

Part 3: Overview of 3 OECS Islands: Dominica,
St. Kitts & Nevis, and St. Lucia

Julie Litchfield

Michanne Haynes Prempeh

January 2006

Part of a final report, funded by the EC-PREP programme, submitted by the Poverty Research Unit, Sussex University to DFID entitled “The impact of the Cotonou Agreement on trade, production and poverty alleviation in the Caribbean region”

Contents

3.1	Introduction: OECS Overview.....	1
3.2	Dominica.....	3
3.2.1	History.....	3
3.2.2	Geography.....	3
3.2.3	Demographics	4
3.2.4	Economic Overview.....	5
3.2.5	Dominica and Regional Integration Issues.	8
3.3	St. Kitts-Nevis.....	10
3.3.1	History.....	10
3.3.2	Geography.....	10
3.3.3	Demographics	11
3.3.4	Economic Overview.....	13
3.3.5	St. Kitts and Nevis and Regional Integration Issues.....	15
3.4	ST. LUCIA.....	16
3.4.1	History.....	16
3.4.2	Geography.....	16
3.4.3	<i>Demographics</i>	16
3.4.4	Economic Overview.....	18
3.4.5	St. Lucia and Regional Integration Issues.....	21
3.5	Conclusions.....	21
	REFERENCES	23

List of Tables

Table 3-3.2-1 Population by Gender, 1960 - 2001 Censuses	4
Table 3.2-2 Characteristics of Poverty in Dominica.....	5
Table 3.2-3 Gross Domestic Product by Economic Activity in Constant (1990) Prices (EC\$M)	6
Table 3.2-4 Dominica Public Sector Debt 1995-2003.....	7
Table 3.2-5 Economic Activity of Persons 15+ Week Before the 1981, 1991, and 2001 Population Censuses	7
Table 3.3-1 Population by Gender 1991 and 2001	11
Table 3.3-2 Characteristics of Poverty in St. Kitts	11
Table 3.3-3 Characteristics of Poverty in Nevis	12
Table 3.3-4 St. Kitts and Nevis Tourist Arrival and Departures 1993-2003	13
Table 3.3-5 St. Kitts and Nevis Central Government Tax Revenue 1995-2003.....	15
Table 3.4-1 St. Lucia Population by Gender.....	17
Table 3.4-2 Characteristics of poverty in St. Lucia	17
Table 3.4-3 St. Lucia expenditure/income shares of per capita expenditure quintiles.....	18
Table 3.4-4 St. Lucia Gross Domestic Product by Economic Activity Constant Prices-1990.....	19

3.1 Introduction: OECS Overview

This part of the report aims to provide background information on the economic structure, trade and poverty in the OECS islands. The OECS group of islands consisting of Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines, are a more integrated area within the CARICOM group of countries. They share a single currency and monetary policy for all the islands is set by the Eastern Caribbean Central Bank (ECCB).

The OECS islands are among the smallest in CARICOM with the smallest populations. Their productive capacity is limited by their physical size and the quality of the labour force available to them. They belong to the Less Developed Country group of CARICOM despite the fact that some of them have consistently produced higher per capita GDP than some of the larger CARICOM members. Their LDC status is more a reflection of the constraints described above than anything else.

The OECS members share many similarities. The traditional dominance of the agricultural sector can be seen in their export profiles. In St. Lucia, agricultural exports account for greater than 60% of total exports. In the remainder of countries, this percentage averages between around 45% and 50%. On average, the manufacturing sector averaged 7% of GDP in the OECS, and contributes a relatively smaller share to total export earnings than agricultural products. While St. Lucia has traditionally been the largest manufacturing country in the OECS, manufacturing exports have declined considerably. The larger manufacturing firms in the OECS islands are foreign owned and produce primarily for the US market. Locally owned firms are dominated by agro-industrial products, led by fruit, vegetable and beverage processing, and household products derived from the oils and fats industry are goods which fall within the category of consumer goods.

The OECS islands are now becoming more service oriented, especially as the preferential treatment, which guaranteed access to foreign markets for their agricultural

products has eroded over time. Yet as will be seen in the Country Studies presented below, the move to services is taking various forms.

The countries chosen as case studies for the research project are Dominica, St Lucia and St Kitts and Nevis. We had originally envisaged selecting two countries for our case studies but the availability of household survey data, generously provided by the Caribbean Development Bank, enabled us to consider three countries. We chose these particular countries because of their strong exposure to imports from the EU and other regions, the extent of poverty in each country, and their on-going reliance on agriculture for GDP and employment. These three countries had also completed Country Poverty Assessments (CPAs) within the last 10 years, which gave us the opportunity to understand in some detail the nature of poverty in each and hence the likely impact of the EPAs on poverty in each country.

This report has three sections, one for each of Dominica, St Kitts and Nevis and St Lucia, which discuss the profile of poverty, the economic structure, and the patterns of trade in each.

3.2 Dominica

The first country we selected for our case-study analysis is Dominica.

3.2.1 History

Named by Christopher Columbus in 1493, Dominica lies in between the French territories of Guadeloupe and Martinique. Fierce resistance from the indigenous Amerindian population, the Caribs, thwarted early Spanish attempts at colonisation and the island was claimed by France in the 17th century. Dominica suffered as the French and British fought over possession of the island throughout the 17th and 18th centuries. Although the 1783 Treaty of Paris secured Dominica as a British colony, French invasions continued until 1805. After political struggles for self-rule which gained momentum in the 1960s, the Commonwealth of Dominica was eventually granted independence in 1979.

