Report No. 30885-SVG

Saint Vincent and the Grenadines
OECS Fiscal Issues
Policies to Achieve Fiscal Sustainability and Improve Efficiency and Equity of Public Expenditures

May 27, 2005

Caribbean Country Management Unit
Poverty Reduction and Economic Management Unit
Latin America and the Caribbean Region

Document of the World Bank

CURRENCY AND EXCHANGE RATES
Currency Unit – Eastern Caribbean Dollar (EC$)
US$1 = EC$2.70

FISCAL YEAR
January 1 – December 31

Vice President	Pamela Cox
Director LCC3C	Caroline Anstey
Director PREM	Ernesto May
Lead Economist	Antonella Bassani
Sector Manager	Mauricio Carrizosa
Task Manager	Claudia Sepúlveda

ACRONYMS AND ABBREVIATIONS

AD	Audit Department
AG	Accountant General
AIDS	Acquired immune deficiency syndrome
ASYCUDA	Automated System for Customs Documentation and Administration
BNTF	Basic Needs Trust Fund
CARICOM	Caribbean Community
CBO	Community based organization
CCE	Cabinet Committee on the Economy
CCYY	Caribbean Charter and Yacht Yard Holdings
CDB	Caribbean Development Bank
CEE	Common Entrance Exam
CET	Common external tariff
CFAA	Country Financial Accountability Assessment
CIF	Cost, insurance, and freight
CG	Central Government
CGCED	Caribbean Group for Cooperation in Economic Development
CSC	Custom service charge
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
CXC	Caribbean Examination Council
DFID	Department for International Development
DoA	Director of Audit
EC	Eastern Caribbean
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
ECEMP	Eastern Caribbean Economic Management Program
ECLAC	Economic Commission for Latin America and the Caribbean
EDF	European Development Fund
EU	European Union
FAA	Finance (Administration) Act
FHH	Female headed household
FTAA	Free Trade Area of the Americas
FTE	Full-time equivalent
GAD	Gender Affairs Department
GNI	Gross national income
GDP	Gross domestic product
HIV	Human immunodeficiency virus
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
ILO	International Labour Organization
IMF	International Monetary Fund
IOCR	Institutional and Organizational Capacity Review
MDGs	Millennium Development Goals
MIS	Management information system
MoEYS	Ministry of Education, Youth, and Sports
MoF	Ministry of Finance, Planning, and Development
MoH	Ministry of Health and the Environment

ACRONYMS AND ABBREVIATIONS

MoHTW	Ministry of Housing, Transport, and Works
MoSDCFGEA	Ministry of Social Development, Cooperatives, the Family, Gender and Ecclesiastical Affairs
MTESP	Medium-Term Economic Strategy Paper
NAO	National Authorizing Officer
NCAAP	Non-contributory assistance age pension
NESDC	National Economic and Social Development Council
NIB	National Insurance Board
NFPS	Non-financial public sector
NGO	Nongovernmental organization
NIS	National Insurance Scheme
OECD	Organization for Economic Co-operation and Development
OECS	Organization of Eastern Caribbean States
PAC	Public Accounts Committee
PAHO	Pan American Health Organization
PMCU	Project Management and Coordination Unit
PSIP	Public Sector Investment Program
PSRU	Public Sector Reform Unit
PTR	Pupil-teacher ratio
SEDU	Small Enterprise Development Unit
SIGFIS	Standardized Integrated Government Financial Information System
SIGTAS	Standardized Integrated Government Tax Administration System
SOEs	State-owned enterprises
STABEX	Stable Export Earnings Program
TCE	Tripartite Committee on the Economy
ULP	Unity Labor Party
UWI	University of West Indies
VAT	Value-added tax
VINLEC	St. Vincent Electric Services
WAEMU	Western Africa Economic and Monetary Union
WB	World Bank
WBI	World Bank Institute
WFP	World Food Program
YES	Youth Empowerment Service

ACKNOWLEDGMENTS

This report is based on the contributions of a team consisting of Lorraine Blank (social protection), Andreas Blom (education), Patrick Grady (public sector investment program), Ted Paterson (budget management), Maria Elena Ruiz (gender), Helen Saxenian (health), Thomas Pave Sohnesen and Claudia Sepúlveda (public sector employment and compensation), and Claudia Sepúlveda (fiscal sustainability). As Task Manager, Claudia Sepúlveda was responsible for the overall preparation of the report. Sharokh Fardoust and David Rosenblatt were peer reviewers of the report.

The team would like to thank Antonella Bassani, Mauricio Carrizosa, and Camille Nuamah for their helpful comments and their invaluable collaboration to improve this report. The report also benefited from the excellent assistance of Hazel Vargas.

The assistance, cooperation, and input of many Government departments in St. Vincent and the Grenadines—too numerous to mention individually—is gratefully acknowledged. In particular, extensive assistance was received from the Ministry of Finance, Planning, and Development. The report also benefited from the assistance and cooperation of the Eastern Caribbean Central Bank, the Caribbean Development Bank, and the International Monetary Fund. Without their help, preparation of this report would not have been possible.

ABSTRACT

The central theme of the St. Vincent and the Grenadines Fiscal Issues report, the first Public Expenditure Review conducted by the World Bank in this country, is that in order to restore rapid economic growth, ensure medium-term fiscal sustainability under the umbrella of the Eastern Caribbean Currency Union (ECCU) and protect the social achievements realized in the past decades, the country will best benefit from: (a) tightening fiscal policy, mostly through expenditure cuts; (b) an increase in the efficiency of public investments and public service delivery; (c) strengthening regulation and efficiency of public utilities and sea/air transport; and (d) promoting education and skills development to prepare the population, notably the poor, to take advantage of new opportunities in the global environment.

The budget management reforms initiated by St. Vincent and the Grenadines in the late 1990s, followed by the introduction of a simple medium-term fiscal framework and joint preparation of capital and recurrent estimates in 2003, have served St. Vincent and the Grenadines well. These reforms have positioned the country as one of the best fiscal performers of the ECCU. However, the country's fiscal policy and its overall development agenda will be constrained by the high level of public sector debt-to-GDP ratio (70 percent at the end of 2003). Thus, while social indicators are good for a country at this level of GDP, the Government will need to use more efficient modalities of education and health service delivery that can generate fiscal savings and improve effectiveness in order to achieve its development agenda. In addition, the Government will need to ensure that its social programs, in particular social protection, are provided in a well-targeted and effective manner in order to provide more effective safety nets to mitigate the possible impact of fiscal consolidation and continued vulnerability to external shocks.

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EXECUTIVE SUMMARY

Overview

1. St. Vincent and the Grenadines is a small island (389 square miles) in the Eastern Caribbean with a population of 106,000 inhabitants and a per capita gross national income (GNI) of US$ 3,300 (World Bank Atlas methodology, in 2003 U.S. dollars). A former British colony, it became a member of the British Commonwealth in 1979. Until the early 1990s, banana cultivation and export was the main economic activity of the country. However, during the 1990s, this activity declined sharply as a result of the erosion of the preferential access to the European Union (EU). Banana production peaked in the early 1990s at around 80,000 tons, but it has dropped steadily since 1993 to about 30,000 tons in 2001. However, this dependency on the production and export of banana has given way to a service-based economy (e.g. tourism).

2. Despite relative high levels of per capita income and good social service provision, poverty remains a persistent problem in St. Vincent and the Grenadines. The national 1996 poverty assessment indicates that approximately 37 percent of the population is poor (that is, living below a locally defined poverty line). Moreover, an approximately one in four individuals is indigent (i.e. they lack resources to meet their basic dietary needs). Unemployment is also a concern; the unemployment rate in 2001 was about 21 percent. Income insecurity/volatility at country and household levels as a result of climatic and external economic shocks is particularly pronounced in St. Vincent and the Grenadines, like in the rest of the Caribbean, given its small size, limited economic diversification and high degree of openness, and its extreme vulnerability to hurricanes. The impact of this high volatility is especially negative for the poor and near poor who may not be able to rely on savings or are not reached by the government's social protection programs to smooth consumption during times of hardship.

3. With respect to the Millennium Development Goals (MDGs), primary education is universal for boys and girls, but completion of primary education is only 84 percent. The MDGs have targets for five health-related goals: malnutrition, maternal mortality, tropical diseases, under-five mortality, and HIV/AIDS. The first three are not major health issues in St. Vincent and the Grenadines. The MDG target for the under-five mortality rate calls for a reduction of two-thirds in the under-five mortality rate from 1990 to 2015. In St. Vincent and the Grenadines, the rate dropped from an estimated 26 per 1,000 in 1990 to 21 per 1,000 in 2002. This is a decline of about 1.8 percent per year. The MDG target for the under-five mortality rate would require a decline of about 4.4 percent per year from 1990 to 2015. So, strictly speaking, St. Vincent and the Grenadines is not "on track" for meeting the under-five mortality MDG. At the same time, it is important to recognize that the MDG goals get harder and harder to achieve as countries move towards relatively low mortality rates. It is difficult to assess the likelihood of reaching the HIV/AIDS targets, as baseline data on HIV prevalence and incidence are poor in St. Vincent and the Grenadines. However, given the size of the epidemic in the Caribbean, the target (reversing the epidemic) is very relevant for the country and should be achievable if the country continues to support vigorous and effective HIV prevention measures.

4. St. Vincent and the Grenadines, as a member of the Eastern Caribbean Currency Union (ECCU), shares a common central bank, the Eastern Caribbean Central Bank (ECCB), and a common currency, with the other five independent members of the Organization of Eastern Caribbean States (OECS) and three dependent territories (Anguilla, Montserrat, and the British Virgin Islands). Their currency is the Eastern Caribbean (EC) dollar, which has been pegged to the U.S. dollar since

1976 at EC$2.70 per US$1. The commitment to a fixed exchange rate and a prudent monetary policy under the ECCU umbrella has been a key element in maintaining an inflation rate close to international levels.

5. Notwithstanding a common central bank and a common currency, St. Vincent and the Grenadines, like the other ECCU member countries, conducts fiscal policy independently. While limited progress has been made on a common fiscal policy in the region, the deterioration of the ECCU fiscal position in recent years, notably in Antigua and Barbuda, Dominica, and St. Kitts and Nevis, has reinitiated discussion among its members of the need to coordinate fiscal policies.

6. During 1980–89, St. Vincent and the Grenadines economy showed a strong growth performance, with an average growth rate of 6.2 percent per year. However, in the 1990s economic growth slowed down to 3.5 percent per year as a result of exogenous shocks (in particular, declining trade preferences for banana). In 2000, St. Vincent and the Grenadines economy grew only by 1.3 percent and stagnated in 2001 as a result of the September 11 events and the global economic slowdown. In 2002 and 2003, growth rebounded to 1.2 and 2.3 percent, with a projected growth rate for 2004 of 2.6 percent in response to the increase of public capital spending to stimulate the economy. This slowdown in growth has been accompanied by increasing fiscal deficits and rising public debt and debt service. In 2003 total public sector debt to gross domestic product (GDP) was 70.1 percent and the Central Government (CG) primary deficit after grants was 0.9 percent of GDP; interest payments were about 2.7 percent of GDP.

7. To restore rapid economic growth, ensure medium-term fiscal sustainability under the umbrella of the currency union and protect the social achievements realized in the past decades, the main challenges to the St. Vincent and the Grenadines government are to: (a) tighten fiscal policy, mostly through expenditure cuts; (b) increase the efficiency of public investments and public service delivery; (c) strengthen regulation and efficiency of public utilities and sea/air transport; and (d) promote education and skills development to prepare the population, notably the poor, to take advantage of new opportunities in the global environment. A study currently conducted by the World Bank is developing specific recommendations to foster sustainable growth and improved competitiveness in the OECS countries. Accelerated growth will be critical for achieving debt and fiscal sustainability in St. Vincent and the Grenadines and for employment creation and poverty reduction.

8. The budget management reforms initiated by St. Vincent and the Grenadines in the late 1990s, followed by the introduction of a simple medium-term fiscal framework and joint preparation of capital and recurrent estimates in 2003, have served St. Vincent and the Grenadines well and they have positioned the country as one of the best fiscal performers of the ECCU. However, the country's fiscal policy and its overall development agenda will be constrained by its high level of debt-to-GDP ratio. The report concludes that it will require an average public sector primary surplus of 3.0-4.4 percent of GDP (depending on assumptions of real interest and growth rate) during 2004-2007 to keep the public sector debt-to-GDP ratio below 60 percent (the ECCU target). The government is aware of the need to contain the debt-to-GDP ratio and move forward on fiscal consolidation. Accordingly, in 2004 the authorities drafted a debt management strategy and a fiscal covenant to tackle these issues.

9. Thus, while social indicators are good for a country at this level of GDP, the government will need to use more efficient modalities of education and health service delivery that can generate fiscal savings and improve effectiveness in order to achieve its development agenda. In addition, the government will need to ensure that its social programs, in particular social protection, are provided in a well-targeted and effective manner in order to provide more effective safety nets to mitigate the possible impact of fiscal consolidation and continued vulnerability to external shocks. Specific recommendations on how to achieve fiscal sustainability, improve social service delivery, and reform social protection are provided in the attached matrix (See Table E.S.1).

10. The report is organized as follows: Chapter 1 discusses fiscal sustainability in St. Vincent and the Grenadines and presents options for fiscal consolidation; Chapter 2 discusses the budget management system in place and its effect on budgetary outcomes. Chapter 3 examines the Public Sector Investment Program (PSIP); Chapter 4 reviews public sector employment and compensation issues; Chapters 5 and 6 examine public expenditures and outcomes in the education

and health sectors; Chapter 7 discusses social protection programs; and Chapter 8 gender issues.

Fiscal Sustainability

11. In the 1990s, St. Vincent and the Grenadines followed a prudent fiscal policy that has loosened up slightly since 2001. From 1990 to 2000, the CG ran a primary fiscal surplus (after grants) of 0.4 percent of GDP and an overall fiscal deficit of 1.3 percent of GDP. From 2001 to 2003, the average CG primary fiscal deficit was –0.03 percent of GDP and the CG overall fiscal deficit was 2.7 percent of GDP. The CG debt to GDP ratio increased from 44.1 percent in 1996 to 61.7 percent in 2003. This increase was in part due to the weakening of the CG fiscal position, but mainly to the assumption of responsibility by the government in 1999 of a guaranteed loan of EC$ 156 million (17.5 percent of GDP) for the construction of the Ottley Hall marina and shipyard. Thus, the fiscal policy that the government will implement in the next years will be constrained by the high level of debt-to-GDP ratio acquired.

12. To achieve a public sector debt-to-GDP ratio of 60 percent (the ECCB's Monetary Council target) in 2007, it is recommended that the public sector run an average primary surplus of about 3.0-4.4 percent of GDP, depending on the assumption of real interest and growth rates, during the period 2004-2007. It is important to stress that this type of debt sustainability analysis does not address the optimal level of indebtedness, its composition, and political economy considerations. Moreover, additional indicators such as external public sector debt service to exports, public sector debt service to revenue, etc. are useful indicators to supplement any fiscal sustainability analysis. The fiscal adjustment implicit in a primary surplus of 3.0-4.4 percent of GDP is feasible and has to rely on expenditure cuts, in particular a containment of capital expenditures and mainly financed by grants or concessional loans, freezing of new CG hirings, and a prudent salary increase policy. Tax increases are seen as only a small fraction of the adjustment. The authorities have indicated they intend to adopt a value-added tax (VAT) by 2006. A tax reform will yield only a limited increase in tax collection given the already high tax-to GDP ratio in St. Vincent and the Grenadines and the expected negative impact of the Free Trade Area of the Americas (FTAA) on tax revenues.

13. The government is aware of the need to contain the debt-to-GDP ratio and move forward on fiscal consolidation. Accordingly, in 2004 the authorities drafted a debt management strategy and a fiscal covenant to tackle these issues.

Budget Management

14. While the country recently instituted a set of budget reforms that have helped keep control of aggregate fiscal outcomes, weaknesses with respect to budget preparation, execution, and monitoring remain that need to be addressed.

15. The St. Vincent and the Grenadines budget is comprehensive and includes all CG transactions. However, it follows an administrative classification and does not present a functional classification of its expenditures. Also, aid funds are underreported in the budget. Recurrent expenditures for each program are broken by object code (personnel emoluments, utilities, etc.), but capital expenditures only give the estimated total costs for the current year and the life of the project, together with the source of the funds, without a breakdown by expenditure object.

16. While the budget preparation process is generally sound, it is recommended that ministries keep corporate plans updated to reflect changes in national priorities. It is also recommended that initial efforts to discuss simultaneously at the ministry level recurrent and capital expenditure be continued.

17. The operation of the Standarized Integrated Government Financial Information System (SIGFIS) presents shortcomings for its effective operation. The interface to generate standard and non-standard reports needs to be improved in order to serve as a useful tool for budget monitoring. Also, personnel need to be trained adequately in the use of the system. Finally, the government needs to step up the implementation of the data warehousing so that SIGFIS can be integrated with the Revenue Management systems and therefore minimize cash flow problems.

18. Traditionally, Treasury has submitted its annual Public Accounts for audit on time. But problems developed when SIGFIS was introduced resulting in a backlog, delaying the finalization of the accounts. Treasury expects to catch-up this year--accounts for 2002 have been submitted to the Director of Audit (DOA). As in other OECS

countries, there is no effective parliamentary oversight of the public finances, largely as a result of: a) the dominance of the Parliament by the Executive; and b) the lack of a functioning Public Accounts Committee (PAC). Key recommendations in this area include: enacting the appropriate constitutional, or other changes to allow the appointment of nonparliamentary members to the PAC; drawing on the advice of neighboring countries such as Jamaica, where the PAC is a vibrant component of government oversight; and a media campaign to publicize PAC activities to the public and to create demand from the public for strong public financial management.

19. In the budget process, the government solicits views from its social partners. The government has attempted to enhance public participation in the budget process with the creation of a National Economic and Social Development Council (NESDC) and a Tripartite Committee on the Economy (TCE). NESDC includes representatives from the government, private sector and civil society and its initial mandate was to develop the Poverty Reduction Strategy and serve as a vehicle for consultations. The government is to be commended for opening the budget discussions to its social partners and is encouraged to continue these efforts.

Public Sector Investment Program

20. From 1997-2003, on average, CG capital spending was about 7.5 percent of GDP and total public sector capital spending was about 11.1 percent of GDP (1997-2002). This level of capital spending is higher than in St. Kitts and Nevis, similar to St. Lucia and lower then Dominica and Grenada. The main objective of the CG capital spending has been to support economic diversification and economic development. This spending was prompted by concerns about the social implications of rising unemployment caused by the phase out of the banana industry and deficiencies in the country's infrastructure.

21. Although St. Vincent and the Grenadines has managed until now to avoid large and unproductive capital projects, with the exception of the joint venture of Ottley Hall, its fiscal position has weakened in the last few years and the country has a number of significant projects coming up. The report recommends that over the coming years public investment be contained and prioritized to focus on critical growth and poverty interventions, its efficiency improved and financed mainly by grants and concessional loans.

22. The process and procedures for the preparation of the capital budget and the PSIP in St. Vincent and the Grenadines are less formalized than in other OECS countries. In particular, it is recommended that a technical sub- committee at the Permanent Secretary level be formed with the responsibility of preparing and prioritizing the capital projects before these are discussed by the Cabinet. This would allow the Cabinet to focus on the overall priorities and problematic capital projects. It is also recommended that a budget manual that documents all the steps for the PSIP and capital budget preparation be prepared and used.

23. In addition, it is a recommended that the government establish clear selection criteria for investment projects and that all large investment projects be subject to a cost-benefit analysis. For example, it is recommended that a feasibility study be conducted for the planned construction of the National Stadium (EC$ 30 million) to assess its viability and operation and its consistency with the country's fiscal and debt sustainability and its growth and social development targets. Also, it is recommended that the legal framework for public-private partnership for investment projects be reviewed.

24. Next, the report recommends that expenditures of a recurrent nature currently included in the PSIP be reclassified as current expenditure following international best practices. Investment projects by statutory agencies financed through loans guaranteed by the government be included in the PSIP and the government financial statements as well as be subject to a cost-benefit analysis before the government extends a guarantee.

25. The execution rate of CG planned capital expenditures has been low and variable. Only about 44 percent of budgeted capital expenditures, on average, have actually been implemented during 1997-2003. The reasons for the low rate of implementation are a) too many projects for the implementation capacity of the country and b) many proposed capital projects are usually included in the estimates of capital expenditures presented in the budget even though financing has not been secured from donors. This is the case of projects that are expected to be financed by the EU and that have been included in the estimates, while

they are often not considered for financing until May of the budget year and final approval can be delayed for months after that. In order to improve the execution rate of capital expenditures, it is recommended that the public investment program reflect a more realistic pipeline of projects and the planning unit and the specific project implementation units be strengthened, by pooling specialized skills (e.g., procurement and financial management). With respect to accelerating disbursements of EU grants, St. Vincent and the Grenadines and the EU may want to look at the option adopted in some African countries to have an EU trust fund that supports the World Bank program in the country and against which progress disbursements can take place.

Public Sector Compensation

26. St. Vincent and the Grenadines has the second highest OECS ratio of government employees to population, 5.6 percent, after St. Kitts and Nevis, and the third highest ratio of wages to GDP, 13.7 percent, after Dominica and St. Kitts and Nevis. In addition, since 1995 the total number of established positions has increased at a rate of 1.4 percent per year, and average personal emoluments per established position in real terms by 3.0 per year. Thus, the high wage bill to GDP results from increases in employment as well as salaries. During this period negotiated salary increases have been higher than inflation and GDP growth.

27. The country's high debt to GDP ratio, its ambitious development agenda as well as the need to change the modalities of service delivery to changing population demographics will require that the government focus its effort on the design of a comprehensive public sector strategy that improves its efficiency and effectiveness, and at the same time generates fiscal savings.

28. It is recommended that the government review and/or redefine the role of the Public Sector Reform Unit (PSRU) as a catalyst in the preparation, implementation and monitoring of a public sector reform. Also, a freeze on new hirings and a prudent management of salary increases will be needed in the next years. As a matter of fiscal transparency the government needs to report the number of non-established positions in the Estimates as it does now for established positions. In addition, the personnel information system and the legislation need to gear up for the requirements of a modern public sector.

29. As is the case for the other OECS countries, St. Vincent and the Grenadines presents some fragmentation and duplication of work between ministries, departments, and agencies leading to a diffusion of responsibilities. It is recommended that the government exploits through greater collaboration at the regional level opportunities to pool resources and realize lower unit costs in the areas of tax administration, customs, audit services, police services, magistracy, and environmental protection.

Health

30. On average during the period 1997 to 2003, public spending on health as a share of GDP in St. Vincent and the Grenadines was about 4.1 percent, ranking it second to the top of the OECS countries, just below Dominica on this measure. In terms of total spending, both public and private, the 6.1 percent of GDP devoted to health in 2001 is the highest in the OECS countries. Given its relatively low level of GDP, however, this translates into US$ 178 per capita in 2001—the lowest per capita amount of the OECS countries. St. Vincent and the Grenadines has achieved good levels of basic health indicators relative to its level of GDP per capita. Life expectancy in 2002 was about 73 years. Infant and under-five mortality rates are relatively low at 18 and 21 per 1,000 live births, respectively. These figures compare well with the rest of Latin America and the Caribbean.

31. The government is committed to increasing service efficiency over the short- to medium-term and, over the longer run, to expanding the sources of public financing for health to help meet the population's demand for more comprehensive health services. It is taking concrete steps to improve efficiency by converting the country's main hospital to a statutory entity. As a statutory entity, the hospital would have more control over the use of its resources and could, in turn, be held accountable for its performance.

32. As in other OECS countries, the health system is predominantly publicly-provided and publicly-financed. The system has a strong primary health care orientation with a solid nursing base. However, given St. Vincent and the Grenadines's changing age distribution of the population, disease profile, and demands from the population, it would be useful to reexamine the functions of the current network of health facilities to develop a master plan to reconfigure this infrastructure to

better serve the population with cost-effective care. As health centers cannot resolve many health problems, they are bypassed by residents who go directly to the main hospital, clogging emergency services. In developing the plan, consideration needs to be given to which health centers should be upgraded to polyclinics, which health centers closed, if district hospitals should be upgraded or changed in other ways to improve service efficiency and quality, the functions of reconfigured facilities, how they would be best budgeted and managed, and the implications for human resources.

33. Almost all public spending on health is financed by general revenue. User fees in public facilities are not a significant share of total public spending on health. While fees are low, the main reason behind the low revenue is that collection is low. Even patients admitted to the Milton Cato Memorial Hospital with private insurance rarely pay as the hospital billing department has difficulty following up with private insurers. The experience with user fees may change with the conversion of the Hospital to a statutory entity, permitted to retain its user fees. Also, there is no evidence that wages and salaries are crowding out other expenditures over time in St. Vincent and the Grenadines. The actual figure for 2002 indicates that wages and salaries made up 64 percent of expenditures.

34. Public spending on health cannot cover every service. Given the demand for more comprehensive care, the market for private health insurance is growing, but it is largely unregulated. The Ministries of Health and Finance need to start monitoring private insurance—both coverage numbers and services offered—as part of its broad oversight of the health sector. There may be ways to encourage standardization of packages that promote competition and efficiency in the market. Since all the OECS countries need to develop health insurance regulations, they might consider working at a sub-regional level to harmonize this work.

35. St. Vincent and the Grenadines achieves economies of scale in drug procurement by participating in the well-run OECS Drug Procurement Service. There may be scope to achieve economies of scale in other areas of the health sector--purchasing supplies, laboratory services, and health service delivery--through more formalized regional arrangements with neighboring countries.

Education

36. On average from 1997 to 2003, the government spent about 5.8 percent of GDP in education (recurrent and capital). Although this share lies below the average share in the OECS countries (7.1 percent), it is still a very high level in the Latin American context. Evidence suggests that the high level of spending is not commensurate with the outcomes that the system produces and in comparison to the educational outcomes in other OECS countries. In St. Vincent and the Grenadines, only 65 percent of children attend pre-primary education (compared to 76 percent for the OECS), 54 percent of the primary students continue to general secondary education (compared to 69 percent for the OECS), and only 5 percent of a cohort enters tertiary education (compared to 11 percent for the OECS).

37. The government has responded to this challenge by emphasizing education as its top priority with a strong political drive to ensure that all pupils of Grade 6 in 2004 will attend secondary school by June 2005, and further to expand pre-primary and tertiary education. However, without making innovations in policies for the education sector, in particular moving to a more efficient use of the educational resources, the available funds will fall short of the required resources to reach the government educational goals.

38. At pre-primary education level, it is recommended that non-governmental pre-primary education be expanded through targeted public support to low income families. Fiscal considerations point to the need for government to pursue a broadening of pre-primary education through the implementation of a rigorously targeted assistance program to poor families, possibly combined with an OECS accreditation program of providers to assure and stimulate quality.

39. In primary and secondary education there is a major imbalance in education recurrent expenditures towards salaries (above 90 percent) and away from learning. The share of salaries in education recurrent expenditures depends chiefly upon a) the average salary of the teaching-staff and b) the number of pupils taught by each teacher, which is measured by the Pupil Teacher Ratio (PTR). To achieve universal secondary education in an efficient fashion, the government needs to implement the agreement between the teachers' union and the government by which the pupil-

teacher ratio in primary education is allowed to increase to 25 and in secondary education to 30. Although, the less than efficient deployment of teachers in primary and secondary education can, to some extent, explain the large share of salaries in education recurrent expenditures, teacher salaries appear to be relatively high compared to other OECS countries. The typical St. Vincent and the Grenadines secondary teacher (teacher V) received EC$ 37,000 per year in 2002, which was above the OECS average of EC$ 32,000. Compared to the income level of each country, secondary teachers in St. Vincent and the Grenadines received a salary corresponding to 402 percent of GDP per capita, while the average OECS teacher earned 293 percent of GDP per capita. Future salary increases need to be managed prudently as in the last years increases have been awarded in excess of inflation and GDP growth.

40. Finally, policies to reduce repetition rates in primary and secondary education are also needed. Otherwise, the universal secondary education policy could fail to lead to substantial improvement in completion of secondary education. In both primary and secondary schools, it is recommended that resources be shifted to schools with a high percentage of low performing students. Also, reducing administration costs through greater cooperation at the sub-regional level would reduce duplication and lead to more innovative education policies. This would free resources that could be used to increase funding for didactic material in primary education.

41. The combination of limited access to tertiary education and the non-existence of cost-recovery ratio for tertiary education makes this budget line highly inequitable. The government needs to rethink its financing structure. Further, given that a non-negligible share of highly educated individuals leaves the country, the public loses a corresponding share of the returns to this public investment. The country should not reduce investment in tertiary education, on the contrary. This level of advanced education yields the highest returns in the labor market and spurs economic development. Consequently, the financing burden could increasingly be shifted towards the beneficiary. Therefore, the invested public resources should be leveraged to promote additional private investment into tertiary education.

Social Protection

42. St. Vincent and the Grenadines implements a range of social insurance and social assistance programs that, in combination, attempt to address the critical risks and vulnerabilities faced by the population. The National Insurance Scheme (NIS), the government's sole social insurance program, covers a significant share of the population, however, large groups (particularly agricultural and domestic workers, workers in small firms and self-employed persons) remain uncovered. The government implements approximately 20 social assistance programs through at least seven different line ministries and statutory agencies. However, social assistance programs targeted to the poor represent an uncoordinated array of overlapping and administratively cumbersome programs that are not well poised to respond to either chronic poverty or income volatility deriving from economic downturns or natural disasters.

43. The NESCD, a tri-partite committee consisting of representatives from the public and private sectors and civil society organizations, provides a potential forum for developing policies for sector wide planning that the government can elaborate for adoption.

44. From 1996 to 2002, average expenditures on social protection (including National Insurance) were lower in St. Vincent and the Grenadines (2.7 percent of GDP) than in Latin America and the Caribbean region (4.7 percent of GDP) and also low relative to spending on social protection in other OECS countries.

45. Public Assistance Programs need to be strengthened through consolidation of small programs, the development of transparent targeting procedures, restructuring of benefits with benefit amount linked to family size and conditioned on activities that promote human capital formation, upgrading of management information system (MIS) and formulation of clear and consistent policies and procedures. For example, labor market interventions would benefit from coordination of the short-term employment component of different programs, ensuring transparency in the selection of workers, expanding the menu of jobs to increase female participation, and implementing MISs to track employment. In addition, international experience suggests that greater returns would be generated

by reorienting skills training programs towards improving literacy and numeracy skills with reduced emphasis on pre-employment training.

46. Administrative structures of community-based initiatives need to be consolidated (as has been done in Jamaica, Belize, and Guyana) to improve program coordination and reduce administrative duplication and costs. Reorienting community-based programs to increase the amount of employment generated, providing funding to community-based and non-governmental organizations to implement social assistance programs and support for literacy and numeracy initiatives (as opposed to skills training programs) would enhance their social protection function. Also, public housing programs need to be reexamined with a view towards developing alternatives to construction of low-income housing and low-income rental units, including provision of rent subsidies through cash transfer programs and expanded retrofitting of existing housing stock.

Gender

47. Vincentian men and women experience different gender problems. While overall women are disadvantaged in many spheres of the social and economic life, certain groups of men are largely vulnerable and at risk of being excluded from society. Women have a low labor force participation; relatively high rates of adolescent pregnancy; and suffer from domestic violence; men are affected primarily by problems of crime and violence as well as by increasing unemployment. School underachievement and subsequent drop out among boys in secondary school makes them a vulnerable social group. On their part, female heads of households, especially in rural areas, experience genuine problems to fully integrate into the labor market with consequences for their well-being and effective participation in society.

48. The government of St. Vincent and the Grenadines has rightly placed gender issues at the center of its poverty reduction strategy by making the Gender Affairs Department (GAD) responsible for mainstreaming gender across national policies and programs. But although the country has the institutional setting to address gender issues through its public policies and programs, public resources can be used more efficiently to achieve gender equality and to enhance the well-being of poor men and women. Some of the measures proposed to address the above issues include: (a) a shift in the functions and institutional positioning of the GAD to enhance its role and leverage in policy design; (b) improving the design and coordination of programs to target low income female headed households (FHH); (c) change towards a preventive strategy to retain boys in school and improving the existing remedial programs; (d) critically reviewing public policy approaches, specially with regard to social protection, to ensure that they do not reinforce gender stereotypes.

49. Boys abandon secondary school 40 percent more than girls in St. Vincent and the Grenadines. Boys school drop out is the outcome of several factors acting together, namely but not only, the nature and quality of the school system, the family, society, including the norms and values promoted by it, communities and local support networks, personal character and poverty. While there are several public programs addressing the needs of boys once they are out of the educational system, preventive policies and programs to retain boys in school need to be strengthened. Paradoxically, most of the programs for unemployed youth fail to reach the group of unemployed young males. As boys are not specifically targeted in any of these programs, girls tend to predominate in all of them. In the absence of specific mechanisms to reach boys with problems, girls, with higher school qualifications and in principle less problematic socio-economic situations are in a better position to seize public programs' opportunities once they finish school.

50. While there are no programs specifically targeting FHHs, a number of public programs deals with specific needs of this group of households in St. Vincent and the Grenadines. Income support programs are the main public mechanism to protect FHHs in St. Vincent and the Grenadines. Women constitute the main beneficiaries of public cash transfers as well as housing credit. FHHs represented 61 percent of the 18 to 61 years old beneficiaries of public assistance in 2003. At the moment, existing employment support programs do not accrue major benefits for working age women in St. Vincent and the Grenadines. The Small Enterprise Development Unit (SEDU) is the public agency responsible for promoting business development through training, information, market research consulting, and other services. While women amount to 32 percent of users, and predominate among beneficiaries of training seminars, the

proportion of poor women accessing advisory services to start up new businesses or technical assistance to accompany enterprise development is lower as these services are fee based. Additionally, while women constitute the majority of the Non-Formal Skills Training Services (79 percent in 2003), they obtain jobs in a much lower proportion than men once the program is completed (100 percent of males compared to 50 percent of women in 2003). Finally, women do not participate in short term Public Works Programs as these have been traditionally targeted to men.

Objectives	Recommended Policy Actions	Who Decides and Implements	Priority
ACHIEVE FISCAL SUSTAI			
ECCB's target of CG debt-to-GDP ratio of 60 percent.	• Implement tax recommendations suggested by the IMF. • Implement a public sector primary surplus of 3.0-4.4 percent of GDP, on average, from 2004-2007. • Contain investment projects to only projects geared to growth and poverty reduction and maximize use of grants and concessional financing. • Report in the Estimates Book the number of non-established positions.	Cabinet Ministry of Finance, Planning, and Development Line Ministries	Short and Medium term Short and Medium term Short and Medium term Short term
Ensure soundness of the National Insurance Scheme (NIS).	Enhance returns on investments and reform program parameters, including retirement age, contribution rates, and benefit formulas.	NIS Ministry of Finance, Planning, and Development	Long term
IMPROVE BUDGET PREPA ATION, EXECUTION, AND MONITORI			
Prepare a budget consistent with a fiscally sustainable policy.	• Adopt the new set of financial regulations now in draft form. • Develop preliminary allocations for each department to be issued with the Budget Call. • Ensure that ministries keep updated corporate plans to reflect changes in national priorities.	Cabinet Ministry of Finance, Planning, and Development Line Ministries	Short term Short term Short and Medium term
Strengthen monitoring and execution of the budget.	• Improve accuracy of pension expenditure forecasts. • Implement data warehousing system so that SIGFIS can be integrated with the Revenue Management Systems. • Train personnel for an effective operation of SIGFIS. • Improve SIGFIS interface to generate standard and non-standard reports.	Ministry of Finance, Planning, and Development	Short term Short term Short and Medium term Short and Medium term
INCREASE FISCAL TRAN ARENCY AND ACCOUNTABILITY			
Present an accurate view of the SOE investments and finances.	• Include the operations of statutory bodies, agreements and other contingent liabilities in the country's financial statements.	Ministry of Finance, Planning, and Development SOEs Accountant General Audit Department	Short term
Link government policies to outcomes.	• Present the budget by functional classification. • Capital expenditures need to be presented in the budget by program, expenditure object, and functional classification. A sectoral summary of actual capital spending needs to be provided. • All expenditures financed by aid funds need to be reported in the budget. • Disaggregate social protection expenditures at the program level to allow monitoring of outcomes.	Ministry of Finance, Planning, and Development Line Ministries	Short and Medium term Short and Medium term
Improve the quality of audits.	• Include Audit Department's recommendation in the design and implementation of	Accountant General Ministry of Finance, Planning, and Development	Short and Medium term

Table E.S.1 Summary of Policy Recommendations

Objectives	Recommended Policy Actions	Who Decides and Implements	Priority
	automation of financial management. • Provide staff with required training in financial management.	Audit Department	Short term
IMPROVE EFFICIENCY IN			
Apply selection criteria for public investment projects.	• Include in the budget and the PSIP only investment projects with all required information (in particular projected recurrent costs). • Include in the budget and the PSIP only investment projects prioritized based on some type of cost–benefit analysis and in accordance with the overall resources available for capital expenditures.	Ministry of Finance, Planning, and Development Line Ministries	Short term Short and Medium term
Strengthen the preparation of the PSIP.	• Create a sub-technical committee at the Permanent Secretary level to discuss technical, economic, and other issues in the preparation of the capital budget and PSIP. • Prepare a manual for the capital and PSIP preparation. • Investment projects currently included in the PSIP and/or capital budget that are recurrent in nature need to be recorded following international practice. • Move forward with the simultaneous discussion at the ministry level of recurrent and capital expenditures. • Review the legal framework for public-private partnership (PPP) in investment projects.	Ministry of Finance, Planning, and Development Line Ministries	Short-term Short and Medium term Short term Short and Medium term Short and Medium term
Strengthen monitoring and execution of the PSIP	• Improve implementation rate, in particular of EU projects. • Monitor closely monthly capital expenditures.	Ministry of Finance, Planning, and Development Line Ministries European Development Fund/Project Management and Coordination Unit.	Medium term Short term
REFORM THE PUBLIC SECTOR			
Strengthen Public Sector Reform.	• Review and/or redefine the role of the Public Sector Reform Unit as a catalyst for public sector reform within the government. • Revise the legal framework that governs the appointment of public officers, pensions, etc. to reflect the requirements of a small economy that experience frequent external shocks and wants to respond with the flexibility of a modern public service. In particular, the regime of pensions for employees in pensionable established positions. • Introduce and/or upgrade information systems in order to accurately cost the implications (pension and severance payments) of alternative forms of divesting public sector activities	Ministry of Finance, Planning, and Development Ministry of National Security, the Public Sector, Air, and Sea Port Development Line Ministries	Short and Medium term Short and Medium term Short and Medium term

Table E.S.1 Summary of Policy Recommendations

Objectives	Recommended Policy Actions	Who Decides and Implements	Priority
	and monitor its outcome. • Carry out a detailed evaluation (cost-benefit analysis) before any major contracting out or statutorization program is undertaken.		Short and Medium term
Enhance productivity of the civil service.	• Up-scale training in essential skills, financial, personnel and basic management.	Public Sector Commission Ministry of National Security, the Public Sector, Air, and Sea Port Development	Medium term
Eliminate duplication of activities in the government and at the sub-regional level.	• Implement the recommendations of the OECS Institutional and Organizational Capacity Review (IOCR).	Ministry of Finance, Planning, and Development	Medium term
IMPROVE/SUSTAIN HEALTH OUTCOMES AND IMPROVE EFFICIENCY IN THE DELIVERY OF HEALTH SERVICES			
Reduce mortality in communicable and noncommunicable diseases.	• Strengthen public health and primary care in noncommunicable diseases and injuries, in order to continue to improve health indicators and contain costs over time. • Step up efforts to address HIV/AIDS. • Strengthen tobacco control measures.	Ministry of Health and the Environment	Short and Medium term Short and Medium term Short and Medium term
Improve efficiency in health care.	• Rethink the configuration of health facilities by reorganizing and consolidating some of the primary health center, district and secondary hospitals. • Move ahead with the statutorization of the Milton Cato Memorial Hospital. • Review hospital service statistics to identify under or over-use of hospital procedures. Reduce unnecessary hospital procedures such as cesarean section deliveries.	Ministry of Health and the Environment	Medium term Short and Medium term Medium term
Exploit and extend economies of scale in health procurement.	• Organize on a regional basis services such as specialized laboratory tests and medical supplies by using the example of the Eastern Caribbean Drug Procurement Service.	Ministry of Health and the Environment	Medium term
Strengthen the regulation of private health insurance.	• Encourage standardization of packages to promote efficiency. • Monitor coverage numbers and service offered as part of the oversight of the health sector.	Ministry of Health and the Environment	Medium term Medium term
IMPROVE/SUSTAIN EDUCATION OUTCOMES AND IMPROVE EFFICIENCY IN THE DELIVERY OF EDUCATION SERVICES			
Improve education statistics.	Improve data collection and analysis in order to use rigorous evaluations of the education sector.	Ministry of Education, Youth, and Sports	Short and Medium term
Improve education outcomes.	Increase attention to schools with low-performing students. Possible programs include: • Additional training for teachers and principals. • Increased resources for learning material and special classes for	Ministry of Education, Youth, and Sports	Medium term Medium term

Table E.S.1 Summary of Policy Recommendations

Objectives	Recommended Policy Actions	Who Decides and Implements	Priority
	the weak students.		
Improve teaching quality.	• Hire only certified teachers for open positions in schools. • Establish a retraining program of existing teaching staff, in particular in secondary education. program.	Ministry of Education, Youth, and Sports	Short term Medium term
Exploit economies of scale at the primary and secondary level.	• Implement the agreement between the teacher's union and the government by increasing the pupil-teacher ratio in primary education to 25 and at the secondary level to 30.	Ministry of Education, Youth, and Sports	Medium term
Exploit economies of scale at the regional level.	• Reduce administration costs through enhanced cooperation at the regional level with the development of exams, information systems, strategies, curricula, collective textbook purchases, and sharing of teachers.	Ministry of Education, Youth, and Sports	Medium term
Increase Cost Recovery in Tertiary Education.	• Increase fees and ensure access of low-income students to the system.	Ministry of Finance, Planning, and Development Ministry of Education, Youth , and Sports	Short term
IMPROVE EFFICIENCY IN THE DELIVERY OF SOCIAL PROTECTION PROGRAMS			
Develop a well-coordinated social protection strategy for the country.	• Introduce sector-wide planning so that all ministries and agencies responsible for implementing social protection programs come together to identify social protection priorities and coordinate strategies to address these priorities. The NESCD would be well placed to be a catalyst in this regard. • Consolidate the administrative structures of the community-based initiatives and reoriented them to increase the amount of employment generated. • Strengthen labor market interventions by coordinating the short-term employment component of different programs. • Reorient skills training programs towards improving literacy and numeracy skills with reduced emphasis on pre-employment training. • Reallocate resources from continuing education to adult education programs. • Examine existing housing programs with a view towards developing alternatives to construction of low-income housing and low-income rental units; including provision of rent subsidies through cash transfer programs. • Review, revise and possible terminate the Nutrition Support Program.	Cabinet Line Ministries NESCD	Medium term Medium term Medium term Medium term Medium term Medium term Medium term

Table E.S.1 Summary of Policy Recommendations

Objectives	Recommended Policy Actions	Who Decides and Implements	Priority
Improve targeting to the poor.	• Develop a more effective and efficient system to identify beneficiaries by developing transparent targeting procedures, restructuring benefits and conditioned benefits to activities that promote human capital formation.	Cabinet Statistical Office Relevant Line Ministries	Medium and long term
	• Implement regular household surveys to assess poverty levels, incidence, and coverage of social safety net programs that could be used to assist in the development of targeting systems.		Medium and Long term
	• Improve labor market data to make labor market programs more responsive to the requirements of the labor market.		Medium and Long term
	• Increase access to early childhood care programs to children from poor families and provide nutrition and stimulation programs for low-birth weight babies and malnourished children to address critical risks faced by young children.		Medium and Long term
	• Strengthen the social assistance function of the NIS non-contributory age assistance pensions including: improved targeting, periodic re-certification of beneficiary eligibility and better coordination with the public assistance program.		Medium and Long term
MAINSTREAM GENDER IN PUBLIC POLICIES AND PROGRAMS			
Strengthen the role of the Gender Affairs Department (GAD).	• Focus the functions of the GAD in policy analysis of gender issues rather than program execution.	Ministry of Finance, Planning, and Development Ministry of Social Development, Cooperatives, the Family, Gender, and Ecclesiastical Affairs	Short and Medium term
	• Reposition the GAD within the government's organization structure. For example, as part of the Ministry of Finance and appointing an advisor on gender issues.		Short and Medium term
Better targeting of social programs for boys at risk.	• Strengthen preventive policies and programs to retain boys in school.	Cabinet Relevant Ministries	Short and Medium term
	• Consolidate the current array of programs providing job skills to the young and young men.		Short and Medium term
	• Design and implement clear targeting mechanisms to ensure that job skill programs reach the out-of-school young men.		Short and Medium term
	• Coordinate training programs with SEDU and other organizations to facilitate access to business development for young trainees.		Short and Medium term
	• Support financially initiatives by Community Based Organizations and NGOs working with youth.		Short and Medium term
Reduce vulnerability of Female Headed Households	• Encourage an employment social protection strategy for FHHs	Cabinet Relevant Ministries	Short and Medium term

Table E.S.1 Summary of Policy Recommendations

Objectives	Recommended Policy Actions	Who Decides and Implements	Priority
(FHH).	rather than one based on cash transfers. • Encourage low-cost childcare centers operated through private micro-enterprises managed by women. • Improve access of low-income FHHs to childcare by better targeting of subsidies. • All public works programs (including the road maintenance program) need to be open equally to women and men.		Short and Medium term Short and Medium term Short term
Eliminate Gender Stereotypes in Public Policy.	• Eligibility criteria to receive public assistance need to be revised as they establish different rules for men and women. In particular, by providing FHHs with an automatic cash transfer, while rejecting similar claims for men heading households.	Cabinet Relevant Ministries	Short and Medium term

1. FISCAL DEFICIT, PUBLIC DEBT, AND FISCAL SUSTAINABILITY

1.1 St. Vincent and the Grenadines is a small island (389 square miles) in the Eastern Caribbean with a population of 106,000 inhabitants, according to preliminary results from the 2001 Population and Housing Census, and a per capita gross national income (GNI) of US$ 3,300 (World Bank Atlas methodology, in 2003 U.S. dollars). A former British colony, it became a member of the British Commonwealth in 1979. Until the early 1990s, banana cultivation and export was the main economic activity of the country. However, during the 1990s, this activity declined sharply as a result of the erosion of the preferential access to the European Union (EU). Banana production peaked in the early 1990s at around 80,000 tons, but it has dropped steadily since 1993 to about 30,000 tons in 2001. However, this dependency on the production and export of banana has given way to a service-based economy (e.g. tourism).

1.2 St. Vincent and the Grenadines, as a member of the Eastern Caribbean Currency Union (ECCU), shares a common central bank, the Eastern Caribbean Central Bank (ECCB), and a common currency, with the other five independent members of the Organization of Eastern Caribbean States (OECS) and three dependent territories (Anguilla, Montserrat, and the British Virgin Islands).[1] Their currency is the Eastern Caribbean (EC) dollar, which has been pegged to the U.S. dollar since 1976 at EC$2.70 per US$1. The commitment to a fixed exchange rate and a prudent monetary policy under the ECCU umbrella has been a key element in maintaining an inflation rate close to international levels.

1.3 Notwithstanding a common central bank and a common currency, St. Vincent and the Grenadines, like the other ECCU member countries, conducts fiscal policy independently. While limited progress has been made on a common fiscal policy in the region, the deterioration of the ECCU fiscal position in recent years, notably in Antigua and Barbuda, Dominica, and St. Kitts and Nevis, has reinitiated discussion among its members of the need to coordinate fiscal policies.[2]

1.4 In the 1990s, St. Vincent and the Grenadines followed a prudent fiscal policy that has loosened up slightly since 2001. From 1990 to 2000, the Central Government (CG) ran a primary fiscal surplus (after grants) of 0.4 percent of the gross domestic product (GDP) and an overall fiscal deficit of 1.3 percent of GDP. In 2000, the CG ran a primary fiscal surplus of 0.8 percent of GDP that decreased to 0.5 percent of GDP in 2001, moved to a primary fiscal deficit in 2002 (1.6 percent of GDP) and reversed to a fiscal primary surplus of 0.9 percent of GDP in 2003. From 2001 to 2003, the average CG primary fiscal surplus was –0.03 percent of GDP and the CG overall fiscal deficit was 2.7 percent of GDP.

