evaluation which is expected to be held before the end of 2006.

Saint Vincent has outstanding Stabex balances not covered by any FMO of about EUR 11 800 000. Faced with slow disbursement rates under previous STABEX allocations, it was agreed that remaining STABEX funds would be programmed under the budget support modality in a single FMO. Preparatory studies to verify the eligibility of the country for budget support (macroeconomic assessment, PFM) were undertaken in 2006A FMO was prepared in 2007 and its approval is on-going. The objective of this FMO is to support the Government's efforts to improve the opportunities and quality of life of the rural population, through the implementation of a rural transformation sector policy framework.

Special Framework of Assistance (SFA, EC budget)

Council Regulation (EC) No. 856/1999 established a Special Framework of Assistance (SFA) for traditional ACP suppliers of bananas. Following amendment of banana trade arrangements by Regulation (EC) No. 1637/98 which has substantially altered the market conditions for traditional ACP suppliers and might, in particular, harm the most disadvantaged suppliers, the

[4] Including interest

European Commission has recognised that particular efforts will be needed to adapt to these new market conditions in order to maintain a presence on the Community market.

In SVG the initial strategy focused heavily on infrastructural elements, most notably a three-phased approach to rehabilitation of the Windward Highway (app. EUR 16 000 000 allocated from SFA 1999 - 2001) and additionally the construction of two additional Reception and Palletisation Centres (RAPCENs). The strategy was revised in 2002 to reflect a greater emphasis on social protection/social development (including human resource development), agricultural and economic diversification in the remaining period.

The works for the Windward Highway (funded from SFA 1999) took off in early 2004. The contract for works was awarded and work is ongoing. Similarly, a work contract was awarded in early 2004, and works commenced for the construction of a RAPCEN. Furthermore, detailed design of rehabilitation of Phases II and III of the Windward Highway, and preparation and design of the Social Investment Fund commenced during 2004. SFA 2003 and 2004 were signed respectively in December 2004 and February 2005. The implementation of SFA 2003 (with a focal area on education) and SFA 2004 (with a focal area on private sector development) are both under preparation. The implementation of the activities of these two SFAs will start during the first half-year of 2006. SFA 2005 was approved in November 2005. The purpose of this SFA 2005 is to improve competitiveness of the agricultural and other productive sectors through the introduction and sustainable use of ICTs.

A study to prepare a medium-term strategy for the use of SFA funds during the remaining 3-year period, and a draft Financing Proposal for SFA 2006 was launched in early 2006. The interventions would focus principally on Tourism, Agriculture diversification, Environment/Energy, and Statistics.

Status of SFA finances, as of 31 December 2007:

Funding year	**Allocation**	**Payments in 2007**	**Payments in total**	**Balance**
SFA 1999	6 278 387	**177 193**	**4 655 106**	**1 623 281**
SFA 2000	6 450 000	**3 590 953**	**3 965 380**	**2 484 620**
SFA 2001	6 400 000	**1 823 389**	**1 823 389**	**4 576 611**
SFA 2002	6 100 000	**174 489**	**1 408 792**	**4 691 208**
SFA 2003	5 600 000	**1 702 903**	**1 861 093**	**3 738 907**
SFA 2004	5 330 000	**1 662 279**	**1 673 261**	**3 656 738**
SFA 2005	4 530 000	**315 364**	**315 364**	**4 214 636**
SFA 2006	3 850 000	**0**	**0**	**3 850 000**
SFA 2007	3 270 000	**0**	**0**	**3 270 000**
TOTAL	47 808 387	**9 446 570**	**15 702 385**	**32 106 002**

Caribbean Regional Indicative Programmes (CRIP - EDF)

Saint Vincent and the Grenadines, a member of CARICOM/CARIFORUM, is a beneficiary of the many regional programmes funded through the EDF. The 7th EDF RIP has a global envelope of EUR 105 000 000 while the 8th EDF RIP has EUR 90 000 000 available. The 9th EDF CRIP is focusing on support for regional economic integration and integration into the world economy, for which an envelope of EUR 57 000 000 is available.

Saint Vincent and the Grenadines has benefited from the construction of the airport on the island of Bequia through the 6th EDF regional programme. The airport has provided new air links in the sub-region between the Grenadines, the Eastern Caribbean, Barbados, Martinique and Guadeloupe. The Regional OECS Tertiary Education programme support has provided support for the development of the Integrated Community College through the development of the A level college and the Learning Resource Centre.

Support from all ACP funds (EDF)

The EC approved EUR 50 000 000all ACP Trade.Com programme in August 2003, which is aimed at reinforcing the analytical and research capacities for trade policy formulation in; providing immediate assistance for ongoing negotiation and promoting activities for institutional support in the area of trade support services ACP counties. A specific project ("Hubs and Spokes") has been designed for the Caribbean region, which has been initiated in 2004. Under this project the OECS Secretariat is benefiting from the services of a Trade Policy Adviser, soon to be assisted by a Trade Policy Analyst.

The OECS has received Funding (EUR 280 000) for the Establishment of an OECS Representation Facility in Geneva to follow-up WTO matters, under the EUR 10 000 000 WTO Support Facility, as well as for Capacity Building in support of the preparation of the EPA (EUR 350 000) under the EUR 20 000 000 EPA Support Facility. The Caribbean Regional Negotiating Machinery (CRNM) has also received support (EUR 857 652) from the EPA Support Facility. Also the NAO Office benefited from a 9th EDF Financial and Contractual Procedures Training held in Barbados in January 2005, under an All ACP programme started in 2004.

Thematic Budget-lines (EC Budget)

The EC approved in May 2003 a Caribbean regional programme from a budget line B7-701 (Human Rights Development) to further restrict the implementation of the death penalty in the Commonwealth Caribbean, with a view to its eventual abolition. No projects benefiting Saint Vincent and the Grenadines were approved under the thematic budget lines in 2005.

European Commission Humanitarian Aid Office (ECHO)

The European Commission's Humanitarian Aid department (ECHO) launched its first Disaster Preparedness (DIPECHO) Programme for the Caribbean in 1998, making available some EUR 12 000 000 for the activities to prepare the most vulnerable communities for and mitigate against disaster and also, to a lesser degree, for disaster prevention. The 4th DIPECHO plan for the Caribbean was approved by the EC in 2003 and its projects were completed during the year 2004-2005.

During the year 2005, an external evaluation was carried out to assess the impact and the relevance of the DIPECHO program in the region, and its main conclusions were that this program had an important impact in the region and particularly in the most vulnerable communities and should be further supported. ECHO followed most of their conclusions and launched its 5th DIPECHO Action for an amount of EUR 3 500 000 and it covers activities in the whole Caribbean region, but most particularly in Haiti, Cuba, Dominican Republic, Jamaica, St. Kitts and Nevis, St. Lucia and Saint Vincent and the Grenadines. The projects to be implemented during this 5th DIPECHO Action Plan started to be implemented in 2005 with duration of 15 months.

In June 2005, a decision for EUR 500 000 was launched to support the Red Cross in the Caribbean through the International Federation of the Red Cross to strengthen their preparedness to respond to disasters. This project includes the training of personnel in evaluation and response mechanisms in water and sanitation, telecommunications, damage assessments and other components. This project should have a direct impact in the Eastern Caribbean Countries through their respective National Societies. The end of the project is foreseen for June 2006 and will be followed by an external evaluation.

European Investment Bank (EIB)

In 2004, the Bank signed a 15-year loan to the Saint Vincent Electricity Services Ltd. (VINLEC), under the Cotonou Agreement, for USD 10 000 000. The project concerns the development and construction of a new diesel power plant located in Saint Vincent (Lowman's Bay) to gradually replace the existing main generating site at Cane Hall, and the adjustment of the island's transmission & distribution network to the new alternative site for power generation. It is expected that the project will: (i) allow VINLEC to meet demand growth with electricity generated at reasonable costs; (ii) bring environmental benefits from reduced pollution in residential areas and improved management of power generation; (iii) enhance the reliability of power generation at the main island of SVG. The project's economic interest is therefore closely linked to an improvement in the quality of life for the population in the vicinity of the existing plant and the possibility for VINLEC to continue to meet the growing electricity demand, thus improving the country's competitiveness and sustaining economic growth and development.

Amongst the various projects that the Bank is currently pursuing is the development of global loan structures with financial intermediaries in the commercial sector that have a broad reach throughout the Eastern Caribbean. Three projects under this heading were signed in 2005: Caribbean Development Bank Global Loan III EUR 40 000 000, Clico Investment Bank Global Loan EUR 20 000 000 and DFL IX EUR 7 000 000. All these facilities can be used throughout the Caribbean ACPs. Additionally the Bank supports the micro finance sector though Caribbean Microfinance Limited, which has subsidiaries in Grenada and Saint Lucia.