3.2.2 Geography

With a land mass of 750 sq km, Dominica is the largest of the Windward islands and is the most mountainous of the Lesser Antilles. It is known as the 'Nature Island of the Caribbean' because its dense forest and woodland cover 61% of the land area, with subtropical vegetation and orchids full of lush fauna and flora. However, much of this is steep mountainous terrain. While arable and cropped land only extends to 170 sq km of the island, it is very fertile, volcanic soil.

3.2.3 Demographics

The 2003 population of the island was estimated at 69,683¹ with the majority living in urban areas. The three largest cities Roseau (capital), Portsmouth, Marigot had populations of about 19,700, 3,600 and 2,900 respectively. Population growth rates have been low and sometimes negative due to emigration of young people to Canada, the United States and the United Kingdom. As indicated in the table 3.2-1, migration rates have been slightly higher among women.

Table 3-3.2-1 Population by Gender, 1960 - 2001 Censuses

Census Date	Male	Female	Total
1960	28167	31749	59916
1970	32968	36581	69549
1981	36754	37041	73795
1991	35471	35712	71183
2001	35073	34552	69625

source: Commonwealth of Dominica Population and Housing Census Report 2001

The 2003 Dominica Country Poverty Assessment (CPA) Study, conducted by the Halcrow Group, determined that nearly 29% of the households, consisting of 40% of the population, were poor, based on the food and non-food consumption data collected in household surveys. Poverty appeared to be a rural phenomenon in Dominica with 75% of the poor households located in rural areas. Poverty levels were particularly high in the parish of St. David which includes the Carib Territory in which resides the largest indigenous population in the Caribbean. Here over 50% of the households are defined as poor. The CPA also noted that half of Dominica's children reside in poor households. Table 3.2-2 below presents an overview of some of the characteristics of the poor.

¹ ECCB National Account Statistics 2004.

Table 3.2-2 Characteristics of Poverty in Dominica

	Headcount Poverty Rate (%)	Population Share (%)	Share of the poor (%)
All	39.00		
Households	29.00		
Urban Households	19.00	38.00	24.00
Other Urban*	40.00		11.00
Rural Households	33.00	62.00	65.00
Gender			
Male	30.00	50.00	50.00
Female	30.00	50.00	50.00
Age			
<15	49.40	30.00	38.00
15-24	41.44	16.00	17.00
25-44	33.43	28.00	24.00
45-64	29.25	16.00	12.00
65+	28.36	11.00	8.00
Head of Household			
Male	27.68	66.00	63.00
Female	31.56	34.00	37.00
Employment Status (15-64)			
Employed	31.20	75.00	60.00
Unemployed	62.40	25.00	40.00
Occupation			
Prof/Man/Tech	13.65	20.00	7.00
Sales/Clerical	24.82	22.00	14.00
Farmers	48.75	20.00	25.00
Skilled Manual/Craft	53.86	21.00	29.00
Elementary	57.35	17.00	25.00
Urban refers to Roseau and suburban areas, and Portsmouth; Other urban refers to La Plaine, Marigot, Castle Bruce and Grand Bay.			
Source: Dominica Country Poverty Assessment, Caribbean Development Bank 2003.			

Not surprisingly, the study also found a high level of poverty among the unemployed. 40% of those considered poor were also unemployed where as this figure was 16% for those considered to be not poor.

3.2.4 Economic Overview

Dominica's economy has been described by its government officials as the most vulnerable in the Caribbean. Its location exposes it to tropical storms and hurricanes, which have in the past caused severe damage to the agricultural sector particularly bananas. There were three severe hurricanes in the 1980s, and a further 2 in 1995. Flash

floods are a constant threat because of the steep mountain slopes and these frequently damage agricultural produce (need to talk more about vulnerability!!)

From the mid-1990s, Dominica experienced a period of modest economic growth, but by 1999 the economy had stalled, moved into recession in 2000, then shrunk by more than 4% from 2001-02. The economic downturn was caused not only by the contraction of the banana industry as preferential treatment in international markets worsened, but also by a reduction in the number of tourist visitors. The economic recovery in 2003 was led by growth in the tourism sector as measured by the hotels and restaurants sectors.

Table 3.2-3 Gross Domestic Product by Economic Activity in Constant (1990) Prices (EC\$M)