1.5 The CG debt to GDP ratio increased from 44.1 percent in 1996 to 61.7 percent in 2003. This increase was in part due to the weakening of the CG fiscal position, but mainly to the assumption of responsibility by the government in 1999 of a guaranteed loan of EC$ 156 million (17.5 percent of GDP) for the construction of the Ottley Hall marina and shipyard. Thus, the fiscal policy that the government will implement in the next years will be constrained by the high level of CG debt-to-GDP ratio acquired even if in principle the agreed write-off of EC$ 49.6 million (5 percent of GDP) in 2004 takes place (see para. 1.9).

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[1] The OECS consists of six independent members: Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines, in addition to three dependent territories of the United Kingdom, Montserrat (full member), Anguilla, and the British Virgin Islands (associate members).

[2] The communiqué of the Special Meeting of the OECS Authority, Castries, St. Lucia, September 28, 2001, alludes to the need to examine in the medium term public sector reform aimed at increasing efficiency, and fiscal reform including matters related to revenue, expenditure, financing, and debt management, as well as common approaches to taxation and incentives to be applied to encourage cruise shipping.

1.6 In light of the above, the main objective of this chapter is to propose various options for the adjustment required to achieve the targeted level of public sector debt-to GDP ratio by the ECCB's Monetary Council in 2007.[3] The main findings and recommendations can be summarized as follows:

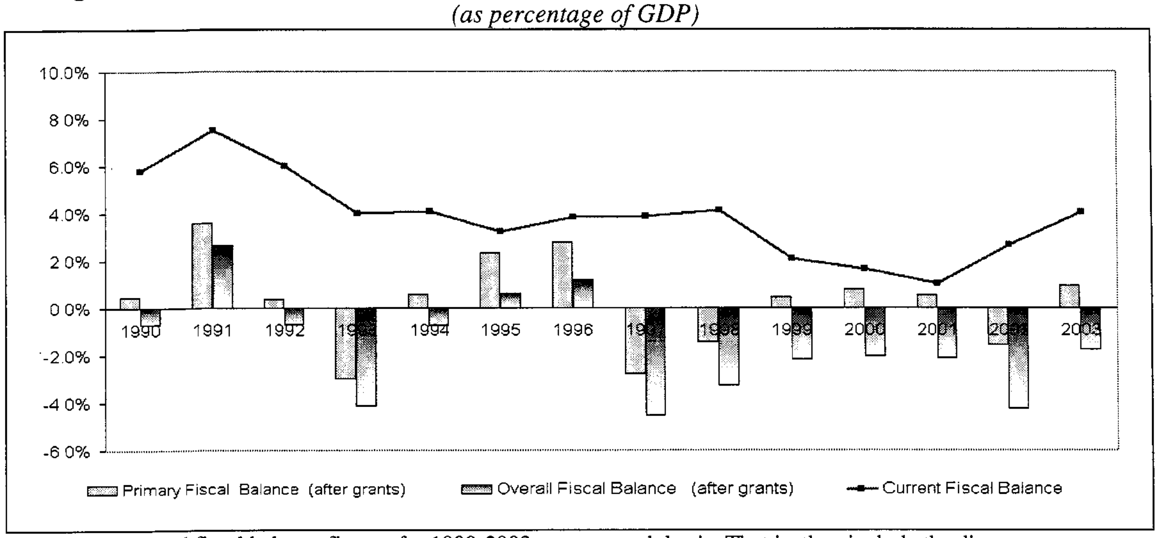
- An average public sector primary surplus of about 3.0-4.4 percent of GDP, depending on the assumption of real interest and growth rate, during the period 2004-2007 will allow the public sector to achieve a debt-to-GDP ratio of 60 percent, the targeted level by the ECCB's Monetary Council.

- The fiscal adjustment implicit in a primary surplus of 3.0-4.4 percent of GDP is feasible and could rely on expenditure cuts, in particular a containment of capital expenditures, freezing of new CG hirings, and a prudent salary increase policy.

A FISCAL PERFORMANCE 1990-2003

1.7 **In the 1990s, at the Central Government (CG) level, St. Vincent and the Grenadines followed a prudent fiscal policy that has loosened up slightly since 2001.** As Figure 1.1 shows, from 1990 to 2000, the CG ran a primary fiscal surplus (after grants) in eight out of 11 years. On average in this period, the CG ran a primary fiscal surplus of 0.4 percent of GDP and an overall fiscal deficit of 1.3 percent of GDP. In 2000, the CG ran a primary fiscal surplus of 0.8 percent of GDP that decreased to 0.5 percent of GDP in 2001, moved to a primary fiscal deficit in 2002 (1.6 percent of GDP) and reversed to a fiscal primary surplus of 0.9 percent of GDP in 2003. From 2001 to 2003, the average CG primary fiscal surplus was –0.03 percent of GDP and the CG overall fiscal deficit was 2.7 percent of GDP.

Figure 1.1 St. Vincent and the Grenadines Central Government Fiscal Performance, 1990-2003
(as percentage of GDP)



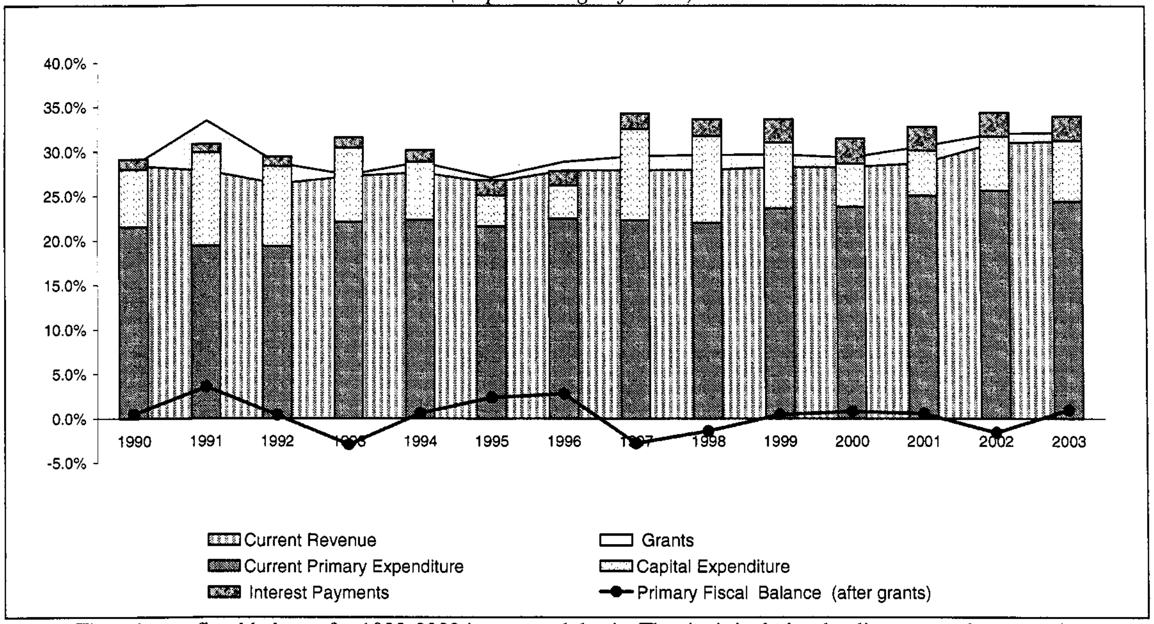
Note: Primary and fiscal balance figures for 1999-2003 are on a cash basis. That is, they include the discrepancy between the overall balance as measured from above the line and from below the line (financing), which may include unidentified discrepancies.
Source: Figures for 1990 –1998 are from ECCB and for 1999-2003 from IMF.

[3] The debt ceiling of 60 percent of GDP adopted by the ECCB's Monetary Council is on CG debt. But the ceiling is applied to the public sector debt-to-GDP ratio in this chapter because most of the non CG debt is guaranteed by the CG.

1.8 **The main reasons for the CG fiscal deterioration in the 2000s is an increase in non-interest expenditures, mostly capital spending and personal emoluments and wages.** As Figure 1.2 shows, from 1990 to 2000 current revenue was on average 27.3 percent of GDP and increased to 30.3 percent of GDP from 2001 to 2003. On the other hand, non-interest expenditures were, on average, about 29.2 percent of GDP during 1990 to 2000 and increased to 31.1 percent of GDP in 2001 to 2003.

Figure 1.2 St. Vincent and the Grenadines Central Government Primary Expenditure, Interest Payments, and Revenue, 1990-2003

(as percentage of GDP)



Note: The primary fiscal balance for 1999-2003 is on a cash basis. That is, it includes the discrepancy between the overall balance as measured from above the line and from below the line (financing), which may include unidentified discrepancies.

Source: Figures for 1990 –1998 are from ECCB and for 1999-2003 from IMF.

1.9 **From 1996 to 2003 gross total public sector debt to GDP increased from 59.5 percent to 70.1 percent due to the weakening of the CG fiscal position and the assumption of responsibility by the government of a guaranteed loan.** As Figure 1.3 shows, in 1998 the gross CG debt to GDP ratio was 42.7 percent and increased to 59.5 percent the next year. This large increase was the assumption of a guaranteed loan by the CG of EC$ 156 million (17.5 percent of GDP) for the construction of Ottley Hall.[4] From 1999 to 2002, the gross CG debt to GDP ratio increased steadily from 59.5 percent until it reached 64.1 percent. In 2003, CG gross debt to GDP ratio decreased to about 62 percent as the government ran a fiscal primary surplus of 0.9 percent of GDP. As will be illustrated in the next section, the public sector will have to generate a primary fiscal surplus of about 3.0-4.4 percent of GDP, depending on the assumptions of real interest and growth rate, to achieve the ECCB's debt-to-GDP ceiling by 2007.

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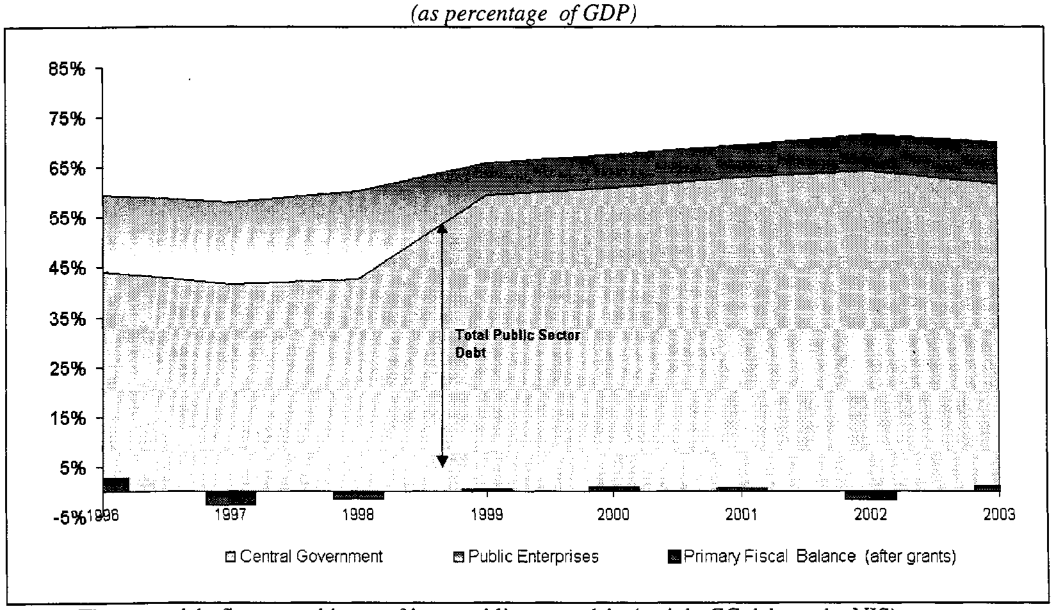
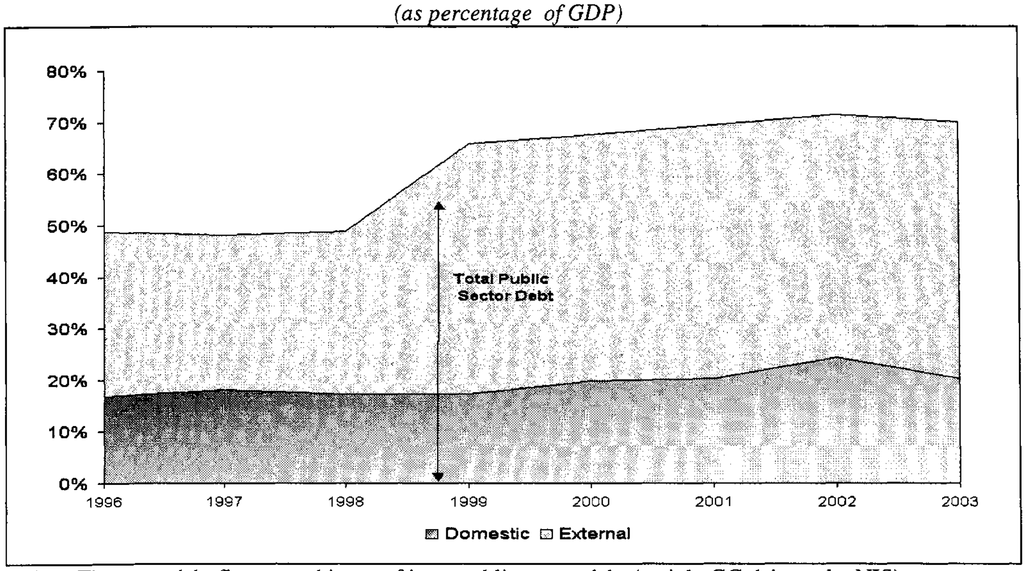
[4] The Ottley Hall project was a joint venture with the company Caribbean Charter and Yacht Yard Holdings (CCYY), owned 49 percent by the Government and 51 percent by the St Vincent Yachting and Shipping Company, to build a marina and shipyard in the early 1990s. When the project failed to meet its financial obligation in 1999, the Government was forced to take over the loan. The Ottley Hall financiers have agreed in principle to write-off EC$ 49.6 million (5 percent of GDP) in 2004.

Figure 1.3 St. Vincent and the Grenadines CG and Public Enterprises Gross Debt and Primary Surplus, 1996-2003
(as percentage of GDP)



Note: The gross debt figure used is net of intra-public sector debt (mainly CG debt to the NIS).
Source: IMF.

Figure 1.4 St. Vincent and the Grenadines Public Sector Gross Debt: Domestic and External, 1996-2003
(as percentage of GDP)



Note: The gross debt figure used is net of intra-public sector debt (mainly CG debt to the NIS).
Source: IMF.

1.10 **Moreover, the additional borrowing of the public sector has been contracted with external creditors at commercial terms.** As Figure 1.4 shows, in 1996 public sector external debt was only about 31.8 percent of GDP. By the end of December 2003, it had increased to 49.9 percent of GDP. The Ottley Hall loan was contracted with a consortium of European banks.

B. DOES ST. VINCENT AND THE GRENADINES FACE A FISCAL SUSTAINABILITY PROBLEM?

1.11 **The figures on primary deficit and debt presented above raise some concerns about the fiscal sustainability of the non-financial public sector (NFPS).** These concerns are addressed using an intertemporal approach to fiscal solvency. This approach, broadly speaking, defines a fiscal policy as sustainable if the present value of all future primary surpluses is enough to repay the current outstanding debt. It is important to stress that this type of debt sustainability analysis does not address the optimal level of indebtedness, its composition, and political economy considerations.[5] Moreover, additional indicators such as external public sector debt service to exports, public sector debt service to revenue, etc. are useful indicators to supplement any fiscal sustainability analysis.

Fiscal Rules in the ECCU

1.12 **The meeting of the ECCB's Monetary Council that took place in February 2003 reconfirmed the agreed fiscal framework that includes ceilings on debt and fiscal performance of the CG.** The aim of the ECCB in setting these fiscal rules is to ensure long-run fiscal sustainability and the credibility of the currency union by limiting negative spillovers. However, as discussed in paragraph 1.3, the ECCB has no mandate over fiscal policy in any member country, and the fiscal rules are not binding for the member states at this moment. Box 1.1 presents the convergence criteria in the ECCU and the Western Africa Economic and Monetary Union (WAEMU). Like the ECCU, the WAEMU comprises developing countries with a currency pegged to a single currency, the Euro.

1.13 **In 2003, St. Vincent and the Grenadines met three of the four debt and fiscal performance ceilings proposed by the ECCB's Monetary Council.** From 1990 to 2003, the CG ran a current account surplus below the target of 4 to 6 percent of GDP in 7 out of 14 years. The target for overall deficit (after grants) has been achieved in only four years since 1990 (4 out of 14 years). The target debt service to current revenue has been met every year since 1990. Finally, CG debt to GDP ratio has been above 60 percent only since 1999 with the assumption of the Ottley Hall guaranteed loan by the CG.

1.14 **At the time of the reconfirmation of the fiscal framework agreement, the ECCB's Monetary Council regarded 2007 as a critical date for fiscal consolidation.** As we discussed in para. 1.20 St. Vincent and the Grenadines can achieve the fiscal consolidation aimed at by the ECCB's Monetary Council in 2007, but this will imply that the government would need on average to run a primary fiscal surplus of about 3.0-4.4 percent of GDP during the period 2004-2007.

1.15 **The successful achievement of debt and fiscal ceilings needs the simultaneous introduction of a system of incentives to encourage compliance and penalties against noncompliance, and a mechanism for monitoring and surveillance of the fiscal performance.** The ECCB has not yet specified any system or mechanism to ensure compliance with the proposed fiscal ceilings. Moreover, the WAEMU example suggests that surveillance of

[5] This methodology includes seignorage as a source of revenue; the apportioning of seignorage to national economies has not been discussed in the ECCU, and it is not taken into account in the fiscal sustainability exercise at the country level. However, any fiscal sustainability exercise at the ECCU level should incorporate seignorage as revenue.

the fiscal ceilings and close monitoring against annual targets during the convergence phase are key to achieving fiscal convergence.

Box 1.1 The Convergence Criteria in the ECCU and WAEMU

Eastern Caribbean Currency Union (ECCU)

The ECCB has put forward a proposal that comprises the following four targets to be achieved in 2007:
- A Central Government current account surplus of 4 to 6 percent of GDP
- An overall government budget deficit of no more than 3 percent of GDP
- A total outstanding Central Government debt of no more than 60 percent of GDP
- Debt service payments by the Central Government of no more than 15 percent of current revenue.

Western African Economic and Monetary Union (WAEMU)*

The regional Convergence, Stability, Growth, and Solidarity Pact adopted in December 1999 by the WAEMU, has four primary convergence criteria and four secondary criteria. The norms established by these criteria have to be met by 2002. The primary criteria are:

- The ratio of the basic fiscal balance (defined as non-grant revenue minus expenditure excluding foreign-financed investment) to GDP must be zero or positive
- The ratio of outstanding domestic and foreign debt to nominal GDP must not exceed 70 percent
- The average annual inflation cannot be more than 3 percent a year
- No accumulation of domestic and external payment arrears in the current financial period.

The secondary criteria are:
- The ratio of the wage bill to tax revenue cannot exceed 35 percent
- The ratio of domestically financed public investment to tax revenue must be at least 20 percent
- The ratio of current external deficit, excluding grants to nominal GDP, cannot exceed 5 percent
- The tax-to-GDP ratio must be 17 percent or more.

However, because of the limited progress achieved by the member countries in meeting the convergence criteria at end-December 2002, the WAEMU Commission proposed to the Heads of State to extend the timetable to end-December 2005.

* The eight members of the WAEMU are Benin, Burkina Faso, Côte d'Ivôire, Guinea-Bissau, Mali, Niger, Senegal, and Togo.

1.16 **The ECCB-proposed fiscal ceilings cover only the CG; public enterprises and government-guaranteed debt have been excluded.** However, the public sector position can be critical and should be included in any proposal of deficit and debt ceilings. Moreover, the inclusion of the public sector in the fiscal framework would ensure that the government produces accurate and timely information on the financial position of public enterprises and their debts.

1.17 **The deficit and debt ceilings do not take into account the cyclical nature of the fiscal indicators in small countries subject to frequent external shocks.** In that regard, it is recommended that the ECCU move from debt and fiscal performance ceilings to a countercyclical fiscal policy based on a simple fiscal rule for the structural balance. This rule has been applied successfully in Chile, a country as vulnerable to external shocks as St. Vincent and the Grenadines. However, the implementation of this type of rule requires previous achievement of fiscal consolidation. Otherwise, the rule will not be credible to the public.

Public Sector Fiscal Sustainability

1.18 **Although the fiscal benchmarks adopted by the ECCB's Monetary Council include a debt ceiling of 60 percent of GDP on CG (Box 1.1), the fiscal sustainability analysis in this chapter refers to the overall public sector debt and fiscal balance as most of non CG debt is guaranteed by the CG.** Thus, the analysis focuses on the public sector primary surplus required to achieve a public sector debt-to-GDP ratio of 60 percent by 2007. The NFPS refers to the CG, the Kingstown Board, the National Insurance Scheme (NIS), the Central Water and Sewerage Authority, St. Vincent Electric Services (VINLEC), the Port Authority, and six other public enterprises.

Table 1.1 Public Sector Fiscal Effort Required to Achieve Fiscal Sustainability 1999-2007

(as percentage of GDP)

	Actual					Projected			
	1999	2000	2001	2002	2003	2004	2005	2006	2007
						Scenario A			
Public Sector Debt	65.9	67.6	69.4	71.5	70.1	71.8	73.6	75.4	77.2
						Scenario B			
						70.4	70.7	71.0	71.3
Public Sector Primary Surplus	-4.7	2.4	1.0	-0.2	0.4				
Public Sector Total Revenue and Grants	33.2	33.0	34.1	35.1	35.3	34.8	34.8	34.8	34.8
Public Sector Primary Expenditure	37.9	30.6	33.1	35.3	34.9	34.4	34.4	34.4	34.4
						To achieve public sector debt to GDP ratio of 60 percent in 2007			
	Scenario A *Real interest rate=4 percent Growth rate = 1 percent*								
Public Sector Primary Surplus Required	2.0	2.0	2.1	2.1	2.1	4.4			
	Scenario B *Real interest rate=4 percent Growth rate = 3 percent*								
Public Sector Primary Surplus Required	0.7	0.7	0.7	0.7	0.7	3.0			

Note: (1) Scenarios A and B assume a nominal interest rate of 6 percent (the average interest rate paid by the CG) and an inflation rate of 2 percent. Scenario A assumes a long-term GDP growth rate of 1 percent and Scenario B assumes a long-term growth rate of 3 percent. (2) The projection for 2004 assumes no write-off of the Ottley Hall.
Source: World Bank calculations based on IMF data.

1.19 **If the government continues the same fiscal policy implemented until now, the public sector debt-to-GDP ratio will reach 71-77 percent of GDP in 2007 depending on the assumption of real interest and growth rates.** As Table 1.1 shows, if from 2004 onwards current revenue plus grants and primary expenditures remain at the same level estimated for the average of the period 2001-2003, 34.8 percent of GDP and 34.4 percent of GDP respectively, then the debt to GDP ratio will be about 71.3 percent of GDP in 2007 with a discount rate (real interest minus growth) of 1 percent. Under the assumption of a discount rate of 3 percent, the public sector debt will increase steadily, reaching 77.2 percent of GDP in 2007. Both ratios are above the ECCB ceiling. This exercise assumes no write-off of the Ottley Hall debt.

1.20 **To achieve a public sector debt-to-GDP ratio of 60 percent by 2007, the government would need to run, on average, a public sector primary surplus of about 3.0-4.4 percent of GDP during the period 2004-2007.** As Table 1.1 shows, for a real interest rate of 4 percent and a growth rate of 1 percent, an average primary surplus of 4.4 percent from 2004-2007 would achieve the objective of a public sector debt- to-GDP ratio of 60 percent. An increase of 2-percentage points in the growth rate would reduce the primary surplus required to stabilize the public sector debt-to-GDP ratio at 60 percent to 3.0 percent. Both figures of primary surpluses are feasible to achieve by containing capital expenditures, freezing new CG hirings, and a prudent salary increase policy.

1.21 **The government is aware of the need to contain the debt-to-GDP ratio and move forward on fiscal consolidation. Accordingly, in 2004 the authorities drafted a debt management strategy and a fiscal covenant to tackle these issues.** The debt strategy aims to restrict the public sector debt to no more than 75 percent of GDP, which is the level the authorities consider to be sustainable. In order to attain this objective the authorities will a) establish strict limits on the contraction of new debts and ensure that the projects to be financed are feasible in terms of their contribution to economic development and poverty reduction and b) reduce operational losses of public enterprises. The fiscal covenant has five components a) consolidate the ongoing fiscal adjustment process, b) raise the productivity of public management, c) make fiscal activity more transparent; d) promote social equity, and e) encourage the development of democratic institutions.

C. FISCAL CONSOLIDATION IN ST. VINCENT AND THE GRENADINES PUBLIC SECTOR

1.22 In the previous section, we showed that the public sector (in practice the CG) - primary surplus needs to be increased in future years to ensure fiscal sustainability and the compliance with the ECCB ceiling on debt-to-GDP ratio by 2007. We propose that the fiscal adjustment rely mainly on expenditure cuts. Tax increases are seen as only a small fraction of the adjustment. The authorities have indicated that they intend to adopt a value-added tax (VAT) by 2006. A tax reform will yield only a limited increase in tax collection given the already high tax-to GDP ratio in St. Vincent and the Grenadines and the expected negative impact of the Free Trade Area of the Americas (FTAA) on tax revenues.

Tax Revenues

1.23 **The main characteristics of St. Vincent and the Grenadines tax structure can be summarized as follows** (see Figure 1.5):

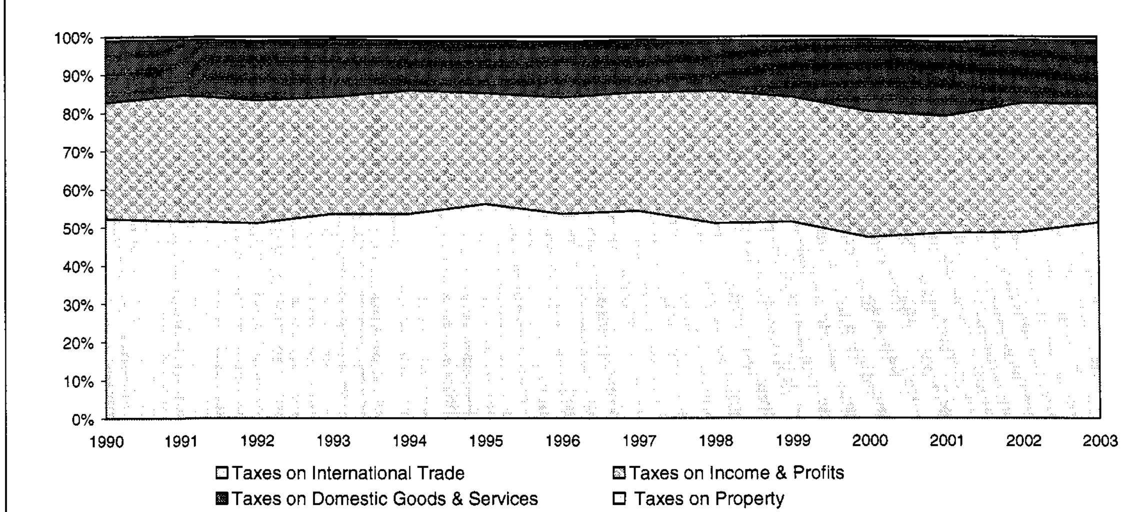
- Current revenue (tax and non-tax) has increased from an average of about 27.7 percent of GDP, from 1990 to 2000, to 30.3 percent of GDP during 2001-2003. Since 1990 tax revenue intake has fluctuated from a minimum of 21.5 percent of GDP in 1992 to a maximum of 26.7 percent of GDP in the years 2002 and 2003.
- Taxes on international trade have decreased as source of the tax revenue intake. On average from 2001 to 2003, 49.5 percent of tax revenue was collected from international trade taxes compared to 52.4 percent in 1990 to 2000. The trade taxes

collected are from the common external tariff (CET) under the Caribbean Community (CARICOM) agreement that applies to the import of goods from outside the region into any member territory of CARICOM, the consumption tax on imports, and a custom service charge (CSC).[6]

- Taxes on income and profits represented on average about 32 percent of tax revenue during 1990-2003. There is a personal income tax that is applied at graduated rates from 10 to 40 percent after deductions. In addition to the personal income tax, there is a social security charge levied on wage and salary income at a combined rate of 6 percent (3.5 percent paid by the employer and 2.5 percent by the employee) to fund the NIS. The self-employed also contribute to the NIS and pay the full 6 percent rate. The corporate income tax has multiple rates. It varies from 20 to 40 percent depending on whether the taxable income is derived from manufacturing for local and OECS exports, to non-OECS CARICOM, for exports to extra-CARICOM, hotels, and others.

Figure 1.5 St. Vincent and the Grenadines Central Government Tax Revenue Composition, 1990-2003

(as percentage of total tax revenue)



Source: Data for 1990 –1998 is from ECCB and for 1999-2003 from IMF.

- Taxes on domestic goods and services represented on average about 15.4 percent of tax revenue during 1990-2003, but in the period 2001 to 2003 they accounted for an average of 17.4 percent of tax revenue. This category includes the consumption tax applied to imports and manufactures not exported. There are 12 rates of consumption tax in the range of 0-15 percent of domestic goods. There is a hotel room tax of 7 percent on accommodations and food and beverage charges. A number of excises and licenses on specific goods and services are levied. The gasoline levy, contrary to other taxes on domestic goods and services, is the residual of the retail price (fixed by

[6] The consumption tax is a single-stage sales tax payable by domestic registered manufacturers and importers. For domestically produced goods, the tax is levied on the manufacturing sales price and for imported goods the tax is levied on the c.i.f import price.

the government) minus the cost, insurance, and freight (c.i.f.) price of the imported product and the fixed margins for importers and retailers.

- Property taxes, on rental income from houses and on land, have remained constant during 1990 to 2003 at 1.0 percent of tax revenue. An annual tax applies to the value of real property, assessed on the basis of annual rental value. There has been no general assessment of rental values since 1990, although the law requires a general assessment at intervals no longer than 10 years.

1.24 **In 1992, revenues foregone from tax concessions on imports were about 36.4 percent of potential revenue**. A key feature of the present tax system in St. Vincent and the Grenadines and other OECS countries is the pervasive use of tax concessions.[7] Bain (1995) estimated that the revenues foregone relative to potential revenue (including import duty, consumption tax and others duties collected on imports) was 36.4 percent in 1992 on the assumption of zero elasticity of imports with respect to tariffs and consumption tax. This is the second largest revenue loss in the sub-region after Grenada (53.9 percent of potential revenue). This estimate of revenue foregone does not include revenues foregone from income tax holidays, which cannot be easily estimated, as OECS countries do not systematically require the filing on income statements by companies enjoying tax holidays.[8]

1.25 **The main purpose of tax concessions in St. Vincent and the Grenadines, as in other OECS countries, is to attract foreign investment. However, the empirical evidence suggests that taxes are not among the main determinants of foreign investment.** Foreign investors place more value on a stable economic environment with transparent rules than on tax incentives.[9] The most suitable approach to address the concerns of tax competition among OECS countries is to support, more forcefully, a program of fiscal policy convergence that includes tax harmonization among member states.

1.26 **A complete discussion of a short and medium-term tax policy strategy is beyond the scope of this report. The International Monetary Fund (IMF) Fiscal Affairs Department has produced one report on the subject, but no estimated revenue gain from changes in the system of tax incentives has been provided.** (Stotsky, Dos Santos, Dieterich, Palomba, and Bristow 2003). The main recommendations of these reports can be summarized as follows:

- *Taxes on goods and services*. In the medium-term, implement a VAT combined with excise taxes and abolish most of the existing goods and services taxes. In the short-term, reform the taxation of petroleum and its price adjustment mechanism, by removing price controls from petroleum products and converting the current consumption tax on petroleum to an excise tax at a specific rate. The rate schedule under the consumption tax should be collapsed to a general rate of 20-25 percent, with exemptions for basic foods and industrial raw materials;
- *Income taxes*. Widen the tax base and reduce the top marginal personal income tax rate of 40 percent rate to 30 percent. Equalize the different rates of corporate income to a rate of about 30 percent, consistent with regional norms;

[7] An elaborate system of import duty exemptions provides for very generous concessions for taxes on imports for the development of industry, tourism, agriculture, social, educational, cultural, and other purposes. The main exemptions are provided under the Customs Act, the Fiscal Incentive Act, and the Hotel Aid Act. Also, some investors benefit from income tax holidays.
[8] The Bank team was unable to update this figure because the information was not available.
[9] See Zee, Stotsky, and Ley (2002) and the references therein.

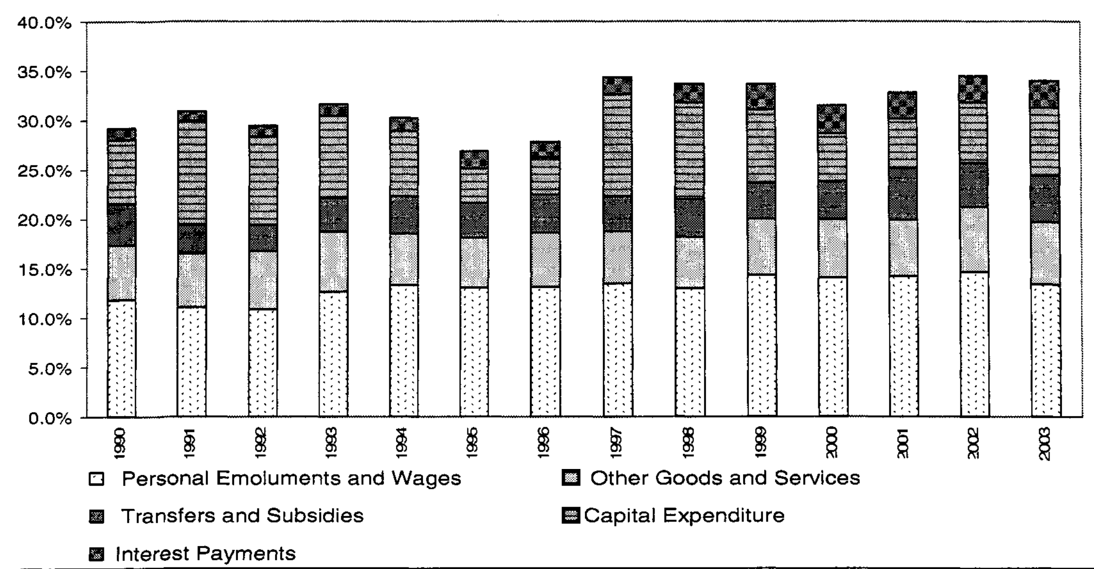
- *Property tax.* Convert the rental value assessment system into a market value assessment system, using recent sales as a guide to market value for comparable properties;
- *Tax concessions.* Award tax concessions only in accordance with a strict interpretation of the Hotel Aid Act and Fiscal Incentive Act. Repeal other acts authorizing tax incentives and cease granting tax incentives on an ad-hoc basis through Cabinet or ministerial decisions. Do not renew income tax holidays and do not grant new ones. With the replacement of existing direct taxes with moderate taxes, such as VAT and excises, do not extend concessions under the old direct tax system to the new system (VAT).
- *Tax administration.* Establish a special control for the 50-100 largest taxpayers. In the medium-term, consideration needs to be given to the creation of a Revenue Authority, combining Customs and Excise and the Inland Revenue Departments.

Central Government Expenditures

1.27 **CG non-interest expenditures were, on average, about 29.2 percent of GDP during 1990 to 2000, but increased to 31.1 percent of GDP in the period 2001 to 2003 (Figures 1.6 and 1.7). As Figure 1.6 shows, the largest part of the increase has been in capital expenditures.** In 2000, capital expenditures were 4.8 percent of GDP and increased steadily until they reached 6.9 percent of GDP in 2003. Capital expenditures have been used by the government to stimulate the economy and recover from stagnation. However, as discussed in chapter 4 of this report not all public capital expenditures undertaken by the government have been successful and cost-efficient in promoting growth and poverty reduction.

Figure 1.6 St. Vincent and the Grenadines Central Government Expenditure Composition, 1990 -2003

(as percentage of GDP)



Source: Figures for 1990 –1998 are from ECCB and for 1999-2003 from IMF.

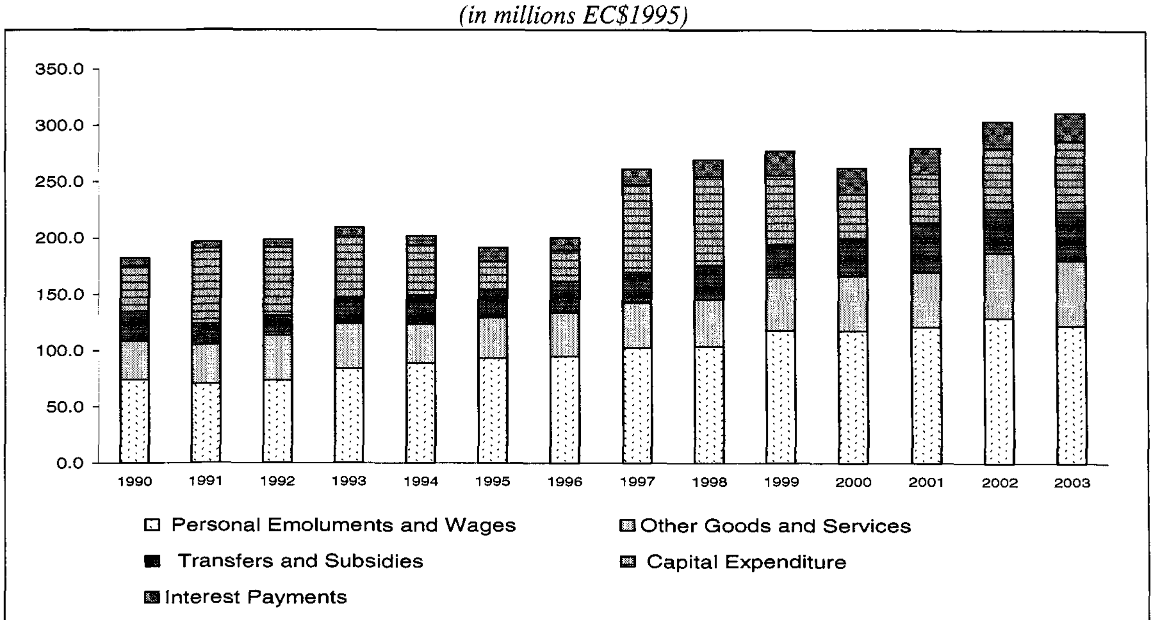
1.28 **Personal emoluments and wages increased from 10.3 percent of GDP, on average, during 1990 to 2000 to 14.1 percent of GDP, in 2001 to 2003**: In real terms, in constant EC$ of 1995, personal emoluments and wages increased from an average of EC$ 99.5 million in 1990-

2000 to EC$ 124.3 million from 2001 to 2003. As discussed in chapter 5 of this report, this increase has been due mainly to an increase in the number established positions and salary increases above inflation and GDP growth.

1.29 **Finally, interest payments in constant EC$ has doubled and as a percentage of GDP increased by 60 percent between 1990-2000 and 2001-2003.** In 1990-2000, on average, interest payments were 1.6 percent of GDP and increased to 2.7 percent of GDP in 2001-2003. In real terms, constant EC$ 1995, interest payments increased from an average of EC$ 12.1 million in 1990-2000 to EC$ 23.6 million during 2001-2003. This increase reflects the higher indebtedness of the St. Vincent and the Grenadines government.

Figure 1.7 St. Vincent and the Grenadines Central Government Expenditure Composition, 1990 -2003

(in millions EC$1995)



Source: Figures for 1990 –1998 are from ECCB and for 1999-2003 from IMF.

2. BUDGET MANAGEMENT

2.1 Budget procedures, which lead to the formulation, approval and implementation of the budget and its impact on fiscal outcomes, have received considerable attention in the recent literature. Several empirical studies have provided evidence that budget institutions have an impact on fiscal outcomes in developed and developing countries. Von Hagen (1992) and Von Hagen and Harden (1995) found that European countries with strong institutional rules governing the budget process have lower expenditure, deficit, and debt ratios. Eichengreen (1992), Alt, and Lowry (1994), and Poterba (1994), among others, have studied the effect of fiscal restraints on fiscal outcomes for the U.S. states finding that more restrictive state fiscal institutions are correlated with more rapid fiscal adjustment. Alesina, Hausman, Hommes, and Stein (1996) and Stein, Talvi, and Grisanti (1999) have extended this line of research to Latin American countries. They found evidence that countries with centralized, transparent budget processes, and strict formal or informal constraints have lower deficits and debt levels. Jones, Sanguinetti, and Tomassi (1999) obtained similar results analyzing public expenditures in the Argentinean provinces. Lao-Araya (1997) corroborates this finding for Thailand, Gleich (2003) for transition economies, and Campos and Pradhan (1996) for several developing countries in Asia and Africa.

2.2 Consequently, a good public expenditure management system provides a government with the incentive and means to promote fiscal discipline, efficiency, and transparent use of funds in service delivery. Starting in 1997 St. Vincent and the Grenadines instituted a set of budget reforms that have served well to keep control of aggregate fiscal outcomes. In addition, the introduction of a basic medium-term framework for budgeting and the preparation of capital estimates in conjunction with its recurrent expenditures indicate a reform minded government in budget management issues. Yet there are still shortcomings that need to be addressed.

2.3 This chapter focuses on the rules governing the decision-making process that leads to the formulation of the budget, its passage through the legislature, its implementation, execution, monitoring and recommends changes in the budgetary processes and framework that can help to achieve fiscal discipline, better allocation across ministries and programs and a more transparent budgeting process. The main findings and recommendations can be summarized as follows:

On Legislation

- Adopt the new set of financial regulations now in draft form.

On Budget Preparation, Execution, and Monitoring

- Develop preliminary allocations for each department to be issued with the Budget Call.

- Ensure that ministries keep updated corporate plans to reflect changes in national priorities.

- The capital budget prepared by the Planning Unit needs to be strengthened and prioritized to focus on critical growth and poverty reduction interventions. A complete discussion of the Public Sector Investment Program (PSIP) and related policy recommendations are the focus of Chapter 4.

- It is recommended that the budget be presented by functional classification following best practices in this regard.

- All expenditures financed by aid funds need to be reported in the budget.

- Improve accuracy of pension expenditure forecasts.

- Implement the data warehousing system so that the Standardized Integrated Government Financial Information System (SIGFIS) can be integrated with the Revenue Management Systems.

- There are still shortcomings that curtail the effective operation of SIGFIS. First, personnel needs to be trained adequately. Second, the interface to generate standard and non-standard reports needs to be improved and made more timely.

On Budget Accountability

- The St. Vincent and the Grenadines financial statements need to cover all government activities. The operations of statutory bodies, including state-owned enterprises, need to be included in the government financial statements.

- Weak Public Accounts Committees (PACs) are a common feature in the OECS countries. The recent Country Financial Accountability Assessment (CFAA) report for the OECS recommended a number of measures, detailed in para. 2.27, to improve their functioning.

A. CONSTITUTIONAL AND LEGAL FRAMEWORK

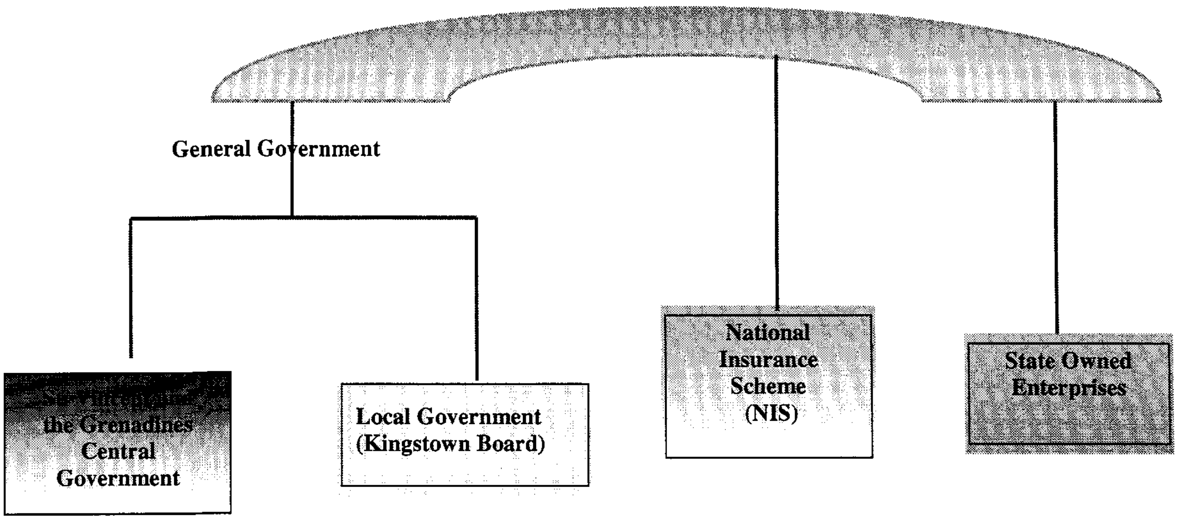
2.4 **The St. Vincent and the Grenadines Constitution Order became effective in October 27, 1979 with independence from the United Kingdom**. As a constitutional monarchy with a Westminster-style Parliament, it has a Governor-General (appointed by and representing the UK Queen) and a unicameral House of Assembly of 21 seats, 15 elected representatives and 6 appointed senators. Representatives are elected by popular vote from single-member constituencies to serve five-year terms. Executive authority lies with the Prime Minister and the Cabinet. The last elections to the House Assembly were held in March 2001, where the Unity Labor Party (ULP) won 12 of the 15 contested seats, and are next to be held in 2006. Figure 2.1 presents St. Vincent and the Grenadines government structure.

2.5 **The Constitution includes general provisions on financial matters. These are then amplified in the Finance (Administration) Act (FAA). A new FAA was passed by the legislature in 2004, but it will only come into effect with the adoption of the accompanying financial regulations. Until the adoption of the new FAA regulations, the 1964 FAA cap. 182 is in effect.** The FAA provides guidelines on government financial management, containing provisions for: a) principal officials responsible for managing government finances; b) definitions of the Consolidated Fund and other public funds; c) general procedures for government accounting, authorization of expenditure, bank accounts, investments and deposits, management of public debt, abandonment of claims and write-offs of public monies, stores surcharges, financial management of State-Owned Enterprises (SOEs) and government controlled operations; and d) issuance of regulations by the Minister of Finance to provide more detailed guidance of financial management. The new FAA provides greater flexibility than similar Acts in other OECS countries, most of which were based to a large degree on 'model legislation' developed for the

OECS countries in the early 1990s. In particular, the new St. Vincent and the Grenadines FAA is more conducive to decentralization of authority to departments and ministries and greater oversight of state owned corporations and other statutory bodies by the Ministry of Finance, Planning, and Development (MoF).

Figure 2.1 St. Vincent and the Grenadines Government Structure

St. Vincent and the Grenadines Non-Financial Public Sector



2.6 **The 1952 Financial and Store Rules and the 1967 Purchases and Tender Procedure provide detailed guidance on financial management for the application of the FAA.** The 1952 Financial and Store Rules include detailed provisions for the application of the FAA in ministries and departments covering commitment accounting and other checks to avoid unauthorized expenditures beyond budget approvals, pre-audit of payment vouchers and instruments to ensure compliance with the regulations, surprise inspections to deter fraud, embezzlement and negligence, detailed regulations for the maintenance of vote account, security of accounts, preparation of estimates and instructions covering every aspect of receipts and payments, and their accounting. The 1967 Purchases and Tender Procedure includes detailed provisions for the procurement of goods and services, the custody, issues, and receipts of stores, accounting, inventories, and other records. A new set of Financial Regulations is now in draft form and expected to be adopted before the end of the year. They will include in particular more detailed internal control arrangements than the previous regulations. Broadly, the Constitutional and legislative framework for public finances in St. Vincent and the Grenadines is sound. However, the new regulations covering finance, stores, and procurement need to be adopted.