Centre for the Development of Enterprise (CDE)

The CDE supports private sector development by providing non-financial services to ACP companies and businesses and support to joint initiatives set up by economic operators of the Community and of the ACP States. In the OECS region the CDE supports Private Sector development through sector programmes in Construction and Mining, Agro-processing, Wood, Herbal Medicines and Tourism. Over the period 1999-2005, CDE has assisted in the OECS region a total of 69 projects carrying out 103 interventions at a total cost of EUR 719 035 of which EUR 517 376 was contributed by the CDE. Dominica benefited from 32 interventions for a total amount of EUR 237 669.

The PROINV€ST programme, funded under EDF all-ACP funds and managed by the CDE aims at increasing investments between the Caribbean and Europe. PROINVEURST has a fund of EUR 110 000 000 over five years to support private sector development in the Caribbean, African and Pacific Countries. By end 2005, the Programme had committed EUR 5 373 679 to activities within the Caribbean region; of this EUR 2 212 817 was committed during the course of 2005, to support individual company business plans, public-private sector dialogue, company match-making activities, and business development institutional services.

Centre for the Development of Agriculture (CTA)

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

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

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

Member states active in Saint Vincent and the Grenadines include France and the UK (DFID) whilst Germany via GTZ has provided technical assistance to the OECS secretariat in St Lucia for the strengthening of technical/vocational training, the Natural Resources Monitoring Unit (NRMU) and the CARICOM sub-organisation CEHI (Caribbean Health Institute). AFD is providing support for enhancement of the tourism product and the improvement of the water supply and quality on Saint Vincent.

The UK continues to provide significant support to the Commonwealth Caribbean (currently amount to £ 10 500 000 for 2005-06). DFID's current strategy within the region emphasises working with and through regional institutions DFID's programmes in the region are focussed on three broad themes - economic management and public service delivery; trade, competitiveness and economic integration; and HIV/AIDS, crime and violence. In addition the UK has provided significant levels of bilateral debt relief to the Caribbean over recent years through the Commonwealth Debt Initiative.

The Caribbean Development Bank (CDB) is a significant donor to Saint Vincent and the Grenadines and has approved loans with emphasis on such sectors as infrastructure development and rehabilitation, solid waste management, and education.

Activities of CIDA, DFID, UN agencies, USAID and the World Bank in the Eastern Caribbean are increasingly conducted on the basis of sub-regional strategies. The principal areas receiving support from these agencies are regional strategic objectives such as institutional support to regional organisations, implementation of the Common Single Market and Economy (CSME), HIV/AIDS programmes, environment programmes, social recovery through economic diversification and job creation, emergency reconstruction and disaster mitigation, increased efficiency and fairness of legal systems, telecom reform, and the development of primary and secondary education.

Funding has been received from Japan for the construction of fishing facilities. The Republic of China on Taiwan (ROC) is a major source of funding of the Government's Public Sector Investment Programme (PSIP). During the period 2004-2006, the ROC is estimated to contribute approximately XCD 40 000 000 to the PSIP. The main areas of focus include education, youth development, and the expansion and rehabilitation of the road network.

The World Bank is funding a "HIV/AIDS Prevention & Control Project" 2004-2009, which will support the Government of Saint Vincent and The Grenadines to implement its national response to the HIV/AIDS epidemic in all the key areas of a comprehensive response including prevention, treatment, care, and impact mitigation. The project is being implemented by both public sector and civil society organisations and includes capacity building interventions to ensure adequate capacity to effectively implement, monitor and evaluate project interventions. The WB is also appraising a Growth and Social Protection Technical Assistance Credit – GSPTAC.

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

There is active donor coordination in the Education Sector, notably within the framework of Education programmes funded under EDF and SFA.

The donor community present in the Eastern Caribbean region has agreed to work through "Coordination Groups", under the umbrella of UNDP, in order to address specific areas of importance and those requiring immediate action. Groups have been established in the following areas: Disaster Management, Climate Change and Environmental Management (led by CIDA); Governance and ICT (led by DFID); Poverty and Social Sector Development (led by UNDP); and Trade & Private Sector (formerly led by the EC Delegation in Barbados, but to be merged with the CRNM Donor Coordination Group).

The WB and UNDP have introduced an on-line tool to support Donor Coordination: the Red Book On-line (www.redbookonline.net) on-line database contains projects funded by Donors in the Eastern Caribbean, as well as relevant Documents (Strategy Papers, Article IV Consultations, Studies, etc.). Once this tool has been finalised it will be widened to the whole Caribbean.

While the EC Delegation has excellent relationships with all donors and works particularly closely with DFID, WB and IMF, especially in the programming of budget support programmes (co-financing is taking place with the WB and DFID in this area), donor coordination so far has been on a limited ad-hoc basis. There is therefore a need for a more systematic policy and operational coordination in the Eastern Caribbean. Coordination of policy-based assistance is a major challenge, given the relatively limited role of the WB and IMF in OECS Countries. It is hoped that operational cooperation will be launched with the

CDB through a memorandum of understanding and a contribution agreement (subject to an institutional and financial audit). Relations with EIB, CDE and CTA leave a large margin for potential improvement. The EIB is due to open in 2006 a Caribbean Country Office in Martinique and this should considerably enhance EIB portfolio and cooperation with EC Delegations in the region.

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

- The upgrading/scaling up of viable, small pilot projects that some donors implement
- Systematic sharing of the significant analytic work
- Harmonisation of individual donor CSPs
- Complementary interventions between grant donors (EC) and lenders (IDB, CDB, EIB) with the use of co-financing, where feasible
- A working modality of donor cooperation on budget support.

3.3 Other EC policies

The EU political dialogue with the Caribbean takes place notably through the joint ACP–EC institutions. The annual dialogue between CARIFORUM and the European Commission provides a further opportunity for discussing a wide range of issues of mutual interest. The bi-annual EU-LAC Summit is also a major opportunity for advancing EU-Caribbean political dialogue at the highest level and for addressing the evolving relationship between the Caribbean, its geographical neighbours and the EU.

As mentioned in the trade chapter (section 2.1.2.), the EC trade policy concerning bananas including the progressive erosion of ACP preference has had a major impact on the economic and social development of the country.

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

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

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

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

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

3.4 Description of the political dialogue between the EC and SVG

The EU political dialogue with the Caribbean takes place mainly via the joint ACP–EC institutions, in particular the Council of Ministers and the Joint Assembly, which includes Members of Parliament of the signatory States. At the regional level, a specific yearly dialogue between CARIFORUM and the European Commission provides an opportunity for discussing a wide range of issues of mutual interest. The EU and the Caribbean base their political systems on pluralist democracy, fundamental rights and the rule of law, acting together and adopting multilateral approaches to global challenges.

In the framework of Art. 8 of the Cotonou Partnership Agreement, a Political Dialogue between EC and Member States Representatives and SVG's Government Representatives was conducted for the first time during the MTR in December 2004. Topics discussed included the developments towards an EU Foreign Policy, drugs and drugs related crime, regional security and the role of the Regional Security System (RSS), regional integration, the CSME and the ICC.

A further opportunity for political dialogue took place during the EU-Caribbean Programming Seminar held in Santo Domingo in April 2006 with the presence of Commissioner L. Michel. A new round of political dialogue is envisaged to take place during the end-of-term review of the 9th EDF cooperation, before the end of 2006.

3.5 Description of the state of the partnership with Saint Vincent and the Grenadines and progress towards harmonisation

In Barbados and OECS Countries, only two Member States are present on the ground and have cooperation programmes, namely UK-DFID and France. Most of DFID programmes are of a regional nature (CARICOM-wide). DFID has very few bilateral programmes in the OECS (Dominica and Grenada) limited to addressing strategic issues such as Fiscal and Public Sector Reform. As regards France, it has a rather limited cooperation programme since the OECS Countries are no longer part of the *Zone de Solidarité Prioritaire*, and therefore funds small ad hoc activities in these Countries.

There is regular consultation, sharing of information and very good cooperation with these Member States, for instance with DFID on the Sugar Adaptation Strategies and Country Macroeconomic Assessments.

An opportunity for consultation was offered to all EU Member States present in the region. Also on June 20, 2006, in St Kitts, the Delegation held an important consultation session on the 10th EDF Programming in Barbados and OECS Countries, with the attendance of the seven NAOs and all major Donors and Agencies, to which UK and France participated.