Economic Activity	1995	1996	1997	1998	1999	2000	2001	2002	2003
Agriculture	83.19	87.74	86.43	84.71	82.90	81.98	76.59	76.06	73.31
Crops	65.62	69.89	67.99	66.00	63.73	62.81	57.20	56.48	53.42
Livestock	6.93	7.02	7.13	7.24	7.35	7.42	7.49	7.56	7.65
Forestry	3.22	3.27	3.32	3.35	3.38	3.38	3.44	3.47	3.48
Fishing	7.42	7.56	7.99	8.12	8.44	8.44	8.46	8.58	8.76
Mining & Quarrying	3.68	3.57	3.71	3.36	3.49	3.70	3.61	2.69	2.99
Manufacturing	27.77	29.44	30.18	35.26	29.16	31.32	27.06	26.45	26.62
Electricity & Water	14.44	15.52	16.68	18.23	19.18	19.66	20.30	20.43	20.03
Construction	36.76	35.66	35.05	33.60	34.86	36.97	36.14	26.88	29.91
Wholesale & Retail	50.66	52.94	54.26	55.65	57.02	58.45	58.02	55.02	56.99
Hotels & Restaurants	11.66	11.03	11.25	10.80	11.26	11.70	10.83	10.47	11.34
Transportation	40.79	43.09	42.99	44.52	45.12	44.68	42.22	36.70	38.66
Road	23.23	24.16	24.52	24.27	24.28	25.47	23.73	19.38	22.00
Sea	14.01	15.22	14.65	16.59	16.92	15.35	14.80	13.60	12.88
Air	3.55	3.71	3.82	3.92	3.92	3.86	3.69	3.72	3.78
Communication	38.26	39.42	44.50	49.38	55.59	53.16	49.71	48.91	39.39
Bank & Insurance	53.73	52.80	50.58	54.62	58.31	58.46	56.54	53.27	54.76
Real Estate & Housing	14.47	14.76	14.91	15.20	15.50	15.66	15.81	15.96	16.28
Govt Services	71.09	72.16	74.23	78.33	78.51	82.00	85.77	88.75	87.29
Other Services	5.28	5.50	5.61	5.83	6.01	5.98	6.14	6.42	6.61
Product Taxes less subsidies on imports	77.81	78.98	83.13	87.47	83.64	81.16	80.00	81.20	91.09
Less: FISIM	41.47	40.69	39.06	46.25	46.44	47.37	51.39	52.89	49.19
GDP	488.12	501.92	514.43	530.71	534.11	537.51	517.35	496.35	506.08
GDP Growth Rate (%)	3.35	2.83	2.49	3.16	0.64	0.64	3.75	-4.06	1.96

Source: ECCB National Account Statistics 2004

The economic vulnerability of the island stems from the economy's dependence on the banana industry and particularly banana exports to the EU as a source of employment and a foreign exchange earner to service the international debt which more than doubled over the 1995-003 period as indicated in table 1-3, this despite the debt forgiveness by the UK in 1997-1998.

Table 3.2-4 Dominica Public Sector Debt 1995-2003

	11995	11996	11997	11998	11999	22000	22001	22002	22003
Total public sector external debt (EC\$M)	278.19	276.64	240.29	253.16	359.86	414.51	489.56	563.15	619.69
Debt service (cash basis) (EC\$M)	20.09	24.10	28.92	37.59	41.66	57.87	54.30	54.12	49.02

Source: ECCB National Account Statistics 2004

Since the 1980s, successive governments have therefore introduced measures to diversify the economy, to develop export-oriented small industries (notably garments and electronics assembly), taking advantage of such preferences as the Caribbean Basin Initiative (CBI), which allows access to the US market. They have also encouraged development of the tourism sector, focusing on eco-tourism as the lack of beaches discourages the traditional tourist coming to the Caribbean. With this in mind, Dominica is seeking to expand its airport to accommodate night flights and provide a runway long enough for long-haul jets from North America and Europe. One of the effects of these diversification efforts out of agriculture has been increasing unemployment, as the service sectors do not provide as many job opportunities that were available as the labour intensive agricultural sector.

Table 3.2-5 Economic Activity of Persons 15+ Week Before the 1981, 1991, and 2001 Population Censuses

	Males			Females			Total		
	1981	1991	2001	1981	1991	2001	1981	1991	2001
Employed	14008	15575	15003	6698	8248	9808	20706	23823	24811
Unemployed	2690	7101	2030	1937	840	1024	4627	7941	3054
Home Duties	361	1306	1382	9024	9912	6852	9385	11218	823
Student	224	1352	2303	228	1746	2494	452	3098	4797
Retired	749	1059	2140	961	745	2636	1710	1804	4776
Disabled	1051	1318	959	1446	1525	986	2497	2843	1945
Other	1372	670	443	720	330	227	2092	1000	670
TOTAL	20455	28381	24260	21014	23346	24027	41469	51727	48287

source: Commonwealth of Dominica Population and Housing Census Report 2001

The Dominican government have targeted FDI predominantly for export-oriented sectors and industries, as well as employment creating, by offering significant incentives for investments particularly in manufacturing and tourism. Fiscal incentives include tax holidays of up to 15 years depending on the value of the investment, the orientation of production for export and the local content in the final product. There is also customs duty exemptions on goods imported as raw materials and inputs in production, goods needed for construction and alteration of factories. The Hotel AID Act allows for a 20-year relief from income tax and import duties on building materials, machinery, and equipment from approved hotel and resort developments.

The financial services sector has become more important and Dominica now has 5 commercial banks, 4 of which are foreign owned and 1 which is 51% state-owned.² Despite this, credit unions still play an important role in the domestic sector accounting for at least 25% of the financial sector's loans and deposits.

Until recently, Dominica's main off-shore industry was the Economic Citizenship Programme which granted citizenship to persons willing to invest a minimum amount of money in Dominica. Between 1991 and 1997, Dominica received about US\$15 million in investment and acquired 750 new citizens - mainly non-resident Taiwanese - under this programme. In the latter 1990s, 200-300 Russians were granted economic citizenship. Within recent years, the government has also encouraged development of an offshore financial-services sector, including company and bank registration and internet gambling. Offshore companies are entitled to a 20-year tax holiday and are not subject to the exchange controls.