2.7 **Other legislation that affects budget management in St. Vincent and the Grenadines includes:**

- Revenue legislation which defines taxes and user fees, establishes tax bases and rates, assigns responsibilities for assessments, collections, accounting, and sets penalties and means of enforcement;

- Acts, which establish Statutory Bodies (including State Owned Enterprises);[10]

- Fiscal Incentives Legislation, chiefly the Fiscal Incentives Act and the Hotel Aids Act, which define the conditions in which exemptions from taxes and customs duties will be granted 'under statute'.[11]

B. BUDGET PREPARATION, EXECUTION, AND MONITORING

Preparation and Presentation

2.8 **St. Vincent and the Grenadines, as is the case in all other OECS countries, still has a dual budget system.** The Budget Research and Policy Division (Budget) in the MoF is responsible for recurrent estimates and monitoring overall expenditures and revenues, while the Central Planning Division (Planning) takes the lead for capital expenditures. The fiscal year runs from January 1 to December 31. The budget cycle is presented in Figure 2.2.

2.9 **In 1997, St. Vincent and the Grenadines instituted a significant set of budget reforms.[12] The principal measures of these reforms were:** [13]

- Conversion of the budget from a line item format to a program format;
- Revision of the Chart of Accounts;
- Development of Corporate Plans by each ministry or autonomous department outlining the agency's missions, priorities, objectives, and results expected for each program and activity;[14]
- Formulation of a Strategic Outlook to initiate the budget planning phase; and
- Publication of Corporate Plan summaries (called Program Narratives) for each agency in the Annual Estimates.

2.10 **Budget preparation in St. Vincent and the Grenadines is reasonably sound, following the reforms in the late 1990s, with some aspects of its budget preparation better developed than in other OECS countries. However, some weaknesses remain.** In accordance with the 1997 Budget Reform, the budget cycle starts with the preparation of the Strategic Outlook Paper (May-June prior to the budget year) by the Budget Division based on a) the current Medium-term Economic Strategy Paper (MTESP), updated biennially for the Caribbean Group for Cooperation in Economic Development (CGCED) last held in June 2002; b) updated

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[10] The FAA defines a statutory body as any corporation established by an Act for which all members of the board are appointed by the same Act, Cabinet, minister, or other entities controlled by the government. All SOEs fall within the above definition. Section 50 of the FAA then gives the Minister extensive powers to make regulations for the oversight of statutory bodies.

[11] The government intends to replace the Hotel Aids Act with a broader Tourism Industry Incentives Act.

[12] The budget reform program in the OECS countries is part of a wider fiscal reform program of the ECCB, instituted with assistance from ECEMP. Budget reforms were piloted in St. Kitts and Nevis, and replicated in Dominica, Grenada, and St. Vincent and the Grenadines.

[13] St. Vincent and the Grenadines did not institute the following reforms, adopted in at least some of the other OECS countries: a) extension of the budget cycle to 24 months; b) development of preliminary allocations for each department, issued with the budget call, with instructions to departments that should reallocate funds from low priority to high priority programs without exceeding their envelopes; and c) requirement that all departments develop explicit proposals, early in the estimates preparation phase of the budget cycle, in support of any 'new initiatives' (whether recurrent or capital).

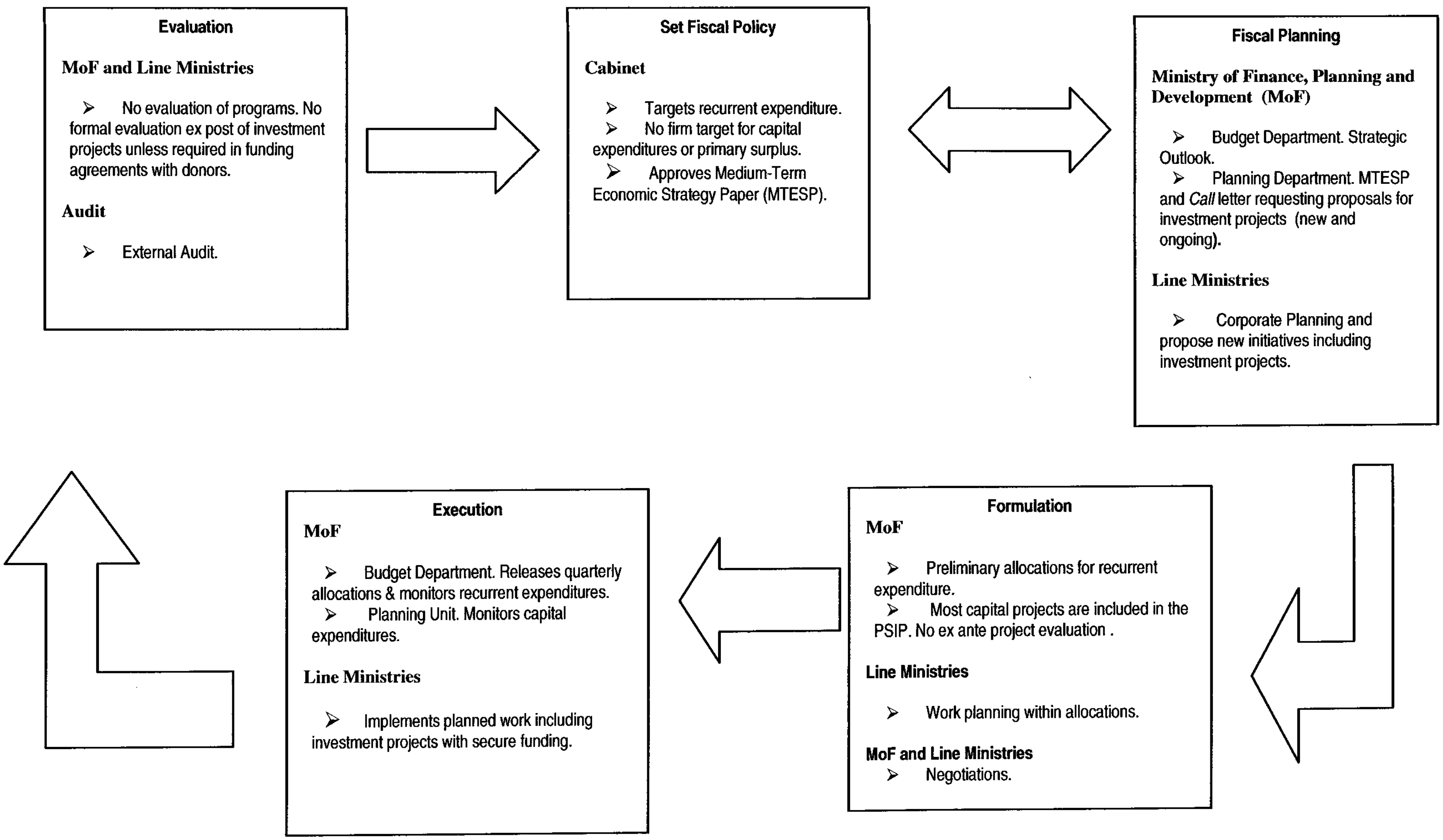
[14] Full performance budgeting with quantitative targets was not attempted; instead, departments are to identify the 'key results' they expect to achieve.

projections for key economic aggregates; c) updated projections for debt servicing; d) updated projections for the capital budget from Central Planning; e) new or revised sector development plans; f) relevant reports or new commitments from donors; g) revenue and expenditure implications of key policy commitments; and h) cost implications of negotiated wage settlements, oil price increases, or other items likely to increase government unit cost.[15] On the basis of this work, the Budget Division forecasts revenue and expenditure aggregates for the coming year and the next two years and derives fiscal targets for review with the Minister of Finance, after which the Budget Circular is issued. Unlike other OECS countries, the Circular does not incorporate preliminary allocations or 'envelopes' (endorsed by Cabinet) for each program. Departments then update their Corporate Plans and submit their 'advanced proposals' (revenues, recurrent and capital expenditures) by late August. Once departmental submissions have been received, Budget and Planning initiate a round of budget discussions, attempting to achieve consensus (September). On the basis of the round of discussions, Budget prepares draft estimates for presentation to Cabinet, highlighting items for which consensus has not been achieved. Ministers present their 'appeals' concerning non-consensus items and Cabinet decides (October). Budget then prepares a second draft of the estimates, highlighting the financing gap. It then sits with the Prime Minister and the Director General who will adjust expenditures (with consultations with the departments) or add new revenue measures (less commonly) to close the gap. The new draft is then presented in late November to the Parliament's Standing Committee on Finance (which has authority to amend the draft Estimates) and then to the full Parliament for debate and adoption. One week later, an Appropriation Bill is tabled in Parliament and the Minister of Finance delivers the Budget Speech to initiate the debate on the Appropriation Bill (December).

2.11 **In this decade, St. Vincent and the Grenadines has introduced two excellent innovations in its budget formulation a) a simple medium-term framework and b) joint preparation of capital and recurrent estimates.** Starting in 2003, the MoF introduced a medium-term framework whereby each department prepares a three-year projection of revenues, recurrent and capital expenditures based on its current corporate plan, to be rolled forward each year. In addition, for the first time, the Budget Circular for 2004 requested departments to prepare capital estimates according to the program format already in place for recurrent expenditures, to allow the compilation of a complete picture of spending plans for each program. Budget and Planning also attempted in 2003 to hold joint (i.e., recurrent and capital) discussions, but these were abandoned, as most capital submissions were late. Joint discussions took place for the 2004 Budget with encouraging results.

[15] Although the 2004 CGCED Meeting did not take place, the Government prepared a MTESP in 2004 to guide budget preparation in the medium-term.

Figure 2.2 The Budget Cycle in St. Vincent and the Grenadines



2.12 **As in all OECS countries, the capital budget preparation needs to be strengthened.** Indeed, both the PSIP and the capital budget include, to some extent, investment projects that do not seem to be fully conducive to the objectives of growth and poverty reduction. The PSIP is the focus of Chapter 4 of this report.

2.13 **The St. Vincent and the Grenadines budget is comprehensive and includes all CG transactions. However, it follows an administrative classification and does not present a functional classification of its expenditures. Aid funds are underreported in the budget.** Recurrent expenditures for each program are broken by object code (personnel emoluments, utilities, etc.) and follow the government's administrative structure, but capital expenditures only give the estimated total costs for the current year and the life of the project, together with the source of the funds (local revenues, grants, or loans), without a breakdown by expenditure object. In the coming year, Budget hopes to present capital projects by program rather than simply by department/ministry. The IMF Government Financial Statistics publishes annual data for the CG, but with a number of shortcomings. In particular, the data is provided with considerable lag, significant discrepancies exist between the fiscal and monetary accounts, between above and below the line, and between financing data and debt accumulation. The government needs to move more forcefully to overcome these shortcomings. Other than aid funds which are largely underreported, St. Vincent and the Grenadines Estimates are comprehensive, including all planned government expenditures for approval by Parliament. The Constitution and the FAA provide for a Contingency Fund to cover unforeseen and unbudgeted expenditures up to a limit approved by Parliament, but to date no provision has ever been made to that fund. Thus, a special warrant is used to meet unforeseen expenditure requirements. Special warrants are approved retroactively by Parliament via a supplemental appropriation act, and the FAA gives Parliament the authority to set a limit (currently EC$ 7.5 million) for supplementary appropriations.

2.14 **In this budget process, the government solicits views from its social partners.** The government has attempted to enhance public participation in the budget process with the creation of a National Economic and Social Development Council (NESDC) and a Tripartite Committee on the Economy (TCE). NESDC includes representatives from the government, private sector and civil society and its initial mandate was to develop the Poverty Reduction Strategy and serve as a vehicle for consultations. In December 2003, NESDC was established as a statutory body with the responsibility of monitoring the Vicentian economy, improving coordination between the different economic interests in the society, promoting economic and social literacy, performing, in a scientific manner, the formulation of socio-economic policies through research and case studies, and analyzing and facilitating discussions and advising different economic and social interest groups on developmental issues.[16] The TCE, modelled on a similar committee established in Barbados, comprises business and labor associations and focuses on productivity issues. In 2003 the Prime Minister held stakeholder consultations with the major industry groups and business associations, plus five 'town hall' public meetings (broadcast on radio). The Budget Speech and debate is widely covered on radio and television.

Execution

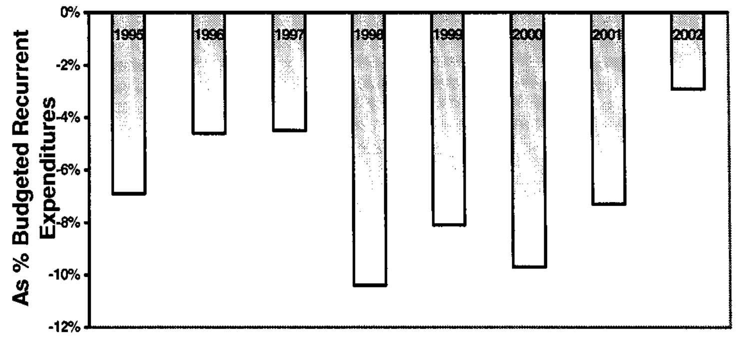
2.15 **Every year since 1995, St. Vincent and the Grenadines recurrent expenditures have been below budgeted recurrent expenditures**. As Figure 2.3 shows, in 1995 actual recurrent expenditures were 6.9 percent below budgeted recurrent expenditures, it increased to 10.4 percent in 1998 and achieved a minimum of 2.9 percent in 2002. Interestingly, the pattern of spending below budget is similar to the one observed in Dominica, however in Dominica the cause of this

[16] See Act No 29 of 2003 that establishes NESDC.

pattern was a cash constraint with government running an overall deficit (after grants) year after year. In the case of St. Vincent and the Grenadines, the evidence suggests that this pattern corresponds to weak budget preparation (see para. 2.10) rather than cash constraint, as the country has spent below its budget in years of overall fiscal surplus as well as deficit.

Figure 2.3 Variance between Actual and Budgeted Recurrent Expenditures in St. Vincent and the Grenadines, 1995-2002

(in percentage)



Source: Author's calculations..

2.16 **Ministries and departments spent comfortably under their recurrent budgets year-after-year. However, budgeting for pensions has become a problem**. As Table 2.1 shows, Education, Health, and National Security, the large employers, spent below their budgets every year. The only agencies that have spent above their budgets in this period have been Autonomous Department, Legal Affairs, Foreign Affairs, Commerce, and Trade. These

Table 2.1 Variance between Actual and Budgeted Recurrent Expenditures by Ministries and Departments, St. Vincent and the Grenadines, 1995-2002

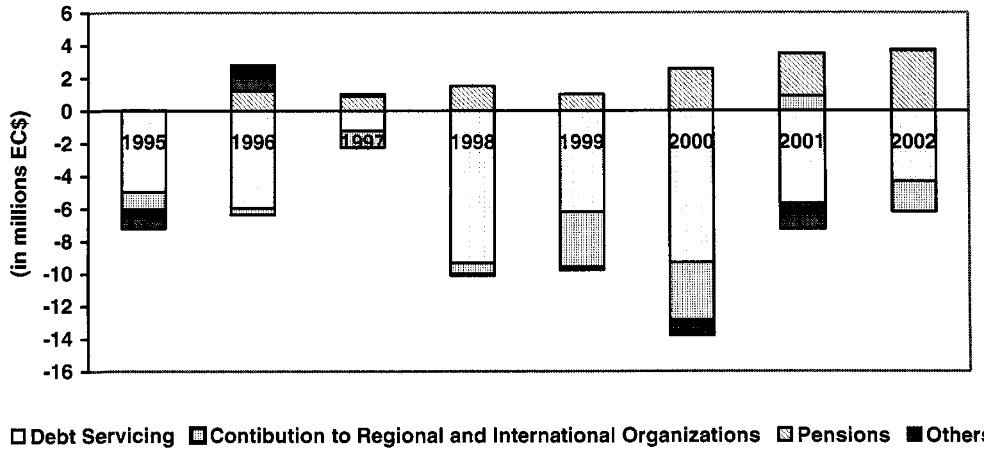
(in percentage)

	1995	1996	1997	1998	1999	2000	2001	2002
Autonomous Departments	-7.3	1.9	5.4	0.6	-6.6	-5.1	-10.2	-3.4
Office of the Prime Minister	-13.2	-16.6	-5.8	-13.0	-5.1	-15.2	-11.2	1.8
Finance, Planning a& Development	-12.2	-5.5	-1.9	-12.0	-10.6	-12.1	-3.9	-2.5
Social Dev, Cooperatives, Family, Gender, etc	-6.3	-3.5	-2.7	-6.9	-5.8	5.8	0.4	0.4
Education, Youth and Sports	-3.9	-2.3	-5.9	-7.8	-7.7	-9.6	-11.4	-4.6
National Security, Public Service, Air & Sea Ports	-6.7	-5.4	-6.6	-17.1	-6.1	-7.5	-8.7	-5.5
Agriculture, Lands, and Fisheries	-16.5	-14.5	-13.7	-14.4	-14.6	-18.4	-6.6	-10.5
Transport, Works, and Housing	-1.9	2.4	-2.9	-9.0	0.6	-9.3	-0.4	5.2
Health & the Environment	-7.5	-6.9	-6.1	-8.8	-7.0	-6.1	-8.0	-0.3
Legal Affairs	323.0	77.9	29.8	-18.0	-1.5	-23.3	-11.2	41.4
Telecommunications, Science, Technology & Industry	-22.8	-20.6	-18.4	-14.4	-17.3	-18.5	-17.3	-15.2
Foreign Affairs, Commerce & Trade	35.4	1.2	-7.7	-3.7	-25.1	-12.1	-12.0	-18.7
Tourism & Culture	-12.5	-9.2	-9.2	-14.5	-9.6	-16.9	-36.4	-14.4
Total	**-6.9**	**-4.6**	**-4.5**	**-10.4**	**-8.1**	**-9.7**	**-7.3**	**-2.9**

Source: Author's calculations.

positive variances are readily explained. In the case of Legal Affairs it was due to awards against the government from legal cases. Finance has a reasonably large staffing complement, but is also responsible for programs on debt servicing, pensions, and contributions to regional and international organizations. Looking just at variances in finance programs, Figure 2.4, debt servicing was under budget every year from 1995 to 2002. Contributions to regional and international organizations were under budget every year but one, while spending on pensions was over budget every year (on a generally rising trend, reaching $3.66 million in 2002).

Figure 2.4 Actual minus Budgeted Finance Recurrent Expenditures in St. Vincent and the Grenadines, 1995-2002
(in millions EC$)



Source: Author's calculations.

Monitoring

2.17 **The Quarterly Allotment System in conjunction with the timely, accurate, and comprehensive financial data provided by SIGFIS are the key systems used to maintain expenditures in line with revenues.** SIGFIS was introduced to Treasury in 1999 and now is implemented in all ministries (although not in all the smaller autonomous departments).[17] The General Warrant Circular states the percentage of the recurrent annual budget that will be released for the first quarter (Quarterly Allotment System) and Treasury inputs these amounts into SIGFIS at the Program/Object Code level.[18] Each on-line ministry then enters its payment vouchers (which are pre-audited in Treasury) and following receipt of the goods and services, its payment is authorized. Treasury issues all payments. The Quarterly Allotment System blocks the entry of vouchers that would cause cumulative commitments for the Program/Object Code to exceed the allocation for that quarter, forcing the responsible officer to defer the purchase or seek an additional allocation from Finance. In addition, no capital expenditures can be undertaken without prior written approval of the Director General, who requires as a prerequisite that departments submit annual work plans for each project. Departments submit recurrent expenditure plans (Quarterly Allotment Forms) for subsequent quarters on the 21st day of the last

[17] Modules for the General Ledger, Payables, and Funds Control (i.e., commitment accounting and control) have been implemented in all ministries. The module for Purchasing is being piloted in the Ministry of Health. The Payroll module has been running parallel to the antiquated payroll system for six months awaiting a demonstration for Cabinet, following which it will go live. Plans exist to implement the Human Resources module, which is tightly integrated with the Payroll module.

[18] In recent years, funds have been released to cover all personal emoluments, pensions, and debt repayments, but only 20 percent of the total budget allocation for all other current expenditures.

month in each quarter. Budget monitors revenue and loan inflows, adjustments in government priorities, and the rate of expenditure on capital projects to calculate how much it can release for current expenditures in the coming quarters. Downward adjustments to departmental spending plans are common (undoubtedly reducing incentives for departments to submit accurate quarterly spending plans in the first place). This process continues through the year, with quarterly allocations being adjusted if necessary to cope with revenue shortfalls. SIGFIS allows accounting personnel in on-line ministries and departments to access their budgetary data in real time, viewing their expenditures, outstanding commitments, and available balance for the quarter. Statements for each department are available within 2-4 days of each month-end.

2.18 **Although the Quarterly Allocation System is designed to keep expenditures in line with revenues and other financial inflows, problems still arise mainly from expenditure pressures on the capital side of the budget**. Once a release of funds is granted, capital projects are not subject to quarterly allocation constraints. Funds may be released for high-profile projects before appropriate financing is in place. In addition, capital expenditure monitoring is weak due to the submission of incomplete and inaccurate data. For current expenditures, quarterly expenditure forecasting by departments is also weak, in some cases, due in part to inadequate training in Corporate Planning and in the preparation of time-phased budget. Moreover, the supplementary expenditure constraints imposed by the Quarterly Allocation System reinforce the perception that good planning does not matter. These weaknesses in turn lead to cash flow problems, sometimes forcing the Accountant General (AG) to delay issuing checks (e.g., to local suppliers or to reimburse overpayments of taxes) until there is sufficient cash to honor them. The AG reports that such problems are not uncommon, but temporary. St. Vincent and the Grenadines does not suffer from a sustained build-up of payment arrears. However, the cash flow problems put enormous pressure on the AG because the main revenue information management systems are not integrated with SIGFIS, forcing the AG to call the two departments in charge of revenue each morning to obtain figures on what they deposited the prior day. The Eastern Caribbean Economic Management Program (ECEMP) plans to assist by implementing a data warehousing system to address this weakness.

2.19 **SIGFIS has improved the turnaround time for payments for suppliers, resulting in better service and facilitating the preparation of annual accounts. However, data quality remains a problem**. Departments are supposed to reconcile their monthly statements with their 'Vote Books' (manual record of allocations, commitments, and payments put through the system). This reconciliation is necessary as there are many classification errors, as well as timing differences. However, since the introduction of SIGFIS and the new chart of accounts, reconciliations have fallen behind. Remaining problems include:

- Managers of spending programs may order goods and services from suppliers and delay entering their vouchers into SIGFIS if they do not have adequate free balance for that account. This problem stems from a combination of (a) poor monitoring of expenditure commitments, (b) poor work planning, (c) 'true' unforeseen emergencies coupled with a reluctance on the part of the department to solve the problem by reallocating funds from lower priority activities within its own programs, or (d) 'gaming' by agencies to obtain additional funds by presenting Finance with a fait accompli.

- Spending ministries cannot print their monthly statements and find it difficult to generate non-standard reports from the system for their own management purposes due to (a) the absence of a user-friendly interface for report generation and (b) inadequate training coupled with a lack of technical support. Such problems reinforce the perception that SIGFIS is the Treasury's system and an imposition on the other departments.

2.20 **Budgetary performance is monitored by monthly reports, from both Budget and Planning, to the Cabinet Committee on the Economy (CCE) with more extensive analysis on a quarterly basis prior to making decisions on Quarterly Allocations**. The main monitoring problem is incomplete and inaccurate data on capital expenditures. Accounting officers in the spending departments have significant latitude in re-allocating funds from one line to another within a program, or between programs within the same 'vote' (i.e., department or ministry) by means of virement warrants, within the following restrictions: a) no virement from personal emoluments is allowed except to another personnel emoluments line within the same vote and b) no virement between recurrent and capital expenditures is allowed. The Minister of Finance may shift funds from one vote to another by means of a reallocation warrant, subject to approval by resolution of the House of Assembly, and with the same restrictions listed above. Except in Finance, budget preparation is not supported by computer applications. This will become more feasible once the planned wide-area network for the government is implemented.

2.21 **Unlike other OECS countries, St. Vincent and the Grenadines uses a modified cash system of accounting**. Expenditures are brought to account when accrued (i.e. when invoices are received), but revenues only when received. This results in expenditures matching more closely with work done, and facilitates the tracking of outstanding payables to suppliers. However, it is not a full accrual accounting as fixed assets are written off in the year of purchase and do not appear in the balance sheet.

2.22 **The Standardized Integrated Government Tax Administration System (SIGTAS, Inland Revenue) and Automated System for Customs Documentation and Administration (ASYCUDA, Customs) system automate the bulk of the revenue accounting tasks for the two major revenue departments.** Unfortunately, the two systems are not integrated, which would facilitate the maintenance of a single account per taxpayer covering all taxes. SIGTAS has improved the capacity of Inland Revenue to manage tax arrears by a) automated preparation of notices for taxes due in installments, resulting in higher rates of on-time payments; b) reducing the turn-around time to issue assessments; and c) automated calculation of arrears (overdue assessments plus penalties and interest), allowing for better analysis (e.g., aging arrears) and more focused collection efforts. See Box 2.1.

2.23 **The debt management function is in the Budget Division of the MoF and uses the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) to maintain data on domestic and foreign debt.** St. Vincent and the Grenadines maintains a current and comprehensive list of CG debt (domestic and external), but the data on debt of statutory bodies is incomplete. The government has arrears with respect to financing for a controversial project, the Ottley Hall, but is negotiating for a reduction of the principal and the elimination of arrears.

Box 2.1 Current Revenue Performance, 1995-2002

A developing country such as St. Vincent and the Grenadines where the Central Bank is precluded from issuing currency to cover the deficit faces more binding cash constraints than other countries. In such cases, the overall budget management performance is largely dependent on reasonably accurate forecasting of current revenues. A significant shortfall in revenues will force a greater-than-normal curtailment in current expenditures or a significant shortfall in the current surplus, or some combination of the two. From 1995 to 1998, actual current surpluses exceeded the budget target, but the opposite was true over the subsequent four years. The good performance over the initial four years appears largely due to improved inland revenue tax administration.

Measures to improve tax roll maintenance, assessment processing, and management of tax arrears resulted in an average rise in income tax collections of over 9 percent per annum from 1995 through 1998, in spite of significant reductions in tax rates. Corporate profit tax rates fell from 50 percent to 40 percent between 1994 and 1998, while personal income tax rates fell even more sharply from 55 percent to 40 percent. The tax threshold for personal income increased from EC$5,000 to EC$10,000, and agricultural incomes were exempted from tax altogether. While income tax collections remained buoyant relative to GDP growth from 1999 through 2002, the annual rate of increase declined to about 5.3 percent once the one-off benefits of the tax administration reform (e.g., collection of arrears; increased tax roll) had been collected. The government looked to taxes and fees on the offshore sector (offshore financial services, international merchant shipping registrations, and honorary citizenship fees) for a boost in revenues. Unfortunately, revenue projections were far too optimistic (particularly for the honorary citizenship scheme), leading to revenue shortfalls averaging about 1.5 percent of GDP from 1999-2001.

Revenue Variance (Actual minus Budget)
(in millions EC$)

	1998	1999	2000	2001	2002
Offshore financial services	**0.09**	**-0.78**	**-2.12**	**-2.17**	**-2.48**
Honorary citizenship	**NA**	**-12.0**	**-12.0**	**-12.0**	**NA**
Merchant shipping international	**-2.16**	**-0.58**	**-1.17**	**-0.73**	**-0.20**
Total	**-2.06**	**-13.36**	**-14.59**	**-15.50**	**-2.83**
As % GDP	**-0.2%**	**-1.5%**	**-1.7%**	**-1.6%**	**-0.3%**

C. BUDGET ACCOUNTABILITY

2.24 **While independent in a sense by authority derived directly from the Constitution, the Audit Department (AD) has no guaranteed operating budget or staff complement, and must obtain approval from the Executive via the annual Estimates process.** Section 75 of the Constitution requires the Director of Audit (DoA) to (a) satisfy him/herself that all amounts disbursed have been applied to the purposes for which they were appropriated by Parliament and that the expenditure conforms to the authority governing it (a compliance and internal control audit) and (b) at least once in every year, audit and report on the public accounts (a financial statement audit). The AD's mandate includes CG, local government, and statutory bodies, including state-owned enterprises where the enabling legislation does not give the Board the authority to appoint their own auditors. A new Audit Act is under review. The new Audit grants authority to conduct value-for-money audits. Until this is enacted, Sections 9 and 10 of the Finance and Audit Act, Cap. 182 of 1990 remain in force. These require (a) the AG to submit the public accounts to the DoA within six months of the end of each financial year, and (b) the DoA to submit his/her report on the audit of these accounts within another three months. However, several factors have served to reduce potential benefits accruing from the work of the AD, including:

- The automation of critical financial management functions (e.g., SIGFIS; SIGTAS; and ASYCUDA) without adequate input from the AD in the design and implementation stages;
- The weak functioning of the Publics Accounts Committee; and
- Lack of training for staff, particularly on computer assisted auditing tools and auditing of computer systems.

2.25 **Traditionally, Treasury has submitted its annual Public Accounts for audit on time.** But problems developed when SIGFIS was introduced in 1999, coupled with a decision to issue checks for all payments of EC$ 100 or more resulted in a backlog, delaying the finalization of the accounts. Treasury expects to catch-up this year, accounts for 2002 have been submitted to the DoA and the AG believes she will complete those for 2003 within the six-month deadline. The DoA has three months following receipt of the annual Public Accounts to submit the report to the Minister of Finance for transmission to Parliament and the Public Accounts Committee. The latest report of the DoA covered the Public Accounts for 2000, and was submitted in February 2003. The Department is in the process of completing the audit of the 2001 accounts, and has received those for 2002.

2.26 **The Financial Statements of St. Vincent and the Grenadines present a partial view of government activities.** The government would like to monitor SOE financial performance better, but at the moment there is no specific unit with a mandate to do so. The St. Vincent and the Grenadines debt strategy draft discussed in para. 1.21 establishes a Monitoring Committee on Public Enterprises, headed by the Prime Minister, to monitor the performance of all public enterprises. The DoA has constitutional authority to audit statutory bodies.

Parliament and the Public Accounts Committee (PAC)[19]

2.27 **As in other OECS countries, there is no effective parliamentary oversight of the public finances.** Two reasons are fundamental for this lack of oversight: a) the dominance of the parliament by the executive and b) the lack of a functioning PAC. Section 76 of the Constitution requires the House of Assembly, at the commencement of each session, to appoint a PAC from among its members to consider the reports of the Director of Audit and to report to the House (i) the reason for any excess or unauthorized expenditure and (ii) the measures necessary to ensure that public monies are properly spent. A PAC was appointed following the 2001 election. Its last meeting was in June 2003 to discuss issues arising from the Audit Report covering fiscal years 1998 and 1999, and for initial consideration of the Audit Report for 2000. Further meetings have been postponed until there are Audit Reports for more current fiscal years. Recommendations in this area include :

[19] The World Bank's recent OECS CFAA contains a detailed assessment of the problems facing Public Accounts Committees in the Eastern Caribbean.

- Given that opposition parties are often insufficiently represented to form a functioning PAC, it is recommended that OECS countries consider enacting the appropriate constitutional, or other changes, to allow the appointment of nonparliamentary members.

- Members of Parliament and other interested parties could participate in the Commonwealth Parliamentary Association, which, in conjunction with the World Bank Institute (WBI), has organized a Study Group on Public Accounts Committees and plans follow-up seminars.

- OECS countries could draw on the advice of neighboring countries such as Jamaica, where the PAC is a vibrant component of government oversight.

- It is recommended that a media campaign be developed to publicize PAC activities to the public and to create demand from the public for strong public financial management.

3. PUBLIC SECTOR INVESTMENT PROGRAM

3.1 From 1997-2003, on average, CG capital spending was about 7.5 percent of GDP and total public sector capital spending was about 11.1 percent of GDP (1997-2002). This level of capital spending is higher than in St. Kitts and Nevis, similar to St. Lucia, and lower than Dominica and Grenada. Dominica spent about 9.0 percent of GDP in capital expenditures during FY 1995/96-FY 2000/01, Grenada spent about 11 percent of GDP from 1994-2002, and St. Lucia, about 7.7 percent of GDP from FY 1995/96-FY 2001/02. St. Kitts and Nevis Federal Government spent about 5.1 percent of GDP over the period 1996-2001. It is difficult to assess the adequate level of public capital expenditure for St. Vincent and the Grenadines economy because capital expenditures reported by the government, as in most OECS countries, not only include spending in fixed capital, but also recurrent expenditures. Thus, while detailed recommendations to improve capital spending efficiency follow below, it was not possible to establish an optimal level of capital expenditures given the poor quality of existing data.

3.2 Although St. Vincent and the Grenadines has managed until now to avoid large and unproductive capital projects, with the exception of the joint venture of Ottley Hall, its fiscal position has weakened in the last few years. Moreover, as discussed in this chapter the country still has a number of initiatives pending, such as universal secondary education and improvement of the transportation network that will require large capital expenditures in the next few years. Thus, the main recommendation of this chapter is that capital spending be contained and prioritized to focus on critical growth and poverty reduction interventions, their efficiency improved and public investment be financed mainly with grants and concessional loans.

3.3 The main recommendations can be summarized as follow:

On Capital Expenditures and PSIP Preparation, Monitoring, and Execution

- Create a technical sub-committee of the Cabinet for the PSIP and the capital budget preparation that would meet regularly to discuss technical, economic, and other issues to ensure that full information is available on all capital projects and that some explicit form of prioritization has been done before the capital budget and PSIP are discussed at the Cabinet level.

- It is recommended that the government establish clear selection criteria for investment projects and that all large investment projects be subject to a formal cost-benefit analysis.

- Review the legal framework for public-private partnership (PPP) in investment projects and set limits to the role of the government as guarantor.

- Prepare a manual for the capital budget and PSIP preparation.

- Update Corporate plans in response to the changes in the sector.

- Move forward with the simultaneous discussion of recurrent and capital expenditures at the ministry level.

On the Coverage of Capital Expenditures and the PSIP

- Some investment projects currently included in the PSIP and in the capital budget are in nature expenditures incurred on a yearly basis and consequently should be recorded as recurrent expenditures. International practice should be followed in this respect.

- All investment projects by statutory agencies, such as state-owned enterprises, or private corporations but financed through loans guaranteed by the government need to be included in the PSIP and the financial statements and be subject to a cost-benefit analysis before the government guarantees these projects.

- The Estimates Book and the PSIP need to provide information on capital projects a) by program rather than simply by department/ministry, b) by expenditure object (wages, utilities, etc.) and c) functional classification. Moreover, a sectoral summary of actual spending on capital projects in prior years needs to be reported in the Estimates.

On the Execution and Monitoring of Capital Expenditures and the PSIP

- Improve the realization rate, in particular of EU projects.

- It is recommended that the Government rely on grants and concessional lending more forcefully to finance its PSIP and reduce its fiscal exposure to external shocks.

- Monitor expenditures on capital projects more closely.

A. INSTITUTIONAL ORGANIZATION AND PREPARATION

Institutional Organization

3.4 **The Central Planning Division (Planning) in the MoF is responsible for the preparation of the capital budget and the PSIP for the MTESP.** The Budget Research and Policy Division (Budget) is responsible for recurrent estimates and monitoring overall expenditures and revenues. Planning is also responsible for the physical, environmental, and planning evaluation of all capital projects. The MoF coordinates contacts with donors interested in supporting capital projects.

3.5 **In 2003, an organizational change was introduced requiring all planning officers in line ministries to report to Planning.** This reorganization, places all planning officers in line ministries under the supervision of the Chief Planning Officer in the Central Planning Division. The Planning units in the Agriculture, Education, and Health ministries have been reallocated to the Planning Division in the MoF. The objective of this reorganization is to improve the quality of project planning and timeliness with which projects are implemented. At this stage, it is too early to know if this reorganization will bring about real changes in the quality of planning and execution of the capital budget.

3.6 **The CCE, that meets monthly, reviews all investment projects to be included in the capital budget and monitors its implementation.** The CEE is constituted by all Ministers and their Permanent Secretaries. The Chairman is the Prime Minister and the secretariat the Central Planning Division. In addition, technical discussions take place between line ministries and

Planning. However, these discussions are not always conducted for all proposed projects and at the detailed level necessary to evaluate them adequately. A sub-committee at the Permanent Secretary level that has the responsibility of preparing and prioritizing the capital budget and the PSIP before it is presented to the CCE will strengthen the preparation, establishment of priorities, and trade-offs implicit in this kind of process. This sub-committee can also be in charge of monitoring implementation. Grenada, St. Kitts and Nevis, and St. Lucia have in place such a sub-committee. In addition, this new technical sub-committee would allow the CCE to focalize its work on the overall priorities for the budget and poverty reduction interventions.

3.7 **A European Development Fund/Project Management and Coordination Unit (EDF/PMCU) was established as part of the Planning Division in 1997 to assist the National Authorizing Officer (NAO) to manage the Stable Export Earnings Program (STABEX) funds as well as other EU assistance.** The EDF/PMCU functions similar to comparable units in other OECS countries. A familiar problem encountered is the difficulty in dealing with constantly changing EU procedures and getting approvals for disbursements. As a result, there are still payments to be made on STABEX 94, 95, and 96/97 and payments on the Special Framework of Assistance 1999 are just getting underway.

PSIP and Capital Budget Preparation

3.8 **Although there is a separate process for the preparation of the PSIP and the capital budget in St. Vincent and the Grenadines, the existence of a three year rolling capital budget made them almost analogous concepts.** A three-year PSIP is presented in the MTESP, updated biennially for CGCED last held in June 2002. In addition, the capital budget presented in the Estimates Book, unlike other OECS countries, is a rolling three-year budget rather than a one-year budget. Thus, the budget in St. Vincent and the Grenadines sets out capital spending for the budget year and the two succeeding years as is done in a multi-year PSIP in the other OECS countries. During the process of preparing the budget, the PSIP is updated. Pipeline projects from the inventory of projects are approved and become new projects. Ongoing projects are usually given a perfunctory approval unless there are drastic changes that require reconsideration. Nevertheless, it is important to note that the budget process with all the time pressure involved is probably not the best approach to establishing the country's public sector investment priorities and making the hard trade-offs that this necessarily entails.

3.9 **The process and procedures for the preparation of the capital budget and the PSIP in St. Vincent and the Grenadines, as in other OECS countries, need to be strengthened.** The process of preparing the capital budget starts with the issuance of the call circular that is usually sent out in May of the year before the budget. This circular sets out the policy and macroeconomic framework for the estimates. Project summary forms must be provided for all of the capital projects. These forms contain information on the sector, the estimated capital expenditure for the budget and upcoming years, and the financing required. Estimates of the related recurrent spending is also supposed to be provided, but often is not. An intended innovation in 2003 was that the reccurrent and capital expenditure estimates would be presented and considered jointly. But, unfortunately, only the Ministry of Telecommunication, Science, Technology, and Industry submitted its estimates in the required joint format. Consequently, the old procedures of considering the recurrent and capital estimates separately had to be followed. In 2004, another effort is reportedly being made to have joint discussions of recurrent and capital spending estimates to get a more integrated picture of proposed spending and the possible trade-offs. Ministries have to submit their capital spending estimates to the MoF in August. These submissions are followed by discussions between the staff of the MoF and the individual line ministries to resolve any differences of opinion concerning the spending estimates prior to presentation to Cabinet. The full Cabinet considers the first draft of the estimates in late September or early October. At this time individual ministers are able to make a case for any of the projects that had been submitted but were not included in the estimates or that have not even been submitted. Technical discussions are not always conducted for all proposed projects and at the detailed level necessary to evaluate them adequately. A second draft of the estimates is prepared after the Cabinet meeting incorporating all adjustments in spending and revenue necessary to close any overall budgetary gaps. This second draft of the estimates is submitted to the Standing Finance Committee of the House and after debate is passed in late October. Following the budget speech, the House debates the estimates and passes the capital spending estimates in late November/early December in time to begin implementation in January.

PSIP and Capital Budget Presentation

3.10 **The PSIP presented in the MTESP and the capital budget presented in the Estimates Book have a different coverage.** In St. Vincent and the Grenadines, the NFPS includes the CG, the Kingstown Board, the NIS, and public enterprises. The three-year rolling capital budget presented in the Estimates Book includes CG government capital expenditures and public enterprise's capital projects financed by a loan guaranteed by the CG. On the other hand, the government does prepare a three-year medium-term PSIP covering the broader public sector as part of its MTESP.

3.11 **The figures presented in the St. Vincent and the Grenadines capital budget and the PSIP do not accurately reflect public investment in fixed capital because some projects included in the PSIP and the capital budget are recurrent expenditures in nature.** St. Vincent and the Grenadines by and large includes, in its budget and PSIP, all projects for which it will seek external financing (loans and/or grants) irrespective of the nature of the project. However, this does not follow international practice and IMF guidelines. For example, training programs, some social protection programs, technical assistance, analytical work, and other expenditures incurred annually need to be recorded as recurrent expenditures independent of their source of financing. The government may keep all these projects in a separate file for the purpose of seeking external financing from donors, but it is recommended that the recording in the budget and the PSIP follow international guidelines.

3.12 **In addition, St. Vincent and the Grenadines capital budget follows an administrative classification and does not present a functional classification of its expenditures.** Information on capital expenditures for each project includes the estimated total costs for the current year and the life of the project, together with the source of the funds (local revenues, grants, or loans), without a breakdown by expenditure object. In the coming year, Budget hopes to present capital projects by program rather than simply by department/ministry, but it also needs to attempt to present capital expenditures by expenditure object (wages, utilities, etc.) and functional classification. Moreover, a sectoral summary of actual spending on capital projects in prior years is never reported in the Estimates. This means that there is no public reporting of actual spending on capital projects by sector but only planned or budgeted. The government should report regularly on actual capital expenditures by sector in its annual estimates.

The Current Medium-Term PSIP

3.13 **The quality of the preparation of the medium-term PSIP relies on the strength of the MTESP**. This is evidenced by the fact that a MTESP was prepared in 2004 to provide a framework for the 2005 budget even though there was no meeting of the CGCED scheduled for 2004. The MTESP presented in June 2002 at the CGCED covered the PSIP for the period 2002-

2004. The new MTESP, which was not provided to the Bank team, covers the PSIP for the period 2004-2006. The MTESP provides the overall and sectoral strategy behind the medium-term PSIP. Corporate plans also provide key inputs for the preparation of the PSIP. The 2002-04 MTESP states that the government's policy with regard to the PSIP is to "achieve greater efficiency in the country's economic and social development goals". To achieve this, the focus is on the provision of adequate socio-economic infrastructure and poverty eradication. Capital expenditures are selected to build the necessary platform to facilitate private sector-led growth, while reducing the levels of poverty and improving the social infrastructure. The government views the PSIP as an important source of stimulus for the economy in the short term that will support private sector growth in the medium term. The PSIP in the 2004 MTESP, which is being used to provide a framework for the 2005 budget, was provided to the Bank team and is presented in Table 3.1.

Table 3.1 Medium-Tern Public Sector Investment Program for St. Vincent and the Grenadines, 2004-2006

(in millions EC$)

	2004		2005		2006		2004-2006	
	Estimated	%	Projected	%	Projected	%	Total	%
Economic Services	**79.5**	**51.3**	**155.1**	**66.7**	**99.1**	**59.5**	**333.8**	**60.2**
Agriculture	17.8	11.5	15.4	6.6	15.4	9.3	48.7	8.8
Energy	5.4	3.5	31.0	13.3	15.0	9.0	51.4	9.3
Transportation and Communications	34.3	22.1	93.2	40.1	56.8	34.1	184.3	33.3
Tourism	2.2	1.4	2.2	0.9	2.0	1.2	6.4	1.1
Industry, Trade and Commerce	2.3	1.5	1.0	0.4	0.9	0.6	4.3	0.8
Other Economic	17.5	11.3	12.3	5.3	9.0	5.4	38.7	7.0
Social Services	**54.0**	**34.8**	**49.9**	**21.5**	**51.6**	**31.0**	**155.5**	**28.1**
Education and Training	24.3	15.7	29.9	12.8	31.5	18.9	85.6	15.5
Health and Sanitation	7.6	4.9	4.2	1.8	6.4	3.9	18.2	3.3
Sports and Community Development	14.0	9.0	7.8	3.4	6.7	4.0	28.5	5.1
Water and Sewage	8.1	5.2	8.0	3.4	7.0	4.2	23.1	4.2
Administration	**9.6**	**6.2**	**12.8**	**5.5**	**5.7**	**3.4**	**28.1**	**5.1**
Other	**11.8**	**7.6**	**14.7**	**6.3**	**10.1**	**6.1**	**36.7**	**6.6**
Total	**154.9**	**100.0**	**232.6**	**100.0**	**166.5**	**100.0**	**554.0**	**100.0**

Source: St. Vincent and the Grenadines, Ministry of Finance, Planning, and Development. August 2004.

3.14 **On average over the 2004 to 2006 period, the government proposes to spend around three fifths of its PSIP on economic services, primarily transport and communications.** Casual observation suggests that the stock of infrastructure lags behind other OECS countries, with the possible exception of Dominica. The country does not yet have an airport capable of receiving commercial jets on the main island and the road network is relatively undeveloped. This impression was confirmed in discussions with staff of the Planning Division. The government's priorities for infrastructure investment include an efficient energy sector, rural electrification, repair and maintenance of the national road system, improved water supply and sanitation, better telecommunication, irrigation and drainage facilities, and an improved transportation system. The biggest projects are for: highway rehabilitation and construction relating to the Cross Country and Windward Highway, Canouan Airport improvement, the construction of a correctional institution, the Fisheries Development Project, and low-income housing development. The government's emphasis on improvement of the transportation network is very appropriate given the key role of better road and air links in its overall strategy for diversification and economic development. Roads in particular have been allowed to deteriorate as a result of heavy traffic, inadequate maintenance, and bad weather. Another major project under this category is the National Stadium, the first phase of which is budgeted at EC$ 30.0 million. It is recommended that a feasibility study be conducted to assess the National Stadium construction and operation and its consistency with the country's fiscal and debt sustainability and its growth and developmental targets. (See Box 3 1).

Box 3.1 The National Stadium

The government of St. Vincent and the Grenadines, following the example of other governments in the region, is planning to build a National Stadium, the first phase of which is currently estimated to cost EC$ 30.0 of which EC$ 13.5 will be financed by Libya (a grant of EC$ 4.0 million and a soft loan of EC$ 9.5 million) and EC$ 16.5 with loans from Trinidad Tobago. The first phase of the multi-purpose sports facility is designed to accommodate soccer and track and field as well as other sports and to host international events. When fully developed the facility will include accommodation units, a cricket playing area, a velodrome, a gymnasium and sports medicine facility, an Olympic size swimming pool, a research-teaching-information dissemination center, a family recreational park, a six court lawn tennis facility, sports offices, parking, and a car racing track. The National Stadium is intended to promote sports in the country as well as to provide a boost to tourism.

The experience with National Stadium projects in the region has not been very positive. The Stadiums have often turned out to be more expensive than anticipated and have not generated the revenues expected. The project has not yet been subject to a rigorous cost-benefit analysis and there are questions about its financial viability. The only analysis done so far was by the current Chairman of the project as a requirement of a UWI/CMD Executive MBA program in 1996. Since that time, the cost of the project has escalated from the originally assumed EC$ 9.2 million to EC$ 30.0 million. Taking the increased costs into account, the viability of the project would seem to depend on optimistic assumptions about the likely revenue generated and the availability of financing on concessional terms. However, in spite of the need of an adequate cost-benefit analysis, EC$ 1 million has already been spent on project preparation and the land has already been cleared of squatters who had to be compensated.

3.15 **Over the same period, the government proposes to spend almost 30 percent of its capital expenditures on social services.** The capital spending in social services is aimed at combating poverty and achieving universal secondary education. Large projects include school construction and renovation including those financed under the Basic Education Project II. In the medium-term, only about 5 percent of public sector investment expenditures are projected to be on administration and 6.6 percent on others, which is primarily for a new correctional facility.