CHAPTER 4 – RESPONSE STRATEGY

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

- The challenges and opportunities presented by globalisation and trade liberalisation, especially those posed by the establishment of the Caribbean Single Market and Economy (CSME) and the Economic Union of the Organisation of Eastern Caribbean States (OECS), and the need to adapt a country of limited resources to these new realities;

- The main challenges that need to be addressed in OECS Countries, namely fiscal consolidation/ public sector reform; private sector development; trade and regional integration; skills development; social equity and security enhancement (especially natural disasters);

- The articulation by the Government of the Medium Term Economic Strategy Paper (MTESP), where it sets out both the broad parameters of its socio-economic policies and the implementation framework to attain high levels of sustainable growth and development, while at the same time reducing the levels of poverty and raising social consciousness and increasing the levels of employment;

- The placement of social equity, as a fundamental element of the MTESP, at the centre of consideration in the fashioning of economic policy, so that no group is excluded from the benefits of economic development;

- The realisation by the Government that without healthy human resources SVG will not be economically competitive hence the need to modernise the public service in the health sector thereby improving the systems and delivery of health through integrated Health Sector Reform;

- The sectors already covered by past and on-going EC co-operation (in particular the private sector projects under approved SFA and the envisaged Stabex Budget Support and SFA allocations for 2006-2008 targeting Tourism, Agriculture diversification, Environment/Energy and Statistics) which address the country needs in terms of Private Sector Development & Improved Competitiveness, as well as by co-operation from other development partners;

- The need to ensure complementarity between the intervention foreseen under the NIP and the support provided under the Caribbean Regional Indicative Programme (to focus on Regional integration & TRTA, ICT & transport, Tertiary Education, HIV/AIDS, Environment / Natural disasters, Security: crime and drugs), as well as to ensure that the NIP is "integration-friendly";

- The objectives of the new EU Development Policy as defined in the EU Consensus for Development and in the Communication on an EU-Caribbean Partnership for Growth, Stability and Development, and the comparative advantages of the EC as a provider of foreign aid;

- The need for a more effective Donors' policy and operational coordination around the Countries' home-grown Policies and Strategies to ensure full ownership of the interventions funded by Donors.

4.1. Focal Sector: Modernisation of the Public Service in the Health Sector

It is hereby proposed that the "A envelope" be concentrated on *Modernisation of the Public Service in the Health* Sector as the single focal sector of the EC country strategy for Saint Vincent and The Grenadines, with special attention to Health Sector Reform and consideration of cross cutting issues that affect all layers of Government (e.g. human resources management, e-government, communication and information, etc).

The justification for this strategic choice is as follows:

(i) The Government of Saint Vincent and the Grenadines is committed to creating and maintaining a highly efficient and productive public service, founded on the principles of accountability, transparency and integrity. Government also recognizes the need to modernise the Public Service in keeping with its development agenda.

The Government, in collaboration with the World Bank, has conducted a comprehensive Public Expenditure Review and will use the findings of this exercise to further enhance management and efficiency of resources. In addition:

(ii) Four of the MDG's are directly related to health. As presently constituted, the health sector is unable to attain these goals.

(iii) Attention is being increasingly focused on addressing the inadequacies of public institutions and systems.

(iv) The Government has, therefore, embarked on a process of public sector reform to engender a service oriented culture in public service, creating a service delivery oriented public sector that is more efficient and responsive to the needs of the people.

(v) Currently, one of the weakest links within the governmental machinery is the delivery of health services to the SVG people. Promoting the health and general well being of the population being a goal of the Government, the provision of a universal, equitable, sustainable, comprehensive health care and a well developed health promotion service are among the key priorities to be addressed in the medium term. A draft Health Sector Strategic Plan is being finalised. This Plan addresses, among other things, (1) a comprehensive reform of the Health Sector; (2) improving the human resource capacity; (3) enactment of new legislation and revision of existing legislation; (4) establishing new structural arrangements and management systems for the Health Sector; (5) sustainable financing; (6) evidence based decision making; (7) quality assurance; (8) increased efficiency and effectiveness at all levels.

(vi) During the medium term, emphasis will be placed on the implementation of the National Health Strategic Plan, with the aim of intensifying and solidifying all strategies, programmes and activities in health care delivery; and continuing the pursuit of improved health care services through the strategies of maximising the primary heath care approach and the upgrading and expanding of secondary services within the state.

It is therefore proposed to dedicate 80% of the A envelope allocation under the 10th EDF to a Modernisation of the Public Service in the Health Sector Support Programme aimed at expediting public sector modernisation efforts already being undertaken by the Government with special attention to Health Sector Reform.

The overall objective of the intervention in this sector is to improve the delivery and efficiency of public services thereby engendering the confidence of the public. The specific objective is to support the Government's public sector reform process with particular emphasis on the quality of health care. The intervention would improve the delivery of health care services in SVG, thereby improving the potential of the population to live healthier and more productive lives. This would also aim notably at enhancing accountability and responsiveness of the Public Sector to the management, manpower planning, and training related to the delivery of health services to the population. This approach and focus are justified, as, although there have been responses to the issues affecting health in SVG, the Government recognises that there is need for investment in the health sector to improve managerial capacity and policy making. The national priorities in health in SVG include a reduction in morbidity and mortality from selected diseases, strengthening of health systems management, implementation of the health promotion strategy, the development of human resources management, and an appropriate financing mechanism for health systems. Given the rising demand and complexity of health services, there is need to find a financial system that ensures equity of access and improves efficiency. Possible areas for support include strengthening public-private partnerships in a situation where most care is provided by the private sector, improving institutional capacity in health planning, regulation and financing. The mechanisms proposed include private insurance, user fees, social insurance, outsourcing of services and provision of a basket of services from public funds. In this respect, previous experiences have shown that unless cost recovery mechanisms envisage exemptions for the poor and vulnerable, they erode equity and have a negative impact in the health of the poorest.

As stated in the health sector analysis (2.1.3), non-communicable diseases have gradually become the main source of burden of diseases, mainly due to cardiovascular diseases bearing high morbidity and mortality rates. Prevention by reducing risk factors, particularly an improved control of hypertension and diabetes and health promotion programmes on diet and lifestyle would be crucial to the target reducing disease burden of this source. Improving adequate primary and referral care of non communicable diseases will be important.

Consistency of this strategic choice with the current policies sustained by the Government is evident. The Government is placing priority on achieving efficiency, effectiveness and economy in the services it provides. The Government wants to build on the work done so far in an effort to ensure full implementation of these activities which are crucial to improving the level of public service productivity. Moreover, the Government recognises that one of the key bottlenecks for achieving these objectives in the Health Sector is the lack of sustainable financing, information technology for quality data collection & analysis enabling improved management of the sector.

Regarding the implementation modality for delivering the EC assistance under the 10th EDF, the possibility of using a sector-wide approach to provide sectoral budget support to support the implementation of the Government's Health Sector Reform will be assessed. Sector budget support will allow the government the required flexibility, ownership and control to respond to changing sector needs in an effective manner. If the required conditions for budget support are not met at the time of designing the intervention proposal, the project approach will be used.

Cross cutting issues will be an integral part of the Public Modernisation Programme and will be mainstreamed, primarily, under the aegis of the Health Sector Reform component. Indicators of achievement that will enable the EC to measure progress on policy reforms will ensure that the rights of women, children and other disadvantaged groups of the population are taken into consideration and that adequate protection of the environment is provided.

On matters related to complementarity with other donors, the proposed programme takes into account ongoing projects and recommendations of the Public Expenditure Review made by the World Bank in 2005, as well as the technical assistance activities carried out by the Caribbean Regional Technical Assistance Centre (CARTAC). The Proposal will be designed in close consultation with the above agencies as well as the with the Caribbean Centre for Development Administration (CARICAD), taking into account as well the lessons learnt from the implementation of the WB Public Sector Modernisation Technical Assistance in Grenada and the CARICAD on-going activities.

Possible risks are primarily related to the change in Government priorities over the five years that the programme is expected to last and to the deterioration of the macro-economic policy environment that prevails at the time of formulating this proposal.

4.2. Non-Focal Sector 1: Technical Cooperation Facility

10% of the A-Envelope will be allocated to the Technical Cooperation Facility, notably to support Non-State Actors and possibly to provide Private Sector and Trade-Related Technical Assistance.

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

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

- Support Non-State Actors, notably through the consolidation of the NSA National Advisory Panel, as an important instrument for enhanced dialogue among the Government, the EU, the private sector and civil society organisations. NSAs can benefit from the three main areas of intervention of the TCF. The participatory approach of NSAs at all levels in a country's development is one of the fundamental principles of the Cotonou Agreement. NSAs are to be encouraged to take part in the design, implementation and review of national development strategies.

- Trade-Related Technical Assistance. As said earlier, organisational capacities and resources in OECS Countries are inadequate to cover the different trade negotiating theatres in which they are involved, as many of the Ministries are very small with limited technical capacity. The Government would therefore benefit from technical assistance in this area, in particular to face specific needs linked notably to the follow-up of international trade negotiations, including the EU-CARIFORUM Economic Partnership Agreements, and the establishment of the Caribbean Single Market and of the OECS Economic Union.

- Technical Assistance in Private Sector Development. The Technical Assistance will complement current EC cooperation with SVG in the area of private sector development (which mainly fund direct assistance to the private sector) by focusing mainly on institutional aspects linked to the setting a private sector enabling environment.