3.2.5 Dominica and Regional Integration Issues.

Dominica has signed the revised and ratified the Treaty of CARICOM establishing the CARICOM Single Market and Economy (CSME), however as of the

² CEDA *Caribbean Community Secretariat Dominica Country Brief* p. 24 Draft June 2004

most recent update available, the treaty had not been enacted into Dominica's domestic law. Despite this, Dominica has made progress in removing restrictions that hamper establishment of business, movement of capital, services and skilled Community Nationals. A number of service sectors have no specific market access restrictions to CARICOM nationals, these include professional services such as legal, accounting, architectural services; construction and related engineering services; health related and social services excluding hospital services; maritime transport services. However access to CARICOM services providers in these areas may be subject to more general restrictions such as Alien Land Holding which restricts a non-OECS national from owning more than 1 acre of land for residential purposes and 3 acres for business purposes without a special license, and foreign exchange controls which prohibit trading in foreign currency transactions in excess of EC\$250,000.

Recently, in a move seen as controversial as some in terms of its commitments to the CSME, Dominica has imposed a visa requirement and a security bond on nationals from Haiti travelling to Dominica, citing the steady influx of Haitians as a national security concern.

3.3 St. Kitts-Nevis

3.3.1 History

Christopher Columbus arrived in St. Kitts in 1493 on his second voyage and named it after St. Christopher. Nevis was also discovered on this second voyage. St. Christopher was shortened to St. Kitts by the English colonists, who along with the French, first arrived on the island in 1623-24. St. Kitts was the first English colony in the Caribbean and was held jointly by the English and French from 1628 to 1713. However, only English settlers arrived on Nevis in 1628 and this contributed to prosperity of Nevis in the 17th century compared to St. Kitts which was the scene of intermittent warfare between the French and English settlers. St. Kitts was ceded to Great Britain by the Treaty of Utrecht in 1713, however, the French seized both St. Kitts and Nevis in 1782.

The Treaty of Paris in 1783 definitively awarded both islands to Britain. They were part of the colony of the Leeward Islands from 1871-1956, and of the West Indies Federation from 1958-62. In 1967, together with Anguilla, they became a self-governing state in association with Great Britain. The Federation of St. Kitts and Nevis attained full independence on September 19, 1983.

3.3.2 Geography

The two-island country of St Kitts (also known as St. Christopher) and Nevis lies in the northern part of the Leeward Islands group of the Lesser Antilles in the Eastern Caribbean. The islands are separated by a channel about 3km in width. Both islands are mountainous, the lower mountain slopes of St Kitts, particularly to the north, are arable, and (were) used for growing sugar cane. Uncultivated lowland slopes are covered in tropical woodland and fruits. The higher slopes provide short grass for pasturage. Tropical rainforest or dense bushy cover occurs on the central range and unlike other islands in the region, the forested area is increasing in size. Nevis, where much of the land is cultivated by rural farmers growing vegetables and coconuts, has a large coconut forest on the west side. Forest covers 11% of the total land area of St Kitts and Nevis.

3.3.3 Demographics

The 2001 census measured the population at just over 46,000, with about 1/3 living in urban areas. Population growth rates growth -0.6% p.a. 1970-90 and -0.9% p.a. 1990-2001 - negative rates due mostly to emigration.

Table 3.3-1 Population by Gender 1991 and 2001

Year	1991			2001		
	Male	Female	Total	Male	Female	Total
St. Kitts	15,681	16,143	31,824	17,424	17,506	34,930
Nevis	4,252	4,542	8,794	5,495	5,686	11,181
Total	19,933	20,685	40,618	22,919	23,192	46,111

Source: Statistical Review 2004, Statistics Division, Planning Unit, Ministry of Finance, Technology and Sustainable Development

The UNDP Human Development Report 2003 gave St. Kitts & Nevis a High Human Development Rank (51 out of 175 nations), the only country in the OECS to receive such a ranking. The 2001 Country Poverty Assessment of St. Kitts-Nevis produced by Kairi for the Caribbean Development Bank calculated poverty estimates for St. Kitts and Nevis. It was determined illustrates the phenomenon of the working poor, as the unemployment rate among the poor are extremely low at 5.3% and 5% respectively for the islands of St. Kitts and Nevis. For both islands more than 60% of the poor fall in the <25 age group, with the highest share of the poor falling in the <15 age group. Another similar characteristic between the two islands is the high level of education of the poor. On both islands, at least 50% of the poor have a secondary education. A notable difference however is that there is a higher percentage of poor women in Nevis than in St. Kitts.

Table 3.3-2 Characteristics of Poverty in St. Kitts

	Headcount Poverty Rate (%)	Population (%)	Share	Share of the Poor (%)
All	30.50			
Gender				
Male	29.00		47.00	44.00
Female	32.00		53.00	56.00
Age				
<15	35.21		41.40	47.80
15-24	34.27		17.80	20.00
25-34	25.45		13.90	11.60
35-44	22.66		14.00	10.40
45-54	15.62		6.50	3.50
55-64	18.77		3.90	2.40
65+	11.93		9.20	3.60
Not Stated	16.42		1.30	0.70
Employment Status				
Employed	30.60		94.40	94.70
Unemployed	28.87		5.60	5.30
Highest Level of Education of Employed labour Force				

None	
Primary	9.00
Secondary	65.20
Post-Secondary	4.00
University	0.90
Other	19.20
Not-Stated	1.30

Source: Poverty Assessment Report St. Kitts & Nevis, 2001.

Table 3.3-3 Characteristics of Poverty in Nevis

	Headcount Poverty Rate (%)	Population Share (%)	Share of the poor (%)
All	32.00		
Gender			
Male	26.00	45.00	37.40
Female	36.00	55.00	62.60
Age			
<15	48.26	25.80	37.40
15-24	48.35	13.70	20.70
25-34	33.45	15.40	16.10
35-44	27.92	14.90	13.00
45-54	14.15	10.40	4.60
55-64	9.95	7.40	2.30
65+	15.02	13.00	6.10
Employment Status			
Employed			95.00
Unemployed			5.00
Highest level of Education of Employed Labour Force			
None			
Primary			33.30
Secondary			53.70
Post-Secondary			5.60
University			3.70
Other			3.70

Source: Poverty Assessment Report St. Kitts & Nevis, 2001.