3.16 **The government plans to only finance around a quarter of its PSIP with grants.** Over 70 percent of its financing will come from loans, of which about 60 percent will be financed with external loans not all of them concessional, Table 3.2. This will entail a significant increase in the government's external debt burden, which will make the country's fiscal position more vulnerable to shocks. The government needs to tap grants and concessional lending more forcefully to reduce its fiscal exposure to external shocks. Revenue will finance only 4 percent of this PSIP.

Table 3.2 Financing Source of the 2004-2006 St. Vincent and the Grenadines PSIP
(in millions EC$)

	Amount	Percent
Grants	136.6	24.8
External Loans	249.6	45.3
Local Loans and Bonds	143.8	26.1
Revenue	23.0	4.2
Total	554.0	100.0

Source: St. Vincent and the Grenadines, Ministry of Finance, Planning, and Development. August 2004.

3.17 **The most important donors are the EU and Taiwan, Republic of China. Each country is expected to finance about 30 percent of the entire PSIP donor financed (Table 3.3).** However, all the financing of the EU is grant, compared to only 65 percent by Taiwan, China. The third most important donor (17.3 percent) is the Caribbean Development Bank (CDB); about 90 percent of this financing is loans. Japan and Kuwait follow.

Table 3.3 Donors Financing of the 2004-2006 St. Vincent and the Grenadines PSIP

	Loan	Grant	Total	Total
	(in millions EC$)			*As %*
EU	0.0	67.1	67.1	32.5
Taiwan, Republic of China	22.5	41.6	64.1	31.0
CDB	31.8	4.0	35.8	17.3
Kuwait	15.5	0.0	15.5	7.5
Japan	1.0	19.6	20.6	10.0
Libya	0.0	0.7	0.7	0.3
UN	0.0	1.5	1.5	0.7
FAO	0.0	1.0	1.0	0.5
World Bank	0.6	0.0	0.6	0.3
PAHO/WHO	0.0	0.1	0.1	0.0
Total	71.4	135.5	206.9	100.0
Total (as %)	34.5	65.5	100.0	

Source: St. Vincent and the Grenadines, Ministry of Finance, Planning, and Development. August 2004.

3.18 **In summary, the main issues to address in the preparation of the capital budget and PSIP are:**

- There is no budget manual that documents all the steps for the PSIP and capital budget preparation.
- Corporate Plans need to be updated frequently to meet the new challenges of the sector.
- An analysis of the associated recurrent spending is supposedly required for all projects. However, although for some foreign-financed projects the required information is usually available, this is not the case for all projects.
- There is no formal requirement for cost-benefit analysis even for large projects and no forum where the results of any such analysis are considered by decision makers in establishing capital spending priorities.
- The forum, on which decisions about projects to include in the capital budget and the setting of the overall priorities for the PSIP are made, needs to be strengthened.

B. EXECUTION AND MONITORING

Execution

3.19 **The CG is the main capital-spending agency of the NFPS.** As Table 3.4 shows, in the period 1997-2002, CG capital spending represented, on average, about two-third of total public sector capital spending. The NIS accounted for 3.8 percent of total public sector capital spending and the rest of the public sector about 30 percent.

Table 3.4 Sectoral Composition of the Actual Public Sector Capital Spending, St. Vincent and the Grenadines, 1997-2003

(in millions EC$)

	1997	1998	1999	2000	2001	2002	2003
Economic Development	**61.5**	**54.8**	**31.3**	**18.8**	**27.7**	**41.0**	**43.9**
Agriculture, Forestry and Fisheries	11.9	11.8	7.8	3.3	3.7	5.2	6.7
Industry, Trade and Business	0.0	0.0	0.0	0.0	0.0	2.6	0.7
Manufacturing, Quarrying, and Construction	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Energy	0.2	0.5	0.3	0.3	0.3	0.2	0.3
Tourism	0.2	0.5	0.6	0.4	0.8	1.2	3.7
Transport and Communications	49.2	42.0	22.6	8.8	20.1	18.4	10.1
Other Economic				6.0	2.8	13.4	22.5
Social Sector	9.9	9.6	7.9	9.2	13.8	16.0	16.9
Education and Training	5.5	4.0	1.9	4.5	7.6	7.9	6.8
Health and Sanitation	2.7	2.1	2.1	0.7	0.6	2.8	3.8
Water and Sewage	0.0	0.0	0.0	0.0	0.0	0.3	0.3
Housing	0.0	0.0	0.0	0.0	0.0		
Community Development	1.7	3.5	3.9	3.9	5.6	4.9	6.0
Administration	0.0	0.0	0.0	5.5	2.7	2.5	4.7
Other	10.6	19.8	24.4	2.3	4.0	4.2	10.8
Total Central Government	82.0	84.2	63.6	35.8	48.2	63.6	76.4
National Insurance Scheme	0.0	0.0	0.0	0.0	14.0	6.0	
Rest of Public Sector	11.0	14.0	68.0	29.0	20.0	30.0	
Total Public Sector	93.0	98.2	131.6	64.8	82.2	99.6	

Note: There is a break in the series 'other' after 2000, which interferes with intertemporal comparisons.

Source: St. Vincent and the Grenadines, Ministry of Finance, Planning, and Development for 2000 -2003 and IMF, Article IV, Statistical Appendix for earlier years.

3.20 **From 1997-2003, on average, CG capital spending was about 7.5 percent of GDP and total public sector capital spending was about 11.1 percent of GDP (1997-2002).** As Table 3.6 shows, Public Sector capital spending fluctuated from a peak of about 15.3 percent of GDP in 1999 to a low of around 7.3 percent in 2000. The peak in 1999 reflected the surge in spending by the rest of the public sector as the government assumed the largest part of the debt of the Ottley Hall project.[20] The Ottley Hall example, as other public-private partnership (PPP) in the sub-region, calls for the need to review the legal framework on which these PPP are anchored. This level of capital spending is higher than in St. Kitts and Nevis, similar to St. Lucia, and lower than Dominica and Grenada. Dominica spent about 9.0 percent of GDP in capital expenditures during FY 1995/96-FY 2000/01, Grenada spent about 11 percent of GDP from 1994-2002, and St. Lucia, about 7.7 percent of GDP from FY 1995/96-FY 2001/02. St. Kitts and Nevis Federal Government spent only about 5.1 percent of GDP over the period 1996-2001.

3.21 **The main objective of the CG capital spending has been to support economic diversification and development. Thus, on average during the period 1997-2003, economic development accounted for about 60 percent of CG actual capital spending**. (Table 3.5). This

[20] The Ottley Hall project was a joint venture, undertaken in the early 1990s, between the Government and private investors to build a marina and shipyard. When the project failed to meet its financial obligation in 1999, the Government was forced to honor the loan guarantee.

spending was prompted by concerns about the social implications of rising unemployment caused by the phase out of the banana industry. A key focus has been structural reforms in the agriculture sector designed to raise productivity in the banana industry as well as to encourage the production of non-banana crops. The largest sub-sector of capital spending in the economic development sector is Transport and Communications followed by Agriculture, Forestry, and Fisheries. Transport accounted for about 36 percent of CG capital spending and Agriculture for 11 percent in this period. In spite of this level of spending in Agriculture, the government has had limited success with its agricultural diversification program so far, perhaps because too much attention has been focused on preserving the banana industry rather than developing alternatives. As discussed in para 3.14, the large share of the CG capital spending allocated to Transport and Communication is in line with a casual observation of the infrastructure in the country.

3.22 **In the same period, on average, the CG spent one-fifth of its total capital expenditures in the social sectors (education, health, water, housing, and community development).** Since 1997, capital spending in the social sector has increased steadily. In particular, education accounted for about 6.7 percent of CG capital spending in 1997, increased to 12.7 percent in 2000 and reaching its peak in 2002, 15.7 percent. With respect to education, in the next few years, the government plans to expand secondary school capacity. This increase has been in response to the goal of achieving universal secondary education in the near future. In addition, Community Development capital spending in total CG capital spending has increased from 2.1 percent in 1997 to 7.8 percent in 2003. Administration and Other accounted for 20 percent of total CG capital expenditures

Table 3.5 Sectoral Composition of the Actual CG Capital Spending
St. Vincent and the Grenadines, 1997-2003
(as percentage of CG capital spending)

	1997	1998	1999	2000	2001	2002	2003	1997-2003
Economic Development	75.0	65.1	49.2	52.7	57.5	64.5	57.5	60.2
Agriculture, Forestry and Fisheries	14.5	14.0	12.3	9.3	7.7	8.1	8.7	10.7
Industry, Trade and Business	0.0	0.0	0.0	0.0	0.0	4.1	0.9	0.7
Manufacturing, Quarrying and Construction	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Energy	0.2	0.6	0.5	0.7	0.5	0.2	0.4	0.5
Tourism	0.2	0.6	0.9	1.1	1.6	1.9	4.9	1.6
Transport and Communications	60.0	49.9	35.5	24.7	41.8	29.0	13.2	36.3
Other Economic	0.0	0.0	0.0	16.9	5.8	21.1	29.4	10.5
Social Sector	12.1	11.4	12.4	25.6	28.6	25.1	22.1	19.6
Education and Training	6.7	4.8	3.0	12.7	15.7	12.5	8.9	9.2
Health and Sanitation	3.3	2.5	3.3	2.0	1.3	4.4	5.0	3.1
Water and Sewage	0.0	0.0	0.0	0.0	0.0	0.5	0.4	0.1
Housing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Community Development	2.1	4.2	6.1	11.0	11.6	7.8	7.8	7.2
Administration	0.0	0.0	0.0	15.4	5.7	3.9	6.2	4.4
Other	12.9	23.5	38.4	6.3	8.2	6.6	14.2	15.7
Total Central Government	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note: There is a break in the series 'other' after 2000, which interferes with intertemporal comparisons.
Source: St. Vincent and the Grenadines, Ministry of Finance, Planning, and Development for 2000 -2003 and IMF, Article IV, Statistical Appendix for earlier years.

Table 3.6 Actual Public Sector Capital Expenditures. St. Vincent and the Grenadines, 1997-2003

(as percentage of GDP)

	1997	1998	1999	2000	2001	2002	2003	1997-2003
Economic Development	**8.1**	**6.9**	**3.6**	**2.1**	**3.1**	**4.4**	**4.5**	**4.7**
Agriculture, Forestry and Fisheries	1.6	1.5	0.9	0.4	0.4	0.6	0.7	0.9
Industry, Trade and Business	0.0	0.0	0.0	0.0	0.0	0.3	0.1	0.0
Manufacturing, Quarrying and Construction	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Energy	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Tourism	0.0	0.1	0.1	0.0	0.1	0.1	0.4	0.1
Transport and Communications	6.5	5.3	2.6	1.0	2.2	2.0	1.0	2.9
Other Economic	0.0	0.0	0.0	0.7	0.3	1.4	2.3	0.7
Social Sector	**1.3**	**1.2**	**0.9**	**1.0**	**1.5**	**1.7**	**1.7**	**1.3**
Education and Training	0.7	0.5	0.2	0.5	0.8	0.8	0.7	0.6
Health and Sanitation	0.4	0.3	0.2	0.1	0.1	0.3	0.4	0.2
Water and Sewage	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Housing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Community Development	0.2	0.4	0.5	0.4	0.6	0.5	0.6	0.5
Administration	**0.0**	**0.0**	**0.0**	**0.6**	**0.3**	**0.3**	**0.5**	**0.2**
Other	**1.4**	**2.5**	**2.8**	**0.3**	**0.4**	**0.4**	**1.1**	**1.3**
Total Central Government	**10.8**	**10.6**	**7.4**	**4.0**	**5.3**	**6.8**	**7.8**	**7.5**
National Insurance Scheme	0.0	0.0	0.0	0.0	1.5	0.6		
Rest of Public Sector	1.4	1.8	7.9	3.3	2.2	3.2		
Total Public Sector	12.2	12.3	15.3	7.3	9.1	10.6		

Note: There is a break in the series 'other' after 2000, which interferes with intertemporal comparisons.
Source: St. Vincent and the Grenadines, Ministry of Finance, Planning, and Development for 2000 -2003 and IMF, Article IV, Statistical Appendix for earlier years.

3.23 **During this period, the most important source of financing of CG capital spending has been local revenues and loans, which accounted for almost half of total financing.** As Table 3.7 shows, the next most important source of financing was external loans, a substantial proportion of which was not concessionary. The share of financing from external loans has varied considerably over the period, from a low of 5.2 percent in 2000 to a high of 64 percent in 1998. The proportion financed by grants at 21 percent has been relatively small.

Table 3.7 Sources of Financing of Actual Central Government Capital Spending St. Vincent and the Grenadines, 1997-2003

(in percentage)

	1997	1998	1999	2000	2001	2002	2003	1997-2003
Local	53.4	19.0	53.5	66.1	53.2	45.8	57.3	49.8
External Loans	30.2	63.8	26.7	5.2	26.7	26.6	23.4	28.9
External Grants	16.3	17.2	19.8	28.7	20.1	27.7	19.2	21.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: St. Vincent and the Grenadines, Ministry of Finance, Planning, and Development for 2000 -2003 and IMF, Article IV, Statistical Appendix for earlier years.

3.24 **The realization rate of CG planned capital expenditures has been low and variable. Over the 1997 to 2003 period, only about 44 percent of budgeted capital expenditures have actually been implemented (Table 3.8).** Thus, the estimate figures for capital spending presented in the St. Vincent and the Grenadines budget, as in all other OECS countries, need to be used with caution as a proxy for actual capital expenditures. While the 44 percent realization rate is higher than the 30 percent rate in St. Kitts and Nevis, it is below the 50 percent rate in Dominica and St. Lucia, and the 64 percent rate in Grenada. Although the St. Vincent and the Grenadines realization rate improved after 2000, there is still room for further improvement and it needs to be a priority of the government. The reasons for the low rate of realization are a) too many projects for the implementation capacity of the country and b) some proposed capital projects are usually included in the estimates of capital expenditures presented in the budget even though financing has not been secured from donors. In the case of projects that are expected to be financed by the EU and that have been included in the estimates, they are often not even considered for financing until May of the budget year and final approval can be delayed for months after that. This means that many projects do not even get the go-ahead until September when the year is mostly over and even then there are usually delays in getting the projects underway. Looking at funding, the largest shortfall in implementation is for grants, mostly EU, where the realization rate averaged only 36 percent. The realization rate for external loans at 45 percent is only slightly higher than the total realization rate. Local financing had a realization rate of about 50 percent. With respect to accelerating disbursements of EU grants, St. Vincent and the Grenadines and the EU may want to look at the option adopted in some African countries to have a EU trust fund that supports the World Bank program in the country and against which progress disbursements can take place.

Table 3.8 Realization of St. Vincent and the Grenadines Central Government Capital Spending, 1997-2003

	1997	1998	1999	2000	2001	2002	2003	1997-2003
Estimated	169.8	144.3	135.6	143.5	136.5	148.4	149.4	146.8
Actual	82.0	84.2	63.6	35.8	48.2	63.6	76.4	64.8
Realization Rate (%)	**48.3**	**58.4**	**46.9**	**24.9**	**35.3**	**42.8**	**51.1**	**44.0**

Source: St. Vincent and the Grenadines, Ministry of Finance, Planning, and Development for 2000 -2003 and IMF, Article IV, Statistical Appendix for earlier years.

3.25 **The government has created two specialized units to implement its education projects and the National Stadium**. The government is aware of the low realization rate of its planned capital expenditures. Given the high priority that has been given to education in its economic strategy, it has created the Education Project Management Unit to implement the education projects financed by the CDB, World Bank (WB), Department of International Development (DFID), and EU. Also, a unit, the National Stadium Project Management Unit, has been created to move forward the implementation of the National Stadium. Although, this strategy helps to better implement capital projects, it has the disadvantage of depleting the Planning unit of some of its best officers.

Monitoring

3.26 **The process for releasing funds for capital projects is less closely monitored than for recurrent expenditures**. Based on the annual plan for each project, ministries submit forms quarterly providing information on planned spending for the next quarter in all projects by category of spending. If everything is in order and the funds are available, the Director General will release the funds and the AG is responsible for making the requested payments.

3.27 **As in other countries in the region, post evaluation of capital projects is only done when required by international donors.** The EDF/PMCU has to engage independent consultants to carry out evaluations for EU-financed projects.

4. PUBLIC SECTOR EMPLOYMENT AND COMPENSATION

4.1 With a total population of about 106,000 inhabitants, according to results from the 2001 Population and Housing Census, St. Vincent and the Grenadines has limited resources to carry out the whole range of functions performed by any government. As several studies have shown, small states tend to have bigger governments in response to the higher unit cost of supplying public goods and the need to provide a stabilization role to ameliorate the effect of external shocks (Alesina and Wacziarg 1997; Rodrik 1996).

4.2 In this regard, St. Vincent and the Grenadine has the second highest OECS ratio of government employees to population, 5.6 percent, after St. Kitts and Nevis, and the third highest ratio of wages to GDP, 13.7 percent, after Dominica and St. Kitts and Nevis. In addition, since 1995 the total number of established positions has increased at a rate of 1.4 percent per year, and average personal emoluments per established position in real terms by 3.0 percent per year. Thus, the high wage bill to GDP is the result of increases in employment as well as salaries. During this period negotiated salary increases have been higher than inflation and GDP growth. It is recommended that the government manage salary increases prudently in the next few years and freeze new hirings in order to avoid crowding out other expenditures and exercising more pressure on its fiscal position.

4.3 It is critical that St. Vincent and the Grenadines keep public sector reform at the center of its agenda. The high debt to GDP ratio, as well as the need to change the modalities of service delivery to changing population demographics will require that the government focus its effort on the design of a comprehensive public sector strategy that improves its efficiency and effectiveness, and at the same time generates fiscal savings. The purpose of this chapter is to review the main trends in CG employment and compensation, as well as the experience to date with public sector reform. The main findings and recommendations can be summarized as follows:

On Legislation

- The legislation that governs the appointment of public officers, pensions, etc. needs to be modified to reflect the requirements of a small open economy that experiences continuous external shocks and wants to respond with the flexibility of a modern public service. In particular, it is recommended that the regime of pensions for employees in pensionable established positions that are deemed redundant be modified.

On CG Employment and Compensation

- As a matter of fiscal transparency, it is recommended that the government report in the Estimates the number of non-established positions as it does now for established positions.

- Moving forward, it is recommended that, in response to changes in the age structure of the population the government rethink the number of established employees required to deliver education, health services and social protection (see chapters 5, 6, and 7 of this report).

- Future salary increases need to be managed prudently as in the last years increases have been awarded in excess of inflation and GDP growth.

Public Sector Reform and other Institutional Issues in Public Employment and Compensation

- Review and/or redefine the role of the Public Sector Reform Unit as a catalyst for public sector reform within the government.
- Training in essential skills such as writing, office procedures, financial and personnel management, and basic management needs to be up-scaled and made more systematic.
- The government needs to carry out a detailed evaluation (cost-benefit analysis) before any contracting out or statutorization program is undertaken.
- It is essential that the information systems that contain such staff particulars as date of hiring, date of salary increments and movements between salary scales, training received, performance evaluation reports, and the date of retirement be upgraded to meet the needs of a modern public service.
- It is recommended that the government exploit, through greater collaboration at the regional level, opportunities to pool resources and realize lower unit costs in the areas of tax administration, customs, audit services, police services, magistracy, and environmental protection.

A. TRENDS IN CENTRAL GOVERNMENT EMPLOYMENT 1995-2003

4.4 **St. Vincent and the Grenadines, like other OECS countries, has two types of government positions: established and non-established.** The Public Service Commission has the constitutional responsibility for the appointment of all public officers including nurses, medical officers, and teachers to established positions. The Police Service Commission appoints policemen and firemen. Established positions are permanent positions listed in the budget, and their compensation is classified as Personal Emoluments. Non-established positions are filled directly by line ministries and their compensation is classified as wages. The Public Service Commission is also responsible for disciplinary actions, promotions, and training.

4.5 **The Pension Act and the Protection Employment Act governs public sector employment.** Employees in established positions that are pensionable, listed in the Pension Act, receive a gratuity and a government pension in the following cases a) on or after attaining the age of sixty or in special cases at the age of fifty-five, b) in the case of transfer to other public service, on or after attaining the age at which they are permitted by the law to retire, c) on the abolition of his office, d) on compulsory retirement for the purpose of facilitating improvement in the organization or department to which she/he belongs, e) on medical evidence, f) in the case of termination of employment in the public interest as provided in the Pension Act of 1990. From this Act it is not clear that, if an established position is deemed redundant, then the government should pay a pension to the employee from the termination date. Discussion with the Attorney General did not clarify the issue. Employees in non-established positions and in non-pensionable established positions receive severance payment according to the Protection Employment Act with the termination of employment. Both employees in established and non-established positions are eligible for pensions from the NIS. Thus, a pensionable government employee will receive two pensions: one from the government, financed by the Consolidated Fund, and another pension from the NIS. The transfer of public officers to any undertaking and the preservation of their pension and ancillary rights is governed by the Public Officers (Transfer to Undertakings) Act of 1990.

4.6 **Trends in government employment in all OECS countries are difficult to determine because there is no systematic recording of total government employment.** Good information is available on trends in the number of established positions (which is reported in the Estimates Book), but the number of non-established positions, especially casual laborers who occupy positions with hourly wage rates, is harder to determine. Further complicating the assessment of employment trends is a lack of data on vacancies and on hours worked.[21]

4.7 **The number of established positions increased from 1995 to 2003 by a total of 11.6 percent, 577 positions, or 1.4 percent per year. It is the highest increase in the OECS sub-region after St. Kitts and Nevis.** This per year increase is above the increase observed for the same period in Dominica (0.9 percent), Grenada (0.5 percent), and St. Lucia (0.8 percent), but below St. Kitts and Nevis (4.7 percent). A closer examination of Table 4.1 reveals that from 1995 to 2001, the number of established positions grew by a total of 6.0 percent, 300 positions, or 0.8 percent per year. From 2001 to 2003, the number of established positions increased by 277, a total of 5.3 percent or 2.6 percent per year. Thus, in 2003 about 5.1 percent of the population was employed by the CG in established positions.

Table 4.1 Established Positions in St. Vincent and the Grenadines Central Government, 1995-2003

	1995	1996	1997	1998	1999	2000	2001	2002	2003	1995-2003	1995-2001	2001-2003
Established Positions	4,964	4,964	4,988	5,039	5,104	5,210	5,264	5,395	5,541			
Annual Growth Rate (%)		0.0	0.5	1.0	1.3	2.1	1.0	2.5	2.7	1.4	0.8	2.6
Total Growth Rate (%)										11.6	6.0	5.3
As % of Population	**4.5**	**4.4**	**4.5**	**4.5**	**4.6**	**4.7**	**4.8**	**4.9**	**5.1**			

Source: Estimates of Revenue and Expenditure. Government of St. Vincent and the Grenadines and World Development Indicators. August 2004.

4.8 **Most of the increase in established positions from 1995 to 2003 was concentrated in the ministry of National Security**. Table 4.2 decomposes the increase in established positions and determines that 250 out of the 577 new positions (43.3 percent) were in the Ministry of National Security. The Ministry of National Security, the Public Sector, Air, and Sea Port Development was created in 2002. The remaining 47 percent are distributed across a number of ministries and departments. In the Ministry of Health and the Environment (MoH), 65 new established positions were created in this period, 11.3 percent of the total new established positions, and in the Ministry of Education, Youth, and Sports (MoEYS), 61 established positions or 10.6 percent of the total new established positions.

4.9 **It is harder to document trends in the number of government employees who are filling non-established positions because they are not presented in the Budget documents. Available information indicates that from 1995 to 2003 the estimated number of non-established positions on a full-time-equivalent (FTE) basis decreased by 221 positions.** Oddly, the government does not report the number of non-established positions in the budget and does not keep a record of them. Because there is no head-count available for non-established

[21] According to the Establishment Division in the Ministry of Finance, Planning, and Development. All established positions are full time and the same is true for non-established positions.

positions, we estimate the number of non-established positions on a FTE basis by dividing total wages in the Estimates by the average Personal Emoluments per established position. Thus, the two crucial assumptions for these calculations are: a) most of non-established positions are filled by full-time employees and b) a FTE employee in a non-established position earns, on average, the same as an employee in an established position.[22] As Table 4.3 shows, in 1995 the estimated number of non-established positions in FTE basis was 803, and decreased to 663 in 2000 and 582 in 2003. That is a total reduction in the estimated number of non-established positions in FTE basis of 3.9 percent per year for the period 1995 to 2003, 3.2 percent per year from 1995 to 2001, and 5.1 percent per year from 2001 to 2003. Therefore, in 2003 an estimated 0.5 percent of the population worked for the CG in non-established positions FTE basis.

Table 4.2 Change in Central Government Established Positions by Ministry or Department, 1995- 2003

Agency	1995	2003	Change	Distribution of total change 1995-2003 (%)
Autonomous Departments	133	164	31	5.4
Office of the Prime Minister	106	121	15	2.6
Ministry of Finance, Planning, and Development	364	394	30	5.2
Ministry of Social Development, Co-operatives, the Family, Gender, and Ecclesiastical Affairs	62	79	17	2.9
Ministry of Education, Youth and Sports	1,842	1,903	61	10.6
Ministry of National Security	842	1,092	250	43.3
Ministry of Agriculture, Lands and Fisheries	207	200	-7	-1.2
Ministry of Transport, Works, and Housing[2]	121	143	22	3.8
Ministry of Health and the Environment	1,108	1,173	65	11.3
Ministry of Legal affairs	14	23	9	1.6
Ministry of Telecommunications, Science, Technology, and Industry[3]	111	159	48	8.3
Others [1]	54	90	36	6.2
Total	**4,964**	**5,541**	**577**	**100.0**

Note: 1) Others include Foreign Affairs, Tourism, Culture, Trade, Industry, Consumers Affairs, Commerce, and Broadcasting. 2) All General Administration from the old "Ministry of Communication and Works" is included in this ministry even though the former ministry was significant larger. 3) Consist mostly of new programs, only the "Post Office" program is included in the reconstructed series.
Source: Estimates of Revenue and Expenditure. Government of St. Vincent and the Grenadines.

[22] The first assumption is in line with information conveyed by the Establishment Division.

Table 4.3 Estimated Non-Established Positions FTE in St. Vincent and the Grenadines Central Government, 1995-2003

	1995	1996	1999	2000	2001	2002	2003	1995-2003	1995-2001	2001-2003
Estimated Non-Established Positions (FTE)	803	743	765	663	682	634	582			
Annual Growth Rate (%)								-3.9	-3.2	-5.1
Total Growth Rate (%)								-27.5	-15.2	-14.5
As % of Population	0.7	0.7	0.7	0.6	0.6	0.6	0.5			

Note: Non-established positions on a full-time equivalent (FTE) basis are estimated by dividing total wages in the Estimates by the average Personal Emoluments per established position. Figures for 1997 and 1998 were not available.
Source: World Bank calculations based on Estimates of Revenue and Expenditure. Government of St. Vincent and the Grenadines and World Development Indicators, August 2004.

4.10 **From 1995 to 2003, most of the decrease in the estimated number of non-established positions on a FTE basis was concentrated in the ministry of Transport, Works, and Housing.** Table 4.4 decomposes the reduction in the estimated number of non-established positions FTE and determines that 186 out of the 221 estimated non-established positions FTE (84 percent) were in this ministry. The MoH reduced 62 estimated non-established positions FTE, a number similar to the number of established positions that were created in the same period.

Table 4.4 Change in Central Government Estimated Non Established Positions FTE by Ministry or Department, 1995- 2003

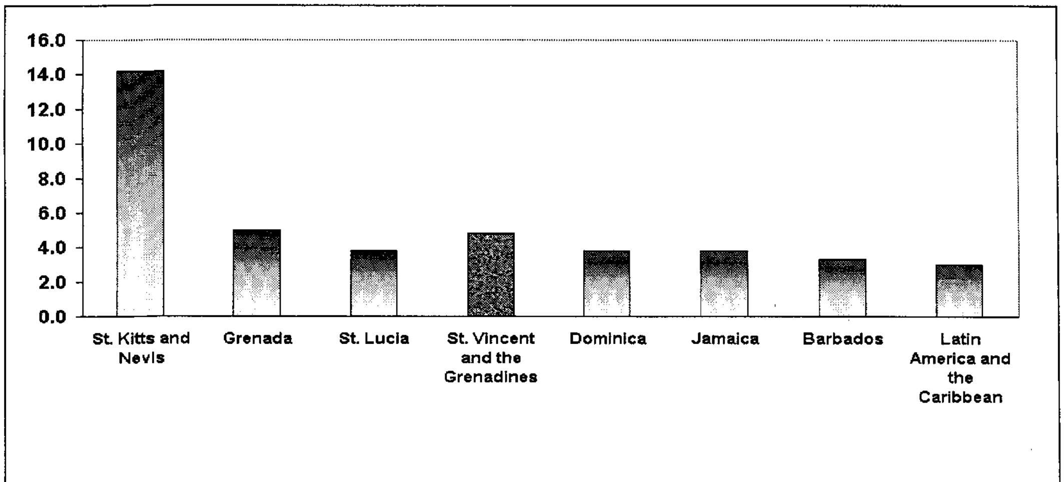
Agency	1995	2003	Change	Distribution of total change 1995-2003 (%)
Autonomous Departments	3	7	4	-2.0
Office of the Prime Minister	2	4	2	-0.9
Ministry of Finance, Planning ,and Development	4	5	1	-0.5
Ministry of Social Development, Co-operatives, the Family, Gender, and Ecclesiastical Affairs	7	14	7	-3.0
Ministry of Education, Youth, and Sports	44	41	-2	1.1
Ministry of National Security	12	15	3	-1.3
Ministry of Agriculture, Lands. and Fisheries	121	107	-14	6.1
Ministry of Transport, Works, and Housing[2]	446	260	-186	84.3
Ministry of Health and the Environment	157	95	-62	28.1
Ministry of Legal affairs	0	0	0	0.0
Ministry of Telecommunications, Science, Technology, and Industry[3]	1	1	1	-0.3
Others [1]	7	33	26	-11.7
Total	**803**	**582**	**-221**	**100.0**

Note: Non-established positions on a full-time equivalent (FTE) basis are estimated by dividing total wages in the Estimates by the average Personal Emoluments per established position. 1) Others include Foreign Affairs, Tourism, Culture, Trade, Industry, Consumers Affairs, Commerce, and Broadcasting. 2) All General Administration from the old "Ministry of Communication and Works" is included in this ministry even though the former ministry was significant larger. 3) Consist mostly of new programs, only the "Post Office" program is included in the reconstructed series.
Source: World Bank calculations based on Estimates of Revenue and Expenditure. Government of St. Vincent and the Grenadines.

4.11 **In conclusion, during this period the CG seems to have shifted the composition of employment from non-established positions in a FTE basis to established positions with a**

net increase of 356 positions or 0.9 percent per year. Therefore, in 2003 about 5-6 out 100 individuals worked for the St. Vincent and the Grenadines government in an established or non-established position FTE. This figure is in line with the 2001 Census. According to the 2001 Census, 6,648 persons were employed by the government or 6.1 percent of the population. This total includes employment by the CG and public enterprises, where employment refers to at least "one hour of activity in the reference week". Figure 4.1 shows employment as a percentage of population for Caribbean Countries, OECS countries (only established positions) and Latin America and Caribbean Region. St. Vincent and the Grenadines share of government employees in the population is the largest after St. Kitts and Nevis.

Figure 4.1 Government Employment as percentage of Population, 2001
(Selected Caribbean Countries)



Source: Author''s calculations.

B. TRENDS IN CENTRAL G OVERNMENT COMPENSATION 1995-2003

4.12 **During the period 1995 to 2003, in real terms, the average compensation per established position increased by about 3.0 percent per year.** As Table 4.5 shows, in this period total personal emoluments increased in nominal terms about 5.8 percent per year, or 57.1 percent in total. However, as discussed in the previous section, the number of established positions increased by only about 1.4 percent per year or 11.6 percent in total. Thus, the increase in the average nominal compensation for established positions (4.4 percent per year) is the result of overall negotiated salary increases. Inflation eroded about 30 percent of the increase in the average nominal compensation per established position.

4.13 **The salary structure governing workers in established positions confirms that negotiated increases in the salary scale were higher than inflation and that the salary scale has drifted upwards.**[23] Figure 4.2 identifies two grades in the salary structure that roughly conform to the top (Grade 12), and bottom (Grade 3) of the salary scale. Grade 12 includes Agriculture Planning Officers, Town planners and Senior Economists. Grade 3 includes Assistant Teachers (Non graduate), Junior clerks, and receptionists. Between 1995 and 2003, and after adjusting for price inflation, Grade 3 increased by 2.2 percent per year and Grade 12 by 3.2 percent per year. Over the same period, real GDP has grown by almost 2.4 percent per year,

[23] The salary scale that governs established workers in St. Vincent and the Grenadines has the following Grades: 1-16, 23-39, 1x, 2x, 3x, 5x, 7x, and 9x.

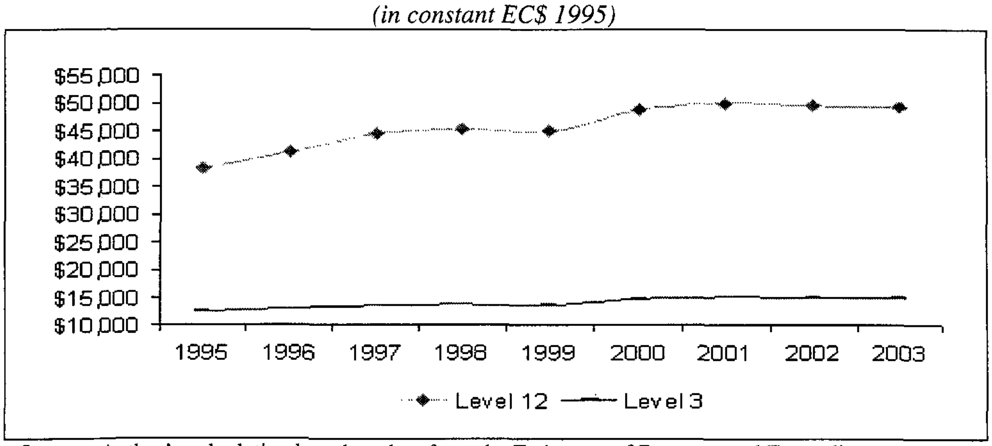
indicating that government pay scales have increased relative more than the rest of the economy. Table 4.6 presents all the negotiated wage increases by the CG since 1996. The data confirms that salary increases for CG employees have been above inflation and GDP growth. Usually the negotiated increases occur every three years, but the last one in 2004 covers only two years 2004-2005. The government froze salary increases for 2002 and 2003, but a bonus of about 4.25 percent was given in 2002. The increases granted for 2004 and 2005, 4 and 3 percent respectively, seem on the high end given the slow growth of the economy. In addition, the compression ratio defined as the ratio of the highest salary to the lowest salary in the government scale has remained stable since 1995. The lowest grade (Grade 1) salary is 11.7 percent of the highest grade (Grade 16).

Table 4.5 St. Vincent and the Grenadines Central Government Compensation for Established Positions, 1995-2003

	1995	1996	1997	2000	2001	2002	2003	Annual Growth Rate (as %) 1995- 2003
Personal Emoluments (EC$ Millions)	80.7	86.2	91.4	98.6	108.8	123.9	126.8	5.8
Total Established Positions	4,964	4,964	4,988	5,210	5,264	5,403	5,533	1.4
Average Compensation per Established Position (EC$)	16,263	17,372	18,331	18,923	20,677	22,965	22,892	4.4
Real Average Compensation per Established Position (EC$ 1995)	16,263	16,639	17,470	17,451	18,909	20,782	20,646	3.0
Inflation		4.4	0.5	0.2	0.8	1.0	0.3	1.3

Note: The actual figures for personal emoluments and wages for the year 1998 and 1999 were not available from the Budget Books.
Source: Estimates of Revenue and Expenditure. Government of St. Vincent and the Grenadines.

Figure 4.2 St. Vincent and the Grenadines Salary Scale for Established Positions, 1995-2003
(in constant EC$ 1995)



Source: Author's calculation based on data from the Estimates of Revenue and Expenditure. Government of St. Vincent and the Grenadines.

Table 4.6 Negotiated Wages Increases for the Central Government, 1996-2004

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Increases (%)		5.0	5.0	5.0	3.5	3.5	0.0	0.0	4.0	3.0
Bonus	EC$50-75 Monthly 10/95-12/96						4.25%	EC$ 125-250		
Inflation	4.4	0.5	2.1	1.0	0.2	0.8	1.0	0.3		
GDP growth (%)	1.2	4.2	5.1	2.8	1.4	1.0	1.0	2.3		

Source: Ministry of Finance, Planning, and Development.

4.14 **Total Wages for non-established workers, in real terms, have moved in the opposite direction of personal emoluments.** As Table 4.7 shows, total nominal wages increased by 0.2 per year during the period 1995-2003 (compared to 5.8 percent for personal emoluments), but total wages in real terms decreased by 1.0 percent per year.

Table 4.7 St. Vincent and the Grenadines Central Government Compensation for Non- Established Positions, 1995-2003

	1995	1996	1997	2000	2001	2002	2003	Annual Growth Rate (as %) 1995- 2003
Wages (EC$ Millions)	13.1	12.9	14.0	12.5	14.1	14.6	13.3	0.2
Wages (EC$ 1995 Millions)	13.1	12.4	13.4	11.6	12.9	13.2	12.0	-1.0

Note: The actual figures for personal emoluments and wages for the year 1998 and 1999 were not available from the Budget Books.
Source: Estimates of Revenue and Expenditure. Government of St. Vincent and the Grenadines.

4.15 **Unfortunately, determining whether government workers in St. Vincent and the Grenadines are over- or under-paid compared to the private sector is not an easy task.** Figures on prevailing compensation in the private sector are scarce in a small island economy like St. Vincent and the Grenadines, where a sizable fraction of the working age population migrates, and it is that much more difficult to define an individual's alternatives. Persistent vacancies and high turnover often are signals of government pay that is too low relative to market alternatives. Long queues for government positions or corruption in the allocation of such posts can be associated with pay levels in excess of the reservation wage of workers. Again, systematic evidence is lacking, but the impression given by the Establishment Department is that none of these problems is a feature of the current situation in St. Vincent and the Grenadines. Table 4.8 presents information on salaries for private and public employees from the 2001 Population and Housing Census. The evidence suggests that professions in the top grade of the salary scale such as accountants receive a higher salary in the private sector compared to professions in the low grade of the government scale such as

Table 4.8 Average Salaries for Government and Private Employees in Selected Professions, 2001

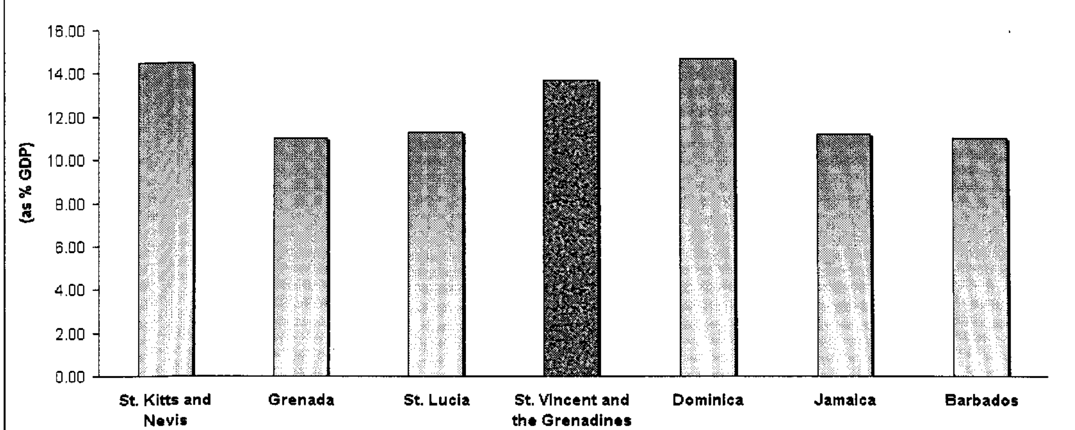
Profession	Government	Private
Accountants	29,467 (61)	36,553 (123)
Primary School teaching professionals	27,323 (856)	14,908 (38)
Nurses	24,830 (258)	19,095 (20)
Electrical Engineers	19,317 (36)	16,314 (140)
Other Office Clerks NEC	17,072 (134)	14,774 (112)
Secretaries	16,854 (99)	14,728 (343)
Security Officers/Guards	11,877 (162)	11,049 (333)
Construction and Maintenance Laborers	5,666 (174)	8,324 (278)
Building and Other Caretakers	3,966 (255)	5,815 (199)

Note: The average yearly salary is based on the midpoints in the 8 income brackets available in the census. In parentheses the number of observations.
Source: 2001 Population and Housing Census.

secretaries. Surprisingly, primary school teachers and nurses receive significantly higher salaries in the public sector than in the private sector. This data needs to be used with caution as other pecuniary and non-pecuniary benefits can affect the decision to work in the private sector versus the public sector.

4.16 **The ratio of wages and personal emoluments to GDP at 14.2 percent in 2003 is lower than Dominica and St. Kitts and Nevis, but higher than all other OECS countries, Jamaica and Barbados.** (See Figure 4.3). As discussed previously, this high level of personal emoluments and wages in GDP has been driven by employment and wage increases beyond the growth of the economy. Moving forward, the government needs to step up the public sector reform initiative and manage salary increases prudently. In particular, it is recommended that the government rethink the size and composition of the civil service for an effective and efficient service delivery in the areas of education, health, and social protection. Chapters 5-7 of this report discuss these issues in detail.

Figure 4.3 Public Sector Wage Bill as percentage of GDP, 2003
(Selected Caribbean Countries)



Source: IMF, Staff Report for the Article IV Consultation.

C. PUBLIC SECTOR REFORM AND OTHER INSTITUTIONAL ISSUES IN PUBLIC COMPENSATION AND EMPLOYMENT

4.17 **The Public Sector Reform Unit (PSRU), in the Ministry of National Security, the Public Service, Air and Sea Port Development, is in charge of developing the government's Public Sector Reform Strategy.** The Public Sector Reform Strategy is expected to be completed by the end of 2004 and will take a holistic view of the process rather than a piecemeal approach. Moreover, this strategy will give the policy framework for the public sector reform initiatives to be launched by the government as well as set objectives and targets to be accomplished in the short-to medium-term. However, from discussions with the PSRU team, the relevance of the unit within the government and its capacity to implement and monitor a public sector reform appeared in need of strengthening. Moreover, the unit has spent most of this year in a job reclassification exercise that does not seem to fit well with a well thought out Public Sector Reform Strategy.

4.18 **Although St. Vincent and the Grenadines is not pursuing a corporization agenda to the extent that Grenada is, certain services would be open to this approach.** For instance, the government is taking concrete steps to improve efficiency in public services delivery by converting the country's main hospital to a statutory entity. As a statutory entity, the hospital would have more control over the use of its resources and could, in turn, be held accountable for its performance. In addition, the Postal Corporation Act of 2003 transformed the Postal Office from a Government Department to a Public Corporation. A Board of Directors appointed by the Prime Minister with approval from the Cabinet governs the new Postal Corporation. The objective of the statutorization of the Post Office was to improve efficiency and management that has been constrained by public service administrative and staff regulations. The Postal Corporation has introduced new domestic and international services and become more competitive with courier services making inroads in its traditional market. An example of this is a new express mail service. The statutorization would also enable the corporation to rationalize its system of district and local offices. The employees of the Post Office were transferred to the Postal Corporation, but retained the right to go back to the public service. The Postal Corporation can also send employees back if it is not satisfied with their performance. Overall, 111 employees were transferred, but only around half were in established positions. As of June 2004, 7 employees had gone back to the public service and an additional 15 had requested to return. Five new employees have been taken on to deliver new services. But there is an issue as to whether the postal corporation will be able to retain all of the old staff if it is going to become more efficient, unless demand for postal services

Box 4.1 The Commercialization Program in Grenada: A Cautionary Note

The Post Office was the first government operation to be commercialized by setting it up as a statutory agency in January 1, 1997. It has been operating as such ever since. Since then, the cleaning services in the Ministerial Complex, road maintenance, the Farms Roads Division and other services in the Ministry of Agriculture, cleaning services and fee collection at public markets, maintenance, cleaning and security services in the Ministry of Education, maintenance of sports facilities, cleaning, security, grounds and maintenance of Hospital Services, and waste collection and disposal have been contracted out. The 2003 Estimates reports the government's intentions to transform the Printery into a statutory agency by June 2003. Discussions have also been underway about statutorizing the General Hospital and the T.A. Marryshow Community College.

The World Bank conducted a preliminary assessment of the commercialization process in Grenada in 2003 at the request of the government on the basis of interviews with public officials, supervisors of contracted out services and consumers. The assessment noted that:

- The impact of commercialization on the quality of services contracted out varied. The quality of the service provided for road maintenance, maintenance of athletic fields, and cleaning of government offices improved slightly, while the performance of cleaning services and fee collection at public markets was unsatisfactory;
- No economies over the previous level of costs appear to have been realized. The failure to realize savings was likely a product of the model used for contracting out. The model used was to provide the released workers with a severance payment and help them form companies that would receive contracts to carry out the same services they had delivered as public employees. No follow up assessment of cost effectiveness was subsequently made.
- The outsourcing or privatization of services employing establishment employees is impeded by the inordinately heavy burden of severance payments. Thus, to date outsourcing has been confined to services employing daily wage workers requiring costly but manageable severance payments.

Thus, if commercialization is to deliver on its promise, it requires careful preparation in the context of an overall public sector reform, an adequate cost-benefit evaluation, and selection of providers in a competitive fashion, and systematic monitoring and feedback of the provider's performance by an effective managerial entity in the government. Moreover, the legislation that governs public sector employment needs to be updated to allow the mobility of workers to statutory agencies without imposing a disproportionate cost to the government in pensions, gratuities, and severance payments.

Source: OECS Fiscal Issues Grenada, The World Bank, April 2004.

increases significantly. It is still too early to make any judgments on the success of the new Postal Corporation. Box 4.1 presents the experience of Grenada in this respect.

4.19 **It is critical that any public sector reform be informed by the following recommended inputs**. The personnel information systems are not well poised for the needs of a modern public sector. The government does not have readily and critical information required for effective manpower planning and professional development. Indeed, the information on staff particulars such as date of hiring, date of salary increments and movement between salary scales, training received, performance evaluation, and the date of retirement are inadequate for a modern public sector. No headcount of non-established workers is available. In addition, the legislation that governs public sector employment is not well poised to respond to the needs of a flexible public sector.

4.20 **No performance appraisal system is in place in St. Vincent and the Grenadines and there has not yet been a thorough analysis of training needs**. Training in essential skills such as writing, office procedures, financial and personnel management, and basic management is deficient. There is no training plan for individual employees to enable them to advance along their career paths. Training is often offered in a haphazard way, which depends on the availability of donor financing.

4.21 **St. Vincent and the Grenadines, as well as the other OECS countries, presents some fragmentation and duplication of work between ministries, departments, and agencies leading to a diffusion of responsibilities.** The survey of public officials, carried out for the OECS Institutional and Organizational Capacity Review (IOCR) in 2001, noticed a duplication of functions and concluded that such overlap adversely affected the public service. This suggests that missions, objectives, and functions of the different ministries need to be reviewed to determine the most effective and efficient organizational structure. Opportunities to pool resources and realize lower unit costs through greater collaboration extend to almost all areas of public sector activity, including international relations, economic and social policy, and policing. The benefits of common organizational arrangements for tax administration, customs, audit services, police services, magistracy, and environmental protection was discussed in the OECS IOCR.