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

10% of the "A Envelope" will be allocated to providing Technical Assistance to the NAO Office.

The objective is to provide technical assistance to the NAO Office in order to ensure efficient management and coordination of EC (not only EDF) funds, to guarantee an increased implementation rate in the future and, to the extent requested and necessary, in order to promote good governance in the tax area e.g. by the provision of studies and other expertise or through capacity building to concerned administrations or authorities. Past and present cooperation has shown the utmost importance of the need to provide the NAO Office with the necessary human resources to ensure a more effective, efficient and rapid implementation of EU-funded projects.

PART 2 - NATIONAL INDICATIVE PROGRAMME

1. Indicative Programme

1.1. Introduction

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

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

1.2. Financial Instruments

The implementation of the EC's cooperation strategy with Saint Vincent and the Grenadines will be financed from several financial instruments. The following is an indication of their mobilisation as currently envisaged.

1.2.1. 10th EDF – "A" envelope EUR 7 800 000

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

Focal Sector: Modernisation of the Public Service in the Health Sector. This allocation is destined to cover the long-term development activities identified in the context of the response strategy. It will absorb EUR 6 240 000, which represents approximately 80% of the total funds made available by the EC. The Programme-based approach will be its implementation modality.

Non-focal Sector 1: Technical Cooperation Facility (TCF), notably to support Non-State Actors and possibly to provide Private Sector and Trade-Related Technical Assistance. This will take up to EUR 780 000, which represents approximately10% of the total allocation.

Non-focal Sector 2: Technical Assistance to the NAO Office. This will take up to EUR 780 000, which represents approximately 10% of the total allocation.

1.2.2. 10th EDF, B envelope, EUR 1 900 000

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

1.2.3. Investment Facility

In addition to the financial instruments mentioned above, of which the A envelope is the main programmable basis for the NIP, the 10th EDF also includes an Investment Facility, which is an instrument managed by the European Investment Bank. The Investment Facility is not part of the NIP. Some specific activities may be supported by the Centre for the Development of Enterprise (CDE) and the Centre for the Development of Agriculture (CTA).

1.2.4. Caribbean Regional Indicative programme (CRIP)

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

1.2.5. Other financial instruments

Specific activities may be supported by external actions funded by the general budget of the European Community carried out under the financial framework for 2007-2013 subject to special procedure and availability of funds, and out of the own resources of the EIB. Actions funded by the general budget include, among others, programmes funded under the Development Cooperation Instrument such as the thematic programmes "investing in people", "non state actors in development", "migration and asylum", "environment and sustainable management of natural resources" and "food security" (for which calls for proposals are made annually since 2007), as well as actions funded from other instruments such as the stability instrument, the instrument for the promotion of human rights and democracy or the instrument for humanitarian and emergency assistance (for which calls for proposals are made annually since 2007).

1.3. Focal Sector: Modernisation of the Public Service in the Health Sector

An indicative amount of EUR 6 240 000 will be set aside for the intervention in this Focal Sector.

The overall objective of the intervention in this sector is to improve the delivery and efficiency of public services in the health sector thereby engendering the confidence of the public. The specific objective is to support the Government's public sector reform process with particular emphasis on the quality of health care. The intervention would improve the delivery of health care services in SVG, thereby improving the potential of the population to live healthier and more productive lives. This would also aim notably at enhancing accountability and responsiveness of the Public Service in the Health Sector to the management, manpower planning, and training related to the delivery of quality health services to the population.

It is envisaged that the intervention will be implemented through the sector budget support modality, should all required conditions be met. If required conditions are not met, the project approach will be used. The Sector Budget Support Modality will ensure full ownership, and timely responsiveness to changing needs and priorities in the sector of the intervention by the Government. Technical Assistance to the relevant Government Department/Agencies is foreseen as part of the Programme.

Four of the MDG's are directly related to health. As presently constituted the health sector is unable to attain these goals.

The intervention is foreseen to support the following elements:

- Revision and finalisation of the National Health Sector Strategic Plan

- implementation of the National Health Sector Strategic Plan with interventions aimed at modernising the sector such as inter alia, cost containment and sustainable financing with modern accounting systems, rationalization and modernisation of the roles and functions of the Ministry

- Review and update of Health Sector Legislation

- Modernisation of ICT for the health sector

- Quality Assurance and Monitoring & Evaluation for improved planning and management of the sector with evidence-based decision making

- Development and implementation of a human resource development strategy

- Finalisation and Implementation of the National Health Strategic Plan.

The main commitments by the Government to ensure mainstreaming of the crosscutting issues are:

- The Programme will take into account gender distribution when making and implementing recommendations for public sector modernisation.

- On Environmental Protection and Education Activities, there is commitment to pursue actions addressing environmental clean up, training and education in environmental management and mitigation, recycling waste/ waste management, and disaster preparedness. The programme will look at how best addressing environmental issues.

- The Programme will look on how to increase the effectiveness and impact of on-going HIV/AIDS initiatives.

1.4. General budget support

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

1.5. Other programmes

Technical Cooperation Facility

An indicative amount of EUR 780 000 will be set aside for the Technical Cooperation Facility (TCF), notably to support non-state actors (NSAs) and to possibly provide Private Sector and Trade-Related Technical Assistance.

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

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

- Support Non-State Actors, notably through the consolidation of the Task Force of the NESDEC, as an important instrument for enhanced dialogue among the Government, the EU, the private sector and civil society organisations. NSAs can benefit from the three main areas of intervention of the TCF. The participatory approach of NSAs at all levels in a country's development is one of the fundamental principles of the Cotonou Agreement. NSAs are to be encouraged to take part in the design, implementation and review of national development strategies. The intervention would aim at strengthening the capacities of NSAs, in order to support NSAs' involvement in the policy dialogue within the country, especially of small organisations with the capacity to reach and represent vulnerable or isolated groups of the population, and to allow them to play a more meaningful role on the national scene. This would focus mainly on strengthening the NSAs' internal structure and organisation, broadening their networks, improving their management qualities and setting up sustainable fund raising mechanisms. Monitoring mechanisms to assess the quality of involvement will be also introduced.

- Trade-Related Technical Assistance. This would support the Government to face specific needs linked notably to the follow-up of international trade negotiations, including the EU-CARIFORUM Economic Partnership Agreements, and the establishment of the OECS Economic Union and the Caribbean Single Market.

- Technical Assistance in Private Sector Development. The Technical Assistance will complement current EC cooperation with SVG in the area of private sector development (which mainly fund direct assistance to the private sector) by focusing mainly on institutional aspects linked to the setting a private sector enabling environment. Specifically, this intervention will be complementary to other initiatives supported by the EC under SFA and STABEX funds, and to programmes already completed by the government (e.g. the establishment and functioning of the Centre for Enterprise Development). Technical assistance may also be provided to representative associations of the private sector, which are dedicated to advise farmers and small entrepreneurs on product and market development matters. Building capacity in organisations representative of the private sector will contribute to the identification of products and markets for SVG enterprises. This would help SVG to diversify its productive base to compete more efficiently in global markets, especially after the creation of the CSME and the end of the transitional period that will dismantle non-reciprocal trade preferences. Special emphasis will be assigned to complementarity between this TA and other ongoing Government efforts in the realm of private sector development and competitiveness enhancement, which are being supported by other donors.

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

- *NSAs*: Encourage the operations of the Task Force of the NESDEC, which should become the legitimate interlocutor within the tri-partite dialogue with the Government and the EU. Facilitate the establishment and functioning of an institutional framework for consultation with the civil society on national issues.

- *TRTA:* Ensure adequate staffing to cover trade negotiations in different fora, in particular in the EU-CARIFORUM EPAs. Remain committed to regional integration and the conclusion of international trade negotiations.

- *Private Sector:* Facilitate the establishment of an Institutional Framework setting an enabling environment for the Private Sector operations. Support and provision of incentives to the private sector, entrepreneurs, and small businesses to set up appropriate equipment, machinery and facilities to raise the levels of productivity.

Technical Assistance to the NAO

An indicative amount of EUR 780 000 will be set aside for providing Technical Assistance to the NAO Office.

The objective is to provide technical assistance to the NAO Office in order to ensure efficient management and coordination of EC (not only EDF) funds and to guarantee an increased implementation rate in the future as well as, to the extent necessary and being requested by Saint Vincent, in order to promote good governance in the tax area. This could include the provision of studies, targeted activities and capacity building aiming at facilitating increased compliance with the principles of good governance in the tax area.

Past and present cooperation has shown the utmost importance of the need to provide the NAO Office with the necessary human resources to ensure a more effective, efficient and rapid implementation of EU-funded projects. It has to be recognised that the NAO Office deals with three different funding instruments (EDF, STABEX, SFA) with different procedures, and this causes a strain on the NAO Office management capacity. STABEX and SFA allocations are several times the amount of the NIP.