3.3.4 Economic Overview

There are 4 major sectors in St. Kitts and Nevis- Agriculture; Tourism; Services including off-shore financial services; and Manufacturing. Agriculture generates 42% of merchandise exports and employs about 35% of the labour force. Presently, just a little less than 12,000 acres of the total 15,000 acres of cultivable land is used for sugar cane production.³ Sugar exports from St. Kitts are mainly sent to the UK with a small amount destined for the US market. Other agriculture, not related to sugar, consists mainly of part-time, subsistence farmers engaged in root crops and vegetables.⁴ These agricultural products are not exported. St Kitts and Nevis was virtually a sugar monocrop economy until the late 1970s, when the government backed a drive into small-scale industrialisation. While the sugar sector is still an important source employment and foreign exchange earner, the tourism sector has in recent years become the major source of foreign exchange earner. The government decided to close the sugar industry after the 2005 crop, in the wake of decades of inefficient operations of the state run sugar company.

Table 3.3-4 St. Kitts and Nevis Tourist Arrival and Departures 1993-2003

Tourist Arrivals	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Tourist/Excursionist	86,329	96,410	841,623	86,213	91,595	95,973	87,008	76,350	74,227	70,398	92,399
Yacht/ Cruise Ship Passengers	83,115	112,903	121,405	78,529	95,577	151,475	139,338	170,887	259,134	171,814	151,172
Total Visitors	169,444	209,313	203,028	164,742	187,172	247,448	226,346	247,237	333,361	242,212	243,571

Source: Office of national Security, reprinted in Statistical Review 2004, Statistics Division, Planning Unit, Ministry of Finance, Technology and Sustainable Development

Note from the data above that the tourism sector has recently become more dependent on yacht and cruise ship passengers who made up approx. 62% of the visitors in 2003 compared with under 50% in the early 1990s. This generates concern for the industry because cruise ship passengers tend to spend less in the host country than visitors that actually stay on the island. This is supported by the data which shows that in 1993, gross visitor expenditure was EC\$ 188 million, compared with EC\$ 203 million in 2003 despite there being over 40% more tourists in 2003 than in 1993. Furthermore, the

³ RNM/OECS Country Studies to Inform Trade Negotiations: St. Kitts and Nevis. p. 13

vulnerability of this sector to natural disasters has severely hampered its development. As such, the small number of hotel rooms (approx 1440 in 2003)⁵ does not provide enough incentive for large commercial airlines to provide regular service to the island. In the six-year period between 1994 and 1999, St. Kitts was severely affected by 5 hurricanes, Louis and Marilyn in 1994, Georges in 1998 and Lenny and Jose in 1999. After each hurricane, the government had to rebuild the damaged infrastructure with additional borrowing, increasing the debt burden.⁶ After good growth of 3.7% in 1999 and 5.5% in 2000, the St. Kitts-Nevis economy was quieter in 2001, growing by 2.0%, reflecting the downturn in the US and consequent fall in tourism, and by 2002 it was in recession, shrinking in that year by 1.9%, despite investment in new tourist resorts and golf courses in 2001-02.

The country has attracted investment in offshore activities particularly on Nevis. A fast-growing internet gambling industry has been established on St Kitts. Six accredited medical institutions operate on the twin-island state, including 4 medical schools, a veterinary university and a nursing university.

Despite the challenges of industrial diversification on such a small scale, electronics assembly, data-processing and clothing production have been developed. Manufactured exports accounted for 73% of total merchandise exports (2000). The main trading partners are the US and the UK. The manufacturing sector offer less employment opportunities than the agricultural sector. While sugar manufacturing has traditionally been the largest industry in the sector, the electronics industry has been the fastest growing sector. It is argued by Lazare *et al.* that a number of factors hamper the growth of the manufacturing sector such as the relatively high labour costs (average wages of EC\$270/week in the sector) compared to the other OECS islands (average wage in Grenada is EC\$200/week), higher electricity rates compared to the islands of Grenada and St. Lucia, adequate water supply but of poor quality, and exceptionally high port and freight charges.⁷

4 RNM/OECS Country Studies to Inform Trade Negotiations: St. Kitts and Nevis. p. 15.

5 St. Kitts and Nevis Statistical Review 2004, table 8.3.

6 RNM/OECS Country Studies to Inform Trade Negotiations: St. Kitts and Nevis.

7 Ibid. p. 18

The share of international trade taxes on government revenues is lower when compared to other OECS islands. This drop coincides with an increasing importance of domestic tax revenues. While St. Kitts and Nevis abolished the personal income tax in 1981, a flat tax on income known as the social services levy was introduced in 1984 at 6.0%, 3.0% borne by each by employer and employee, this has since been increased to 8%. In addition, there is a wide range of taxes on goods and services including a consumption tax of 15% on locally produced goods with varying rates for clothing, rum and beer; house tax of 5% of annual rental value; corporate income tax of 38% of net income; land transfer tax of 8% of transfer value to be borne equally by purchaser and seller, tax on overseas phone calls at 5.0% of the billed charge; traders tax at 3% of sales.