5. HEALTH SECTOR

5.1 On average during the period 1997 to 2003, public spending on health as a share of GDP in St. Vincent and the Grenadines was about 4.1 percent, ranking it second to the top of the OECS countries, just below Dominica on this measure. In terms of total spending, both public and private, the 6.1 percent of GDP devoted to health in 2001 is the highest in the OECS countries. Given its relatively low level of GDP, however, this translates into US$ 178 per capita in 2001—the lowest per capita amount of the OECS countries. The country has achieved good levels of basic health indicators relative to its level of GDP per capita. The government is committed to increasing service efficiency over the short- to medium-term and, over the longer run, to expanding the sources of public financing for health to help meet the population's demand for more comprehensive health services. It is taking concrete steps to improve efficiency by converting the country's main hospital to a statutory entity. As a statutory entity, the hospital would have more control over the use of its resources and could, in turn, be held accountable for its performance. Following this restructuring of the hospital, the government wishes to reform health financing by introducing some sort of national health insurance.

5.2 This chapter reviews health indicators, describes the main features of the health delivery system, and analyzes the sources and uses of health financing in order to identify possible ways to improve the efficiency and equity of public spending. The main findings and recommendations can be summarized as follows:

Health Outcomes

- *Strengthening health promotion and disease control for noncommunicable diseases and injuries.* Like other OECS countries, because of changes in lifestyles, disease patterns and its aging population, St. Vincent and the Grenadines needs to strengthen programs related to noncommunicable diseases and injuries, in order to continue to improve its health indicators and contain costs over time. This means focusing health promotion and disease control activities as effectively as possible on tobacco control, injury prevention, control of obesity through diet and physical activity, and screening and early treatment of diabetes and hypertension. The Health Promotion and Nutrition Units in the MoH are already shifting their strategies in these directions, but more needs to be done. The government would like to undertake serious evaluation of its primary care model to better understand how it should be adapted given the country's changing disease patterns from communicable to noncommunicable diseases. The evaluation is needed and could provide important guidance for resource allocation and policy-making in the coming years.

- *Monitoring behavioral risks associated with premature morbidity and mortality.* Personal health behaviors such as diet, exercise, tobacco use, sexual behavior, play an enormous role in premature morbidity and mortality. Because of this, behavior risk surveillance needs to complement traditional epidemiological surveillance of morbidity and mortality. Relative to other OECS countries, the country has already supported quite a bit of behavioral risk factor surveillance, particularly for youth around tobacco use and substance abuse. This type of surveillance needs to continue to be supported and strengthened in order to provide data to guide the design of effective health promotion and disease programs and to monitor changes in risk factors over time. For HIV/AIDS, specifically, the government needs to support sentinel surveillance (focused on at-risk populations), in addition to passive surveillance (disease notification systems) alone, to better understand the epidemic.

- *Strengthening tobacco control measures.* The MoH is considering how best to strengthen its tobacco control policies, including banning smoking in public places and restricting advertising. Raising tobacco taxes should also be considered as increased tobacco taxes are one pillar of comprehensive tobacco control policies. Based on international experience, given the price elasticity of demand, increases in tobacco taxes can be expected to increase government revenue. If the government could coordinate tobacco tax levels with neighboring countries, tax increases would be even more effective in curbing tobacco use because harmonized tax levels would lessen the likelihood of large-scale smuggling.

Efficiency in the Financing and Delivery of Services

- *Reconfiguring health facilities.* Given St. Vincent and the Grenadines's changing age distribution of the population, disease profile, and demands from the population, it would be useful to reexamine the functions of St. Vincent and the Grenadines's network of health facilities to develop a master plan to reconfigure this infrastructure to better serve the population with cost-effective care. As health centers cannot resolve many health problems they are bypassed by residents who go directly to the main hospital, clogging emergency services. In developing the plan, consideration needs to be given to which health centers should be upgraded to polyclinics, which health centers closed, if district hospitals should be upgraded or changed in other ways to improve service efficiency and quality, the functions of reconfigured facilities, how they would be best budgeted and managed, and the implications for human resources.

- *Improving efficiency of the Milton Cato Memorial Hospital.* The government is committed to making the Milton Cato Memorial Hospital a statutory body. Consultations are being held with stakeholders to explain the changes, and draft legislation has been developed. The government wishes to set performance standards for the hospital, and in turn to give hospital management more autonomy over its budget and human resources to most effectively deploy resources for efficient delivery of services. This change in policy has the potential to generate considerable efficiencies, particularly important given the central role of the hospital to St. Vincent and the Grenadine's health system and the share of resources that it absorbs.

- *Reducing unnecessary hospital procedures.* The cesarean section rate at the Milton Cato Memorial Hospital appears excessive at an estimated 21 percent in 2003. This is a problem because cesarean section deliveries have higher risks, longer recovery periods, and higher costs than normal deliveries. An analysis of the causes is needed, along with an action plan to reduce the rate among low risk women. The high rate underscores the importance of collecting and reviewing hospital service statistics to identify over-use or under-use of other procedures.

- *Achieving economies of scale.* St. Vincent and the Grenadines achieves economies of scale in drug procurement by participating in the well-run OECS Drug Procurement Service. There may be scope to achieve economies of scale in other areas of the health sector—purchasing supplies, laboratory services, and health service delivery through more formalized regional arrangements with neighboring countries.

- *Regulating private health insurance.* Public spending on health cannot cover every service. Given the demand for more comprehensive care, the market for private health insurance is growing, but it is largely unregulated. The Ministries of Health and Finance need to start monitoring private insurance—both coverage numbers and services offered—as part of its broad oversight of the health sector. There may be ways to encourage standardization of packages that promote competition and efficiency in the market. Since all the OECS countries need to develop health insurance regulation, they might consider working at a subregional level to harmonize this work.

A. HEALTH OUTCOMES

5.3 **St. Vincent and the Grenadines shows relatively good health indicators for a country at its income level of GDP per capita.** As Table 5.1 shows, life expectancy in 2002 was about 73 years. Infant and under-five mortality rates are relatively low at 18 and 21 per 1,000 live births, respectively. These figures compare well with the rest of Latin America and the Caribbean.

Table 5.1 Demographic, Health, and Economic Indicators in St. Vincent and the Grenadines compared with Barbados, Jamaica, and Other OECS Countries, 2002

	Total population *(thousands)*	GDP per capita *(current US$, PPP)*	Infant mortality rate	Total fertility rate Birth (per woman)	Life expectancy at birth	Mortality rate under five *(per 1,000 live births)*	Low birth weight babies *(% births)*
Antigua and Barbuda	76.5	9,847	12	1.7	75	14	8
Barbados	269.0	15,293	12	1.7	75	14	10
Dominica	71.1	5,469	13	1.9	77	15	10
Grenada	102.0	7,178	20	3.0	73	25	9
Jamaica	2,617.0	3,982	17	2.3	76	20	9
St. Kitts and Nevis	46.7	12,227	20	2.1	71	24	9
St. Lucia	159.1	5,437	17	2.1	74	19	8
St. Vincent and the Grenadines	**109.2**	**6,549**	**18**	**2.4**	**73**	**21**	**5**

Source: St. Vincent and the Grenadines health indicators from the Ministry of Health and the Environment, Draft Annual Report of the Chief Medical Officer, May 2004. All other data from World Development Indicators. August 2004.

5.4 ***Infant and Child Health.* Immunization coverage with the traditional childhood vaccines is excellent.** In 2002, coverage for the DPT (diphtheria, pertussis, and tetanus), polio, and BCG (tuberculosis) vaccines was 100 percent and reached 99 percent for the mumps and rubella vaccines. The country introduced the pentavalent vaccine (DPT, Hepatitis B, and HIB) in 2003 to both reduce the number of injections required and also include the newer cost-effective vaccines against hepatitis B and haemophilus influenza type b. The major health problems in children are acute respiratory infections, diarrheal disease, and accidents. Over the period 1998 to 2002, low birth weight babies (under 2500 grams) accounted for only about 5 percent of total live births.

5.5 ***Nutrition Support Program.* Public clinics provide food for women attending antenatal clinics and for six months following delivery.** This nutrition program was designed as: (a) an incentive for women to attend prenatal and postnatal care; (b) direct nutritional support to pregnant and lactating women and their babies; and (c) limited income support. The food is provided monthly to the participants and babies are weighed and measured at each visit. If the baby's growth is faltering, participation is extended beyond six months of age. The program is targeted to the extent that it goes to pregnant and postnatal women attending public clinics, but it is not targeted to the poor within that large group. Supplies and materials for the Nutrition Support Programme amounted to EC $362,631 in 2002 or about 1 percent of public spending on health. The program is popular among its participants, and health staff believe that it does help with clinic attendance. The government plans to review this program in 2004. It would be useful to have a thorough stocktaking and evaluation of the program to determine if the program should continue or if the resources could achieve a larger health and nutrition impact if better targeted or used differently.

5.6 ***Women's Reproductive Health.*** **Overall reproductive health indicators are positive, but teen pregnancy is a problem. Antenatal and delivery care coverage is excellent.** The MoH estimates that 99 percent of pregnant women are attended by trained personnel during their pregnancies. The total fertility rate is relatively low, having declined steadily over the past two decades to 2.4 in 2002. The most common forms of contraception are oral contraceptives and injections. Condoms are distributed free at public clinics and the demand for them is increasing which is a positive sign given the country's problems with sexually-transmitted infections including HIV/AIDS. The MoH estimates the contraceptive prevalence rate at about 48 percent in 2002, however this figure is not derived from a representative household survey. The MoH has a solid start in screening for cervical cancer—the most common cancer in the country. The program's cost-effective strategy is to focus on obtaining and analyzing pap smears from women of reproductive age who have never had a smear. The St. Vincent Family Planning Association used to provide family planning services, but it closed its clinic given the widespread availability of family planning in public clinics. The Association currently provides information and education programs related to reproductive health.

5.7 **Teenage pregnancy is a continuing problem. Over the period 1998 to 2002, teenage pregnancies accounted for 21 percent of total births (births include live and still births in this estimate).** Teen births are a problem for many reasons. Teenage pregnancy is often associated with school dropout. Teens are rarely ready psychosocially and financially to start families and teen pregnancy is a risk factor for infant mortality. The MoH has as a goal for 2004 to reduce teen pregnancies by 5 percent compared to the 2003 numbers.

5.8 ***Water and Sanitation.*** **Adequate water and sanitation are important to health outcomes, but differ markedly by income groups.** Standpipes provide water for most households in St. Vincent but access to water is still a problem for some households in the Grenadines. Table 5.2 shows the main source of household water by income quintile, which again shows important differences by income group. Country-wide, pit latrines are the predominant form of toilet facility for households in the lowest income quintile, and 7 percent of these households had no access to a toilet facility.

5.9 ***Changing disease profile.*** **As is the trend in the Caribbean as a whole, non-communicable diseases have replaced infectious diseases as the main cause of health problems.** With falling fertility and associated aging of the population, and reduction in risk factors for infectious diseases, St. Vincent and the Grenadines is well along the epidemiological transition towards a disease profile dominated by chronic and degenerative diseases, accidents, and injuries. Figure 5.1 illustrates how the age distribution of the population is expected to change from the year 2000 to 2025. From 2000 to 2025, the share of the population under 20 years old is projected to decline from 42 percent of the total to 25 percent. And the share of the population 60 years old and over is projected to almost double, from 9 percent to 16 percent.

Table 5.2 Type of Toilet Facilities and Main Source of Water Household by Household Income Quintiles, 1996
(percent)

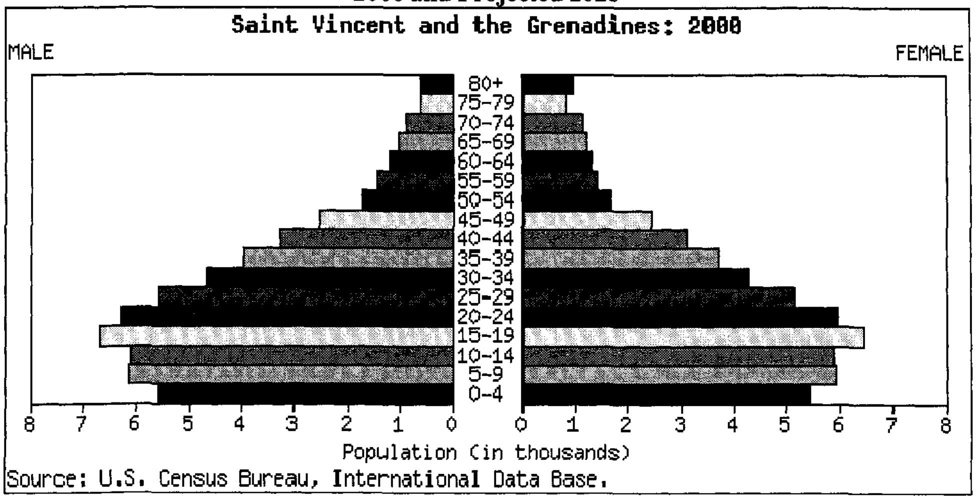
	Per Capita Consumption Quintile					All
	I	II	III	IV	V	
Type of Toilet Facilities						
WC Sewer	--	2	6	5	7	4
WC Cesspit	18	27	32	45	64	37
Pit Latrine	68	61	53	48	27	51
Ventilated Pit Latrine	7	7	5	1	1	5
None	7	3	3	1	1	3
Total	100	100	100	100	100	100
Main Source of Water						
Private Piped	15	28	30	29	37	28
Private Not piped	5	3	6	6	2	5
Public Piped	15	21	25	28	38	25
Public Yard	10	14	13	11	4	10
Public Standpipe	52	32	23	20	15	28
Public Well-Tank	--	--	--	1	--	0
Other	3	2	3	5	4	4
Total	100	100	100	100	100	100

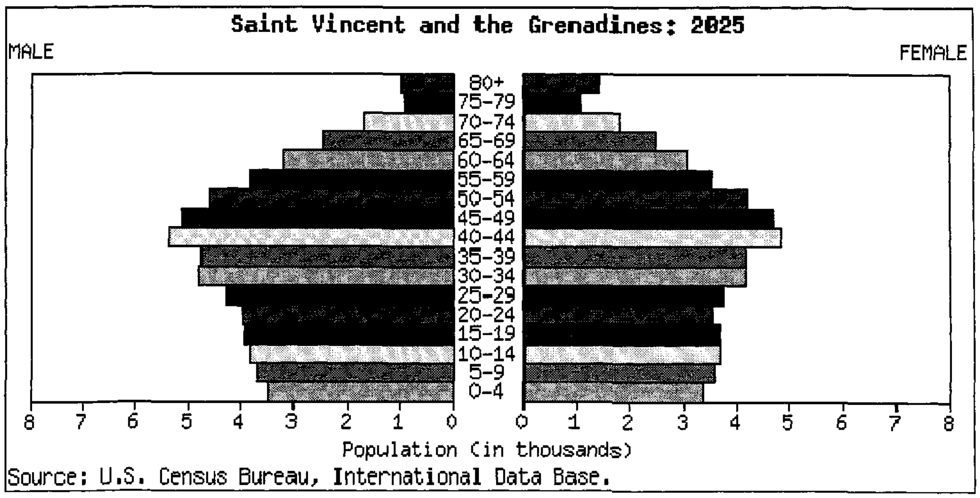
Note: 600 households, 480 responded.
Source: Poverty Assessment Report, St. Vincent and the Grenadines, Vol. II, Appendix 4, Table 50, December 1996.

5.10 **Noncommunicable diseases are now the major causes of clinic visits.** Hypertension, diabetes/hypertension, diabetes, hypertension/arthritis, arthritis, asthma, gastritis, myalgia, result review, and anemia were the top ten reasons for visiting public clinics in 2002. Hypertension and diabetes alone accounted for 65 percent of all clinic visits. Because of these demographic and epidemiological trends, health promotion and disease prevention programs will need to be increasingly focused on noncommunicable diseases over the coming years.

5.11 ***Endemic diseases.*** **In most years, tropical diseases are not a significant problem in St. Vincent and the Grenadines**. However, there was a dengue outbreak in 2002 with 100 confirmed cases, all type 3. And there were two reported cases of dengue hemorrhagic fever in 2002. The Environmental Health Program in the Ministry addresses mosquito control. The leprosy hospital was closed in 1995 and leprosy cases are now managed in the home. There was one new case reported in 2002. Ringworm and scabies are problems—with an increase in the annual incidence of ringworm in recent years. Both ringworm and scabies primarily affect those aged 5-9.

Figure 5.1 Changing Age Structure of St. Vincent and the Grenadines: 2000 and Projected 2025





5.12 ***Substance abuse and tobacco use.*** Marijuana is illegal but grown in St. Vincent and the Grenadines and consumed and exported. Abuse of marijuana is one of the main reasons for admittance to the Mental Health Center, and an overwhelming number of patients with this problem are male. There have been several youth studies to better understand the prevalence of drug use, alcohol use, and cigarette smoking in this population. The Student Drug Use Survey found that the most commonly used substance among school students was alcohol with a lifetime prevalence of 76 percent. Self-reported lifetime prevalences of other substances were inhalants (11 percent), marijuana (21 percent), and cigarettes (32 percent) (Table 5.3). In the same year the St. Vincent and the Grenadines Global Youth Tobacco Survey was conducted with 1511 student participants. In this survey, 36 percent of students had smoked. Males were more likely to have smoked (43 percent) compared to females (28 percent). About one fourth reported currently smoking, broken down as male (18 percent) and female (11 percent). Of the smokers, 78 percent

Table 5.3 Comparison of Substance Abuse Rates among Youth: Lifetime, Annual, and 30 Day, 2002
(percent)

Substance/Drug Category	Lifetime	Annual	30 Day
Cigarettes	32	8	3
Alcohol	76	51	30
Tranquilizers	11	6	4
Stimulants	3	1	1
Solvents/Inhalants	11	5	3
Marijuana	21	10	6
Hallucinogens	1	1	0
Heroin	1	1	0
Morphine	3	1	1
Cocaine	1	1	0
Crack Cocaine	1	0	0
Ecstasy	1	0	0
Amphetamines	1	0	0

Note: The sample was 3,308 students from 21 secondary schools, second year students at the Technical College, and Upper level Six A level students.
Source: St. Vincent and the Grenadines Student Drug Use Survey 2002 Prevalence Report, Ministry of Health and Environment, 2003.

want to stop smoking, 84 percent tried to stop smoking during the past year, and 82 percent reported having received help to try to stop smoking. The Health Promotion Unit of the MoH focuses much of its work on tobacco and drug abuse. The MoH would like to strengthen tobacco control measures and the country signed the WHO's Framework Convention for Tobacco Control in June 2004. The Ministry is considering advertising restrictions and banning smoking in public places. These types of control measures need to be complemented by measures such as increased taxation and support for smoking cessation to be truly effective. (see Box 5.1).

5.13 ***HIV/AIDS.*** **HIV/AIDS poses a continuing threat to St. Vincent and the Grenadines, given the level of the epidemic in the country itself and in the Caribbean as a whole. As reported in May 2004, an estimated 738 people had HIV and there had been 388 reported AIDS deaths.** These numbers likely suffer from underreporting. HIV testing and counseling is available in both the public and private sector, and the country has introduced an antiretroviral program for pregnant women, to control mother-to-child transmission. The government also finances some triple therapy for persons living with AIDS. Detailed data on modes of HIV transmission are unavailable for St. Vincent and the Grenadines. If the Caribbean pattern holds for the country, about 79 percent of transmission would be heterosexual, 12 percent homosexual/bisexual, 7 percent mother to child transmission, and under one percent each from blood transfusions and injecting drug users.[24] As the data in Table 5.4 demonstrate, the epidemic

[24] Based on total cumulative AIDS cases in the Caribbean from 1981 through December 2001 (AIDS Surveillance in the Americas, PAHO, June 2002).

affects women 2:1. The government works with nongovernamental organizations (NGOs) to address the HIV/AIDS challenges in the country. In particular, it provides some grant funds to the Bread of Life NGO which assists orphans, and to the House of Hope which provides support for people with HIV/AIDS.

Table 5.4 St. Vincent and the Grenadines: HIV/AIDS data as of May 2004

	Male	Female	Unknown	Total
New HIV diagnoses in May 2004	3	4		7
Cumulative numbers, 1984-2002				
With HIV diagnosis	453	271	14	738
With AIDS diagnosis	273	137		410
Deaths	258	130		388

Source: Ministry of Health and Environment.

5.14 **The government has prepared the HIV/AIDS Prevention and Control Project funded by the World Bank, with a total estimated project cost of US$ 8.75 million, to better address the epidemic.** The Project is expected to become effective near the end of 2004. The financing for this project is US$ 1.75 million grant from the International Development Association (IDA), US$ 1.75 million IDA credit, US$ 3.5 million loan from the International Bank for Reconstruction and Development (IBRD), and US$ 1.75 million counterpart funding. HIV/AIDS goals that the government has for 2004 include reaching 5,000 people with voluntary counseling and testing and enrolling at least 80 percent of people requiring antiretroviral therapy.

Box 5.1 Recommended Measures by The Framework Convention on Tobacco Control to Reduce Tobacco Use

There is strong international evidence from many countries on the policies and measures that are most effective in reducing tobacco use. These are also amongst the most cost-effective public health interventions. The Framework Convention on Tobacco Control recommendations summarize the consensus on the most important steps for countries to take. If St Vincent and the Grenadines implemented these key measures, significant reductions in tobacco use could be expected among adults and teenagers, which would reduce risks for many chronic diseases, especially cardiovascular disease (including heart attacks and strokes), respiratory diseases (especially COPD and asthma) and lung and other cancers.

Key effective measures to reduce tobacco use:

- Regular tax increases that raise (real) prices of tobacco products, making cigarettes and other tobacco products progressively less affordable.
- Better public information on the many disease risks caused by tobacco use, the addictiveness of nicotine, and the benefits of quitting. One of the most important ways to provide this information is in large, direct, varied health warnings on tobacco product packages, that very effectively target smokers, and do not cost the government anything (after the initial costs of product development).
- Smoking bans in workplaces and other public places are vital to protect people from exposure to harmful secondhand smoke, and to change social norms about smoking. They also make it less convenient to smoke, and help encourage smokers to quit.
- Comprehensive bans on all forms of advertising and promotion of tobacco products and tobacco brand names are important to stop the cigarette companies enticing young people to smoke using images that associate smoking with attractive, glamorous, daring, exciting people and activities. Many countries have moved in stages toward a complete ban, requiring remaining advertising or media that carry tobacco advertisement to include "counter-advertising" information on the health risks of tobacco use.

Source: Curbing the Epidemic: Governments and the Economics of Tobacco Control, The World Bank, 1999.

5.15 **Relevance of Health Millennium Development Goals (MDGs) to St. Vincent and the Grenadines.** The international Millennium Development Goals have targets for five health-related goals: malnutrition, maternal mortality, tropical diseases, under-five mortality, and HIV/AIDS. The first three are not major health issues in St. Vincent and the Grenadines, leaving the under-5 mortality and HIV/AIDS targets of the health-related MDGs as the most relevant to the country. The international MDG target for the under-five mortality rate calls for a reduction of two-thirds in the under-five mortality rate from 1990 to 2015. In St. Vincent and the Grenadines, the rate dropped from an estimated 26 per 1000 in 1990 to 21 per 1000 in 2002. This is a decline of about 1.8 percent per year. The MDG target – a reduction of two-thirds in under-five mortality from 1990 to 2015 - would require that the estimated 26 per 1,000 rate in 1990 fall to about 9 per 1,000 by 2015, or about 4.4 percent per year over the entire period. So, strictly speaking, St. Vincent and the Grenadines is not "on track" for meeting the under-five mortality MDG. At the same time, it is important to recognize that the MDG goals get harder and harder to achieve as countries move towards relatively low mortality rates. St. Vincent and the Grenadines finds itself in this situation with its already good indicators. It is difficult to assess the likelihood of reaching the HIV/AIDS targets, as baseline data on HIV prevalence and incidence are poor in St. Vincent and the Grenadines. However, given the size of the epidemic in the Caribbean, the target (reversing the epidemic) is very relevant for the country and should be achievable if the country continues to support vigorous and effective HIV prevention measures.

B. THE HEALTH SYSTEM: DELIVERY, COVERAGE, AND FINANCING

5.16 **As in other OECS countries, the health system of St. Vincent and the Grenadines is predominantly publicly-provided and publicly-financed**. The government is seeking to improve quality and efficiency in public clinics and hospitals, and at the same time exploring how it might best expand sources of finance for health over the medium- to long-term.

Delivery

5.17 **St. Vincent and the Grenadine's health system includes both public and private providers but it is dominated by public provision** (Table 5.5) Primary care is provided in the public sector at 39 health centers in 9 health districts. On average, a health center covers a population of about 2,500 to 2,900 inhabitants. Some of the public clinics need to be rebuilt and others need to be rethought—perhaps upgraded to polyclinics or closed. Primary care is also provided at five tiny district public hospitals. The district hospitals have limited capabilities, for example, they cannot provide x-ray or lab services. They do provide services such as wound care. The country's five district hospitals have a total of 68 beds, but occupancy rates are extremely low. As a result of the low resolutive capacities at the district hospitals, many people bypass these facilities and go directly to the country's large public hospital and the only one that offers secondary care, the Milton Cato Memorial Hospital. This facility has 211 beds. The hospital has been undergoing rehabilitation over the past few years. Phase One was for the general wards. Phase Two was for the maternity and operating theater block. Phase Three (ongoing) is for the accident, emergency, outpatients, and administration sections. Phase Four has not yet been designed. Community outreach is done by public health center staff and central staff from the Ministry programs. Private physician services are available throughout the country. As of June, 2004, about 25 percent of the country's physicians were in sole private practice. Most of the public physicians also have a private practice, unless they are medical officers or interns, and thus prohibited from having a private practice.[25] NGOs play a small but important role, especially in carrying out reproductive health and HIV/AIDS health promotion (for example, the

[25] Physician information provided by the Chief Medical Officer, June 2004.

St. Vincent Family Planning Association), diabetes prevention and control (St. Vincent and the Grenadines Diabetic Society), and cancer prevention (St. Vincent and the Grenadines Cancer Society). Some of the NGOs receive small grants from the government for their health activities.

Table 5.5 Publi ınd Private Health 'acilities and Functions in St.Vincent and the Grenadines

	Level of Care	Public	Private
Primary Care	Community-outreach	Community outreach by health center staff	Community outreach by NGOs such as: St.
	Health Centers	39 health centers in the 9 health districts. Each staffed with a full-time district nurse, a nursing assistant, and a community health aide. On average a health center covers a population of 2,500 to 2,900 inhabitants.	Private Physician Services
	District hospitals	5 district hospitals: Chateaubelair (11 beds), Marriaqua (12 beds), Georgetown (22 beds), Union Island (6 beds), and Bequia (17 beds)	
Secondary/Tertiary Care and Supporting Services	Secondary/tertiary hospitals	Milton Cato Memorial Hospital (211 beds). Specialist care in several areas.	Mary Field Specialist Medical (12 beds). Specialized care.
	Psychiatric and Substance Abuse Facilities	Mental Health Center (160 beds) but daily occupancy of 165-175 patients.	
	Geriatric Facility	Lewis Punnett Home (113 beds)	Five private
	Emergency Transport	Public ambulances.	One private
	Labs	Pathology Lab, Milton Cato Memorial [illegible]	Caribbean Reference Laboratory

Source: Annual Report ' the Chief Medical O

5.18 **Delivering comprehensive care is particularly challenging in the Grenadines, given the dispersed and small population size.** As the district hospitals provide such limited services, many pregnant women who live in the Grenadines travel to St. Vincent to stay with relatives near the end of their pregnancy in order to deliver at the Milton Cato Memorial Hospital. Emergency evacuations are the most problematic. The MoH has a small budget to handle emergency evacuations, which is spent shortly after it is released. Emergency transfers tend to be done by plane or boat, often in dangerous conditions (there are no landing lights, for example, for the airstrip on Union Island).

5.19 **The Mary Fields Specialist Medical Hospital is the only private hospital currently operating in the country, with 12 beds.** There are five private institutions however providing resident care for the elderly. In the public sector, there is one geriatric facility, the Lewis Punnett Home, with 113 beds. The Lewis Punnett Home is dilapidated and on difficult terrain. The Home is overcrowded. The MoH would like to demolish the Home and rebuild it, but the MoF has not approved this on the basis of budgeting considerations. Public ambulance services are predominant although there is one private ambulance. The main lab in the country is at the Milton Cato Memorial Hospital although there are private labs as well. The Milton Cato Memorial Hospital contracts out maintenance of x-ray equipment and some lab services. It also contracts out CAT scans, as it has no facilities and there is only one private CAT scan facility in the country.

Table 5.6 Milton Cato Memorial Hospital Indicators

Indicators	2001	2002	2003
Admissions	9,277	9,446	9,693
Average Length of Stay (Days)	5.1	4.8	4.6
Occupancy Rate (percent)	70	68	64

Source: Milton Cato Memorial Hospital 2003 Annual Report.

5.20 **The Milton Cato Memorial Hospital has considerable scope for efficiency improvements.** Despite the increase in hospital admissions, the hospital occupancy rate declined from 70 percent in 2001 to 64 percent in 2003 (Table 5.6). Given the high fixed cost of running a hospital, it is inefficient to maintain the number of beds with the relatively low occupancy rate of 64 percent. This points to possible scope for rationalizing the number and distribution of hospital beds to improve the efficiency of resource use. Table 5.7 provides some comparative information for other countries from an Organization for Economic Co-operation and Development (OECD) report on national hospital occupancy rates. Although these are primarily industrialized countries, the table does indicate that much higher levels of occupancy rates are possible. In addition, almost all OECD countries have significantly reduced average length of stay in hospitals over the past 20 years both to improve hospital efficiency and health outcomes. The trend in the Milton Cato Memorial Hospital is in the right direction, average length of stay declined from 5.1 days in 2001 to 4.6 days in 2003.

Table 5.7 Hospital Occupancy Rates in Selected Countries
(percent)

Australia	86	1998
Austria	80	2000
Denmark	84	1998
France	83	1998
Germany	80	2000
Greece	70	1998
Hungary	77	2000
Ireland	84	2000
Italy	74	1998
Japan	85	2000
Korea	68	2000
México	68	2000
Netherlands	86	2000
Portugal	74	1998
Switzerland	87	2000
Turkey	61	2000
UK	83	2000
USA	66	2000

Source: OECD Health Data, 2002.

5.21 **It is recommended that Cato Memorial Hospital adopt measures to minimize the length of inpatient time and reduce unnecessary medical procedures.** Worldwide, hospitals have adopted many measures to minimize the needed length of in patient time: substituting outpatient surgery for inpatient surgery, ensuring that preoperative and postoperative tests are conducted, as much as possible, on an outpatient basis, carefully monitoring when patients are ready for discharge, providing home health care services so patients can be discharged earlier from the hospital, etc. One clear area not yet tapped for efficiency gains improvements in the Milton Cato Memorial Hospital would be substitution of inpatient surgery with outpatient surgery. As outpatient surgery replaces more and more inpatient surgery, the demands for inpatient bed-days should fall further. In addition, value for money can be reduced by unnecessary medical procedures or less cost-effective procedures. One key hospital indicator is the cesarean section rate—when high, it points to problems in overuse of medical procedures. Most babies are delivered at the Milton Cato Memorial Hospital. Of the 1710 births at the hospital in 2003, 21 percent were by cesarean section according to the Hospital's 2003 Annual Report. This is a very high rate compared to the main public hospitals in other OECS countries (Grenada, 2 percent, St. Lucia, 8 percent, and Dominica, 9 percent). It is closer to the national rate in the United States (23 percent in 2003)—a country that recognizes the cesarean rate is excessive and has a national health goal to bring down the rate. Many countries in Western Europe have lower rates than those in St. Vincent and the Grenadines (the Netherlands, 9 percent in 1995, Norway, 12 percent in 1995, and the United Kingdom 17 percent in 1997). A cesarean section is major surgery, with greater risks, a longer recovery period, and higher costs than a normal delivery. The excessive rate in the Milton Cato Memorial Hospital warrants an analysis of the causes in order to identify how cesareans might be reduced among low-risk women. Similar types of cross-country comparisons should be made with other hospital statistics to identify other possible problems with overuse or under-use of procedures.

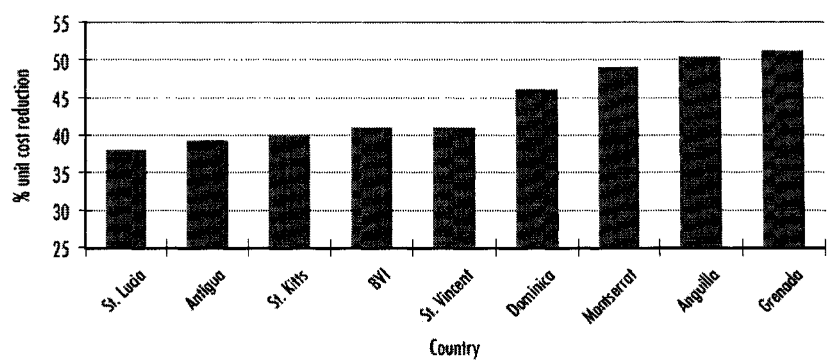
5.22 **The government is committed to making the Milton Cato Hospital a statutory entity as a means to improve hospital performance.** This is still in the pre-implementation phase. Draft legislation has been presented to the Cabinet, and the change should occur in the next two years. All staff members would move to the new authority, unless they choose to be transferred elsewhere or resign. The hospital would have a lump sum budget as a statutory entity that would be managed with greater flexibility than occurs now. The hospital would be governed by a Board and headed by a Chief Executive Officer. As a statutory entity, there would be greater scope for managing staff by performance, and discharging poor performers. The hospital management would be responsible for meeting designated performance objectives. The change has been promoted internally within the MoH and the government plans to have publicity campaigns on the radio as well. Laundry, food, and cleaning are done in-house but with the change to statutory entity, it is recommended that the hospital management contract out some of these services.

5.23 **St. Vincent and the Grenadines achieves economies of scale in drug procurement by participating in the well-run OECS Pharmaceutical Procurement Service**. St. Vincent and the Grenadines appears to be handling its pharmaceutical purchases in a very sensible way, having consolidated much of its drug procurement with other OECS countries. The public sector use a formulary developed by the OECS Drug Procurement Service. Vaccines are purchased through the Pan American Health Organization 's (PAHO) revolving fund, which obtains excellent prices. There may be scope for including medical supplies in joint purchasing arrangements as well. See Box 5.2.

Box 5.2 Reducing Costs Through Regionalization in the Health Sector

Fiscal constraints have made it increasingly difficult for the OECS countries to adequately finance the supply of drugs and other medical supplies individually. The OECS/ Pharmaceutical Procurement Service (OECS/PPS) established in 1986 and financially self-sufficient since 1989 is the pooled procurement of pharmaceutical and medical supplies for all the Ministries of Health of the OECS countries. During the 2001/02 tender cycle, the annual survey on a market basket of 20 popular drugs showed that the regional prices were 44 percent lower than individual country prices. The continuous annual cost-savings accrued after 16 years of the joint purchasing arrangement have reinforced the Procurement Service as an excellent cost-benefit model of economic and functional cooperation among OECS members.

Average % unit cost reduction for a market basket of 20 popular drugs 2001/2002 compared with individual country prices



At the second Annual Conference of the OECS Ministers of Health in 1999, biomedical equipment maintenance was deemed as one of eight priority areas for regionalization in the health sector. The Feasibility Study of Regional Maintenance recommended the following functions for a regional maintenance service: a) procurement of biomedical equipment maintenance services, b) procurement of biomedical equipment by developing a scheme for generic biomedical equipment, parts and consumables, c) collaboration between OECS hospitals on clinical engineering issues, d) quality control on biomedical equipment, and e) training of national maintenance staff to ensure proper utilization of existing human resources.

Source: Francis Burnett, "Reducing Costs Through Regional Pooled Procurement, Essential Drugs Monitor, Issue No. 32, 2003, p. 7. See also the OECS Pharmaceutical Procurement Service, http://oecs.org/units_pps.htm.

Human Resources

5.24 **The country has an active physician/population ratio of about 0.8 per 1,000 inhabitants, which is fairly similar to other OECS countries and is approximately Canada's rate in the early 1960s (Canada's rate has since doubled to about 1.8 per 1,000).** About 75 percent of these physicians are in the public sector, and most in the public sector also practice privately (dual medical practice) (Table 5.8). Doctors are both local, trained generally in Grenada, the University of the West Indies, or in Cuba, and from overseas. The largest single source of overseas doctors is from India, followed by the Philippines. Doctors from overseas are hired into the public service with a six month contract, followed by a two year contract. After seven years, doctors from overseas can be hired into permanent service. Local doctors are first hired by the public sector on a two year contract, and then they can go into permanent service. Of the 65 doctors in the public sector, only ten are currently on a contract basis.[26]

Table 5.8 Total Practicing Physicians, St. Vincent and the Grenadines, June 2004

Public	**65**
Consultants	17
Sr. Registrars	6
Registrars	7
Medical Officers*	14
Interns*	10
District Medical Officers	11
Private (private practice only)	**22**
TOTAL	**87**
Practicing Physicians per 1,000 Population	**0.8**

Note: * Cannot practice privately.
Source: St. Vincent and the Grenadines Chief Medical Officer, June 2004.

5.25 **Dual Medical Practice: A problem or a solution?** People in St. Vincent and the Grenadines who seek care from private physicians, whether a public sector physician with a second job, or a full time private physician, report that they do so for such reasons as more convenient hours, more privacy, shorter waiting times, more time with the physician, and higher perceived quality of care. Dual medical practice can be a serious problem, if physicians do not work their full hours at their public job or divert resources from the public sector to their private job. These problems should ideally be addressed by clear regulations and enforcement of these regulations. On the other hand, dual practice can fulfill the real demand for clinical services before or after traditional working hours and can permit the public service to maintain skilled staff on a limited budget.[27] Given how widespread dual medical practice is in St. Vincent and the Grenadines, its impact on equity and efficiency needs to be monitored. Equity problems could occur if private patients, for example, were permitted to jump the queue for elective surgery or diagnostic tests at Milton Cato Memorial Hospital. Efficiency problems would occur if physicians did not work their full hours.

5.26 **While there are certainly gaps in human resources in St. Vincent and the Grenadines, one strongly positive feature of the country's human resources profile is the relatively high nurse to physician ratio.** At the Milton Cato Memorial Hospital, for example, there are about 5 nurses or nurse assistants for every physician. This high ratio has been supported despite the ongoing emigration of nurses, primarily to the United Kingdom and the Caribbean (Tortola and U.S. Virgin Islands). Some nurses who leave for the Caribbean later move to the United States. Nursing departures have fluctuated strongly year-to-year, adding to the challenges. The Ministry lost only five nurses to emigration in 1998, compared to nine in 1999, and 30 in 2000. To address nursing emigration, the government now trains and recruits in excess of its needs, in order to anticipate losses from emigration. Nurses, nurse assistants, and midwives are trained at the School of Nursing in the MoH. Plans are underway to move the School to an academic institution under the oversight of the MoEYS (see chapter 7).

5.27 **There may be some scope for increasing the proportion of nurse assistants/aides to professional nurses in St. Vincent and the Grenadines.** In 2004, the nursing staff at the Milton Cato Memorial Hospital was divided as follows: 129 professional nurses to 135 nurse assistants, that is a ratio of Professional Nurses to Nurse Assistants/Aides of 0.95. Many health organizations are trying to improve service efficiency by ensuring the best balance, not only between physicians and nurses, but also nurses and nurse assistants/aides. This may require a

[26] Information provided by Chief Medical Officer, June 2004.
[27] Stephen Jan, "Moonlighting Physicians: Public Sector Doctors with Second Jobs", Health Economics and Financing Exchange, London School of Hygiene and Tropical Medicine, Summer 2003.

redefinition of job responsibilities, however, so that aides are permitted to handle more relatively low-skilled tasks that are currently the responsibility of nurses.

Coverage

5.28 **Public hospitals and clinics are the main source of care for low-income households, but are also an important source of care for high-income households as well. Overall, patterns of care indicate that the health system is fairly equitable.** The 1996 St. Vincent and the Grenadines Poverty Assessment shows that public hospitals were the source of medical care for about one quarter of those seeking treatment in the past 30 days (Table 5.9). The figures were higher, not surprisingly, for those in the lowest income quintile, reaching 32 percent. About 40 percent overall sought care at public clinics—almost 50 percent for those in the lowest quintile but still 23 percent in the highest quintile. The main difference in care patterns is the use of private physicians. Over one-third of the wealthiest quintile sought care from private physicians, compared to only 16 percent in the lowest quintile. Not surprisingly, given the small number of private hospital beds in the country, only 4 percent sought care from a private clinic or hospital.

Table 5.9 Source of Medical Care in the Past 30 Days by Income Quintiles, 1996

(percent)

First Place Visited for Medical Attention	Per Capita Consumption Quintile					All
	I	II	III	IV	V	
Public Hospital	32	22	21	25	23	24
Public Health Center	49	45	40	36	32	40
Pharmacy	3			2		1
Private Clinic/Hospital		5	2	4	9	4
Private Doctor	16	28	37	33	36	31
Total	100	100	100	100	100	100

Note: Respondents were asked if they were sick during the last 30 days and visited a health facility, where did they go. Of the 1981 interviewed, 225 responded.

Source: St. Vincent and the Grenadines Poverty Assessment, Vol. II, Appendix 4, Table 36, December 1996.

5.29 **Although, there is no good data on private health insurance coverage, people with private insurance tend to use it for private physician visits and overseas care.** There are several companies offering private health insurance. Private, voluntary insurance can currently offer households (who can afford to pay) a way to obtain more comprehensive coverage than what the public services offer. It is recommended that the MoH and the MoF monitor this market and also introduce regulation to prevent some of the problems that can arise from unregulated private insurance. Such regulation needs to cover solvency, marketing, information disclosure, premium levels, and reinsurance. It also needs to be developed with other OECS countries so that it could be harmonized, with companies encouraged to offer standard insurance packages across the countries, and exploit economies of scale. Since private policies cover hospital care, it is recommended that the government increase its efforts to get reimbursement from private insurers for services provided to the insured at the Milton Cato Memorial Hospital.

Public Financing

5.30 **Almost all public spending on health is financed by general revenue. User fees in public facilities are not a significant share of total public spending on health.** The government collected about EC$ 839,000 in fees in 2003, equivalent to about 2 percent of recurrent public spending on health. This is one of the lowest levels of user fee revenues in the OECS countries. St. Lucia, in contrast, collected the equivalent of 14 percent of total recurrent public health spending in user fees. Grenada has an experience more similar to St. Vincent and the Grenadines, collecting the equivalent of 3 percent of recurrent health expenditure in user fees. Table 5.10 lists the established user fees for various procedures. According to the user fee regulations, those under age 17, the elderly (60 years and older), nurses, police, and wards of the state have user fees waived. Primary health care is free, except for a prescription fee of EC$ 5 and lab fees. User fees were set in 1995 and have not been adjusted since.

Table 5.10 Selected User Fees for Public and Private Patients 1995, Milton Cato Memorial Hospital, EC$

Procedure	Public Patient Fee	Private Patient Fee
X Rays and Lab Tests Delivery	30	80
Chest X Ray	10	20
Complete Blood Count lab test	5	10
Ultrasound	20	40
Use of Operating Theater (operation, anesthesia)		
Major Surgery	100	250
Intermediate Surgery	75	175
Minor Surgery	40	100
Labor Room: normal delivery	30	80
Maintenance and Nursing per day	10	75

Source: St. Vincent and the Grenadines Statutory Rules and Orders, 1995, No. 1, Gazette January 10, 1995.

5.31 **While fees are low, the main reason behind the low revenue is that collection is low.** Even patients admitted to the Milton Cato Memorial Hospital with private insurance rarely pay as the hospital billing department has difficulty following up with private insurers. The experience with user fees may change with the conversion of the Hospital to a statutory entity, permitted to retain its user fees. Around the world, experience shows that when fees are retained at the facility level, collection rates tend to be higher than when the fees go into the government's consolidated account. As a statutory entity, the Hospital would also have more flexibility to reorganize its billing department to better handle billing and collection.

5.32 **The St. Vincent and the Grenadines NIS does not provide medical benefits to its enrolled population, with the exception of health care related to employment injuries.** But the country is thinking of ways that it might develop a mandatory national health insurance program probably based largely on payroll taxes with funds for the indigent covered by the government. No specific proposals have been worked out. With constraints on general revenue, the government is searching for some way to find additional broad-based financing to help meet the population's demand for better quality and more comprehensive services, while maintaining the financial protection afforded by risk pooling. Thus far St. Vincent and the Grenadines has followed the U.K. model of financing health services, through a directly-financed tax base system. In the main alternative model--social insurance systems--mandatory payroll taxes are the main source of revenue for health services. In many countries however, the distinction between the two models of public finance is blurred. In Sweden, for example, the tax-based system also receives financing from social insurance. In Switzerland, the social insurance system receives financing from general revenues. St. Vincent and the Grenadines appears to be interested in moving away from the U.K.-type model towards a more hybrid system. Assuming that the government continued to finance general health services at least at the same level, the introduction of a social security tax system would have the advantage of generating additional funds for the health system and this is important given that some groups in the population are willing to pay for additional coverage given their purchase of private insurance and of private services out-of-pocket. Furthermore, the existing NIS already collects payroll taxes for other services so that mechanism is already in place. There are disadvantages in terms of taxes on labor, administrative costs, and possible equity implications. Payroll taxes are a tax on labor. In addition, given that many households are outside the formal sector, a national health insurance system would not cover the full population. Collecting contributions from those who have the ability to pay, but who are outside the formal sector, would be a challenge. Identifying the indigent would be another challenge. There are significant administrative costs to this type of a system. Workers/employers contributing to national health insurance would expect markedly better services from what they can already obtain through the existing system. If the government cut its contributions to health from the general tax base over time, it would have consequences for the poorer segments of the population dependent on government financing. It is recommended that government carefully consider the implications of any changes in public financing of health in terms of economic efficiency, equity, and administrative simplicity. In the meantime, the government is following a sound strategy to try to improve service efficiency within the existing financing system. It is focusing on the governance of the main hospital now, but could usefully focus on efficiencies in its the primary care model as well.

C. SOURCES AND USES OF PUBLIC AND PRIVATE HEALTH SPENDING

5.33 **Total spending (public and private) on health in St. Vincent and the Grenadines is estimated at about US$ 178 per capita in 2001, or 6.1 percent of GDP. WHO estimates that the public share of total spending on health is about 63 percent, with private spending making up the balance.**[28] As Table 5.11 indicates, St. Vincent and the Grenadines' spending on health as a share of GDP, at 6.1 percent, is at the upper end of the OECS countries. In absolute terms, St. Vincent and the Grenadines' spending on health, at US$ 178 per capita, is the lowest. Most of the estimated US$ 66 per capita private spending is for directly purchased private care followed by insurance premiums, as user fees collection at public facilities is quite low.

Table 5.11 Total, Public, and Private Health Spending in St. Vincent and the Grenadines, Compared to Barbados, Jamaica, and Other OECS Countries, 2001

	Health Spending Per Capita (current US$)	Health Spending as Share of GDP	Public Spending as Share of Total Health Spending	Private Spending as Share of Total Health Spending
Antigua and Barbuda	531	5.6	61	39
Barbados	613	6.5	66	34
Dominica	203	6.0	71	29
Grenada	262	5.3	72	28
Jamaica	191	6.8	42	58
St. Kitts and Nevis	393	4.8	66	34
St. Lucia	199	4.5	65	35
St. Vincent and the Grenadines	**178**	**6.1**	**63**	**37**

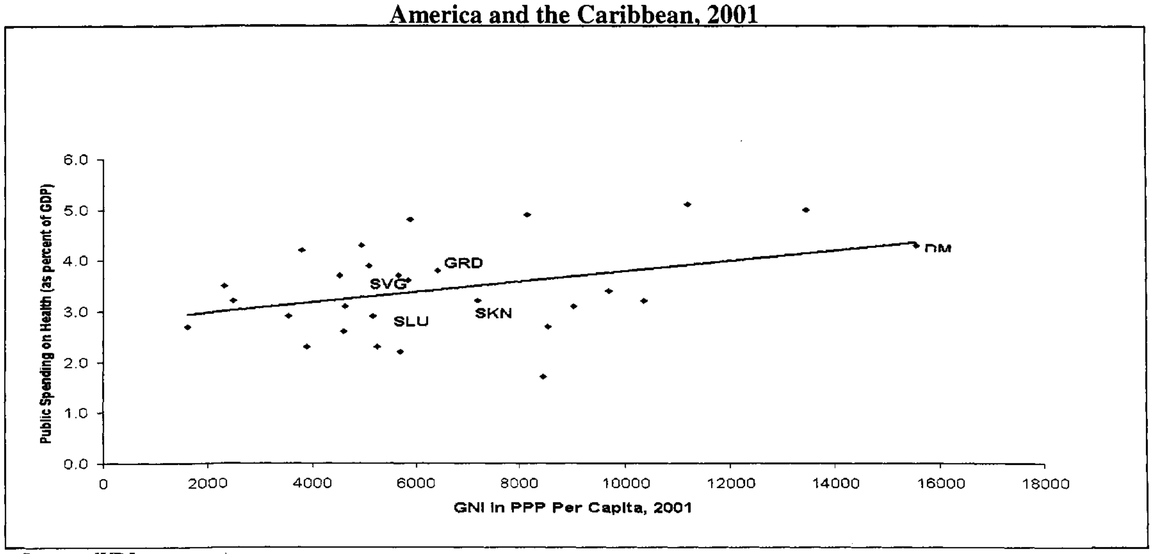
Source: WHO.