1.6. Intervention Framework & Performance Indicators

1.6.1. Focal Sector – Modernisation of the Public Service in the Health Sector

	Intervention Logic	Objectively Verifiable Indicators	Sources of Verification	Assumptions
Overall Objectives	The overall objective of the intervention in this sector is to improve the delivery and efficiency of public services in the health sector thereby engending the confidenece of the public and improving the health status of the people of SVG.	More cost-effective and efficient public service in the health sector by 2013 % increase rate of citizens' satisfaction with Govt health services	Budget statement. Public Health indices improved with stable health sector budget.National health accounts established. Results of opinion poll	Macroeconomic scenario remains stable Health Sector budget in real terms maintained or increased.
Programme Purpose	To support the Government's public sector reform process aimed at enhancing accountability and responsiveness of the Public Service in the Health Sector to the management, manpower planning, and training related to the reform and delivery of health services to the population.	public sector expenditure / GDP maintained at a fiscally prudent level. Fiscal rule of expenditure not to exceed revenue is adhered to no later than FY2010	Auditor General's accounting reports of Public accounts in the health sector Public Health indices improved with stable health sector budget.	Government keeps committed to macro-economic fundamentals No major natural disasters occur Cabinet does not approve unbudgeted expenditure
Results	Public Service in the SVG Health Sector modernised.	Role and functions of the ministry of health modernised within the public service reform in the health sector. ICT for the health sector & Health Information Systems utilized across the health sector within the public service reform in the health sector. A human resource development strategy developed and implemented within the public service reform in the health sector.	TA for finalisation and implementation of Health Sector Strategic Plan in place. Contract signed. Health Sector Strategic Plan with strategy for changing role & function developed, finalised, circulated and implemented. Strategic Plan available. MoH reports.	Cabinet adopts Health Sector Strategic Plan for implementation Health Sector workers are committed to reform

		Cost containment measures identified and implemented along with pro-poor equity and access to health services improved within the public service reform in the health sector. Secondary care in the health sector rationalized and implemented to complement the primary care system within the public service reform in the health sector. Health Legislation reviewed and updated within the public service reform in the health sector. Quality Assurance Plan and Monitoring & Evaluation for improved planning and management of the sector with evidence based decision making implemented	Health Sector Strategic Plan with strategy for ICT developed, finalised, circulated and implemented. Strategic Plan available. MoH reports. Health Sector Strategic Plan with strategy for human resources developed, finalised, circulated and implemented. Strategic Plan available. MoH reports. User fees, health insurance, basic package of services for the poor rationalised and implemented. MoH reports. Strategy for secondary care implemented. Strategic Plan available. MoH reports. Health Legislation modernised updated and enacted. Cabinet Papers, Reports. Attorney General's Office Reports. Ministry of Legal Affairs Reports Monitoring & Evaluation plan implemented in the health sector. Strategic Plan available. MoH reports. Ministry of Health Reports	

1.7. Indicative timetable for commitments and disbursements

1.7.1 Indicative timetable of global commitments

	Indicative allocation	2008		2009		2010→	
		1	2	1	2	1	2
1è FOCAL SECTOR – < Modernisation of the Public Service in the Health Sector >	**7 800 000 EUR**						
- **Modernisation of the Public Service in the Health** Sector Programme (Sector Support)	6 240 000 EUR						
NON FOCAL SECTORS	1 560 000 EUR						
- Technical cooperation facility	780 000 EUR						
- TA to NAO Office	780 000 EUR						
Total Commitments:	**M EUR**						
Total Cumulative Commitments :	**M EUR**	**0**					

1.7.2 Indicative timetable of disbursements

	Indicative allocation	2008		2009		2010→	
		1	2	1	2	1	2

1ST FOCAL SECTOR – < Modernisation of the Public Service in the Health Sector >	**7 800 000 EUR**						
- **Modernisation of the Public Service in the Health** Sector Programme (Sector Support)	6 240 000 EUR			2		2	
NON FOCAL SECTORS	**1 560 000 EUR**						
- Technical cooperation facility	780 000 EUR						
- TA to the NAO Office	780 000 EUR						
Total Commitments:	**EUR**						
Total Cumulative Commitments:	**EUR**						

1.8. Chronogram of activities

1st FOCAL AREA (6 240 000 EUR)	Indicative allocation	2008				2009				2010→			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
- Project 1	M EUR	FS*	FS	FP	FD	ζ	ζ	ζ	ζ	ζ	ζ	ζ	ζ
NON FOCAL AREAS (1 560 000 EUR)		**2008**				**2009**				**2010→**			
		Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
- Technical cooperation facility	700 000 EUR	FP	FP	FD	ζ	ζ	ζ	ζ	ζ	ζ	ζ	ζ	ζ
- TA to the NAO Office	700 000 EUR	FP	FP	FD	ζ	ζ	ζ	ζ	ζ	ζ	ζ	ζ	ζ

FS: Feasibility Study

FP: Financing proposal

FD: Financing decision

ζ : Project implementation

* FS will start before 2008 using 9th EDF funds.

ANNEXES

ANNEX 1 – “Country at a glance” table

A. TABLE OF MACROECONOMIC INDICATORS

Source: World Bank OECS Country Assistance Strategy 2007-2011

Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
		Actual			Estimate			Projected		
Exports (GNFS) annual growth		-2	1	-3	1	8	8	7	8	9
GDP at market prices (EC$)	906	935	974	1025	1091	1156	1211	1277	1356	1438
GDP at market prices (Us$)	335	346	361	380	404	428	449	473	502	533
Net international reserves	147	164	142	154						
	52									
Exports	140	115	111	108	97	118	134	149	164	182
Imports	390	410	424	477	542	600	616	633	658	683
Services exports	344	360	370	358	375	391	414	437	468	504
Services imports	150	151	152	164	180	198	207	216	228	241
Net current transfers	44	34	33	35	34	36	39	42	47	52
current account balance	-61	-98	-112	-204	-279	-319	-308	-294	-281	-264
Net private foreign direct investment	102	57	101	149	150	140	148	158	168	179
tourism receipts%gdp	25	26	25	24	24	23	23	23	23	24
M2 millions of EC$	636	655	709	722	812	861				
Total debt service (US$millions)			15	15	23	29				
National accounts (as % of GDP)										
Gross domestic product[a]	100	100	100	100	100	100	100	100	100	100
Agriculture	9,1	8,0	8,5	8,5	8,6	8,3	8,1	7,9	7,7	7,5
Industry	20,1	21,2	20,4	20,8	21,4	20,5	19,8	20,3	20,0	19,5
Services	70,8	70,8	71,1	70,7	70,0	71,2	72,1	71,8	72,3	73,0
Total Consumption	78,9	79,9	77,8	83,8	85,9	82,4	81,3	80,5	80,4	80,0
Gross domestic investment	27,3	29,3	32,0	33,3	37,0	42,6	41,4	40,1	38,3	36,6
Government investment	7,1	5,0	6,5	8,0	7,3	8,3	7,6	7,4	7,2	7,1
Private investment	20,2	24,3	25,5	25,3	29,7	34,3	33,8	32,7	31,1	29,5
Exports (GNFS)[b]	53,4	50,8	49,4	45,5	43,3	44,0	45,3	45,9	46,6	47,7
Imports (GNFS)	59,6	60,0	59,1	62,5	66,2	69,0	68,0	66,5	65,3	64,3
Gross domestic savings	21,1	20,1	22,2	16,2	14,1	17,6	18,7	19,5	19,6	20,0
Gross national savings[c]	19,2	18,8	20,7	13,3	11,5	15,0	16,0	17,0	17,5	18,2
Memorandum items										
Gross domestic product (US$ 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$, Atlas method)	2830	2950	3010	3250	3650	..	..	..	..	
Real annual growth rates (%, calculated from 1990 prices)										
Gross domestic product at market prices	2,0	-0,1	3,2	3,4	4,3	4,9	4,3	4,1	4,2	3,8
Real annual per capita growth rates (%, calculated from 1990 prices)										
Gross domestic product at market prices	1,8	-0,3	3,0	3,2	4,1	4,7	4,1	3,9	4,0	3,6
Balance of Payments (US$ millions)										
Exports (GNFS)[b]	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)[b]	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
Public finance (as % of GDP at market prices)[e]										
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
Monetary indicators										
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$m)[a]	226	236	254	276	319	348	370	379	381	376
External debt (US$)	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[b]	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$m)[d]	0,15	0,11	0,47	0,59	0,95	1,58	4,53	6,01	8,45	11,07
IDA TDO (US$m)[d]	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.