Table 3.3-5 St. Kitts and Nevis Central Government Tax Revenue 1995-2003

Revenue	1996	1997	1998	1999	2000	2001	2002	2003
Income tax	26,648	25,896	31,406	33,239	39,440	37,425	39,926	41,916
other taxes	8,923	16,363	19,114	19,663	23,655	24,711	16,564	17,513
<i>Total Direct Taxes</i>	<i>35,571</i>	<i>42,259</i>	<i>50,520</i>	<i>52,902</i>	<i>63,095</i>	<i>62,136</i>	<i>56,490</i>	<i>59,429</i>
import duties	34,145	34,463	35,758	38,917	39,428	28,807	33,708	35,094
export duties	79	83	31	507	13	12	44	24
excise duties	9	9	10	12	13	19	15	14
consumption tax	29,711	35,021	38,150	41,290	42,146	44,563	51,388	58,817
hotel occupancy tax	9,234	9,302	8,747	9,426	4,650	9,380	8,309	9,358
other indirect taxes	35,960	39,478	42,817	41,372	47,579	56,864	62,327	72,853
<i>Total Indirect Taxes</i>	<i>109,138</i>	<i>118,356</i>	<i>125,513</i>	<i>131,524</i>	<i>133,829</i>	<i>139,645</i>	<i>155,791</i>	<i>176,160</i>
Total Government Tax Revenue	144,709	160,615	176,033	184,426	196,924	201,781	212,281	235,589

Source: St. Kitts & Nevis Statistical Review 2004

3.3.5 St. Kitts and Nevis and Regional Integration Issues

St. Kitts and Nevis have signed and ratified the Revised Treaty of Chaguaramas, establishing the CARICOM Single Market and Economy, however this has not been enacted into national law. St. Kitts also applies import duties on certain items from St. Lucia such as beer and pasta.

3.4 ST. LUCIA

3.4.1 History

The discovery of St. Lucia by the Europeans occurred in either 1492 or 1502 during Spain's early exploration of the Caribbean. The Dutch, English, and French all tried to establish trading outposts on St. Lucia in the 17th century but faced violent opposition from Carib inhabitants. The English, with their headquarters in Barbados, and the French, centred on Martinique, persevered and in between battles with the Amerindians, exchanged 'ownership' of the island fourteen times before Britain eventually triumphed, as France permanently ceded St. Lucia in 1815. By this time, St. Lucia had many prosperous sugar plantations, and its economic success was unrivalled by any other Caribbean island. With the abolishment of slavery, the sugar industry rapidly went into decline despite the efforts of the plantation owners to import cheap indentured labour from India. St. Lucia's economy did not rebound again until the 1960s when bananas replaced sugar as the primary economic activity on the island. St. Lucia achieved full independence from Great Britain in 1979.

3.4.2 Geography

One of the windward islands of the Lesser Antilles, St. Lucia is a mountainous island with fertile volcanic soil covering 616sq km in area. It's location in the Caribbean archipelago has historically spared it from severe hurricane damage although it has frequently tropical storms have devastated the banana industry in a few times. Because the economy is traditionally based on agriculture, about 30% of the land area is under cultivation. Forests cover 15% of the land area, having declined at a rate of 4.3% per annum from 1990-2000.

3.4.3 Demographics

St. Lucia has the largest populations of the OECS islands with an estimated population at 166,312 in 2005.⁸

⁸ <http://www.cia.gov/cia/publications/factbook/geos/st.html#Geo>

Table 3.4-1 St. Lucia Population by Gender

Census Date	Male	Female	Total
1980	54509	58900	113409
1991	64645	133308	71183
2001	77206	73950	151156

source: Caricom Secretariat: Women and Men in Caricom Member States, 1980, 1990 and 2000 rounds of Population Censuses

Unlike the other OECS islands discussed above, St. Lucia's population growth has never suffered from emigration. The population distribution across the main urban areas is as follows: Castries (capital, pop. 60,200 in 2002), Vieux Fort (4,700), Micoud (3,700), Soufrière (3,400), Dennery (2,800), Gros Islet (1,600). While 35.7% of households are located in urban areas, no location on the island is more than 3 hours away by foot from an urban settlement

The 1996 St. Lucia Country Poverty Assessment Report was prepared by Kairi Consultants Limited. Much of the data in that report was used in the OECS Human Development Report 2002. The report is based on the National Survey of Living Condition and a series of Community Level Situational Analyses (CLSA) completed in 1995.

Table 3.4-2 Characteristics of poverty in St. Lucia

	Poverty Rate Headcount (%)	Population Share (%)	Share of the poor (%)
All	25.10	100.00	
Urban	16.30	35.70	23.18
Rural	29.60	64.30	75.83
Gender			
Female	24.70		
Male	25.50		
Households	18.70		
Rural Households	22.50	64.30	77.37
Urban Households	11.70	35.70	22.33
Female headed	20.40	43.30	47.24
Male headed	17.40	56.70	52.76
Employment Sector			
Agriculture/Forestry	39.02	19.30	30.00
Manufacturing	36.78	15.90	23.30
Wholesale/Retail	17.53	17.90	12.50
Mining	17.79	20.80	14.74
Construction	24.05	9.60	9.20
Hotel/Restaurant	18.12	11.50	8.30
Transport/Communication	21.00	4.90	4.10

Source: Poverty Assessment Report St. Lucia, April 1996

St. Lucia had the lowest poverty estimates among the OECS islands. Notably, the poor are concentrated in the rural areas. In the lowest expenditure quintile, 75.9% live in rural areas while in the highest expenditure quintile, 47.7% lived in rural areas. Nearly 77% of poor households are located in rural areas. This coincides with the finding that 30% of the poor are employed in agriculture/forestry activities. This has led to the conclusion in the OECS Human Development Report 2002 that poverty is mainly an agricultural problem.⁹ The report further explains that in the rural areas, agricultural production is heavily export-market oriented with little focus on subsistence farming. This has resulted in significant food poverty in the rural areas, as the income from commercial sales has proved inadequate to purchase the necessary food. The poor are more dependent on the tradable sector for their income, particularly agriculture goods, and spend a higher proportion of the expenditure on tradables as their consumption consists of mostly food items.