5.34 **St. Vincent and the Grenadines' public spending on health as a share of GDP is slightly above what would be expected for a country of its income level in the context of**

[28] Private spending is a very rough estimate as solid information is not available. Private spending consists of (a) user fees at public facilities, (b) out-of-pocket payment for care from private physicians and hospitals in St. Vincent and the Grenadines and overseas, and (c) contributions to private insurance.

Latin America and the Caribbean. As Figure 5.2 shows, St. Vincent and the Grenadines, along with Grenada, is above the trend line, compared to St. Lucia and St. Kitts and Nevis.

Figure 5.2 Relationship between Income Per Capita and Public Spending on Health in Latin America and the Caribbean, 2001



Source: WDI.

5.35 **On average, from 1997-2003, the share of public recurrent and capital health spending in GDP was about 4.1 percent.** As Figure 5.3 shows, St. Vincent and the Grenadines' total public health spending as a share of GDP has increased very slightly over the period 1997 to 2003, from 4.2 percent in 1997 to 4.5 percent in 2003. Health recurrent spending as a share of total government recurrent spending has declined from 14.3 percent in 1997 to 13.4 percent by 2002. The revised estimates for 2003 put the figure lower still at 12.7 percent. In constant terms, per capita recurrent public spending on health increased from 263, in 1995 EC dollars, in year 1997 to 347 in 2003 (Table 5.12).

Table 5.12 Recurrent and Capital Public Health Spending in St. Vincent and the Grenadines, 1997-2003

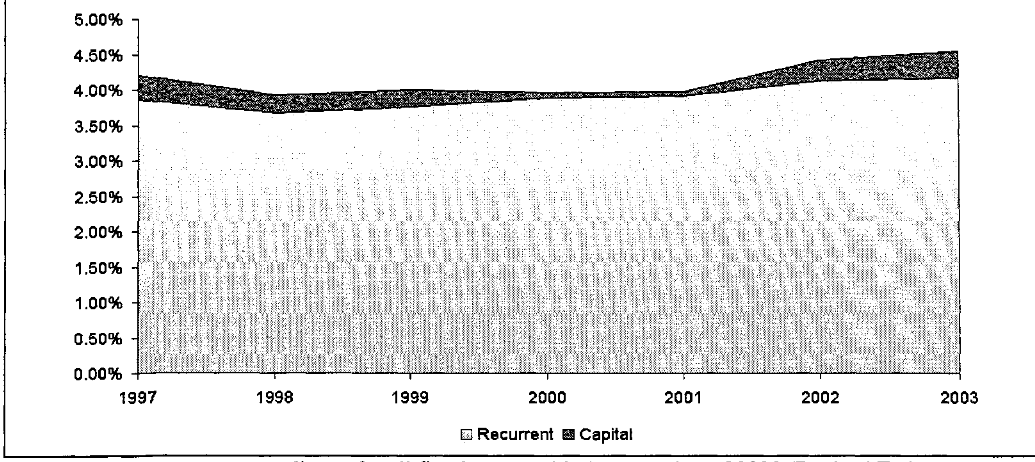
	1997	1998	1999	2000	2001	2002	2003
			(in millions EC $)				
Recurrent	30.8	31.6	33.5	35.2	36.6	40.3	41.7
Capital	2.7	2.1	2.1	0.7	0.6	2.8	3.8
			(as % of government recurrent spending)				
Recurrent	14.3	14.4	13.8	13.6	13.6	13.4	12.7
			(in 1995 EC $)				
Recurrent Per Capita Spending in Health	263	264	277	289	307	335	347

Note: Actual recurrent expenditures for all fiscal years, with the exception of 2003 (Revised Estimates).Capital expenditures are actual and include sanitation projects.

Source: Estimates of Revenue and Expenditure. Government of St. Vincent and the Grenadines (recurrent expenditures). St. Vincent and the Grenadines Ministry of Finance for years 2000-2003 and IMF for years 1997-1999 (capital expenditures).

Figure 5.3 Share of Recurrent and Capital Health Expenditures in GDP, 1997-2003

(as percentage of GDP)



Note: Actual recurrent expenditures for all fiscal years, with the exception of 2003 (Revised Estimates. Capital expenditures are actual and include sanitation projects.
Source: Estimates of Revenue and Expenditure. Government of St. Vincent and the Grenadines (recurrent expenditures). St. Vincent and the Grenadines Ministry of Finance for years 2000-2003 and IMF for years 1997-1999 (capital expenditures).

5.36 **St. Vincent and the Grenadines relies on general revenue, development bonds, local loans, grants, and external loans for its capital expenditures**. Over the period 1997-2002, 30 percent of health capital expenditures were financed by external loans, 29 percent by local loans, 22 percent by grants, 15 percent by revenue, and 4 percent by development bonds. The Solid Waste Management Project absorbed the most capital investment followed by the Kingstown Hospital Redevelopment Phase III (the hospital is now called the Milton Cato Memorial Hospital). Planned capital expenditures for the period 2004-2006 include: improvements to the Milton Cato Memorial Hospital and the School of Nursing, the Biohazard Waste Management Project, and the HIV/AIDS Management Programme.

5.37 **There is no evidence that wages and salaries are crowding out other expenditures over time in St. Vincent and the Grenadines.** A detailed analysis of wages and salaries as a share of total recurrent public spending on health indicates that they have remained fairly steady or even declined slightly in recent years. The actual figures for 2000 indicate that wages and salaries made up 67 percent of expenditures, followed by 65 percent in 2001 and 64 percent in 2002. Earlier government budget and expenditure yearbooks have gaps in the data that do not permit the disaggregation of expenditure data by wages and salaries. The share of the wage bill is always a budget item of concern as it can crowd out needed expenditures on drugs, supplies, maintenance, and other services. This in turn can greatly reduce the effectiveness and quality of service delivery. Interviews at clinics and the main hospital in June 2004 indicated that drug shortages are not a problem. Stock outs do occur, but are mainly problems on the vendors' side.

5.38 **Moreover, the evidence also suggests that hospital expenditures are not crowding out other expenditures over time.**[29] Expenditures on hospitals are another category that bears

[29] Budget categories within the Ministry of Health and Environment have remained fairly stable over the period, facilitating interpretation of trends. One new program was added to the Ministry of Health and

close scrutiny, as hospitals have the potential to distort public spending towards secondary and tertiary care, thereby squeezing out spending on primary care and public health. As is the case for wages and salaries, there is no evidence that expenditures are increasing in this category as a share of the total. Over the period 1997-2004, the Milton Cato Memorial Hospital accounted for about one third of total recurrent spending—remaining steady over the period. The second largest single category is community health services, accounting for 12-13 percent of total recurrent spending in health. The third largest categories were medical stores and environmental health, respectively, both averaging about 11-12 percent of total recurrent spending on health. General administrative expenses were controlled over the period, declining as a share of the total from 7 percent in 1997 to 5 percent in 2003.

Environment in 2003, the HIV/AIDS Program. The Health Education program was renamed the Health Promotion Program during the period to reflect a change in emphasis. It should be noted that the Ministry of Transport, Works and Housing includes costs for maintenance of the physical plant of the clinics and hospitals in its budget. These have not been added to the figures above. It should also be noted that school feeding programs appear under the MoEYS budget. (Some analyses of health spending consider school feeding as part of health, however, school feeding programs have negligible health and nutrition impacts. These programs are more important as an educational measure to attract children to school and to increase their attention span while in school and therefore school feeding is best seen as an education expense.)

6. EDUCATION

6.1 The knowledge and skills taught in the education system are highly valued assets in the labor market. The rate of return to education in St. Vincent and the Grenadines is estimated to be 13 percent in primary education, 13 percent in secondary education, 19 percent for post-secondary education, and 24 percent for tertiary education. These are very high returns to investments, even for a developing country. Allocating and leveraging the available resources to support the maximum formation of skills in the population is therefore a key element for eradicating poverty and increasing the competitiveness of the economy.

6.2 On average from 1997 to 2003, the government spent about 5.8 percent of GDP on education (recurrent and capital). Although this share lies below the average share in the OECS countries (7.1 percent), it is still a very high level in a Latin American context. Evidence suggests that the high level of spending is incommensurate with the outcomes that the system produces and in comparison to the educational outcomes in other OECS countries. In St. Vincent and the Grenadines, only 65 percent of children attend pre-primary education (compared to 76 percent for the OECS), 54 percent of the primary students continue to general secondary education (compared to 69 percent for the OECS), and only 5 percent of the cohort enters tertiary education (compared to 11 percent for the OECS).

6.3 The government has responded to this challenge by emphasizing education as its top priority with strong political drive to achieve universal secondary education and further expand pre-primary and tertiary education. This chapter briefly describes the education system in St. Vincent and the Grenadines, reviews education outcomes; discusses how education services are financed and delivered; and recommends specific interventions to achieve the government goals in an efficient and equitable fashion.

6.4 The main findings and recommendations can be summarized as follows:

Improving Efficiency of Public Resources

- Gradually reducing the teaching force through implementation of the agreement between the teachers' union and the government (increase of the pupil-teacher ratio to 25 in primary education and 30 in secondary education) would liberate close to EC$ 9 million per year (16 percent of the education recurrent expenditure).

- Achieve universal secondary education. This would require a permanent expansion in classrooms (through construction of new schools) to teach about 1,800 pupils and a temporary increase in classrooms (through temporary use of redundant primary school classrooms) for 1,600 students from 2004 to 2008. Further, the analysis indicates that under certain conditions and policies (including increasing the pupil-teacher-ratio), the teaching force would not be required to increase in order to accommodate the increase in demand.

- Implement policies to reduce repetition rates in primary and secondary education. Otherwise, the universal secondary education policy could fail to lead to substantial improvement in completion of secondary education. The prevailing high repetition rate in the Vincentian secondary school system already cost the system EC$ 1.3 million in 2001 (2 percent of the education recurrent expenditure). Thus, countermeasures such as strengthening teacher and principal training, providing sufficient learning material and additional focus on support for the weak students in each class are needed.

- Reducing administration costs through greater cooperation at the OECS sub-regional level is critical. This would reduce duplication and lead to more innovative education policies. The possibilities for cooperation are multiple: curriculum reform, standard setting and certification of pre-primary education, and provision of tertiary education. A 25 percent efficiency gain in administration costs would free up EC$ 1.1 million (1.9 percent of the recurrent education budget).

- Increase funding for didactic material. Only 3 percent of funds for primary education were available for school supplies, maintenance, utilities, and training in 2003. Increasing the share for didactic material could be accomplished with a reduction in the share allocated to salaries for teachers and administrative personal through a more efficient teacher deployment and a prudent wage policy.

- Improve the collection and analysis of education statistics in order to use rigorous evaluations of the education sector to provide guidance for policymakers.

Improving Equity in the Access to Education Resources

- Expand non-governmental pre-primary education through targeted public support to low income families. Fiscal considerations point to the need for the government to pursue a broadening of pre-primary education through the implementation of a rigorously targeted assistance program to poor families, possibly combined with an OECS accreditation program of providers to assure and stimulate quality.

- Consider further focusing education resources in schools with a high percentage of low performing students.

- Increase enrollment into tertiary education through greater cost–recovery and public-private partnerships. It is recommended that such a tuition policy be implemented simultaneously with the introduction of a student loan scheme.

A. CHARACTERISTICS OF THE EDUCATIONAL SYSTEM

6.5 **The educational system in St. Vincent and the Grenadines includes five cycles: pre-primary, primary, senior primary, secondary, and tertiary.** Table 6.1 describes each cycle by its length, expected age, enrollment, and exit exam. At the end of the regular primary cycle, the Common Entrance Exam (CEE) is administered. This exam together with the number of seats available in secondary school determines the number of students that will continue to secondary education or opt for senior primary education. Senior primary education is expected to be phased out by June 2005 as a consequence of universal secondary education. At the end of Form 5 of secondary school, the Caribbean Examination Council (CXC) Exam is administered. This exam is the door to higher education and to some professional entry-level jobs. In addition to these cycles, the Vincentian education system also includes vocationally oriented multi-purpose centers, adult and continued education, and a school for children with special needs.

Table 6.1 St. Vincent and the Grenadines Educational System

Cycle	PRE-PRIMARY	PRIMARY							Exam	SECONDARY					Exam	TERTIARY
Expected Age	2-4	5	6	7	8	9	10	11	CEE	12	13	14	15	16	CXC	17-24
Grade	-	K	G1	G2	G3	G4	G5	G6		F1	F2	F3	F4	F5		
Enrollment	3,100	2,389	2,291	2,588	2,539	2,695	2,584	2,568		1,802	1,703	1,588	1,504	1,276		1,155

All Age Senior Primary		Exam
G7	G8	SLE
920	705	

Note: K: Kindergarten; G: Grade; F: Form; CEE: Common Entrance Exam; SLE: School Leaving Examination; CXC: Caribbean Examination Council; Enrollment in pre-primary (2001), primary (2003), secondary, and tertiary (2002).
Source: Directory of Schools and Colleges 2001/2002 and 2002/2003, Gill (2003) and World Bank (2003) "Monitoring Educational Performance in the Caribbean."

6.6 **With the exception of pre-primary education, which is provided entirely by private or non-governmental organizations, the government is the main provider of education**. As Table 6.2 shows, pre-primary is the only cycle where the government does not provide education. This has led to a large private initiative with 115 centers in 2002 catering to about 3,100 infant/toddlers. The primary education system consists of 66 primary schools enrolling close to 19,000 students, of which government schools cater to 96 percent of the pupils. In secondary education, the government enrolls six out of ten pupils, while publicly assisted schools—all except one are religiously affiliated—provide for the remaining four out of ten pupils.[30] The Teacher's College, Technical College, Community College, and the School of Nursing cater to the entire tertiary student population. Plans are underway to consolidate all tertiary institutions in one academic institution as a statutory body. This education provision structure, where private institutions are dominant at the pre-primary level, and public institutions at the other levels, is common in OECS countries with the exception of Grenada.

Table 6.2 Educational Institutions and Enrollment by Ownership, 2002

	Institutions (Number)				Enrollment (%)			
Cycle	**Public**	**Public Assisted**	**Private**	**Total**	**Public**	**Public Assisted**	**Private**	**Total**
Pre-Primary	0	0	115	115	0	0	100	100
Primary	60	0	6	66	95.6	0	4.1	100
Secondary	13	8	0	21	61.3	38.7	0	100
Tertiary	4	0	0	4	100	0	0	100

Note: The primary cycle includes senior primary.
Source: Directory of Schools and Colleges 2001/2002 and Survey of Early Childhood Education Providers, Government of St. Vincent and the Grenadines.

B. EDUCATIONAL OUTCOMES

Pre-primary

6.7 **Net enrollment in pre-primary education has improved since the early 1990s, but it is still lower than in other neighboring OECS countries.** Data from the 2001 census indicate an enrollment rate of 66 percent in pre-primary education for children 3-4 year old. This represents an improvement in provision compared to 1993 with an enrollment rate of 50

[30] Secondary public assisted schools receive funds from the Government to pay a portion of teachers' salaries, tuition fees, and a grant.

percent.[31] Notwithstanding, net enrollment in Dominica, Grenada, St. Kitts and Nevis, and St. Lucia is estimated to be 70, 95, 80, and 68 percent respectively. Hence, St. Vincent and the Grenadines under-perform in pre-primary education compared to other OECS countries. As in most OECS countries, non-governmental organizations dominate provision. The centers are operated by private individuals (54 percent), churches (31 percent), community groups (8 percent), and other non-governmental organizations (7 percent). Fees range from EC$ 30 per month to EC$ 260 per month, a level that excludes enrollment of children from low-income families.

6.8 **The quality of pre-primary service delivery varies widely**. Although some centers have trained staff, sufficient space and equipment, the Survey of Early Childhood Education Providers conducted by the MoEYS found a low level of education among staff, over-crowded use of space and inadequate provision of equipment in some centers. Despite these shortcomings, interviews with teachers, parents, and administrative officials suggest that children from pre-primary centers perform better in school due to more developed aptitudes toward socialization, concentration, and learning. Equity and quality of pre-primary education could be improved through targeted public assistance and better regulation of provision. Expansion accompanied by quality provision of pre-primary education needs to be one of the main objectives of the country's education agenda. Thus, an OECS accreditation program of providers can be used to assure and stimulate quality of pre primary education.

Primary

6.9 **Although St. Vincent and the Grenadines reached universal primary education, in 2001 only eighty four percent of the cohort completed primary education. This is the lowest completion rate among OECS countries. Lack of universal completion implies that the country still has not reached the Millennium Development Goal.** As Figure 6.1 shows, in 2001 the system had a gross enrollment rate of 111 percent, 114 percent for boys and 107 percent for girls, which signals a prevalence of over-aged pupils clogging the system due to a high repetition rate and late entrance to primary education. In spite of universal enrollment, the system fails to achieve universal completion. Completion is similar for boys (85 percent) and girls (84 percent).

Secondary

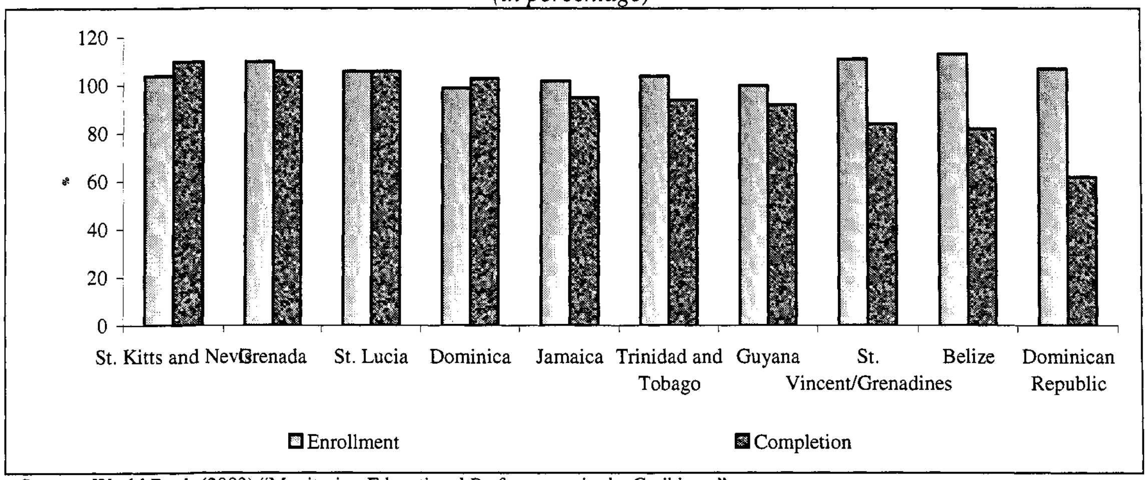
6.10 **Absolute enrollment in secondary education increased from 7,071 in 1993 to 7,909 pupils in 2003. This represents a modest yearly increase of 1.3 percent in the last decade.** In 2002, only 45 percent of students competing for a seat in secondary education through the CEE were selected. This is a considerable obstacle for a Vincentian child's future education opportunities and disproportionately impinges on poor children. This low transition rate implies a net enrollment rate of only 54 percent in 2001 and a gross completion rate of 51 percent (61 percent for girls and 41 percent for boys.).[32] This is the lowest completion rate among OECS countries (Figure 6.2). Further, the other OECS countries have undertaken within the last five years an aggressive push for universal secondary education such that the gap in net enrollment

[31] The 1993 net enrollment rate was estimated using data from a 1993 survey conducted by the MoEYS that indicates that there were 90 centers catering to 2,880 toddlers and assuming a similar age-distribution as in the 2001 census.

[32] Although only 45 percent passed the CEE, a minority of pupils from senior primary education, around 10 percent of a cohort, is admitted into general secondary education. This explains the apparent contradiction between the CEE passing rate of 45 percent and the 54 percent enrollment rate.

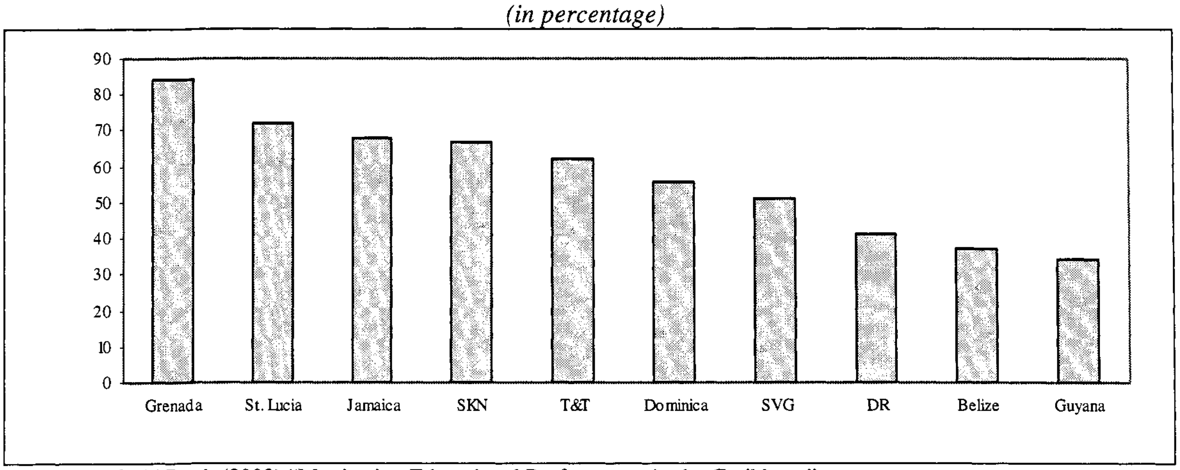
into secondary education between St. Vincent and the Grenadines and the other OECS countries is estimated to be around 30 percentage-points. Thus, the government's strong push for universal secondary education is a step in the right direction. In September 2005, the government will uptake the total G6 cohort into secondary education.

Figure 6.1 Gross and Completion Rate in Primary Education, Selected Caribbean Countries, 2001
(in percentage)



Source: World Bank (2003) "Monitoring Educational Performance in the Caribbean".

Figure 6.2 Completion Rate in Secondary Education, Selected Caribbean Countries, 2001
(in percentage)



Source: World Bank (2003) "Monitoring Educational Performance in the Caribbean".

6.11 **Based on the CXC exams, quality of secondary education in St. Vincent and the Grenadines trails other OECS countries**. In the two core subjects of the CXC exam, Math and English, 38 percent and 64 percent of St. Vincent and the Grenadines pupils passed in 2003. Both shares are on par with the average in the Caribbean (39 percent and 63 percent, respectively), but below the average of the OECS countries (43 percent and 68 percent, respectively). Hence, there exist indications that to achieve an effective learning outcome the government will need to strengthen quality of education as part of the drive for universal secondary education.

Tertiary

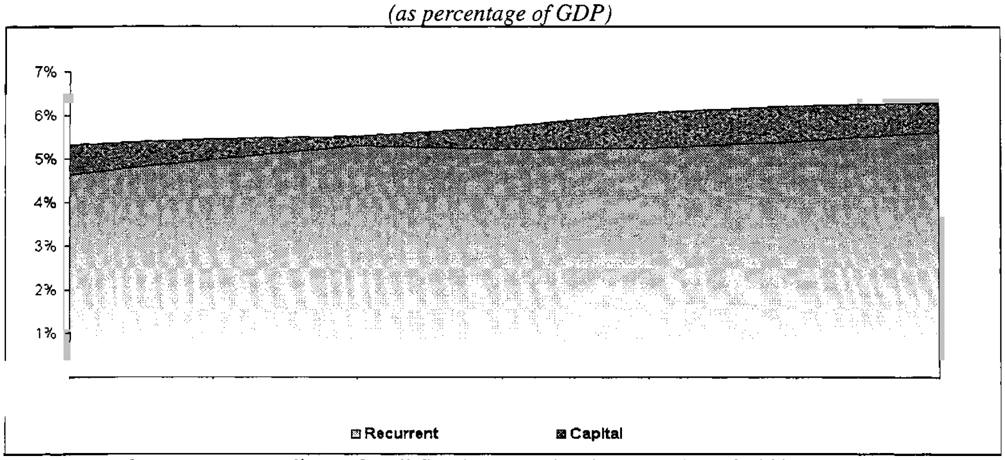
6.12 **Four institutions provide tertiary education (1-2 years) in St. Vincent and the Grenadines.** The Teacher's College, Technical College, Community College, and the School of Nursing enrolled 1,155 students in 2002 with enrollment increasing to 1,245 students in 2003. The latter implies a gross enrollment rate in tertiary education of about 7.0 percent of the 17-24 year old population. In comparison to other Caribbean and Latin American countries, this enrollment rate is low. The tertiary gross enrollment rate in the Caribbean sub-region stands at about 15 percent, while more than 20 percent enroll in Latin American. Thus, there exists ample potential and need for expansion of tertiary education in a public-private partnership.

6.13 **Although quality and relevance is notoriously difficult to measure, the available information suggests that the tertiary education programs offered need to be tailored to the country's needs.** This can be partially explained by the demanding conditions to provide high quality tertiary education for a small island with very limited competition and resources. Based on conversations and limited available material, the Community College tends to offer general degree preparatory programs, mainly courses for the A-level exam and associate degrees, which contain few specific competencies for the country's economy, such as tourism, business, and agriculture.

C. USES OF PUBLIC EDUCATION EXPENDITURES

6.14 **On average from 1997 to 2003, public expenditures (recurrent and capital) in education were 5.8 percent of GDP.** At the sub-regional level, OECS countries spent on average 7.1 percent of GDP on education (2000). The average Latin American and Caribbean country spent 4.1 percent of GDP (1999) and the OECD countries spent 4.6 percent of GDP on education (1999). Hence, on a Caribbean scale St. Vincent and the Grenadines spends slightly below the average, while on a global scale it spends a high share of GDP on education. As Figure 6.3 shows, total education expenditures increased from 5.3 percent of GDP in 1997 to 6.3 percent of GDP in 2003. Recurrent education expenditures showed a steady increase from 4.6 percent of GDP in 1997 to 5.6 percent of GDP in 2003. Capital expenditures oscillated between a

Figure 6.3 Share of Education Expenditures in GDP, St. Vincent and the Grenadines,1997-2003
(as percentage of GDP)

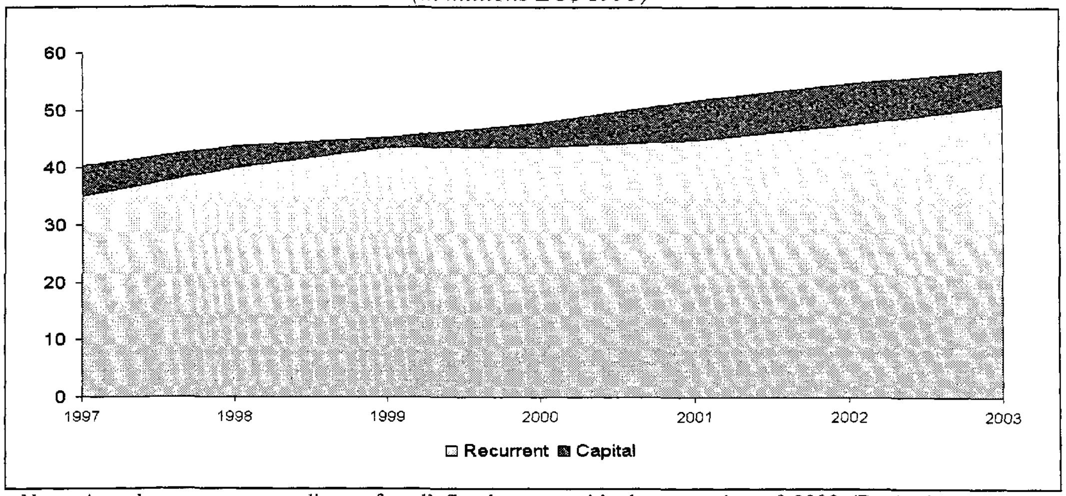


Note: Actual recurrent expenditures for all fiscal years, with the exception of 2003 (Revised Estimates).Capital expenditures are actual.
Source: Estimates of Revenue and Expenditure. Government of St. Vincent and the Grenadines (recurrent expenditures). St. Vincent and the Grenadines Ministry of Finance for years 2000-2003 and IMF for years 1997-1999 (capital expenditures).

low of 0.2 percent of GDP in 1999 and a high of 0.8 percent of GDP in 2002. This high level of expenditure in education provides a tremendous opportunity for the country to accelerate its social and economic development, but two important caveats must be considered: (i) spending needs to be effectively and efficiently used to improve education outcomes; and (ii) private investments in education need to be encouraged.

6.15 **In constant EC$, education expenditures increased in total by 42 percent from 1997 to 2003 or 6.0 percent per year.** As Figure 6.4 shows, the increase occurred for both recurrent and capital expenditures, but the increase in recurrent expenditures was the highest, 45 percent in total or 6.4 per year, compared to a total of 18 percent or 2.3 percent per year for capital expenditures. The increase in recurrent expenditures appears to be primarily related to higher salaries (see chapter 4).

Figure 6.4 Expenditures in Education, St. Vincent and the Grenadines, 1997-2003
(in millions EC$ 1995)



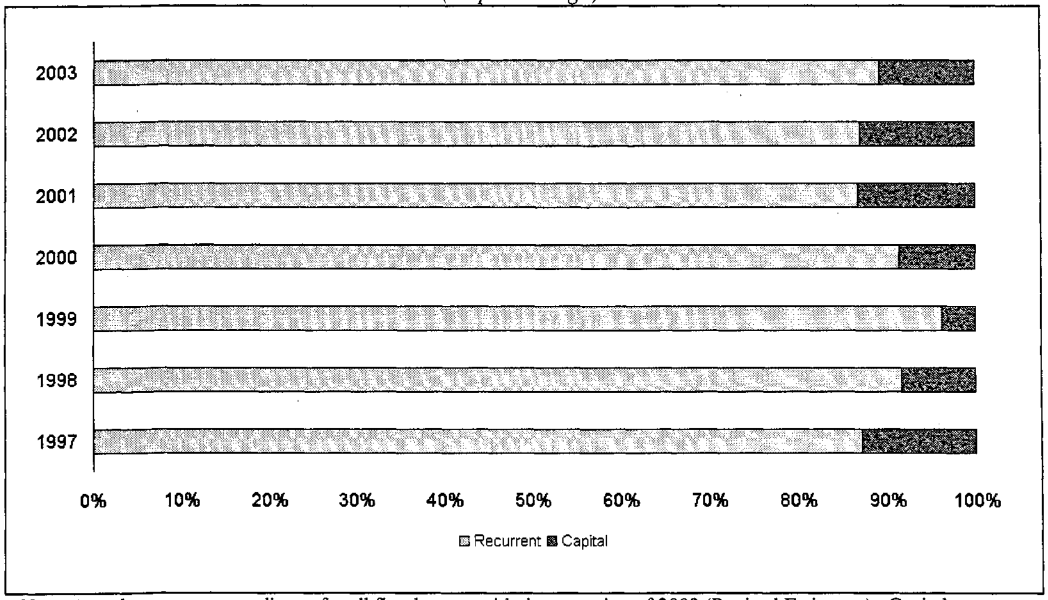
Note: Actual recurrent expenditures for all fiscal years, with the exception of 2003 (Revised Estimates). Capital expenditures are actual.
Source: Estimates of Revenue and Expenditure. Government of St. Vincent and the Grenadines (recurrent expenditures). St. Vincent and the Grenadines Ministry of Finance for years 2000-2003 and IMF for years 1997-1999 (capital expenditures).

6.16 **During this period, capital expenditures represented, on average, about 10 percent of total education expenditures.** As Figure 6.5 shows, capital expenditures fluctuated from a 3.9 percent of total education expenditures in 1999 to 13.4 percent in 2001. The major capital expenditure items for the period were: (i) continual replacement and improvement in furniture and equipment in the education facilities; (ii) implementation of the CDB Basic Education project focusing on rehabilitation and construction of both primary and secondary schools; (iii) rehabilitation and construction of primary schools; (iv) computerization of schools which was supported by the government of Taiwan, China; (v) textbook rental scheme; (vi) construction and enlargement of secondary schools; and (vii) expansion of the St. Vincent and the Grenadines community college, which is financed by the EU.[33] These investments seem to be in line with the priorities of the education sector. The share of capital investment financed by local revenue

[33]As discussed in chapter 3, it is recommended that the Government follow current best practices of budgeting by recording the textbook rental scheme as part of the recurrent budget instead of the capital budget.

declined from 19 percent in 1997 to 2 percent in 2003, while external grant financing increased from 2 percent in 1997 to 55 percent in 2003.

Figure 6.5 Share of Education Capital and Recurrent Expenditures in Total Education Expenditures, 1997-2003
(as percentage)



Note: Actual recurrent expenditures for all fiscal years, with the exception of 2003 (Revised Estimates). Capital expenditures are actual.
Source: Estimates of Revenue and Expenditure. Government of St. Vincent and the Grenadines (recurrent expenditures). St. Vincent and the Grenadines Ministry of Finance for years 2000-2003 and IMF for years 1997-1999 (capital expenditures).

Expenditure by Sub-sector

6.17 **Since 1997 the allocation of education recurrent expenditures has shifted from primary to secondary education in response to the country's education agenda and demographics considerations.** As Table 6.3 shows, in 1997 primary education received about six out of each ten-education dollar and declined to five out of ten by 2003. This reduction is lower than the decrease in enrollment into primary education (11 percent). Secondary education received 21 percent of total education recurrent expenditures in 1993 and increased to only 24 percent by 2003. These changes in the allocation correspond to changing priorities in the country's education agenda. But the change has been slow reflecting inertia in policies to either: (i) push forward universal access to secondary education and/or (ii) gradually adjust the teaching staff in primary education in accordance with the declining enrollment.

Table 6.3 Education Recurrent Expenditures by Subsector, Selected Years, 1997 and 2003
(as percentage)

Level	1997	2003
Administration	6.4	7.4
Primary	56.8	51.6
Secondary	20.6	24.0
Tertiary	7.6	8.6
Others	8.5	8.4
Total	100	100

Note: Actual recurrent expenditures for 1997 and revised estimates for 2003. The School Feeding Program is included in the category others for comparability across years.
Source: Estimates of Revenue and Expenditure. Government of St. Vincent and the Grenadines.

6.18 **In this period, the share of education recurrent expenditures allocated to tertiary education increased from 7.6 percent in 1997 to 8.6 percent in 2003. But the share of other expenditures in education recurrent expenditures remained stable at 8.5 percent.** The share of education recurrent expenditures allocated to tertiary education in St. Vincent and the Grenadines is low compared to the average for Latin American countries (20 percent). In the OECS countries, Dominica, Grenada, St. Kitts and Nevis, and St. Lucia allocated 8, 9, 18, and 12 percent of their recurrent education expenditures to tertiary education respectively.[34] Other education expenditures include: vocationally orientated multi-purpose centers, library services, and the school-feeding program.

6.19 **Administration expenditures in education recurrent expenditures have increased from 6.4 percent in 1997 to 7.4 percent in 2003. Although, these figures are lower than in other OECS countries, they are about 1.25 those in the Latin America and Caribbean Region.** To overcome the limitations imposed by economies-of-scale, St. Vincent and the Grenadines needs to increase sub-regional cooperation in educational administration. Currently, St. Vincent and the Grenadines spends 7.4 percent of education recurrent expenditures on administration compared to the Latin America and Caribbean region average of 5 percent. This difference in administration expenditures is mainly due to the importance of fixed costs. As a result, innovation in provision is infrequent and ministerial staff are overloaded, with little time to supervise and reform the system; all factors that contribute to an inefficient and occasionally outdated modus operandi of the Education Ministries in the OECS countries. The way forward to achieve economies-of-scale is to increase sub-regional cooperation. Possibilities of cooperation include: (i) education management information systems; (ii) curriculum reform; (iii) standard setting, certification, information campaigns and regulation for pre-primary education; (iv) provision of tertiary education; (v) common examination of 2nd and 4th graders; (vi) in-service teacher training; and (vii) common procurement of learning materials. Within each of these education reforms, each nation is practically developing, purchasing and/or implementing their own program with high administration costs, slow implementation, and little innovation as a consequence. A 25-efficiency gain in administration costs would free up about EC$ 1.1 million (1.9 percent of the recurrent education budget) for quality investment at the school level.

6.20 **Without making innovations in policies for the education sector, in particular moving to a more efficient use of the educational resources, the available funds will fall short of the required resources to reach the government educational goals.** Assuming the expansion of pre-primary education, universal secondary education, and broaden coverage of tertiary education by 20 percent, the yearly recurrent costs of education would have to increase by around EC$ 22 million, 39 percent of the recurrent education budget or 2.2 percent of GDP in addition to the major investments in building and equipment needed to achieve universal secondary education.[35] However, the educational goals can be achieved by pursuing more

[34] The allocation for the regional university, University of the West Indies (UWI), is contained within the budget vote of the Ministry of Finance, Planning and Development. In 2003, EC$ 4.5 million was earmarked for transfer to UWI. Inclusion of this contribution as funding to tertiary education would increase the share of tertiary education in the overall education envelop to 12.5 percent.

[35] This back-of-the-envelope estimate assumes (i) universal coverage of pre-primary education for 3 and 4 year olds provided by publicly paid teachers at a cost of EC$ 9.2 million (the cost of the remaining 50 percent of a cohort of 4,800 children that are currently not enrolled, combined with an estimated additional 30 percent of that cohort which presumably will shift from high-fee private provision to low-fee public provision; all with 1 teacher per 13 children and salaried at EC$ 25,000); (ii) universal secondary education requiring EC$ 8.0 million (current average per public pupil cost is EC$ 2,160 times 3,700, the number of youth between 12 and 16 not attending secondary school); (iii) 20 percent enrollment rate into tertiary would cost at least an extra EC$ 3.6 million (per pupil costs in the community college are EC$

innovative policies with the aim of: (i) improving efficiency of public spending; (ii) better targeting public subventions towards low-income families; and (iii) facilitating private investments.

Efficiency of Spending

6.21 **There is a major imbalance in education recurrent expenditures towards salaries (above 90 percent) and away from learning materials.** In 2003, 97 percent of resources paid out to primary education went to salaries, the highest share in the OECS countries, followed by St. Kitts and Nevis (95 percent). This result in a dismal 3 percent available for learning material, supplies, and maintenance of 60 schools with about 19,000 pupils and 1,000 teachers. In secondary education, 93 percent of the education recurrent expenditures were allocated to salaries. In comparison, St. Lucia devoted slightly more to non-salary expenditures (8 percent), while Grenada over the last decade has managed to raise the share of non-salary cost significantly (18 percent in 2002).

6.22 **The share of salaries in education recurrent expenditures depends chiefly upon: a) the number of pupils taught by each teacher, which is measured by the pupil: teacher ratio (PTR) and b) the average salary of the teacher. A decline in births over the 1990s and the expected phased out of senior primary education will substantially reduce enrollment into primary education and subsequently the size of the required teacher force.** Enrollment in primary education peaked in 1992 with 24,000 pupils. Thereafter, it declined to 19,000 in 2003 (a fall of 21 percent) and is expected to decline to 15,500 by 2008, Gill (2003). This decline implies that the resources allocated to primary education could be diminished substantially. Over the past decade, the government has not taken complete advantage of this decline with enrollment declining more rapidly than the share of the budget allocated to primary education. Thus, the efficient provision of primary education could be improved with a tighter teacher deployment policy. The PTR in primary education declined from an average of 22 between 1995 to 1998 to 20 in 2003, below the OECS and Caribbean PTR average (22 and 25 respectively). Maintaining the same PTR as in the mid-1990s would have implied a need for 86 fewer teacher positions. This amounts to approximately EC$ 2.1 million (4 percent of the education recurrent budget), which could most likely have been realized with greater restraint in new hirings. A status-quo policy in the future—keeping the teacher force at the current level— would lead to a decline in the PTR to 15.9 by 2008. This would entail a significant loss in efficiency. In contrast, if policymakers implement the agreement made with the teachers' union in 2003 and gradually raise the PTR to 25, the required teacher force would gradually decline to 620 teachers. The potential savings to the education system would gradually rise to EC$ 8.9 million per year by 2007 (16 percent of the education recurrent budget in 2003). An important aspect in this policy scenario is an appropriate and negotiated policy for teacher load, and other education policies that will allow for a downsizing of the teacher force while maintaining quality.

6.23 **The decline in primary education enrollment will also reduce the space required in primary schools.** The MoEYS has a spacing policy whereby only 45 percent of a school building can be dedicated to classrooms. This policy has not been applied in the past. Although, the reduction in enrollment will greatly reduce the space required, if the spacing policy was to be applied then there would not be any vacant classrooms in the primary schools. However, if the current spacing practice were to be used, around 25 percent of the space currently devoted to

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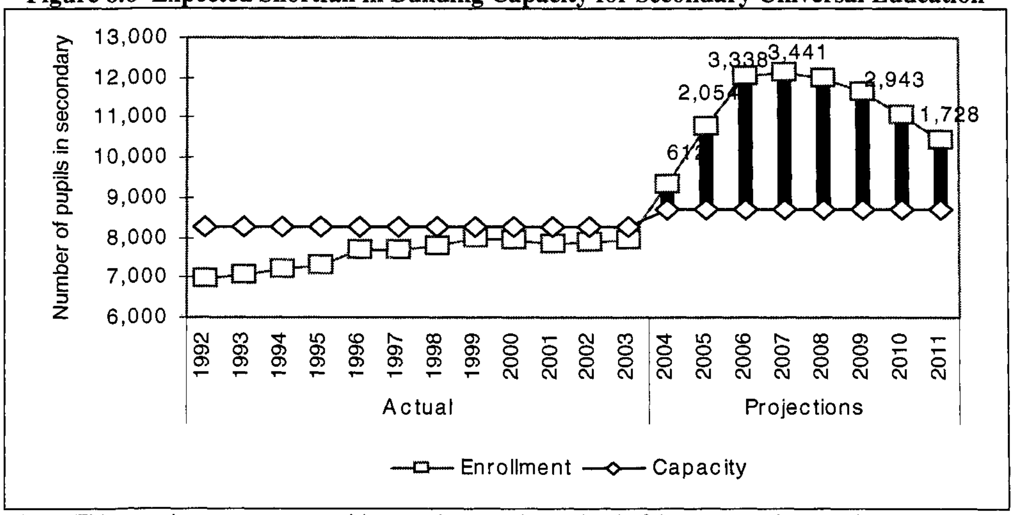
3,570 times 1,000 new students); and (iv) EC$ 1.0 million to implement the agreement between the teachers' union and the government to transfer all teachers in publicly assisted schools to government payroll.

primary education would be freed. Considering the temporary peak in demand for secondary education, this space possibly could be used to temporarily accommodate secondary education classes (see para. 6.30). Alternatively, the space could be rented to private providers of pre-primary education, and thereby raise revenue for the over-burdened public coffers. The latter requires strengthening the role of the MoEYS as a regulator of education providers and quality assurance.

6.24 **Expanding the number of seats available in secondary education crucially depends upon available buildings for secondary school.** The school mapping exercise conducted for St. Vincent and the Grenadines (Gill, 2003) found that the system would have required 600 additional seats in the secondary school buildings if all pupils from primary school were to continue to secondary education in 2003. This number would increase to 2,000 for 2004 and reach its peak at 3,400 in 2007. Thereafter, the analysis shows that the expected enrollment into secondary education decreases as a consequence of declining cohorts (Figure 6.6). Assuming a stabilizing size of cohorts entering secondary education in 2011 and beyond, there will be a permanent shortfall in building capacity of about 1,800 seats. Hence, in terms of efficiency there is a long run need for additional secondary school space for only 1,800 pupils and a short-term need for 1,600 pupils.

Figure 6.6 Expected Shortfall in Building Capacity for Secondary Universal Education



Note: This exercise assumes a repetition rate in secondary school of 4 percent and a zero dropout rate, both stated objective of the Government. The black bar illustrates the expected shortfall of building capacity under a universal secondary policy. The label above the bar indicates the shortfall in number of seats.
Source: Gill (2003) "Consulting Services for School Mapping Program."

6.25 **The need, in the short-term, for a large number of seats in secondary education, and the need for a smaller number of seats in the long-run can be met in three different ways:** (i) convert primary schools into secondary schools; (ii) add new buildings to existing schools; and (iii) build new schools. It would be inefficient to build new school buildings for the temporary need of 1,600 seats, given that the building would only be used for two to three years. Hence, it is highly advisable that the temporary need be accommodated through use of other existing space, such as primary schools. However, this argument hinges upon the practicalities for use of primary plants for secondary education, a condition that this report cannot verify. For the accommodation of the long-term increase in student population of 1,800, the Government is—together with external partners (EU, CDB, and the World Bank)—constructing three new secondary schools in the area of highest demand. With the construction of these schools, there will be no need for further construction of secondary schools.

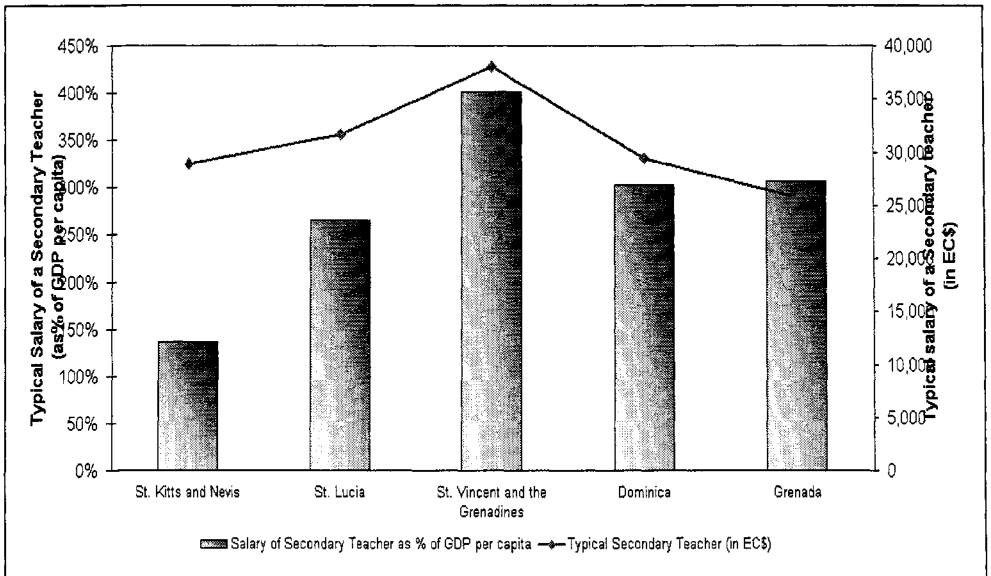
6.26 **A second crucial input to ensure the delivery of secondary education to the new cohorts is the number of teachers.** In 1999, there were on average 22 pupils per teacher in the secondary system. This ratio declined to 18 in 2003. This is marginally below the Caribbean and OECS PTR, 18.6 and 18.2 respectively, which in itself is very low for a country with an income level similar to St. Vincent and the Grenadines. Assuming a constant teacher force at the current level, 437 teachers and the achievement of universal secondary education, the PTR is expected to increase until 2007, where it culminates at 29. Thereafter, it would gradually decline to 25 in 2011. This scenario would be permissible under the agreement between the teachers' union and the government, where the teacher-pupil ratio in secondary education is allowed to increase to 30. This report recommends that the government implements the agreement with the teachers' union and keep the teacher force in secondary education at its current level and focus additional resources on teacher training and establishment of a teacher appraisal system to improve quality. In contrast, if the government chooses to maintain the PTR at the 2003 level of 18, the government would have to find resources for hiring an additional 267 teachers at an annual cost in 2003 of EC$ 9.8 millions (17 percent of the recurrent education budget in 2003).