B. TABLE OF INDICATORS FOR THE MDGS

	1990	1994	1997	2000	2003	2004
Goal 1: Eradicate extreme poverty and hunger						
Income share held by lowest 20%	..	..	..	..	..	..
Malnutrition prevalence, weight for age (% of children under 5)	..	..	20	..	..	..
Poverty gap at $1 a day (PPP) (%)	..	..	..	..	..	..
Poverty headcount ratio at $1 a day (PPP) (% of population)	..	..	..	..	..	..
Poverty headcount ratio at national poverty line (% of population)	..	..	..	..	..	..
Prevalence of undernourishment (% of population)	..	..	27	..	12	12
Goal 2: Achieve universal primary education						
Literacy rate, youth total (% of people ages 15-24)	..	..	..	..	..	..
Persistence to grade 5, total (% of cohort)	..	..	..	82	88	..
Primary completion rate, total (% of relevant age group)	..	..	..	..	79.0	92.9
School enrolment, primary (% net)	..	..	..	91	92	94
Goal 3: Promote gender equality and empower women						
Proportion of seats held by women in national parliament (%)	10.0	..	10.0	5.0	23.0	23.0
Ratio of girls to boys in primary and secondary education (%)	..	..	..	100.7	100.0	95.6
Ratio of young literate females to males (% ages 15-24)	..	..	..	..	..	..
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	..	..	..	..	..	..
Goal 4: Reduce child mortality						
Immunization, measles (% of children ages 12-23 months)	96.0	99.0	99.0	96.0	94.0	99.0
Mortality rate, infant (per 1,000 live births)	22	..	..	21	..	18
Mortality rate, under-5 (per 1,000)	25	..	..	22	..	22
Goal 5: Improve maternal health						
Births attended by skilled health staff (% of total)	..	..	..	100.0	..	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	..	..	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases						
Children orphaned by HIV/AIDS	..	..	..	..	..	..
Contraceptive prevalence (% of women ages 15-49)	..	..	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	36.2	..	..	..	..	28.5

Prevalence of HIV, female (% ages 15-24)	..	..	..	..	..	..
Prevalence of HIV, total (% of population ages 15-49)	..	..	..	..	..	..
Tuberculosis cases detected under DOTS (%)	..	..	..	56.6	39.1	33.0
Goal 7: Ensure environmental sustainability						
CO2 emissions (metric tons per capita)	0.7	1.1	1.2	1.3	1.6	..
Forest area (% of land area)	23	..	..	26	..	..
GDP per unit of energy use (constant 2000 PPP $ per kg of oil equivalent)	..	..	..	..	..	..
Improved sanitation facilities (% of population with access)	..	..	..	..	..	..
Improved water source (% of population with access)	..	..	..	..	..	..
Nationally protected areas (% of total land area)	..	..	..	..	..	..
Goal 8: Develop a global partnership for development						
Aid per capita (current USD)	141.2	83.8	51.7	53.2	48.0	88.3
Debt service (PPG and IMF only, % of exports of G&S, excl. workers' remittances)	3	6	7	6	7	..
Fixed line and mobile phone subscribers (per 1,000 people)	120.0	154.2	182.5	235.2	809.4	641.5
Internet users (per 1,000 people)	0.0	..	8.8	30.2	59.4	67.6
Personal computers (per 1,000 people)	..	..	..	103.5	127.3	135.1
Total debt service (% of exports of goods, services and income)	3	8	8	7	7	..
Unemployment, youth female (% of female labor force ages 15-24)	..	..	..	..	..	..
Unemployment, youth male (% of male labor force ages 15-24)	..	..	..	..	..	..
Unemployment, youth total (% of total labor force ages 15-24)	..	..	..	..	..	..
Other						
Fertility rate, total (births per woman)	2.6	..	2.2	2.1	2.1	2.1
GNI per capita, Atlas method (current USD)	1710.0	2050.0	2440.0	2730.0	3040.0	3400.0
GNI, Atlas method (current USD) (billions)	0.2	0.2	0.3	0.3	0.4	0.4
Gross capital formation (% of GDP)	29.7	28.2	29.4	27.3	33.1	36.8
Life expectancy at birth, total (years)	69.2	..	70.2	70.7	71.2	71.3
Literacy rate, adult total (% of people ages 15 and above)	..	..	..	..	..	..
Population, total (millions)	0.1	0.1	0.1	0.1	0.1	0.1
Trade (% of GDP)	142.6	116.6	127.1	113.1	108.0	109.5
Source: World Development Indicators database, April 2006						

ANNEX 2 – Donor matrix

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

ANNEX 3 – Executive summary of the Country Environmental Profile

The most serious threat to sustainable development in SVG is the increasing degradation of the natural eco-systems. Saint Vincent and the Grenadines has a limited resource base that is highly vulnerable to natural and man-made hazards. Development pressures have resulted in significant deterioration of the quality of the natural resources. The major economic sectors, Tourism and Agriculture, cannot exist without the rational use and management of the natural environment. Also, failure to maintain high levels of environmental quality in this fragile island eco-systems setting will affect the health and general quality of life of the population.

Government recognizes the importance and the interdependence of the economy and the ecology. It is cognisant of the fact that the country's prospects for social and economic growth and development depend on the ability to ensure environmental integrity. Hence, the policy with respect to the Environment is one that seeks to protect, conserve, enhance or restore the natural resources of the country through effective utilization and management, thereby ensuring sustainable development.

The central challenge for the Government with respect to the environment is one that ensures there exists levels of environmental quality that would maximise opportunity for economic and social development for present and future generations, without compromising the integrity and sustainability of biological diversity, historical and cultural assets.

Improving the present undesirable trend requires in-depth knowledge and sound understanding of the state's sustainable developments and environmental issues in order to develop and implement appropriate policies. This environmental profile is therefore intended to present current and concise environmental information on various aspects of environmental management and sustainable development issues in SVG. It should be of particular value to those involved in development planning, environmental management and academic research related activities.

Government's primary concern is that its' development strategy must be sustainable. This requires appropriate policies and priorities with respect to ensuring environmental integrity. The major areas of environmental priorities identified by Government reflect national concerns, and underscore the fundamental policy positions, which can be encapsulated as:

(1) The utilization of the natural resources of the country must not be at the expense of the welfare of future generations

(2) Projects and programmes must be developed to improve health and the general quality of life of the nation.

The following issues are identified by the Government in the 2002-2004 Medium Term Economic Strategy Paper identify as being critical to environmental integrity:

- Loss of agriculture lands to housing and squatting.
- Deforestation due to illegal agriculture.
- Mis-management of small ships generated waste.
- Tremendous stress on reefs in the Tobago Cays due to poor management.
- Lack of proper regulation for sand mining.
- Poor management of the aggregate site at Rabacca.
- Lack of public awareness of the importance of the environment to survival.

In the medium term, the Government will give further support and commitment to the protection of the environment. Emphasis will be given to the following:

- Strengthening of environmental legislation and enforcement.

- Promoting national environmental educational programmes.
- Revamping the National Environmental Advisory Board.
- Updating the National Environmental Action Plan in collaboration with the OECS.
- Finalising the Forestry Development Plan.
- Implementing a solid waste programme in the Grenadines.

The central challenge for the Government in the medium term with respect to the environment is one that ensures there exists levels of environmental quality that would maximise opportunity for economic and social development for present and future generations, without compromising the integrity and sustainability of biological diversity, environmental and cultural assets.

Although Saint Vincent and the Grenadines does not currently have any comprehensive environmental law, there exist many pieces of legislation which address various conservation and environmental management issues. In recent years the major pieces of environmental legislation were reviewed. Moreover, the Government of Saint Vincent and the Grenadines is a signatory to a number of international and regional environmental agreements.

ANNEX 4 – Country migration profile

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

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

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

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

The net migration rate for SVG was estimated in 2006 at -7.59 migrant(s)/1,000 population (Source: TheWorld FactBook).

ANNEX 5 – CSP drafting process: particular attention to involvement of NSA and local authorities

A first round of consultations between the EC and the Government of Saint Vincent and the Grenadines took place in April 2006 (Seminar in Santo Domingo) with the presence of Commissioner L. Michel, who stressed the importance attached to the Public Sector Reform and Private Sector Development and to the link between the regional and national programming and to. On a bilateral basis, Director General Manservisi pointed to the need for the country to proceed with the public sector and fiscal reform so as to qualify for budget support, which will become the main form of development assistance under the 9th EDF.

With specific reference to NSAs, during the MTR "in-country-meeting" of December 2004 and with the aim of strengthening civil society involvement in EU/SVG development partnership, it was agreed that a non state actor (NSA) advisory panel, representative of SVG's civil society, would be established by the Government of SVG. The panel would provide a forum for tripartite dialogue, information and consultation on development cooperation between the EU and SVG. In the second half of 2005, a team of international consultants assisted the Government and the Delegation with the mapping of NSAs in SVG and the selection of members of the Panel. It was finally decided to use the Task Force of the National Economic and Social Development Council (NESDEC) as NSA Advisory Panel.