Table 3.4-3 St. Lucia expenditure/income shares of per capita expenditure quintiles.

	Q1 Lowest	Q2	Q3	Q4	Q5 highest
Expenditures					
Tradables	5.7	10.9	15.1	23.5	44.9
Nontradables	2.3	4.8	9.9	17.4	65.6
Total	4.3	8.4	12.9	20.9	53.6
Income					
Tradables	11.2	12.2	22.0	25.5	29.1
Nontradables	4.4	11.3	19.8	20.3	44.2
Total	6.8	11.6	20.6	22.1	39.0
Tradable Expenditure Share	23.0	24.6	33.0	35.8	52.6
Tradable Income Share	56.0	35.8	36.3	39.2	25.4

Source: Poverty Assessment Report St. Lucia, April 1996.

3.4.4 Economic Overview

Although St Lucia's per capita income is relatively high among developing countries, it has been disadvantaged by its economic dependence on bananas and by its small size, small population, and limited physical and human resources. The dependence on the agricultural sector and particularly bananas can be seen from table 3.4-4 below.

⁹ OECS Human Development Report 2002, p. 132.

Table 3.4-4 St. Lucia Gross Domestic Product by Economic Activity Constant Prices-1990

Sectors	1995	1996	1997	1998	1999	2000	2001	2002
Agriculture	119.40	120.34	98.77	101.86	83.90	85.55	66.18	65.52
Bananas	80.43	76.72	52.14	55.00	41.05	43.68	22.37	30.57
Mining/Quarrying	5.17	5.15	5.73	5.83	6.72	7.66	5.71	5.82
Manufacturing	75.06	69.97	69.74	68.91	71.77	69.87	66.45	69.8
Construction	90.91	87.30	87.64	96.82	109.22	104.21	99.02	94.23
Electricity & Water	39.65	40.13	43.12	46.65	49.96	53.58	55.53	55.44
Wholesale & Retail Trade	144.97	145.38	150.10	151.74	156.18	146.20	124.10	120.07
Hotels & Restaurants	119.32	128.47	142.05	145.40	151.57	155.61	139.20	138.35
Transport	113.73	117.19	119.10	122.42	128.79	127.14	125.49	120.70
Communication	89.10	94.09	93.53	96.18	102.13	107.75	120.50	129.56
Banking & Insurance	91.88	98.29	105.73	110.99	120.79	124.42	127.72	129.29
Real Estate	73.31	74.23	75.21	78.62	81.45	83.39	87.15	89.30
Government Services	135.83	135.97	136.53	138.57	140.27	142.09	143.66	144.96
Other Services	48.34	50.82	52.42	53.99	55.72	57.55	53.33	54.29
Less Imputed Banking Charge	-76.82	-82.82	.88.94	.97.77	.99.45	-104.13	-106.21	-108.24
Total GDP	1069.85	1084.51	1090.73	1124.21	1159.02	1160.89	1107.83	1109.09
Rate of Growth (%)	1.69	1.37	0.57	3.07	3.10	0.16	-4.57	0.11

Source: Saint Lucia Economic and Social Review 2002

The changes in the EU's banana import regime in the last few years have had a significant impact on the agricultural sector. Since 1992, the sector had contracted by more than half due largely to the decline of the banana industry. This year, the St. Lucia Agriculturalist Association signed a three-year agreement to supply cocoa beans at guaranteed prices to an American chocolate producer. This has been described by the association as an opportunity for marginalized banana farmers who have been disadvantaged by changes to the EU banana import regime.

In an effort to reduce the economy's dependence on the banana sector, the government has encouraged development of an offshore financial services sector. Financial and business services have become the main economic activity in St. Lucia. Its contribution to GDP recorded at 17.2% in 2003.¹⁰ The services sector on a whole now plays a major role in the economy, employing more than two thirds of the work force. The main activity is financial activities, tourism, followed by retail trade and distribution.

¹⁰ Caribbean Community Secretariat, St. Lucia Brief, Final Report December 2004.

The manufacturing sector has been dominated by large foreign owned apparel and electronic component firms that produce primarily for the US. On speaking with St. Lucian officials, it was learned that these firms can be a source of instability in the economy and particularly employment. Described as ‘footloose’ because they close down when the period of time over which tax and other incentives for investment are valid, comes to an end. Domestically owned manufacturing firms consist of mainly of small enterprises (10 employees or less) in the furniture and agro-processing industries.

The Government of St. Lucia established The St Lucia National Development Corporation in 1971 to promote the economic development of St Lucia. This organisation functions as an investment, trade and export promotion agency seeking to attract foreign investment in a number of priority areas in the services sector including information technology, hotel and resort development and financial services.

In meetings held with government officials, it was learned that St. Lucia is seeking to attract investment in offshore medical institutions similar to those in Dominica and St. Kitts and Nevis.