6.27 **In 2002, the government agreed with the publicly assisted secondary schools and the teacher's union that all salaried teachers in these schools would be fully paid from the government's budget.** In 2002, the government supported the publicly assisted secondary schools with salaries for 107 teachers out of a total teacher staff in publicly assisted secondary schools of 147 (73 percent). The agreement will, over a three-year period, transfer the payroll and positions of the remaining teachers, approximately 40, to the government's payroll (with the exception of one school). This transfer responds to the fact that the fees in these assisted schools cannot cover their operations. This will imply an increase in salaries in the magnitude of EC$ 1 million (1.7 percent of recurrent education budget).[36] It would be unfortunate if the agreement would lead to a reduction in the efficiency in publicly assisted secondary schools that in 2002 deployed teachers more cost effectively than public school (17 percent higher PTR).

6.28 **Although the less than efficient deployment of teachers in primary and secondary education can, to some extent, explain the large share of salaries in education recurrent expenditures, teacher salaries appear to be relatively high compared to other OECS countries.** The typical St. Vincent and the Grenadines secondary teacher (teacher V) received in 2002 EC$ 37,000 per year, which was above the OECS average of EC$ 32,000. Compared to the income level of each country, secondary teachers in St. Vincent and the Grenadines received a salary corresponding to 402 percent of GDP per capita, while the average OECS teacher earned 293 percent of GDP per capita (Figure 6.7).[37] In addition, as is discussed in chapter 4 of this report teachers seem to have received higher increases in salary compared to the rest of the CG employees and private sector teachers.

[36] The publicly paid teachers in the publicly assisted secondary schools will according to the Ministry of Finance earn EC$ 25,127 per year. Thus, the expected cost of forty teachers will be approximately 40 times EC$ 25,127, which equals EC$ 1.0 million.
[37] The pattern differs from the salary level of primary teachers, who receive a salary slightly below that of their OECS colleagues (EC$ 25,416 for St. Vincent and the Grenadines primary teachers compared to EC$ 27,773 for the average OECS primary teachers).

Figure 6.7 Salary Level of Secondary Teachers in St. Vincent and the Grenadines and Other OECS Countries



Note: The indicated salary is for the typical secondary teacher. For Dominica, the salary scale used is "Qualified Teacher", St. Kitts and Nevis mid-point of salary scale "K20-K30", St. Lucia mid-point of "Graduate Teacher", St. Vincent and the Grenadines "Teachers V, and Grenada midpoint for a "Qualified Teacher".
Source: Each country's budget book, "Estimates": Dominica 2001/2002, St. Kitts and Nevis 2002, St. Lucia 2002/2003, St. Vincent and the Grenadines 2002, and Grenada 2002. GDP per capita is from IMF World Economic Outlook Spring 2003 database.

6.29 **Measures to avoid a surge in repetition following universal secondary education are critical to the efficient expansion of secondary education. St. Vincent and the Grenadines should seek to avoid the negative experience of Dominica, where secondary education expanded from 1997 to 2002, but in the same period, repetition in secondary education doubled.** Achieving universal secondary education will imply that the lowest performing pupils from primary education will enter secondary education. This poses a sizable challenge to the secondary schools that are responsible for successfully bringing this new segment of students up to the level of the CXC exam. A successful universal secondary education is far from achievable by merely accommodating all 12-16 olds in school plants. Implementing innovative polices to enhance quality is necessary for the expansion policy to bear fruit. Given St. Vincent's already high repetition rate in both primary and secondary education, a further deterioration in repetition rates would imply losses of substantial resources. In 2001, 14 percent of pupils in primary education repeated. This is the highest rate in the Caribbean. In secondary education, 11 percent of pupils repeated. Among the Caribbean countries, only Dominica struggles with a higher repetition rate. The costs involved are staggering. For secondary education, where the cost per student year is EC$ 1,533, high repetition costs the system nearly EC$ 1.3 million per year (870 repeaters). Repetition in primary education is even more costly: EC$ 4.3 million was lost from the 2,800 repeaters in 2001. Thus the combined repetition rates in primary and secondary education cost the system 11 percent of its recurrent budget in 2001. Policy measures to increase learning and thereby reduce repetition include: in-service teacher training to improve early detection of learning difficulties, more stimulating learning material and learning resources centers, special attention to children falling behind and possibly a shift of resources from schools with a higher qualified student body to schools that are receiving students scoring on the lower end of the CEE. Further, principals should be trained to improve monitoring of their school's performance along with initiatives to enhance monitoring of student learning. The government is aware of the need to minimize repetition in secondary education and will add a Form 6 and 7 for students that will require a longer time to complete secondary education.

Equity of Spending

6.30 **As with many education systems in the world, students from low-income families are unequally represented in the education system. However, policies directed to assist the poor gain access to all levels of education can greatly reduce the gap between schooling attainment of the poor and the rich.** As Figure 6.8 shows, in 2001 about 60 percent of low-income families enrolled their children in pre-primary, compared to about 80 percent of high-income families. For primary education, the universality of primary education assures an almost equal enrollment rate of children from low and high-income families. The enrollment gap in secondary education is staggering and atypical for the Eastern Caribbean; 30-40 percent of low-income pupils attend secondary education compared to 80 percent of pupils from high-income families. In St. Lucia (1995), 60 percent of low-income pupils attended secondary school compared to 80 percent of high-income families. Access to tertiary education is primarily a prerogative of the youth from high-income families. Enrollment rates in tertiary education reach 20-30 percent in high-income families compared to 0 to 5 percent for the low-income youth.[38] These results are mainly due to: (i) limited capacity; when entry is gained through competition, pupils from low-income backgrounds tend to fail to make the cut, because they are less likely to have had sufficient school materials, after-school work, academically developing environments, and stable social background. In St. Vincent and the Grenadines, this reason likely explains the majority of the inequality in access to secondary and tertiary education; and (ii) fees, which many low-income families cannot afford. This reason is

Box 6.1 Need for Improving Educational Statistics to Implement the Country's Educational Agenda

The availability and quality of educational statistics and program evaluations in St. Vincent and the Grenadines is below the (already low) level prevailing in other OECS countries. St. Lucia, the OECS leader within educational statistics, provides on a regular basis more than 100 pages of relevant data on educational provision directly related to the implementation of that country's strategic education plan. In comparison, the St. Vincent and the Grenadines statistical digest (the school directory) consists of little more than 20 pages with only the basic enrollment and staffing data available.

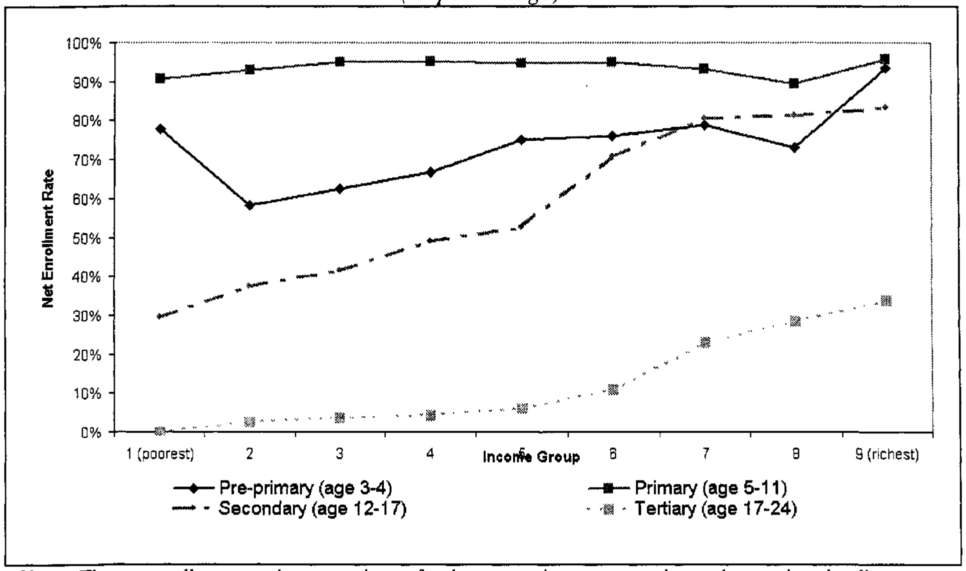
The government is aware of the problem, but so far, little visible progress has occurred. The lack of timely and detailed information hampers the ability of policymakers, government officials, principals, teachers and parents to judge the performance of the individual school and make informed decision based on solid empirical grounds. This is for example the case for the School feeding program (EC$ 1.0 million allocated in 2003), where little official data exists on the number of children and the number of schools catered as well as the reason these schools were chosen. Further, no official data are collected regarding dropout rates. The education digest also does not include information regarding the extent of study leave for teachers. This policy has been shown to be excessively generous in St. Lucia and Grenada, costing up to 6 percent of these countries recurrent education budget. Lastly, there is no readily available information describing or evaluating the Multi-Purpose Centers that received EC$ 1.8 million in 2003. This seeming lack of monitoring and evaluation information reduces the transparency and accountability in all levels of the education system. Improving the collection, dissemination and use of information in policymaking could greatly enhance the efficiency of the education system.

[38] The information should be considered indicative, since several assumptions were necessary to calculate the shown enrollment rates. The information is derived from the St. Vincent and the Grenadines 2001 Housing and Population Census that surveyed close to all households in the nation. Although this is probably one of the best information sources for household analysis in the Eastern Caribbean, the income variable has two drawbacks: a) only the income group of the household head is available, and not the actual amount earned of the total household, and b) only half of the household heads answer the "income group" question. Further, there is not an equal number of household heads in each income group; the vast majority of the household's heads belongs to income group 3 to 7.

probably behind the inequity in access to pre-primary education. Furthermore, Figure 6.8 shows that expansion of pre-primary and secondary education would predominantly benefit low and middle-income groups, and therefore improve the equity of education spending, while expansion of tertiary education is likely to continue to predominantly benefit the middle to high-income segments, and therefore continue to be regressive.

Figure 6.8 Enrollment Rates by Income Level of the Household Head, 2001

(as percentage)

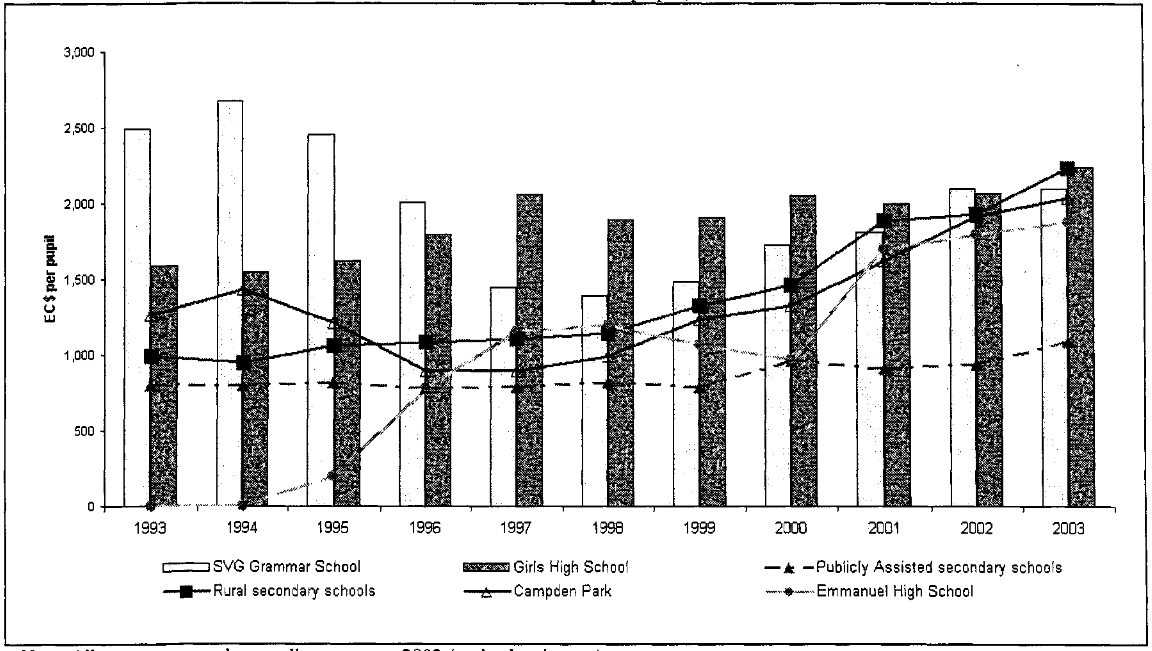


Note: The net enrollment rate into pre-primary for the poorest income group is not shown, since it relies on a small number of observations (10). Access to senior primary education is not shown.
Source: Author's calculations based on 2001 Census.

6.31 **Equity in funding for secondary schools has improved in the last few years**. It has been claimed that the best secondary schools comprise the best teachers and pupils and receive higher funding. The perceived elite schools, St. Vincent and the Grenadines Grammar School and Girl's High School along with two other secondary schools, have a separate budget line in the national budget. Thus, it is possible to compare funding across secondary schools. As Figure 6.9 shows, in 1993 the two elite schools benefited from a significantly larger level of funding per-pupil than other secondary schools. However, to the credit of the country, this difference in funding has gradually diminished through the decade. In 2001, the rural secondary schools received a significant boost in funding allowing them to more than catch up to the country's top funded secondary school, and almost eliminating the unequal funding practice that existed in the past.[39] To achieve a more equal educational opportunity, the government could consider to further focus on funding schools with a low-performing student population. These schools need additional funds to bring students to the skill level required to successfully complete the CXC exam. In addition, education statistics need to be strengthened to better assess the equity of education expenditures. Box 6.1.

[39] According to stakeholders, favoritism of the top schools remains in the governance of the system in terms of teacher deployment, with the best teachers being hoarded by the top schools.

Figure 6.9 Equity of Funding for Secondary Schools, 1993-2003
(current EC$ per pupil)



Note: All years are actual expenditure, except 2003 (revised estimates).
Source: Author's calculations.

Private-Public Partnership in Education

6.32 **Expanding pre-primary education could take place by financially supporting low-income families that previously were unable to afford the fees to attend pre-primary education.** This policy for expansion in pre-primary education needs to rely on private competition to keep provision cost-effective. However, a precondition is the existence of a targeting mechanism for low-income families. Further, it could be combined with an OECS-wide initiative to certify non-governmental providers of pre-primary education through the setting of standards. Alternatively, it has been proposed that the government start catering to pre-primary. The rationale is that the decline in the primary school population frees up classrooms. However, this argument does not take into the account the large recurrent cost of pre-primary education. As explained previously, the recurrent cost of bringing public universal coverage of pre-primary education for 3 and 4 year olds would be around EC$ 9.2 million (see footnote 36), resources that the government is unlikely to have. A fiscally sensible expansion would therefore be to continue reliance on non-governmental provision together with a targeted assistance program to the poor. The yearly cost of a subsidy to pre-primary children from low-income families is about EC$ 589, 000 assuming a 50 percent subsidy of the total cost and a target goal of 25 percent of the 2-4 years old cohort.

6.33 **The combination of limited access to tertiary education and the non-existence of cost-recovery ratio for tertiary education make this budget line highly inequitable. It is recommended that the government rethink its financing structure**. Further, given that a non-negligible share of highly educated individuals leaves the country, the public loses a corresponding share of the returns to this public investment. The country should not reduce investment in tertiary education, on the contrary. This level of advanced education yields the highest returns in the labor market and spurs economic development. Consequently, the financing burden could increasingly be shifted towards the beneficiary with the invested public resources being leveraged to promote additional private investment into tertiary education. Only students at the Technical College pay a tuition fee, EC$ 135 per year, that goes to the consolidated fund. In addition, student nurses and teachers (only the ones appointed to an established position in the school system) receive a salary. Within the OECS, Dominica's cost-recovery rate from the community college was 13 percent in 2002, while Clarence Fitzroy Bryant College in St. Kitts and Nevis charged the equivalent of 5 percent of total costs in 2002. However, internationally many public tertiary education systems such as Chile, Colombia, Korea and USA charge 20-30 percent of the costs. Increasing the cost-recovery ratio would imply a reduction of the subsidy to a few relatively well-off students and pave the way to increase enrollment in tertiary education. The additional resources allow the institution to increase enrollment and quality of teaching. To promote expansion, the government could consider delegating the decision of tuition to the Community College. Key for a successful increase of tuition and fees is an accompanying student loan facility that allows all talented students to enter tertiary education, regardless of family income as well as the provision of scholarships for the poorest students.

7. SOCIAL PROTECTION PROGRAMS

7.1 Social protection programs are public interventions to assist the most vulnerable groups of society with the objective of ensuring a minimum level of welfare for individuals, households, and communities. The most common social protection tools to address the social risks of vulnerable groups are social insurance and social assistance.

- Social insurance consists of mechanisms that pool social risks across population groups, for example pension, unemployment, or health insurance programs.

- Social assistance programs are designed to help poor and vulnerable individuals and households cope with temporary or chronic poverty by providing income support and access to basic services. It includes a variety of programs such as cash and in-kind transfers, subsidies, workfare, housing programs, and social funds. Social assistance programs aim to address the specific needs of groups at risk.

7.2 St. Vincent and the Grenadines implements a range of social insurance and social assistance programs that, in combination, attempt to address the critical risks and vulnerabilities faced by the population. The government implements approximately 20 social protection programs through at least seven different line ministries and statutory agencies. However, programs targeted to the poor represent an uncoordinated array of overlapping and administratively cumbersome programs that are not well poised to respond to either chronic poverty or income volatility deriving from economic downturns or natural disasters. The NIS, the government's sole social insurance program, covers a significant share of the population, however, large groups (particularly agricultural and domestic workers, workers in small firms and self-employed persons) remain uncovered. In addition, the NIS will have to undertake significant reforms to ensure its long-term sustainability.

7.3 From 1996 to 2002, average expenditures on social protection (including National Insurance) were lower in St. Vincent and the Grenadines (2.7 percent of GDP) than in Latin America and the Caribbean region (4.7 percent of GDP) and also low relative to spending on social protection in other OECS countries. During the same period, average social protection expenditures were 5.0 percent of GDP in Dominica, 2.8 percent of GDP in Grenada, 3.5 percent of GDP in St. Kitts and Nevis, and 4.2 percent of GDP in St. Lucia.[40]

7.4 This chapter reviews social assistance and social insurance spending and presents policy recommendations for strengthening social protection in St. Vincent and the Grenadines. The main recommendations to strengthen social protection programs can be summarized as follows:

On social protection programs

- Strengthen the Public Assistance Program through development of transparent targeting procedures, restructuring of benefits with benefit amount linked to family size, consolidation of small programs, upgrading of management information systems (MIS), and formulation of clear and consistent policies and procedures for all operations.

[40] The figures for Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines include capital expenditures, but for St. Kitts and Nevis include only recurrent expenditures.

- Implement reforms of the NIS to ensure its long-term sustainability, which is at risk due to the combined effects of system maturation and population ageing. The NIS currently has a significant positive cash flow with costs projected to be less than contributions until 2016. After 2016, a growing part of the accumulated reserve will have to be used. The NIS will need to enhance returns on investments and reform program parameters – including retirement age, contribution rates, and benefit formulas – to ensure financial sustainability.

- Implement short-run actions to strengthen the social assistance function of the NIS Non-Contributory Age Assistance Pensions, including improved targeting, periodic re-certification of beneficiary eligibility, and better coordination with the Public Assistance program. Acceptance of new beneficiaries should be terminated so that the NIS can work towards its original objective of gradually phasing out the program.

- Strengthen labor market interventions by coordinating the short-term employment component of different programs, setting the wage rate at the poverty rate so that programs attract the most needy; ensuring transparency in the selection of workers, expanding the menu of jobs to increase female participation, and implementing MIS systems to track employment.

- International experience suggests that greater returns would be generated by reorienting skills training programs towards improving literacy and numeracy skills with reduced emphasis on pre-employment training.[41] Reallocating resources from continuing education (which is essentially preparation for external examinations) to adult education (which is focused on literacy and numeracy) would increase the social protection impact of these expenditures. The Youth Empowerment Service (YES) program model has had some success (particularly in providing short term income support and orientation to work), however, the stipend should be reviewed with respect to introduction of targeting mechanisms and consistency with other programs.

- Consolidate the administrative structures of community-based initiatives (as has been done in Jamaica, Belize, and Guyana) to improve program coordination and reduce administrative duplication and costs. Reorienting community-based programs to increase the amount of employment generated, providing funding to community-based and non-governmental organizations to implement social assistance programs, and support for literacy and numeracy initiatives (as opposed to skills training programs) would enhance their social protection function.

- Examine existing public housing programs with a view towards developing alternatives to construction of low-income housing and low-income rental units, including provision of rent subsidies through cash transfer programs and expanded retrofitting of existing housing stock. Clear targeting criteria would increase the safety net function of house repair programs while emphasis on their employment generation capacity would enhance their safety net function.

[41] Amit Dar and Zafiris Tzannotos, Active Labor Market Programs: A Review of the Evidence from Evaluations, World Bank, Social Protection Discussion Paper, 1999.

- Review, revise and possibly terminate the Nutrition Support Program based on the planned evaluation of the program to be conducted by the Caribbean Food and Nutrition Institute in 2004.

With respect to specific age groups

- Increase access to early childhood care programs. This should include both day care for children from poor families and provide nutrition and stimulation programs for low-birth weight babies and malnourished children to address critical risks faced by young children in St. Vincent and the Grenadines.

- Reconfigure social protection programs to promote school attendance among children who are poor.

- Strengthen social protection programs for the elderly, including strengthening of income transfers in the short-run and expansion of the formal pension system over the long-term.

On institutional reforms

- It is recommended that the NESDC, consisting of representatives from the public and private sectors and civil society organizations, develop policies for sector wide planning in social protection that the government can elaborate for adoption.

- Information on poor and vulnerable groups is not available on a regular basis. Household surveys are conducted intermittently and the capacity to implement and analyze survey data is weak. The 1996 Country Poverty Assessment, funded by the CDB, was the last quantitative assessment of poverty and is seriously outdated. Regularly updated poverty data is required for effective planning, monitoring, and evaluation of social protection programs.

- MISs (especially as they relate to Public Assistance, short-term employment and training programs) are inadequate and there are capacity constraints with respect to data collection, monitoring, and evaluation. This problem is common across the OECS. Regional approaches to MIS development and monitoring and evaluation capacity building would address the human resource constraints in individual countries and would be more cost effective than developing systems on a country by country basis.

A. SOCIAL PROTECTION STRATEGY AND PROGRAMS

Social Protection Strategy

7.5 **The government of St. Vincent and the Grenadines has identified social protection priorities (as articulated in its PRSP); nevertheless, the government has not yet articulated a comprehensive social protection strategy.** Government's social protection initiatives emphasize access to education and health services, social insurance through the NIS, income support to vulnerable persons, provision of short-term employment, skills and literacy training, opportunities for self-employment, and improved housing. A major concern continues to be the fall out from the decline in the banana industry and its effects on poverty, especially in rural area. Persistent poverty (in both rural and urban areas) remains a continued concern. The main target groups for these social protection initiatives are female-headed households, youth who are out-of-school and out-of-work, farmers, especially those in the "banana belt" and other displaced workers, the elderly poor, and the disabled.

7.6 **At present, there is no mechanism in place for sector wide coordination of social protection programs. The government implements approximately 20 social protection programs through at least seven different line ministries and statutory organizations.** The CCE does not focus on social protection in a systematic way and there is no mechanism for inter-ministerial coordination of social protection. The NESDC provides a potential forum for coordination of social protection, however, the NESDC has yet to serve as a real catalyst for coordination.

7.7 **Mechanisms for fiscal prioritization of social protection programs do not exist.** The St. Vincent and the Grenadines budget is based on broad priorities as identified by each ministry for a three year budget planning cycle. There does not appear to be a mechanism for identification of policy priorities or a process of consultation regarding budget priorities for social protection.

Social Protection Programs and Expenditures

7.8 **St. Vincent and the Grenadines implements an array of social protection programs including:**

- Social insurance programs: National Insurance, a contributory pension, disability, maternity, sickness and work injury fund;

- Social assistance programs: including means tested income support programs implemented by government and by the NIS, and education-based, health-based, labor market, community-based, and housing programs.

A list of all the social protection programs identified in 2002 with information on expenditures is presented in Table 7.1.

Table 7.1 Social Protection Expenditures by Type, 2002
(in EC$)

Program	Recurrent	Capital	Total	% Total SP Spending
Social Insurance	**12,801,058**	**-**	**12,801,058**	**35.6**
National Insurance (Administration and Contributory Benefits)	12,801,058	-	12,801,058	**35.6**
Social Assistance	**15,179,201**	**7,955,966**	**23,135,167**	**64.4**
Income Support Programs	**8,763,873**	**-**	**8,763,873**	**24.4**
Family/Welfare Services[1]	7,181,428	-	7,181,428	20.0
National Insurance (Non-Contributory Age Assistance Pensions)	1,582,445	-	1,582,445	4.4
Education Based Programs	**1,045,281**	**210,023**	**1,255,304**	**3.5**
School Feeding Program	849,114	-	849,114	2.4
Family Services Education Assistance[2]	196,167		196,167	0.5
Poverty Alleviation Fund	-	210,023	210,023	0.6
Health Based Programs	**634,769**	**-**	**634,769**	**1.8**
Nutrition Support Program	555,739	-	555,739	1.5
Social Welfare	79,030	-	79,030	0.2
Labor Market Interventions[3]	**1,735,308**	**5,788,139**	**7,523,447**	**20.9**
Non-Formal Youth Skills/Handicraft Training	553,163	-	553,163	1.5
Liberty Lodge Boys Center	430,556	-	430,556	1.2
Adult/Continuing Education	336,939	-	336,939	0.9
Youth Empowerment Service (YES)	-	1,936,629	1,936,629	5.4
Job Search Service	91,650	89,126	180,776	0.5
Local Government Road Maintenance Program	323,000	-	323,000	0.9
Labor Intensive Road Maintenance[4]	-	3,157,117	3,157,117	8.8
Labor Intensive School Repair	-	95,215	95,215	0.3
Small/Micro Business Development	-	510,052	510,052	1.4
Community Based Programs	**492,279**	**1,640,560**	**2,132,839**	**5.9**
Basic Needs Trust Fund[5]	-	1,600,000	1,600,000	4.5
Community Development/Community Based Projects	492,279	40,560	532,839	1.5
Housing Programs	**2,507,691**	**317,244**	**2,824,935**	**7.9**
Housing Development	-	155,196	155,196	0.4
Lewis Punnett Home for the Elderly	1,356,274	-	1,356,274	3.8
Detached Bathrooms	-	162,048	162,048	0.5
Housing Materials, Repair and Rental[6] (MoSDCFGEA)	1,151,417	-	1,151,417	3.2
Total	**27,980,259**	**7,955,966**	**35,936,225**	**100**

1. Includes expenditures on public assistance and all other Family Services Division programs except education assistance, housing repair, rental, and housing materials programs.
2. Based on an estimate allocation to Education Assistance of 2.3 percent of the total Family Services Budget.
3. The Ministry of Housing, Transport, and Works also implements a Road Maintenance Program. Although the program provides some short-term employment (primarily for clearing of roads), the main focus of this program is on repair and maintenance of the country's major road network and not on employment generation. The cost of this program is, therefore, not included in the calculation of social protection expenditures.
4. Labor costs are estimated at 30 - 35 percent of this total.
5. 2002 was an interim year between BNTF IV and BNTF V with disbursements equal to only EC$ 364,700. In order to give a more realistic picture of the fiscal contribution of BNTF, average expenditures on BNTF IV and V between 1999 - 2002 are reported. This means that the total for capital spending in 2002 as reported in this table is higher than the total for capital spending in 2002 as used for other parts of the analysis in this chapter.
6. Based on an estimate allocation to housing materials and supplies and rental subprograms of 13. 5 percent of the total Family Services Budget.

Source: Author's calculations.

Social Insurance

7.9 **In 2002, total social protection expenditures were about EC$ 36.0 million or 3.6 percent of GDP. In that year, the administration of NIS and contributory benefits accounted for approximately 35.6 percent of total social protection expenditures.**[42] The NIS was established in 1987 and covers public sector, private sector, and self-employed persons. Contributions to NIS are based on a combined rate of 6.0 percent of insurable earnings (up to a limit of EC$ 37,700): 2.5 percent contributed by the employee; 3.0 percent by the employer; and 0.5 percent by the employer to cover the risks of employment injury.[43] As of 1997, self-employed persons are required to contribute 5.5 percent of insured earnings. The International Labor Organization (ILO) estimated compliance at 73.2 percent in 2001.[44] Compliance among self employed persons, agriculture workers, domestic workers, and persons employed in small firms is a problem. The benefits offered by the National Insurance Corporation to contributors can be divided into three groups: (a) short term sickness and maternity benefits and funeral expenses; (b) long term benefits for invalidity; retirement and survivors grants; and (c) employment injury benefits. The Long Term Benefits branch accounts for 84 percent of total NIS costs in 2002 of which 63 percent is attributable to old age pensions. This amount is projected to increase as the scheme matures. There were 1,672 old age pensioners (approximately 1 in 5 of the elderly or 1.7 percent of the population) in 2001. The minimum retirement benefit is EC$ 2,860 per annum (2.2 times the poverty line) with the maximum equal to EC$ 15,184 per annum (11.7 times the poverty line). Pension formulas are generous and, in many cases, pensions are higher than earnings during employment. The NIS comprises only one part of the pension system in St. Vincent and the Grenadines. The other components are the public pension program for CG workers in established positions who were employed prior to 1980 and who have at least 33.3 years of service and private pension programs.[45]

Social Assistance Programs

7.10 **The government implements an array of Social Assistance Programs. In 2002, these programs represented about 64.4 percent of total social protection expenditures. Income-based Programs represented the largest share, 38 percent, of total expenditures on Social Assistance Programs.** The Ministry of Social Development, Cooperatives, the Family, Gender and Ecclesiastical Affairs (MoSDCFGEA) through its Department of Family Services, administers Public Assistance and a variety of other means tested welfare programs, including education assistance for uniforms, fees and other related expenses, hot meals for indigents, transportation subsidies, elder care, and other programs.[46] Public Assistance (including monthly cash benefits and short-term immediate assistance in cash and in-kind) targets poor female-headed households with children, the elderly poor, and the disabled (irrespective of income) and absorbs over 80 percent of the Family Services budget. Criteria for eligibility are not fully

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[42] Five percent of NIS revenues are allocated to social programs, including a non-contributory pension scheme (discussed below under income support programs), day care centers for the elderly, and a student loan program for tertiary students.

[43] The employment injury scheme came into effect on January 1, 1997.

[44] ILO, Actuarial Report 2001.

[45] Pensions for (CG) workers in established positions employed prior to 1980 and who have at least 33.3 years of service are financed from the Consolidated Fund.

[46] The Department also administers housing materials and supplies, housing repair and rental assistance programs, which, in 2003 and 2004, account for approximately 12.5, 0.5 and 0.7 percent of projected Departmental expenditures, respectively. These programs are not included in income support programs but, rather, are included under housing programs.

documented.[47] A flat grant of EC$ 100 per month (or EC$ 110 for persons 65 or over) is given irrespective of family size. The grant is approximately equal to the adult equivalent indigence line and equal to 94 percent of the adult equivalent poverty line.[48] This benefit is high by international standards when it goes to single member households.[49] However, since the benefit does not vary by family size and since poor families are typically large, per capita benefits are actually lower in most households. In 2003, the projected number of beneficiary households was 5,300 for monthly assistance and 1,000 for immediate assistance. This suggests that the program has the potential to reach approximately 70 percent of households that are poor.[50] However, there appear to be issues about errors of inclusion, especially as they relate to the lack of clear criteria for eligibility in beneficiary selection. In the long run, benefits should be made conditional on activities that promote human capital development (as is being done in Jamaica, Mexico, Colombia, and many other countries). This is especially important in light of irregular attendance among poor students, particularly those in rural areas and in view of the government's goal of universal secondary education.

7.11 **The National Insurance Board (NIB) implements the Non-Contributory Assistance Age Pension (NCAAP), a means tested income support program, financed by contributions and returns to investments, and targeted to the elderly poor who had worked but had not contributed to the NIS.** The NCAAP came on stream in 1997 as part of an NIB initiative to devote 5 percent of income to social programs. NIS staff determine eligibility based on income, health status and age. Benefits are equal to EC$ 25 per week (1.2 times the poverty line). Beneficiaries qualify for life with no requirement for re-certification of eligibility. As originally designed, there was to be a cap of 1,300 NCAAP beneficiaries with the number of beneficiaries and expenditures projected to decline over time. However, the cap was increased on two occasions with the second increase of 200 targeted to banana farmers. There were 1,502 non-contributory assistance pensioners in 2001 with new NCAAP beneficiaries accepted on a replacement basis only. Nominal expenditures on the NCAAP increased by 38 percent between 1998 (the first year that the program was fully on stream) and 2002 with real expenditures declining by 3 percent during the period.

7.12 **In 2002, labor market intervention (including short-term employment, literacy and skills training, job search assistance and micro and small business development assistance programs) represented one third of social assistance expenditures and accounted for the second largest share of social assistance expenditures.** The Labor Intensive Road Maintenance Program (8.8 percent of total expenditures on Social Protection Programs) was introduced in 1999 to address unemployment in the banana industry and the deterioration of minor roads. It is funded through STABEX and executed by the Ministry of Housing, Transport, and Works (MoHTW). Expenditures on the program were equal to EC $3.2 million in 2002 with labor costs estimated at 30 to 35 percent of total costs. To date, 2,679 individuals have been employed. Gang leaders identify workers through a process that is not entirely clear to the MoHTW.

[47] The Public Assistance board member for the constituency and Members of Parliament make recommendations on eligibility for public assistance, the Permanent Secretary reviews all applications. This process is contrary to the Public Assistance Regulations of 1969, which stipulate that decisions regarding eligibility are to be made by a Public Assistance Board.

[48] In 1996, the adult equivalent poverty lines were equal to EC$ 1,215 and EC $1,062 per year, respectively. The 2004 CPI adjusted poverty and indigence lines are equal to EC$ 1,283 and EC$ 1,122 respectively.

[49] Transfer programs typically provide between 5 to 25 percent of the cost of obtaining a poverty line basket of commodities. Coudouel, A., et. al. "Social Protection," in Poverty Reduction Strategy Paper Sourcebook, World Bank, 2001.

[50] Assuming no change in the 1996 poverty estimates.

Average length of employment is 4 to 6 weeks with wages equal to EC$ 30 per day (as compared to the government minimum wage of EC$ 25 per day). The program is scheduled to end in 2004 with no present plan for continuation. The MoSDCFGEA implements an on-going short-term employment program through local government authorities (district councils, town boards and village councils). The program employs approximately 300 persons annually for general road maintenance, cleaning, and bushing with labor costs estimated at EC$ 0.3 million per annum. Workers are selected by the local government authority and paid EC$ 25-30 per day for an average of four weeks per hiring period. Workers may be rehired several times in any given year.[51]

7.13 **The YES Program is targeted to unemployed persons between the ages of 16 and 30 and provides on-the-job training and training to improve workplace attitudes.** It was launched in 2001 with EC$ 3.4 million funding from Taiwan, China and is implemented by the MoEYS. Project completion is scheduled for 2005. The objectives of the program are to provide work experience and an income in the form of a stipend for 750 young people annually. Placements range from 6-12 months. All trainees, irrespective of need, receive EC$ 400 per month stipend during training (2.1 times the poverty line if a trainee is placed for 6 months and 4.3 times the poverty line if the trainee is placed for 12 months). Approximately 80 percent of total program expenditures go to stipends. As of 2003, 2,560 persons had registered for the program and over 1,500 were enrolled. The majority of placements are in public agencies. Ninety percent of trainees are female.[52] Information on labor market outcomes of participants is not yet available.

7.14 **An array of other labor market interventions are implemented by a diverse set of agencies and funded primarily from the recurrent budget.** The Skills Training Division of the MoSDCFGEA provides non-formal skills training in 15 traditional skill areas with expenditures equal to EC$ 0.6 million in 2002. Training is provided free of cost and, depending upon the program, can last from one month to two years. In 2003, 336 persons entered training (265 female and 71 male). Eighty-two percent completed the program and 48 percent of these (or 40 percent of those who started training) were placed in employment or self-employment. Liberty Lodge, also operated by the MoSDCFGEA, provides residential skills training for 26 boys at risk with expenditures equal to EC$ 0.4 million in 2002.[53] Adult and Continuing Education programs are implemented by the MoEYS. In 2002, 540 persons participated in literacy programs and 400 in continuing education programs with program expenditures equal to EC$ 0.3 million in that year. The Department of Labor in the Office of the Prime Minister operates a job search assistance program with estimated expenditures in 2002 equal to EC$ 0.1 million annually in recurrent costs and a one-time capital expenditure for unemployment registration centers of EC$ 0.1 million. In 2003, 55 employers requested workers; 147 persons registered for work (26 male and 121 female); and 19 persons (3 males and 16 females – mostly domestic workers) were placed. Finally, small and micro business development initiatives have been funded with international assistance and implemented by the Office of the Prime Minister and by the Ministry of Telecommunications, Science, Technology, and Industry.

[51] The MoHTW also implements a Road Maintenance Program. Although the program provides some short-term employment (primarily for clearing roads), the main focus of this program is on repair and maintenance of the country's major road network and not on employment generation. The cost of this program is, therefore, not included in the calculation of social protection expenditures.
[52] As reported by the program manager.
[53] MoSDCFGEA estimates.

7.15 **Government implemented housing initiatives for about EC$ 2.8 million in 2002 including low-income housing development, provision of housing materials, housing repair and retrofitting, rental assistance, and a home for the elderly and disabled. These expenditures represented about 12 percent of total expenditures on Social Assistance Programs.**[54] The Housing Development Program (an EC$ 20 million three year low-income housing project that came on stream in 2002) constructs houses for persons earning less than EC $1,500 per month. In Phase I, 200 houses (from among 1,100 applicants) will be constructed for households earning between EC$ 750-1,500 per month. The project promotes labor-intensive practices and, in 2003, generated employment for approximately 600 persons. The MoHTW builds the houses. Revenue from the sale of houses goes to the Housing and Land Development Corporation for construction of additional housing. Current plans call for construction of 350 houses for households with incomes below EC$ 750 per month. The project anticipates difficulty in meeting its 2004-2006 targets due to unavailability of lands and the inability of very low-income earners to purchase property. The project is presently considering construction of public housing as an alternative. The MoSDCFGEA provides housing materials and supplies for upgrading of owner occupied homes (2,150 households), rental assistance (40 households), and also provides assistance with construction of pit latrines and assistance with house repairs.[55] Housing related expenditures by the MoSDCFGEA were estimated at EC$ 1.5 million in 2002. The MoH operates the 113-bed Lewis Punett Home for the Elderly and Disabled with total expenditures equal to EC$ 1.4 million. There were 109 occupants (approximately 60 percent elderly) as of December 2003. The home suffers from staffing constraints and deterioration of the physical plant.

7.16 **Community based social protection initiatives accounted for about 9 percent of total social assistance programs. They include the Basic Needs Trust Fund (BNTF), a multi-country program supported by the CDB and the Canadian International Development Agency, and community development initiatives through the MoSDCFGEA.** The BNTF provides funding for small-scale social and economic infrastructure projects in the Caribbean region and seeks to improve the social and economic status of lower-income communities and promote social and economic growth in participating countries. The St. Vincent and the Grenadines BNTF IV provided EC $2.1 million in sub-project funding for 63 subprojects that included building of roads and footpaths, washroom facilities, day care centers, water systems, retail facilities, and repair of schools and public libraries. BNTF V came on stream in 2004 with a planned emphasis on pre-employment skills training. There are no clear criteria for the selection of communities. The MoSDCFGEA implements parallel community development initiatives. As part of this initiative, the ministry identifies grant funds for demand driven community projects. The introduction of a Social Investment Fund (to be implemented by a newly created statutory body and funded by the EU) is expected to increase the role of community based social protection.

7.17 **Despite the priority placed on expanding access to education, Education based social protection programs account for a small share of social assistance expenditures. (5.4 percent).** Originally established with World Food Program (WFP) funding, the School Feeding Program (SFP) has been fully funded by the government since 1997. The MoEYS and the MoH (through its Nutrition Support Program) jointly implement the program with the MoH responsible for procurement and distribution of foodstuffs and the MoEYS responsible for implementation (including payment of school cooks) and supervision of the program at the school level. In the

[54] Does not reflect increased expenditures on Low Income Housing Program in subsequent years. As of May 2004, central government provided a total of EC $10 million.
[55] Estimates based on information contained in the 2003 and 2004 MoSDCFGEA Plan of Operation.

school year 2000/01, the program operated in all 66 public primary schools, 66 pre-schools and 3 multipurpose centers with approximately 9,600 beneficiaries. Beneficiaries pay EC$ 2 per week or EC$ 0.50 per day. Fee waivers can be given to needy children at the discretion of the school. Schools retain revenues for purchase of local commodities. Program administrators raised concerns regarding accountability for SFP revenues by schools, irregular delivery of some supplies (especially milk) and problems in continuity of supply due to irregular payment of suppliers. The MoSDCFGEA provides education assistance to needy students for uniforms, exam fees, transportation, and day care with outlays estimated at EC$ 0.2 million in 2002 (with one half allocated for uniforms).[56,57] Through its Poverty Alleviation Fund, the MoSDCFGEA operates summer remedial and skills training programs targeted to 400 poor students in 8 schools.

7.18 **Finally, in 2002, Health based programs represented 3 percent of total social assistance expenditures.**[58] As part of the government's social protection strategy, the MoH provides free primary medical care at all public health centers for all persons, irrespective of income and need and categorical fee waivers (children under 16, persons 65+, certain categories of civil servants and wards of the state) for in-patient care and out-patient x-rays and laboratory tests. The Ministry provides assistance for overseas medical care for low-income persons. The program is targeted to persons who are indigent as identified by the Family Services Division of the MoSDCFGEA or by a district nurse. Total expenditures on social welfare (which is primarily directed to overseas medical care) were equal to EC $0.08 million in 2002. Information on the number of persons receiving assistance was not provided. The Nutrition Support Program was started with WFP support in 1984. Government assumed full funding in 1996. The program provides foodstuffs (flour, rice, margarine and legumes) to teenagers, pregnant and lactating women, undernourished mothers and mothers of low birth weight babies, irrespective of income and to single unemployed needy parents (of either gender). Clinic nurses make the determination of need. Persons on Public Assistance are not eligible. The Nutrition Support Unit is responsible for the procurement, storage and distribution of food foodstuffs for both the clinic-based feeding program and the school feeding program. In 2002, the program provided food to 1,552 beneficiaries at 37 clinics at a cost of EC$ 0.6 million.

B. Composition and Evolution of Social Protection Spending During 1996-2002

7.19 **Social protection activities cut across ministries and are integrated into a wide variety of programs and projects.** As a result, it is difficult to disaggregate how much of the national budget is allocated to social protection. Despite these difficulties, this report identifies spending on specific social protection programs but notes that some of these expenditures are also included in the estimates of expenditures for the MoEYS and the MoH (for example school feeding programs, scholarship programs for needy students and subsidized health care for persons

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[56] Estimates based on information contained in the 2003 and 2004 MoSDCFGEA Plan of Operation.

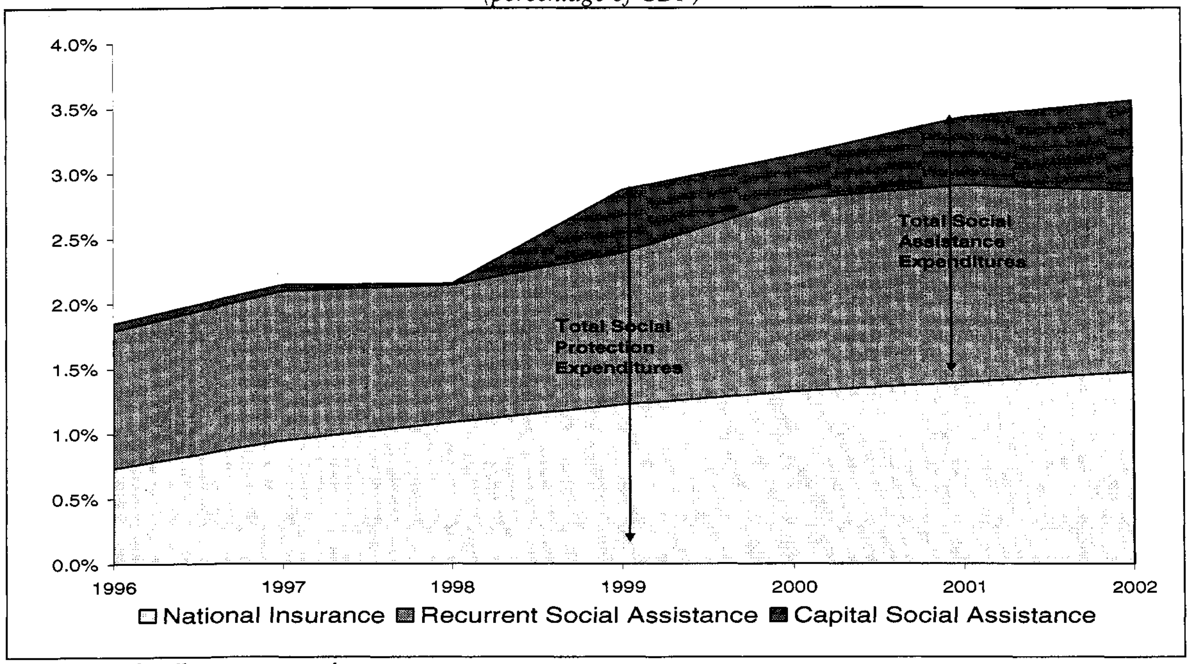
[57] In addition, the Ministry of Transport and Works operates a school bus service and also contracts private taxi drivers while the MoEYS operates a book loan program. These programs are not targeted to low-income students. The MoTW estimates that expenditures on the transport subsidy, which came on stream in 2003, will be equal to EC$ 183,000 in 2004 and that it will also spend EC$ 300,000 for the purchase of two school buses. There is no information on the operation and maintenance cost of the school bus fleet.

[58] Needy persons are given fee waivers on laboratory fees, x-rays, pharmaceuticals and in-patient services. All persons on Public Assistance are eligible for fee waivers. The MoH does not maintain information on the number or value of fee waivers granted and expenditures data on fee waivers is not included in Table 8.1. No information is available on the value of fee waivers; however, the MoH estimates that they are considerable given the limited amount of fees actually collected (See chapter 6 of this report for a further discussion of revenue generation in the health sector).

who are poor). In 2002, public expenditures on social protection (including NIS) were EC$ 36 million, approximately 3.6 percent of GDP.[59] [60]

7.20 **From 1996 to 2002, average expenditures on social protection (including National Insurance) were lower in St. Vincent and the Grenadines (2.7 percent of GDP) than in Latin America and the Caribbean region (4.7 percent of GDP) and also low relative to spending on social protection in other OECS countries.** During the same period, the average social protection expenditures in Dominica were 5.0 percent of GDP, 2.8 percent of GDP in Grenada, 3.5 percent of GDP in St. Kitts and Nevis, and 4.2 percent in St. Lucia. This compares with expenditures on social protection of 11 to 12 percent of GDP in Western Europe, North America and East and Central Europe and 1 to 2 percent in Sub-Saharan Africa and South Asia. However, as Figure 7.1 shows, during this period, social protection expenditures in St. Vincent and the Grenadines increased from 1.8 percent of GDP in 1996 to 3.6 percent of GDP in 2002.