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

This exchange has been followed by further in-country consultations, which have involved both government and Non-State Actors, to present and discuss the 10th EDF programming exercise and launch the NSA Advisory Panel. Such an exercise aimed at ensuring the dynamic participation of all Dominica key stakeholders in the programming exercise and that future NSA Advisory Panel meetings will actually represent a national forum for constructive dialogue, mutual understanding and consensus building.

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

A last round of consultation with the NAOs was organised in Barbados in mid-July 2006 in order to agree on the Intervention Framework for the 10th EDF and finalise the CSPs.

ANNEX 6 – The harmonisation road map (where there is one)

Refer to paragraph 3.5 in the main document

ANNEX 7 – Table including partner country positions in relation to key international conventions

HUMAN RIGHTS – MAIN GLOBAL CONVENTIONS

Convention	St Vincent and the Grenadines status
Convention on the Prevention and Punishment of the Crime of Genocide	9 Nov 1981 a
Agreement establishing the Fund for the Development of the Indigenous Peoples of Latin America and the Caribbean	----
International Covenant on Economic, Social and Cultural Rights (CESCR)	09 Feb 82 a
International Covenant on Civil and Political Rights (CCPR)	09 Feb 82 a
Optional Protocol to the International Covenant on Civil and Political Rights (CCPR-OP1)	09 Feb 82 a
Second Optional Protocol to the International Covenant on Civil and Political Rights, aimed at the abolition of the death penalty (CCPR-OP2-DP)	----
International Convention on the Elimination of All Forms of Racial Discrimination (CERD)	09 Dec 81 a
Convention on the Elimination of All Forms of Discrimination against Women (CEDAW)	03 Sep 81 a
Optional Protocol to the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW-OP)	----
Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment (CAT)	31 Aug 01 a
Convention on the Rights of the Child (CRC)	25 Nov 93
Optional Protocol to the Convention on the Rights of the Child (CRC-OP-AC)	----
Optional Protocol to the Convention on the Rights of the Child (CRC-OP-SC)	15 Oct 05 a
International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families (MWC)	----

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

ILO CONVENTIONS (SOURCE: ILOLEX - 2. 6. 2006)

Saint Vincent and the Grenadines **ratified 21 instrument(s)**

Convention	**Ratification date**	**Status**
C5 Minimum Age (Industry) Convention, 1919	21:10:1998	ratified
C7 Minimum Age (Sea) Convention, 1920	21:10:1998	ratified
C10 Minimum Age (Agriculture) Convention, 1921	21:10:1998	ratified
C11 Right of Association (Agriculture) Convention, 1921	21:10:1998	ratified
C12 Workmen's Compensation (Agriculture) Convention, 1921	21:10:1998	ratified
C16 Medical Examination of Young Persons (Sea) Convention, 1921	21:10:1998	ratified
C19 Equality of Treatment (Accident Compensation) Convention, 1925	21:10:1998	ratified
C26 Minimum Wage-Fixing Machinery Convention, 1928	21:10:1998	ratified
C29 Forced Labour Convention, 1930	21:10:1998	ratified
C81 Labour Inspection Convention, 1947	21:10:1998	ratified
C87 Freedom of Association and Protection of the Right to Organise Convention, 1948	09:11:2001	ratified
C94 Labour Clauses (Public Contracts) Convention, 1949	21:10:1998	ratified
C95 Protection of Wages Convention, 1949	21:10:1998	ratified
C98 Right to Organise and Collective Bargaining Convention, 1949	21:10:1998	ratified
C100 Equal Remuneration Convention, 1951	04:12:2001	ratified
C101 Holidays with Pay (Agriculture) Convention, 1952	21:10:1998	ratified
C105 Abolition of Forced Labour Convention, 1957	21:10:1998	ratified
C108 Seafarers' Identity Documents Convention, 1958	21:10:1998	ratified
C111 Discrimination (Employment and Occupation) Convention, 1958	09:11:2001	ratified

C180 Seafarers' Hours of Work and the Manning of Ships Convention, 1996	08:02:2002	ratified
C182 Worst Forms of Child Labour Convention, 1999	04:12:2001	ratified

INTERAMERICAN CONVENTION AGAINST CORRUPTION (1996)

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

RA = RATIFICATION

SI = SIGNATURE

AC = ACCESSION

ROME STATUTE OF THE INTERNATIONAL CRIMINAL COURT (1998)

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

ANNEX 8 – Debt Sustainability Analysis (if available from the IFIs, where appropriate)

This excerpt was taken from the IMF - Staff Report for the 2006 Article IV Consultation, *December 8, 2006*

C. Debt Sustainability and Fiscal Policy

20. **Staff cautioned that measures announced in the 2006 budget were insufficient to put the country on a sustainable debt path.** This is mainly because the budget focused on only revenue measures (the VAT and a one-time increase in petroleum prices), which were more than offset by a surge in outlays. Looking forward, the staff estimated that absent strong fiscal adjustment, public debt would reach 107 percent of GDP by 2011, well above the 75 percent of GDP specified in the government's Debt Strategy. This would boost central government debt servicing to more than 8 percent of GDP (about 28 percent of current revenues), raise the government's vulnerability to rollover risk, and constrain its ability to undertake poverty alleviating expenditures.

21. **Against this background, the mission recommended the adoption of a front-loaded fiscal adjustment.** On the basis of an active scenario involving additional fiscal measures, an increase in grant financing, and medium-term real GDP growth of the order of 4–5 percent, the stock of public debt could decline to 76 percent of GDP over the next six years.

22. **The mission recommended achieving a primary deficit of 0.4 percent of GDP for with further consolidation over the medium term.** The adjustment in 2006 (which would be around 2 percent of GDP) could be achieved from the revenue side, mainly through increased petroleum taxes (as a result of the more frequent pass-through of international oil price changes), more vigorous collection of company income tax, and additional capital revenue (derived from land sales)[5]. This would bring the tax collection effort, which had lagged in 2004–05, in line with levels attained in previous years. In order to accommodate planned capital expenditures while ensuring fiscal adjustment, stricter discipline was needed on current expenditures, mainly on wages and salaries. The mission urged a further fiscal adjustment of about 1.2 percent of GDP in achievable by a range of measures discussed below, taking the central government primary surplus to 0.8 percent of GDP.

23. **In the wake of policy changes following the mission, the authorities appear likely to achieve a fiscal position close to that of the active scenario for 2006.** Effective August 21, 2006, retail prices of gasoline and diesel were raised by 20 and 3 percent, 15 respectively. Expenditure on wages and salaries has also been constrained in the third quarter of 2006.

24. **Staff commended the authorities on their preparations for introduction of the VAT.** The revised target implementation date (May 1, 2007) appears feasible, and with the planned single VAT rate of 15 percent, the tax is likely to be revenue positive (yielding about 1

[5] The taxation authorities estimate that there are up to about XCD 90 000 000 in uncollected taxes, mainly due to insufficient enforcement.

percent of GDP in additional revenues)[6].

25. **Staff urged the authorities to stand firm against pressures to increase the list of products and services exempted (or zero-rated) under the VAT.** Yielding to these pressures would increase the administrative burden, erode the tax base, distort incentives in the tax regime, and complicate compliance. Staff also commended the authorities on their active engagement with the IMF and CARTAC to obtain the technical assistance needed for VAT establishment and implementation.

26. **Over the medium term, there is scope to raise revenues by broadening the coverage of the tax system.** Key aspects include:

- • *Property tax*. Property tax collections do not seem to be keeping pace with real estate prices. Staff encouraged the government to move to a market valuation-based property tax system as soon as technically feasible, and to complete the required cadastral surveys as an important first step. The authorities agreed with this recommendation, and plan to revise the property tax system during 2008, following introduction of the VAT.

- *Taxation of petroleum products*. At present there is a legislated consumption tax, but in recent years the government has been absorbing most of the additional cost of higher world oil prices, thereby eroding revenues. The mission urged the adoption of a flexible pricing mechanism. While the authorities broadly agreed with the staff's advice, they argued that they preferred to maintain a system of discrete price adjustments to enable them to smooth out the impact on the poor, who rely more heavily on cooking fuel and public transportation.

- *Reducing tax concessions.* Tax competition is severe in the region, and SVG has extensive tax concessions, both for corporate and customs-related taxes, which result in a loss of revenue of about 10 percent of GDP. The authorities stated that they were committed to reducing discretionary concessions, but that a certain level of statutory concessions was needed to attract foreign direct investment.