3.4 Central Government Tax Revenues (EC \$ Millions)

Central Government tax revenue	1997/1998	1998/1999	1999/2000	2000/2001	2001/2002	2002/2003
Income Tax	101.4	105.4	127.0	137.4	118.4	105.1
Property Tax	2.0	1.0	0.9	1.9	4.7	3.9
Consumption Tax	105.0	140.8	122.8	100.8	105.4	112.5
Imports	93.9	128.2	112.2	90.3	100.1	107.3
Domestic goods	11.2	12.5	10.6	10.5	5.3	5.2
Tax on International Trade	104.0	112.5	154.1	119.1	93.8	102.5

Source: Saint Lucia Economic and Social Review 2002

As St. Lucia has implemented its international trade commitments to both the regional body the Caricom Secretariat and non-regional countries, the share of trade taxes in government revenues have fallen. In discussion with St. Lucian officials, it was learned that plans are underway to implement a Value Added Tax (VAT) in 2006.

3.4.5 St. Lucia and Regional Integration Issues

St. Lucia has signed, ratified and enacted into domestic law the Revised Treaty Establishing the CSME. However, St. Lucia still uses unauthorised import licenses for imports of various goods from some of the more developed Caricom Members and among all the Member countries, has the largest number of product categories under import licenses.

3.5 Conclusions

Each island has been traditionally heavily reliant on mono-crop agriculture but each has sought to develop their economics. For example, St. Lucia has always been reliant on bananas, developing the service sector in a number of ways, notably financial services. St. Kitts and Nevis, traditionally reliant on sugar, has seen some success in tourism and off-shore higher education services. St. Lucia, also a former banana economy, is also developing financial services and tourism, while seeking to diversify agriculture.

While each island also has its own distinct poverty profile, there are a number of similarities. The OECS report found that ‘within the Caribbean region where poverty assessments have been carried out, gender has not been found to have a significant association with poverty.’ However, there does seem to be a link between gender and unemployment: the data indicated that the unemployment rate of the poor in St. Lucia was 27% for women and 24.3% for males. The corresponding rate for the richest quintile was 15% and 8.9% respectively. Data on St. Kitts indicated that virtually no poor males were unemployed while the unemployment rate among poor women was 9.1%. This suggests that in fact gender may be a significant factor in poverty risk in these three islands. Age is also important: youth, particularly young men, make up a large proportion of the poor, with high unemployment rates. The OECS 2002 report also shows that while there may be a strong correlation between poverty and lack of education this is not consistent across all the OECS countries. In St. Kitts, the data showed that 51% of the poor had completed secondary education. Adult literacy rates in the OECS with the exception of Antigua, are all above 90%. Both the information provided in the 1997 World Bank study and in the

CPAs indicate that poverty is predominantly a rural phenomenon. For example, the proportion of urban to rural poverty is 16% and 30% respectively for St. Lucia.

All OECS countries share a reluctance to formally implement the measures required for CSME membership and this is hindering foreign direct investment and development of economics activities outosed of agriculture.

REFERENCES

- Barrientos, Armando (2004) *Social Protection and Poverty Reduction in the Caribbean, Regional Report- Synthesis of main findings of studies for Belize, Grenada and St. Lucia with supplementary information for Dominica and Jamaica*. Study commissioned by the Social and Economic Research Unit Caribbean Development Bank in collaboration with DFID and the EC Delegation for Barbados and the Eastern Caribbean
- Caribbean Export Development Agency (2004) *Dominica Country Brief*. Report submitted to the Caribbean Community Secretariat, December 2004. Caribbean Export Development Agency, Barbados.
- Caribbean Export Development Agency (2004) *St. Kitts and Nevis Country Brief*. Report submitted to the Caribbean Community Secretariat, December 2004. Caribbean Export Development Agency, Barbados.
- Caribbean Export Development Agency (2004) *St. Lucia Country Brief*. Report submitted to the Caribbean Community Secretariat, December 2004. Caribbean Export Development Agency, Barbados.
- Commonwealth of Dominica (2001) *Population and Housing Census 2001*.
- Eastern Caribbean Central Bank (2004) *National Account Statistics 2004*. ECCB, St. Kitts.
- Halcrow (2003) *Country Poverty Assessment: Dominica* (vols 1 and 2). Report submitted to the Caribbean Development Bank, June 2003. Halcrow Group Limited, London, UK
- Kairi (1996) *Poverty Assessment Report – St Lucia* (vols 1 and 2). Report submitted to the Caribbean Development Bank, April 1996. Kairi Consultants Ltd, Trinidad and Tobago.
- Kairi (2001) *Poverty Assessment Report - St Kitts and Nevis*.(vols 1 and 2). Report submitted to the Caribbean Development Bank, March 2001. Kairi Consultants Ltd, Trinidad and Tobago.
- Lazare *et. al* (2001) *RNM/OECS Country Studies to inform trade negotiation*. Caribbean Regional Negotiating Machinery, March 2001.
- Ministry of Finance, Government of St. Lucia (2002) *Saint Lucia Economic and Social Review 2002*. Ministry of Finance, International Financial Services & Economic Affairs, St. Lucia.
- OECS Secretariat (2002) *OECS Human Development Report 2002*, Castries, St. Lucia

Statistics Division, Ministry of Finance (2002) *St. Kitts and Nevis Demography Digest*.
Statistics Division, Planning Unit, Ministry of Finance, Technology, & Sustainable
Development.

Statistics Division, Ministry of Finance (2004) *Statistical Review St. Kitts and Nevis*.
Statistics Division, Planning Unit, Ministry of Finance, Technology, & Sustainable
Development.