27. **Staff stressed that addressing Saint Vincent and the Grenadines' fiscal imbalances required stricter spending discipline.** There are several key components of expenditures where reductions can be made:

- *Prioritization of the capital budget.* Greater prioritization of capital expenditures would enhance the efficiency of public sector investments. The 2006 budget includes provisions for a large number of new, high-profile projects — many without adequate cost-benefit analysis — including the new international airport on the main island, the jetport in the Grenadines, sport facility renovation, and road construction. Better efforts

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[6] The VAT Act was passed by Parliament in October 2006, and envisages a single VAT rate of 15 percent applied to goods and services; tourist accommodations will have a rate of 10 percent. Many basic items have been zero-rated (such as bulk rice, flour and sugar) or exempted (such as publicly-supplied water and prescription drugs) from VAT.

were needed to prioritize and properly phase projects, and fund these with grant financing and concessional loans. Staff urged that the government use Caribbean Development Bank and World Bank expertise to evaluate the efficacy of all public sector investment program (PSIP)-listed projects above a certain threshold (e.g., XCD 5 000 000), and to upgrade the PSIP, with technical assistance infrastructure from CARTAC.

- *Public sector wages and employment.* The government's wage bill, which accounts for about half of all current expenditures, is among the highest in the ECCU. The mission recommended that growth in the number of civil servants be strictly limited and wage increases be prudently managed, by initiating civil service reform aimed at reducing employment levels and providing greater differentiation in the pay scale between higher- and lower-skilled workers. The authorities argued that the country's wage bill was not excessive. They pointed out that the delivery of government services across a multi-island country was very costly.

- *Social security reforms.* The financial position of the country's social security scheme, National Insurance Services (NIS), is weak, and there is a need for fundamental reforms (Box 3). Population ageing and the maturing of the scheme will require steep increases in expenditure in the medium term that will not be covered by contributions and accumulated NIS assets. The mission suggested consideration of a range of options, including: increasing the contribution rate for social security pensions; gradually raising the retirement age from 60 to 65; and eliminating the duplication of pensions (by capping the combined benefits from civil service and social security pensions). The authorities agreed that it was important to quickly tackle the challenges facing the NIS, and undertook to examine further the staff's proposals. The authorities also stated that they have agreed in principle to a gradual increase in the contribution rate from 6 percent to 10 percent. They also supported the establishment of an OECS pension reform commission that would examine pension-related issues in all OECS countries.

28. **Social programs have evolved in a piecemeal fashion, and are expensive and poorly targeted**. The mission welcomed the government's announcement that a household survey and poverty assessment would be undertaken in 2007, and suggested that these results should be used to improve the targeting of social benefits and to develop transparent criteria for their provision.

29. **Staff recommended that the government's Debt Strategy be strengthened.** The Strategy targets a medium-term debt level of 75 percent of GDP, to be achieved mainly by restructuring of Ottley Hall debt (11½ percent of GDP at end-2005)[7]. The mission stated that

[7] In 1999 the government assumed a large private external debt of XCD 156 000 000(amounting to a then 17½ percent of GDP) for the construction of Ottley Hall shipyard (a yacht repair facility). The shipyard was operated by a joint-venture company, Caribbean Charter and Yacht Yard Holdings, owned by the government (49 percent) and a private company, the Saint Vincent Yachting and Shipping Company (51 percent). The government had guaranteed the debt. 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. The Italian export guarantee agency, SACE, which

this target would still leave the fiscal position vulnerable, given the growing cost of debt servicing, the declining concessionality of public borrowings, and the volatility of national income and export receipts. The authorities were more optimistic, and viewed the target as achievable and a useful benchmark for fiscal policy. They also anticipated a reversal of the public debt ratio, once the much-needed near-term boost to social and infrastructure spending was complete.

Saint Vincent and the Grenadines' National Insurance Services (NIS) faces major challenges. Its 2005 Actuarial Review projected that after 2012, contributions collected will not be sufficient to cover expenses. This will lead to a decreasing net income and consequently a depletion of the fund's reserves. Estimates of the net present value of future income and expenditure streams show a net implicit liability equivalent to 12 percent of GDP. Furthermore, it is estimated that in a 60-year horizon the implicit liability would be close to 100 percent of GDP.

To ensure the financial soundness of the scheme, it is estimated that the NIS would have to almost double the contribution rate to at least 11% of insurable earnings (IE) within the next five years. Currently SVG has the second-lowest contribution rate in the Caribbean□6 percent of IE. Other reforms to assist the finances of the NIS could include: raising the retirement age; streamlining benefits (including reducing overlap with civil service pensions); and altering investment portfolios.

The NIS is also an important part of the country's financial system. Due to the relative youth of the SVG's population, the NIS has accumulated reserves in excess of 20 percent of GDP, which have been mostly invested in domestic public assets (such as government bonds) or deposited at local banks. While limits on foreign asset allocations of NIS reserves may have contributed to the development of domestic financial markets, it also poses important risks. The growth of NIS reserves in the context of limited local instruments for investment and restrictions on investment overseas may have created distortions in domestic financial markets, including by artificially lowering borrowing costs for the government.

As a result, both sides of the balance sheets of local banks are dominated by the public sector. NIS reserves account for around 20 percent of bank deposits, while close to 25 percent of bank lending is to the public sector. This leaves local banks highly exposed to the public sector and without adequate diversification in their portfolios, particularly in an economy vulnerable to exogenous shocks. Finally, the resulting dominance of short-term fixed income investments also implies that assets are a very poor match for liabilities. The duration of NIS portfolios is much shorter than its long-term liabilities. As a result, changes in interest rates may exacerbate asset-liability mismatches.

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insured the external financiers, continues to service the loan. The government has clearly indicated that in reaching any agreement with creditors to write down the debt, it would not pay more for the debt than the value of the Ottley Hall assets (valued in 2005 at about XCD 15 000 000).

ANNEX 9 – List of Government's commitments

	Governance area	Prospective commitments
1.	**Political democratic governance**	
	- Human rights	United Nations Declaration of Human Rights, CEDWA, CRC, ILO Convention 169
	- Fundamental freedoms	
	- Electoral process	
	- Principles of constitutional democracy	Constitutional Review Commission (CRC) (is ongoing) recommended threat that the independent office of Ombudsman be instituted as a constitutional office supported by ordinary legislation
2.	**Political governance - rule of law**	
	- Judicial and law enforcement system	The construction of the modern correctional facility at Belle Isle is ongoing. The expected completion date for the first phase is early 2007. The project is designed in two (2) phases.
3.	**Control of corruption**	Two Bills are already drafted to address corruption namely, the Integrity in Public Life Bill and the Prevention of Corruption Bill. They are expected to be enacted in 2007.
4.	**Government effectiveness**	
	- Institutional capacity	The Public Sector Reform Management Strategy is in the process of reviewing the Public Sector as a means of enhancing the institution capacity of Government Ministries.
	- Public finance management	SVG confirms that it would negotiate to conclude tax exchange of information agreements with EU member states, which are willing to do so. Vincent and the Grenadines commits to complete transparency of the tax system to the

		extent necessary to perform obligations under a tax information agreement concluded with EU Member States insofar as this would be asked by EU Member States. SVG commits to engage in dialogue with EU Member States on any alleged harmful effect of its tax regime. Currently, all legislation governing the sector is being revised to ensure that the jurisdiction remains competitive and is in compliance with international best practices and standards. The Finance Administration Act 2004 and Audit Act 2005 were introduced in 2004. In addition, a new Procurement Act and Regulations will be drafted in 2007.
5.	**Economic governance**	
	- Private sector/market friendly policies	SVG will be reviewing its legislation relating to land and also modernising the processes of land regulation.
	- Management of natural resources	
6.	**Internal and external security**	
	- Internal stability / conflict	
	- External threats and global security	SVG is committed to implementing the UN Security Council Resolution 1373 (2001). Adherence to the Non-Nuclear Proliferation UN Convention on Terrorism, agreements relating to landmines and illicit arms trafficking and the Regional Security System
7.	**Social governance**	There is a National Strategic Plan which was updated in February 2004 and extends to 2009. The Government of Saint Vincent and the Grenadines is committed to carry out a Country Poverty Assessment (CPA) as part of its commitment to reduce poverty. The overall objective of the CPA is to assess the current conditions affecting the welfare of people and to identify policies, strategies, action

		programmes and projects that would reduce the extent of severity of poverty in SVG.
8.	**International and regional context**	
	- Regional integration	SVG is actively participating in the regional policy development process namely the Caricom Single Market and Economy (CSME) and the OECS Economic Union.
	- Involvement in regional peer review mechanisms (e.g. APRM)	
	- Migration	
9.	**Quality of partnership**	
	-Political dialogue	Continuation of dialogue between EC a member states representatives and representatives of the Government of SVG.
	-Programming dialogue	National Economic and Social Development Council (NESDC) was established and given Judicial footing to foster dialogue with Government and Civil society
	-Non state actors	The Government has already a formal mechanism (Non- State Actors Panel). This is to strengthen civil society participation in policy formulation and programming. The operationalisation of this Panel is ongoing.