Figure 7.1 Social Protection Expenditures in St. Vincent and the Grenadines, 1996-2002
(percentage of GDP)



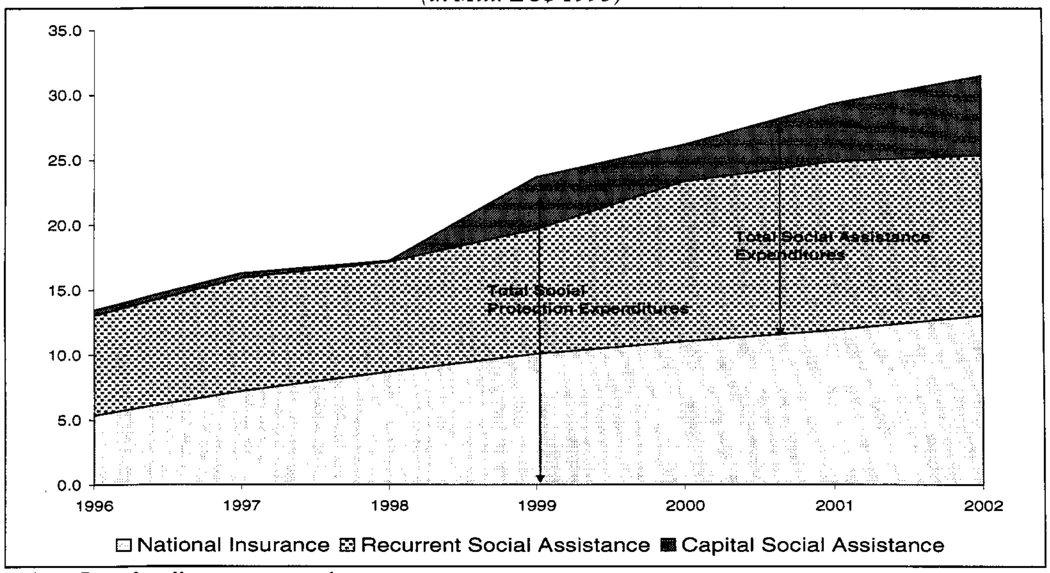
Note: Data for all years are actual.
Source: Author's calculations.

7.21 **During this period social protection expenditures (including National Insurance) increased in real terms by 15.3 percent per year.** As Figure 7.2 shows, the increase was observed both in social insurance and social assistance program. Social insurance increased about 16 percent per year in response to the maturing of the system. Recurrent social assistance increased by about 8.0 percent per year and is attributable mainly to increases in expenditures on family welfare services (which includes public assistance and provision of housing materials and

[59] Time series data on capital spending by NIS is not available; however, capital spending represented a very small share of total NIS expenditures during the time period analyzed. NIS is constructing a new facility at the cost of EC $ 12.5 million. This will temporarily alter the allocation between capital and recurrent during the period of the construction project.
[60] Does not reflect off-budget expenditures on the Nutrition Support and School Feeding Programs. Monies remaining from the WFP project were used to purchase stoves and refrigerators for schools.

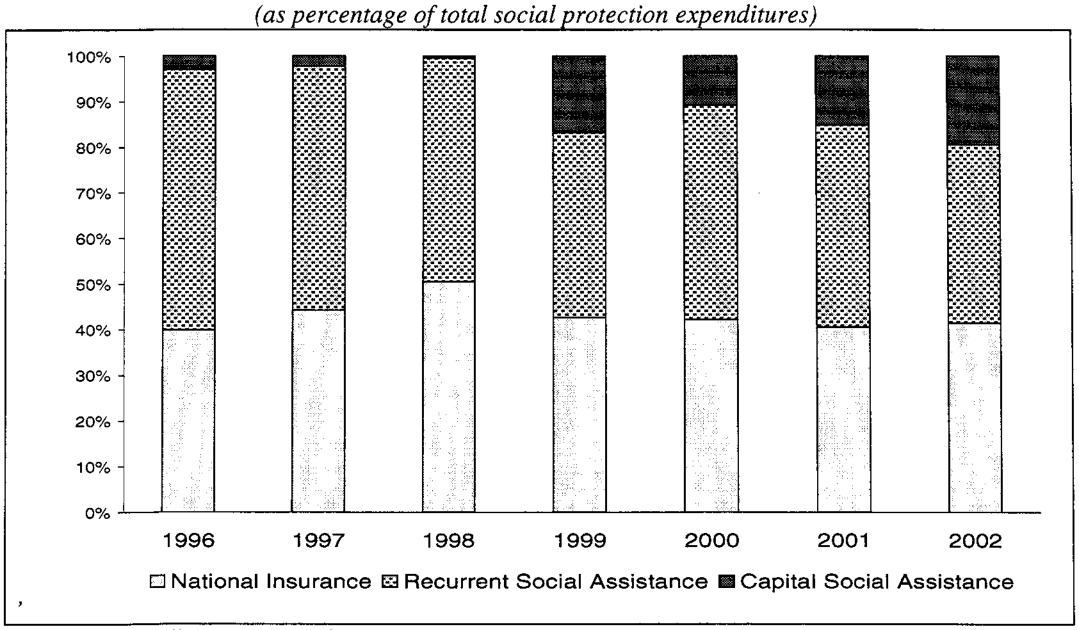
supplies) and school feeding in response to hurricane Lenny in 1999 and changing priorities of the present government which came into power in 2001. Finally, capital social assistance expenditures increased by 57 percent per year and exhibit enormously year- to- year fluctuations (particularly in community development programs) highlighting the lumpy nature of capital expenditures.

Figure 7.2 Social Protection Expenditures in St. Vincent and the Grenadines, 1996-2002
(in Mill. EC$ 1995)



Note: Data for all years are actual.
Source: Author's calculations.

Figure 7.3 Composition of Social Protection Expenditures in St. Vincent and the Grenadines, 1996-2002
(as percentage of total social protection expenditures)



Note: Data for all years are actual.
Source: Author's calculations.

7.22 **National Insurance accounts, on average, for forty percent of all social protection expenditures in this period.** (Figure 7.3). The share of capital social assistance to social protection expenditures has fluctuated dramatically. From a low of 3 percent in 1996 to a high of 19 percent in 2002. These fluctuations are primarily the result of the initiation and completion of donor-funded initiatives and raise concerns about the sustainability of some social protection initiatives.

C. SOCIAL PROTECTION AND RISK MANAGEMENT

7.23 **The most recent Poverty Assessment was completed in 1996 and is, therefore, extremely dated.**[61] That survey indicated that approximately 37.5 percent of the population was poor in 1996. Approximately 25.7 were indigent; i.e., they do not have sufficient resources to meet their basic dietary needs.[62] Poverty and indigence rates and other related indicators are shown in Table 7.2. As indicated, the incidence of poverty is higher among female-headed households (34.1 percent) than among male-headed households (27.9). Over a quarter of the poor are youth and one-fifth are elderly. Poverty is more prevalent in rural areas (33.6 percent) but also high in urban areas (26.1). Persons with no educational certification typically head poor households. Housing conditions, particularly the lack of adequate toilet and bathing facilities, is a concern among the poor.

Table 7.2 Incidence of Poverty and Other Related Indicators -- St. Vincent and the Grenadines, 1996
(percent)

Poor Individuals	37.5
Indigent Individuals	25.7
Poor Households	30.6
Indigent Households	20.4
Youth	26.9
Elderly	21.3
Female Headed Households	34.1
Male Headed Households	27.9
Females	39.5
Males	35.2
Urban Households	26.1
Rural Households	33.6
Following estimated by taking average of quintiles I and II	
Unemployment Rate Among Poor Females	9.05
Unemployment Rate Among Poor Males	10.4
With no Educational Certification	82.2
Poor in Wooden Dwellings	32.9
Poor with Outdoor Kitchens	25.0
Poor with Pit Latrines	76.6
Poor with Outdoor or No Bathing Facilities	77.1

Source: CDB, St. Vincent and the Grenadines Poverty Assessment Report, 1996.

7.24 **Poverty is not the only source of vulnerability in St. Vincent and the Grenadines. This chapter also identifies other sources of vulnerability by identifying risk indicators throughout the life cycle.** Table 7.3 presents a matrix of risks, programs and suggested interventions. Information for this table was gathered through interviews with central ministry and project staff and a review of secondary documents. The matrix also identifies indicators not related to age and existing social protection programs and requirements. This exercise should be treated as preliminary. Statistical analysis of these risk indicators to determine prevalence, incidence, correlations with income and household vulnerability could provide useful insights to help identify and prioritize appropriate social protection interventions but will require updated and improved survey data.

[61] St. Vincent and the Grenadines PRSP reports that poverty has increased since the Poverty Assessment but that assertion is not based on survey data.
[62] The 1996 adult equivalent poverty and indigence lines were EC$ 1,215 and EC$ 1,062 respectively.

Table 7.3 St. Vincent and the Grenadines Risk Indicators by Age Cohort, Existing Programs and Suggested Interventions

Age Group	Risk Indicator	Existing Social Protection Programs	Suggested Interventions: Risk Prevention/Mitigation	Suggested Interventions: Risk Coping
Birth to 4	Late antenatal registration Infant mortality Low Birth Weight Incomplete immunization Limited and inequitable access to day care and pre-school services	Nutrition Support Program Fee waivers for medical care Off-Island Medical Care School Feeding Student Assistance Day care subsidy	Increase pre- and post-natal attendance; maternal and child health programs Increase access to early childhood programs	Expand early childhood programs to promote cognitive and physical development among poor children In short-run, expand pre-school enrollment among poor through expanded subsidies to poor via reconfigured Public Assistance In long-run targeted income support program with benefits conditional on pre-school attendance
5 - 9	Poor performance in school	School Feeding Program Student Assistance Poverty Alleviation Fund		In short-run, improve attendance among poor through expanded subsidies to poor via reconfigured Public Assistance and increased monitoring by social workers of school attendance In long-run targeted income support program with benefits conditional on school attendance
10 -14	Poor performance in school Inequitable access to secondary education leading to low human capital development Teenage pregnancy	School Feeding Program (not at secondary level except in 3 Multi-Purpose Centers) Student Assistance Poverty Alleviation Fund Government subsidies to NGOs	Expand access to secondary school Healthy lifestyle promotion programs Health and Family Life Education	In short-run, improve attendance among poor through expanded subsidies to poor and increased monitoring by social workers of school attendance In long-run targeted income support program with benefits conditional on school attendance Teenage parents programs
15 - 24	Low levels of academic achievement Unemployment and underemployment	Adult Education Labor Intensive Road/School Maintenance Program Local Government Road Maintenance Program YES Skills Training Program Liberty Lodge Job Search Assistance Small/Micro Business Development	Life Long Learning responsive to market demands Labor Intensive Growth	Expand remedial education programs Strengthen community based projects with emphasis on labor intensive works and NGO and CBO implemented social assistance projects Strengthen Labor Intensive Public Works Programs

Table 7.3 St. Vincent and the Grenadines Risk Indicators by Age Cohort, Existing Programs and Suggested Interventions

Age Group	Risk Indicator	Existing Social Protection Programs	Suggested Interventions: Risk Prevention/Mitigation	Suggested Interventions: Risk Coping
25 - 59	Low human capital development Unemployment and underemployment	Adult Education Labor Intensive Road/School Maintenance Program Local Government Road Maintenance Program YES Skills Training Program Liberty Lodge Job Search Assistance Small/Micro Business Development	Labor Intensive Growth Life Long Learning opportunities that are responsive to market demands	Expand remedial education programs Strengthen community based projects with emphasis on labor intensive works and NGO and CBO implemented social assistance projects Strengthen Labor Intensive Public Works Programs
	Loss of income due to disability/disease	National Insurance Scheme (NIS) Contributory Programs Public Assistance Fee waivers for medical care Off-Island Medical Care	Expand coverage of NIS Healthy Lifestyles Promotion Programs	Strengthen Public Assistance
60 and over	Loss of income due to retirement, disability or disease Social isolation	NIS Contributory Programs Public Assistance NIS Non-Contributory Age Assistance Pension (NCAAP) Fee waivers for medical care Off-Island Medical Care	Expand coverage of Social Security Scheme Healthy Lifestyles Promotion Programs	Strengthen Public Assistance Rationalize social protection function of NCAAP Target fee waivers to the poor Expand home care and community programs to decrease demand for residential care
Risks Not Related to Age	HIV/AIDS	Health promotion and prevention programs	Expand health promotion and prevention programs	Ensure access to pharmaceuticals and care for persons who are poor
	Substandard housing among poor	Housing Repairs Low Income Housing Program Lewis Punnet Home	Expand access to housing credit for low income families	Improve targeting of building materials and repair programs Utilize community based projects for housing repairs Expand rent subsidies Improve physical status of Lewis Punnet Home

Source: Based on author's discussions with ministry and project staff and review of secondary documents. Data constraints did not allow quantification of risk indicators.

> **Box 7.1 International Experience with Housing Strategies**
>
> The involvement of governments in housing has moved through stages. In the 1970s and 1980s, the emphasis was on supply side strategies. However, direct government involvement in the production, financing, and allocation of housing encountered numerous problems, including poor targeting and inability of the poor to access credit. Public rentals were plagued by non-payment of rents, poor maintenance and deterioration of the physical plant and, in many countries, efforts to divest public rental units.
>
> The 1990s was marked by the emergence of demand side interventions, which rely on two widely used options. Capital Grants (one time subsides to households that can be used to purchase, build or complete new or existing units or to rehabilitate existing units) have been widely used in Latin America. Housing Allowances (regular ongoing subsidy to households that offsets some of the costs of their housing and housing related services) are popular in Eastern and Western Europe.
>
> However, the current view among economists and policy makers is that the best approach is to avoid programs earmarked for housing altogether in favor of a general means-tested cash benefit in which the subsidy is partly based on housing consumption norms.
>
> *Source*: Harold M. Katsura and Clare T. Romanik, Ensuring Access to Essential Services: Demand-Side Housing Subsidies, World Bank, Washington, D.C., 2002

7.25 **Analysis of Table 7.3 suggests that despite the range of social protection programs in St. Vincent and the Grenadines, critical gaps remain. Social assistance programs do not sufficiently support human capital development among children**. Participation in early childhood education programs, a fully private sector activity in St. Vincent and the Grenadines stands at approximately 60 percent with enrollment linked to income. This is despite the fact that early childhood education programs have considerable potential of promoting human capital development among poor children. Safety net programs for older school children are limited. In addition, the fact that Public Assistance does not vary with household size means that poor households with children, especially households with large numbers of children, have difficulty meeting out-of-pocket education expenses. The MoEYS has noted a pattern of poor attendance with the relation between income and attendance a particular problem in rural areas. As a result of varied factors (including insufficient places, poor performance, and poverty), 46 percent of children do not go beyond primary school and only 51 percent of those who enter complete secondary school. As currently designed, the social safety net does not adequately support government's investments in human capital development.

7.26 **Social protection programs for the working age population need to address the related risks of low human capital development and unemployment**. Government needs to review existing labor market programs as they relate to poor and vulnerable groups to ensure that programs address temporary and chronic unemployment resulting from the changing labor market, seasonal employment, and other factors and issues of underemployment. The plethora of labor market programs will need to be reoriented to better meet the needs of youth and adult workers and female workers of all ages. The relevance of these programs to labor market needs and impact on poverty and long-term earnings needs to be assessed with regularly updated labor force data. Finally, reform measures to bring informal sector workers into the NIS would protect persons of working age and the elderly when they retire.

7.27 **With respect to risks not related to age, housing related concerns can be addressed through better targeting existing repair programs and by reorienting the BNTF.** St. Vincent and the Grenadines should be guided by international experience – and the experience of Jamaica, St Lucia, Dominica, and the Bahamas who are moving towards divestment of public rental units – as it considers future housing strategies. (Box 7.1) Since St. Vincent and the Grenadines already has a cash benefit program, it may want to consider the possibility of using it to deliver housing-related subsidies, especially since fiscal constraints make it unlikely that the subsidy will be large.

Planning and Executing Capacity for Social Protection Programs

7.28 **Targeting systems are weak.** Introduction of a simple and transparent targeting system that could be used to identify beneficiaries for all programs targeted to the poor should be considered. In addition, the system needs to be flexible enough so that it can be adapted quickly to increase coverage during crisis to ensure that programs can respond to the needs of households vulnerable to shocks.

7.29 **Policy and procedures are not fully documented.** Criteria for eligibility for the different programs are stated in general terms and specific criteria are not clearly documented. The lack of established policies and procedures results in a lack of consistency in the treatment of beneficiaries and increases possibilities for political influence in their selection. Many programs have overlapping constituencies and administrative systems. This is particularly true of income support, community based and short-term employment programs, limiting effective planning. Duplication of administrative systems increases the cost of services provision and interferes with effective planning.

7.30 **MISs need to be strengthened.** The Public Assistance program maintains computerized lists of households but not beneficiaries within households. Information is manually stored for other programs. This increases possibilities for abuse of the system and makes effective planning, monitoring, and evaluation difficult. With respect to MIS development, at a minimum, the MIS should contain information on all household members. Upgraded information systems for other social protection programs are also recommended. Regional initiatives to build information systems, data collection and analysis capacity could address the human resource constraints and reduce the overall costs of development and implementation of monitoring and information systems. Inadequate MIS systems and capacity constraints with respect to data collection, monitoring and evaluation are common across the OECS. Regional approaches to MIS development and monitoring and evaluation capacity building would address the human resource constraints in individual countries and would be more cost effective than developing systems on a country by country basis.

8. GENDER

8.1 Vincentian men and women experience different gender problems. While overall, women are disadvantaged in many spheres of the social and economic life, certain groups of men are largely vulnerable and at risk of being excluded from society. Women have a low labor force participation; relatively high rates of adolescent pregnancy; and suffer from domestic violence; men are affected primarily by problems of crime and violence as well as by increasing unemployment. School underachievement and subsequent drop out among boys in secondary school make them a vulnerable social group. On their part, female heads of households, especially in rural areas, experience genuine problems to fully integrate into the labor market with consequences for their well-being and effective participation in society.

8.2 The government of St. Vincent and the Grenadines has rightly placed gender issues at the center of its poverty reduction strategy by making the Gender Affairs Department (GAD) responsible for mainstreaming gender across national policies and programs. But, although the country has the institutional setting to address gender issues through its public policies and programs, public resources can be used more efficiently to achieve gender equality and to enhance the well-being of poor men and women. This chapter assesses the institutional capacity of the GAD to meet its mandate; describes the distribution of the main public expenditures in education, health and social protection between men and women; and explores public programs addressing the two gender problems selected for analysis: boys' school drop out and female headed households' vulnerability.

8.3 Some of the measures proposed to address the above issues include: (a) a shift in the functions and institutional positioning of the GAD to enhance its role and leverage in policy design; (b) improving the design and coordination of programs to target low income households headed by women; (c) change towards a preventive strategy to retain boys in school and improving the existing remedial programs; (d) critically reviewing public policy approaches, specially with regard to social protection, to ensure that they do not reinforce gender stereotypes. The main findings and recommendations can be summarized as follow:

Institutional Issues

8.4 St. Vincent and the Grenadines needs a stronger GAD that emphasizes its role of policy adviser and planner. To achieve that, a change of functions, a repositioning of the Department within the government structure, and additional resources will be needed.

- The core functions of the Department need to be shifted from program execution to policy analysis by focusing on identifying gender problems; reviewing programs and policies in line Ministries and proposing mechanisms to address gender issues; and designing and coordinating the implementation of programs to address specific gender issues that might fall out of the realm of existing agencies or that may require intensive coordination from several Ministries/agencies.

- The strategic policy development functions of the GAD would need a different institutional positioning within the government's organizational structure. For example, a reallocation of the GAD to the MoF. In doing so, a position, as a special advisor to the Minister, can be considered as a way of facilitating future engagement with ministers and permanent secretaries.

- Finally, more resources, preferably coming from the regular budget rather than donors, are needed, in the next years, to conduct gender analysis of policies through in house staff or by hiring specialized consultants.

Boys at Risk

8.5 Boys abandon secondary school 40 percent more than girls in St. Vincent and the Grenadines. Boys school drop out is the outcome of several factors acting together, namely but not only, the nature and quality of the school system, the family, society, including the norms and values it promotes, communities and local support networks, personal character, and poverty.

- While there are several public programs addressing the needs of boys once they are out of the educational system, preventive policies and programs to retain boys in school need to be strengthened.

- Given the array of programs currently existing to provide job skills to the unemployed, a process of consolidation, by which those focused on youth, and young men, in particular, are jointly managed by a single agency is recommended.

- It is also recommended that such program include the design and implementation of clear targeting mechanisms to ensure that it reaches out-of-school young males; the training provided matches existing job market needs, training emphasizes social and work ethics skills, and, as much as possible, the program includes on the job training and placements in the labor market. Additionally, the design of the program needs to include explicit coordination mechanisms with the Small Enterprise Unit (for the provision of business development technical assistance) and the National Commercial Bank credit window; and the National Development Foundation (for the provision of credit). In parallel, a program could be piloted to facilitate access to business development to young trainees by: (a) providing technical assistance for the development of business proposals; and (b) awarding funds or collateral to apply for credit at a financial institution, on a competitive basis.

- Finally, financial support needs to be provided to initiatives by Community Based Organizations (CBOs) and NGOs working with youth. Evidence exists of the success of these organizations in reintegrating boys into mainstream society through a combination of preventive and remedial actions. Their ability to offer tailored response to the different problems of different youth represents an advantage over the less flexible structure and often limited capacity of public agencies. It is recommended that the government consider directly promoting NGO and CBO activity in the field of youth development and, more important, scaling up with public resources or through partnerships.

Vulnerability of Female Headed Households

8.6 Female headed households (FHH) are poorer than other households in St. Vincent and the Grenadines and at greater risk of being neglected by public programs and safety nets. A social protection strategy that sets incentives for women to work, support employment creation, and low cost childcare options, is needed to effectively integrate FHHs into the labor market and society.

- *Social protection strategy.* FHHs need social protection mechanisms that protect them against the risk, while empowering them to get out of poverty largely through employment based strategies. The current design of social protection mechanisms for women is primarily based on direct cash transfers. While direct cash transfers should continue, dependence on them should be conceived as a temporary stage in the households' life cycle rather than a permanent state. Overall, an employment based social protection strategy that encourages women to work and supports them in their search and/or creation of employment must be a priority.

- *Public program for employment creation.* A public program to support job creation among low income FHHs could be implemented. The program would need to combine skills and business training; business development assistance; marketing services; facilitate access to micro-credit; and provide affordable childcare. Business development services could be subsidized for low income users and the cost recovered once the business is in operation. Access to micro-credit could be facilitated through agreements with financial and other private institutions, for whom the government could act as guarantor for the participants of the program. Employment could be stimulated in emerging economic areas such as the service sector, including health care activities, and new market niches could also be explored.

- *Childcare supply and employment creation.* Low cost childcare centers, operated through private micro-enterprises managed by women would serve both purposes: generating employment for women, and expanding the currently insufficient supply of affordable childcare options country wide. This will in turn contribute to further the employability of low income women. The financing mechanism of day care centers should consist of a combination of subsidies and users fees, targeting subsidies to the low income population exclusively, and establishing fees for higher income users. In parallel, while public subsidies to existing childcare centers should continue, the centers should modify their cost recovery mechanism to account for income level and number of children. As the current mechanism of geographical targeting has proved ineffective to reach those households needing childcare services the most (basically low income households with large numbers of children, e.g. FHHs), alternative mean-testing strategies should be considered.

- *Implementation arrangements.* To avoid a policy vacuum and coordination failures, an inter-institutional group, led by the GAD should help to design and monitor the implementation of programs related to FHHs. The GAD can be made responsible for coordinating the group, evaluating the outcomes set for each of the agencies involved, and reviewing strategies and programs through periodic assessments of FHHs needs and government actions.

Gender Stereotypes in Public Policy

8.7 Social protection practices should be revised to avoid reinforcing gender stereotypes through public policy. The current approach informing social protection reproduces a series of gender stereotypes.

- Eligibility criteria to receive public assistance need to be revised as they establish different rules and benefits for men and women. In particular, by providing FHHs with an automatic cash transfer, while rejecting similar claims from men heading households on their own, eligibility criteria reinforce gender roles and fail to emphasize notions of father parental responsibility and higher involvement in child rearing.

- It is recommended that the public sector set the example as a model employer with regard to gender by opening all public works programs to women (a system of quotas for women, or FHHs in public works programs could be considered for such purpose), including for example, the road maintenance program.

A. INSTITUTIONAL ANALYSIS

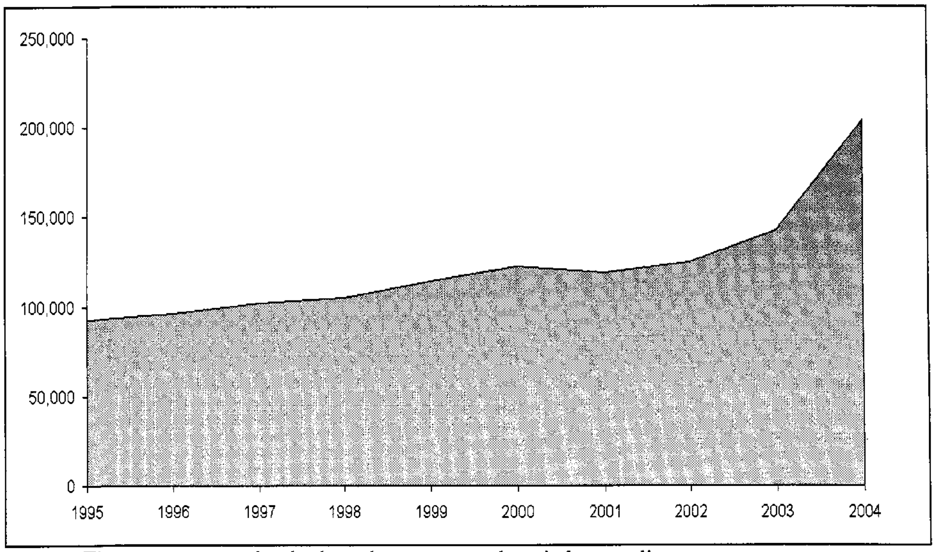
8.8 **St. Vincent and the Grenadines allocates specific public resources to address gender issues at the national level. A GAD exists as one of nine departments in the MoSDCFGEA.** The GAD has the broad mandate of integrating a gender perspective in the national development agenda, so as to attain equality and equity. The recurrent budget of the GAD is EC$ 160,954 in 2004. Of this budget, 65 percent represents staff costs : one Gender Coordinator, two project officers, and one assistant. The Department is also assisted in its tasks by a volunteer. Gender related expenditures from the public sector investment program are rare with the exception of 2004, when the department was allocated EC$ 70,000 for the development of a National Gender Policy.

8.9 **Currently, the tasks of the GAD consist of administering a series of small scale programs to address different gender issues; and, to a lesser extent, to undertake gender analysis of public policies across sectors.** In 2004, the main programs administered by the Gender Affairs Department include a gender awareness raising program to provide training in communities throughout the country (EC$ 15,000); and a grant to the National Council of Women (EC$ 6,000). Of the EC$ 70,000 allocated in 2004 to develop a National Gender Policy, a fraction of the resources is being used to elaborate a national gender situational analysis in collaboration with the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) which contributes EC$ 18,900. The rest will be used for consultations on the National Gender Policy. Outside of its own budget, the department has access to funding from the Organization of American States (OAS) through the Poverty Reduction and Capacity Building Program, in the amount of EC$ 56,940, to implement a social fund type of program for low income women. The department also collaborates with the Family Services Department, within the same Ministry, in the implementation of a program to get pregnant teenagers back to school.

8.10 **Although increasing steadily over time, the resources allocated to the GAD represent a small proportion of the total government expenditures. (Figure 8.1).** The budget allocated (recurrent and capital) to the Gender Affairs Department represented about 0.03 percent of total public expenditures in 2004. In the same year, the Sports Division, and the Botanic Gardens Division's were allocated 6.4 times and 3 times more budget than the GAD respectively.

8.11 **In addition to being insufficient, the resources of GAD are inefficiently allocated and financed with unsustainable funding sources in the medium to long-run.** There is a vacuum in the department on gender analytical capacity that would need to be filled through an appropriate human resources strategy. While the two project officers support the department in the design, implementation, and supervision of small scale gender projects, additional, qualified staff to support the Gender Coordinator in policy analysis is needed. The department needs to strengthen its policy analysis and planning functions currently neglected in favor of the execution of small projects. In doing so, a change in the use of current resources is required. First, it is recommended that the department prepare some of the project officers to become gender analysts. The fact that one of the project officers is currently following a Gender Analysis Postgraduate Program represents a step in the right direction. Also, better use of existing non-staff related resources is necessary. For example, the resources from the regular budget allocated to the Department have been traditionally spent in the gender awareness raising program. While raising awareness among communities about gender issues is important, the priority of the department in using their core resources should be to engage in policy dialogue with line Ministries. Finally, as much as 60 percent of the resources for program development are off-budget and correspond to donor contributions in 2004.[63] This raises concerns about the sustainability of the programs funded and limits the use of these resources for gender strategic, long term planning.

Figure 8.1 Budgeted Expenditures for the Gender Affairs Department, 1995-2004
(in EC$ 1995)



Note: Figures correspond to budgeted recurrent and capital expenditures.
Source: Estimates of Revenue and Expenditure. Government of St. Vincent and the Grenadines.

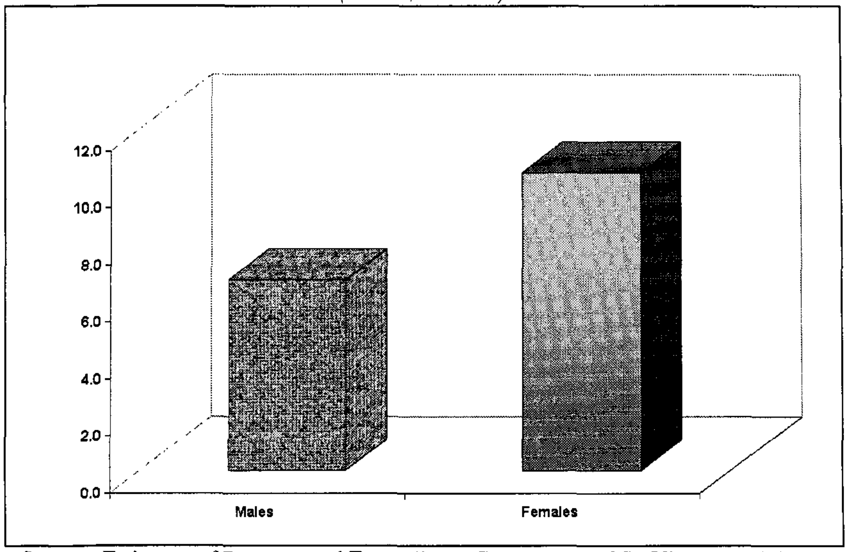
B. BENEFIT INCIDENCE OF HEALTH, EDUCATION, AND SOCIAL PROTECTION EXPENDITURES BY GENDER

Health

8.12 **St. Vincent and the Grenadines public health system addresses the differentiated health needs of men and women, with overall health expenditure favoring women. Overall, more women than men use public health services (hospitals, health centers, or family doctors).** In 2000, according to the 2001 Population and Housing Census, women used such facilities 22 percent more than men did, therefore benefiting from EC$ 10.5 million of public spending in health compared to EC$ 6.7 million for males (Figure 8.2). Within health expenditures, a major item benefiting women is maternal health care expenditure that amounted to approximately EC$ 1,103,698, on average from 1995 to 2001. This expenditure appears to be paying off as maternal mortality has consistently decreased since 2000, reaching one of the lowest rates in Latin America (50.4 deaths per 100,000 live births). By contrast, mental health care services are targeted to men. In 2002, males comprised 84 percent of new patients admitted to St. Vincent Mental Health Centre Hospital and 71 percent of total patients (482 male patients). Thus, the budget allocation to the center for that year that corresponded to male patients was EC$ 1,601,876. Half of the men's mental health problems are the result of drug and alcohol abuse.

[63] EC$ 75,840 from OAS and ECLAC funding.

Figure 8.2 Recurrent Health Spending in Hospitals, Health Centers, and Community Health Services by Gender, 2000
(in EC$ million)



Source: Estimates of Revenue and Expenditure. Government of St. Vincent and the Grenadines and 2001 Population and Housing Census.

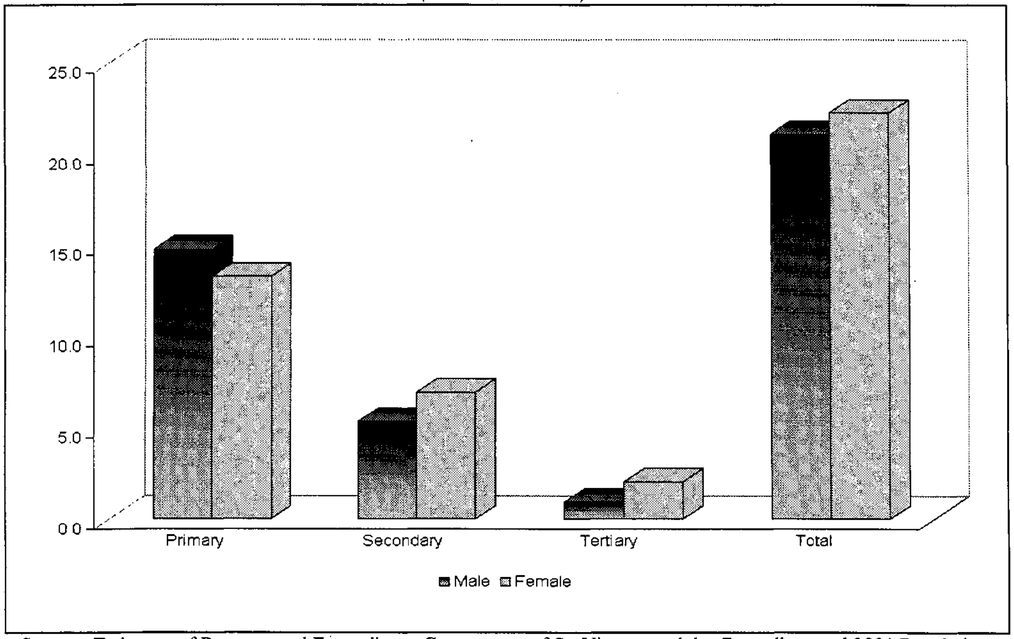
Education

8.13 **Gender gaps in education enrollment, and thus, in education expenditure, disfavor men in St. Vincent and the Grenadines.** Education expenditures by gender in 2002 reflect higher rates of enrollment for boys in primary education and for girls in secondary and tertiary education. While boys' enrollment is 5 percent higher than that of girls in primary education in secondary education girls' enrollment is 13 percent higher than that of boys; and in tertiary education girl's enrolment is higher by 36 percent, the latter the most expensive form of education, whose cost is almost three times that of primary or secondary education. All in all, the government spent approximately 5.6 percent more on girls' education than on boys' in 2002 (Figure 8.3).

Social Protection

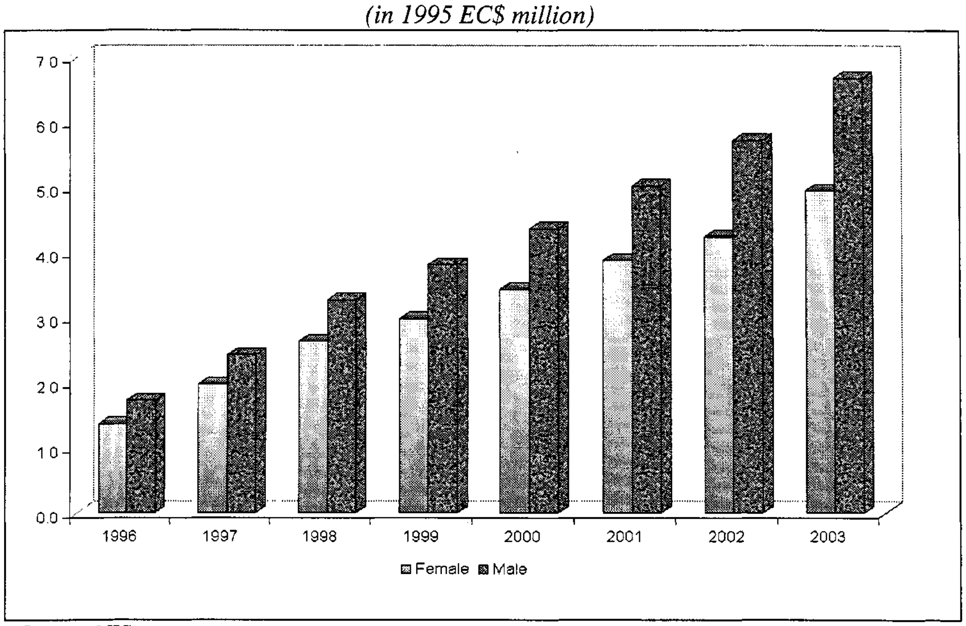
8.14 **Gender segregation in the labor market makes men the main beneficiaries of public expenditure in social security.** Social security systems generally reproduce and often reinforce existing gender inequalities. The unequal distribution of unpaid work underlies much of the inequality found in employment and reproduced in social security. Overall, women in St. Vincent and the Grenadines have consistently received less social security benefits from the NIS than men (see Figure 8.4). Most of the NIS benefits are linked to employment contributions (the non-contributory pension is the only exception); thus the differences between men and women reflect a higher participation of males in the labor force. The increasing rates of female labor force participation in the nineties have not yet been able to offset the gender differences in social security benefits received; and such differences have increased over time from 11 percent in 1996 to 15 percent in 2003. During the same period, women were the main recipients of maternity related benefits and comprised the majority of non-contributory pensions' beneficiaries; men predominated among contributory pensions; and injury and invalidity beneficiaries (Figure 8.5)

Figure 8.3 Recurrent Education Expenditures in Primary, Secondary, and Tertiary Education by Gender, 2002
(in EC$ million)



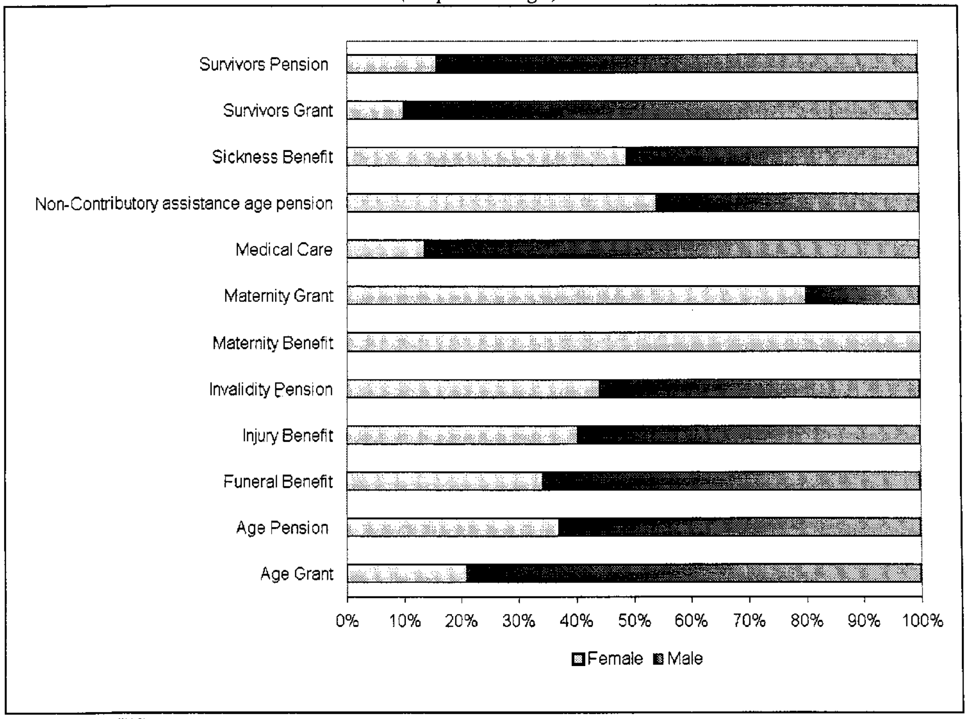
Source: Estimates of Revenue and Expenditure. Government of St. Vincent and the Grenadines and 2001 Population and Housing Census.

Figure 8.4 Social Security Benefits from NIS by Gender, 1996-2003
(in 1995 EC$ million)



Source: NIS.

Figure 8.5 Social Security Benefits from NIS by Type and Gender, 2003
(as percentage)



Source: NIS.

8.15 **Provisions to include informal sector workers in the NIS will be needed if effective protection of female workers is to be achieved in St. Vincent and the Grenadines**. The current design of the NIS system leaves a high proportion of women unprotected during old age; namely, but not only domestic workers which represented 10 percent of the female labor force in 1991. Preliminary analysis of the 2001 Population and Housing Census reveals that informality is more prevalent among women in St. Vincent and the Grenadines with the proportion of informal workers among active females (18 percent) doubling that of men (9 percent). In order to be an effective mechanism to combat the income insecurities encountered by women, the design of social protection mechanisms in St. Vincent and the Grenadines will need to gradually address the specific circumstances of unpaid and informal workers. International experiences with self financed social insurance schemes are proliferating, especially in the Asian continent, as effective mechanisms to protect informal and home-based workers (see Box 8.1).

8.16 **Social Assistance programs target men and women through different programs. While women predominate among welfare beneficiaries, men do so in employment generation programs**. While men are the exclusive beneficiaries of public work programs (e.g. Labor Intensive Road Maintenance), women comprise a high proportion of recipients of direct cash transfers under the public assistance program (61 percent in 2004); and constitute the majority (79 percent in 2003) of beneficiaries of training programs such as the Non-formal Skills training; and the Youth Empowerment Service (up to 90 percent). They represent most of the applicants to low income housing credit as well; and given their higher life expectancy, they are the majority of users of the Lewis Punnett Home for the Elderly, the only geriatric facility in the country. While males are the sole beneficiaries of the Liberty Lodge centre for boys at risk, no similar facility is available for girls.

C. SELECTED GENDER ISSUES

Boys at Risk

8.17 **While there are several public programs addressing the needs of boys once they are out of the educational system, preventive policies and programs to retain boys at risk are lacking.** Programs addressing the causes of youth drop out related to the family, socialization processes, and the educational system are scarce. The emphasis of programs for the youth in St. Vincent and the Grenadines is on the unemployed youth. Example of these programs are:

- The Youth Empowerment Services (YES) program, at the MoEYS, provides training and employment for the out of school youth (EC$ 1,936,629 in 2002).
- Although not directly targeted to the youth but to the unemployed in general, the Non-formal Skill Training Services Department (NFSTSD) of the MoSDCFGEA (EC$ 553,163 in 2002), also provides courses in a variety of areas to stimulate employment.
- The Multi purpose Centers of the MoEYS fulfill the same purpose as the NFSTSD within the formal educational system (EC$ 1,514,907 in 2002).
- The Liberty Lodge Centre for boys hosts boys at risk; provides them with shelter, food and clothing, and basic vocational training (EC$ 430,556 in 2002).

Box 8.1 Social Protection Mechanisms for Informal Workers: Experiences from the Asian Continent

The design of social protection mechanisms for informal workers is challenging. The main difficulty of engaging this category of workers, usually the poorest, in saving schemes such as contributions towards a pension or health insurance is significant. As these are workers with pressing day to day economic needs, they would probably be better off investing their income in assets that provide both insurance for the future and at the same time meet their current needs (e.g. a house or a plot of land).

However, the experience in the Asian continent working with groups of informal workers has demonstrated that social protection for informal sector workers is possible. Evidence shows that informal workers are willing to pay increasing contributions as long as the service is appropriately designed and sensitive to their needs. In designing the programs, flexible rules of saving combined with open access to them appear to have led to a greater willingness to save and to replenish savings. A few examples of such programs are:

SEWA (Self-Employed Women's Association) offers a menu of social protection mechanisms for its approximately 250,000 members throughout India. The Association provides social security as well as health insurance, including generous maternity benefits for women. It is financed through a proportional combination of private members contributions; interest paid on a loan from the German Development Agency (GTZ); and a publicly subsidized package scheme from the Indian Ministry of Labour;

Like SEWA, the Social Health Insurance Networking and Employment Project (SHINE) in the Philippines, combines members' fees and public funds to provide health insurance to informal workers;

The Gramen Kalyan, an offshoot of the Bangladeshi Grameen Bank, targets informal workers through health insurance. Members, 70 percent of whom are women, make compulsory contributions towards a de facto lump sum pension that members can claim when they leave the organization.

Source: Sabates-Wheeler, R., and Kabeer, N., 2003, Gender Equality and the Extension of Social Protection, Extension of Social Security Paper, 16, Geneva: ILO; and ILO, 2003, Extending Maternity Protection for Women in the Informal Economy: an Overview of Community Based Helf Financing Schemes, Working Paper, Geneva: ILO

The Parenting Program at the MoEYS that teaches parents and children social skills is one of the few programs addressing family factors likely to affect boys' drop out (EC$ 250,000). Preventive initiatives focused on providing advice and counseling to young boys while at school prevail among youth and development NGOs.

Box 8.2 The Marion House Experience with Unemployed Youth

In order to reach boys once they are out of the educational system, a range of actions could be tested. Paramount among them is to invest in programs to provide youth with a mixture of life and job skills to facilitate their integration in the labor market and society. Marion House (MH), a Vicentian NGO, is currently implementing one of such programs supported by the EU. The program consists of six months of life skills training; followed by a two week monitored assignment on the job; followed by an apprenticeship program for up to one year. Marion House staff monitor participants, boys and girls, closely offering counseling and advice.

The program uses innovative devises to encourage good habits such as saving and work ethics. For example, they offer youth an EC$ 20 stipend throughout the internship period out of which participants have to save EC$ 10 to buy proper attire for their job interviews at the end of the program. The program serves about 60 youngsters each year, has an operational budget of EC$ 250,000 and a rate of success of 70 percent as shown by job retention among participants. As with public programs, however, a slightly higher proportion of girls than boys participates in the program.

Under different programs, the MH provides training in parenting to young mothers and fathers and runs education campaigns to combat drugs and violence among youth. In addition, they implement specialized post-graduate training to social workers on youth issues, with a view to train a first generation of youth counselors to work in schools across St. Vincent and the Grenadines.

8.18 **Paradoxically, most of the programs for unemployed youth fail to reach the group of unemployed young males.** Most of the aforementioned unemployment youth programs have failed to attract boys. As boys are not specifically targeted in any of these programs, girls tend to predominate in all of them. In the absence of specific mechanisms to reach boys with problems, girls, with higher school qualifications and in principle less problematic socio-economic situations, are in a better position to seize public programs' opportunities once they finish school. Wide selection criteria (e.g. being unemployed between 15 and 30) make women more likely to enroll. Women predominate in all the programs but the multipurpose centers, and amounted to as much as 79 percent of the Non-formal Skills Services Training in 2003; and about 90 percent of the YES program participants. Deficiencies in the design of unemployed youth programs severely limit their impact. The courses provided under the several unemployment programs usually fail to reflect labor market needs, do not emphasize enough life and social skills as well as work ethics and entrepreneurship attitudes, and only a small proportion of them include on the job training and apprenticeships. Such deficiencies affect the Non-formal Skills Training Services for example, leading to low rates of employment by their trainees, with only 40 percent of participants placed in jobs in 2003. The YES program, while stronger in on-the-job training also fails to emphasize work ethics and social skills as well as to promote entrepreneurship among the youth as most placements are in the public sector. Finally, no formal mechanism to coordinate the operations of training agencies with those of financial institutions and small business support agencies exists, limiting the ability of young participants to transform their training into a livelihood (See Box 8.2).[64]

[64] According to the assessment carried out in the preparation of the I-PRSP.

Vulnerable Female Headed Households

8.19 **Programs to address the problems of Female Headed Households (FHH) will have a high impact to combat short and long term poverty trends in St. Vincent and the Grenadines.** As FHHs comprise the poorest households in the country, strategies to address their needs and to support them in their search for employment will directly contribute to fighting poverty country wide. Additionally, as Vicentian FHHs tend to host teenage mothers, strategies to reduce poverty in these households will contribute to fight long term poverty perpetuating dynamics associated to the intergenerational effects of teenage pregnancy. Similarly, to the extent that FHHs are able to generate income from other sources, resorting to visiting relationship as a coping mechanism will most likely decrease with positive effects for the reduction of poverty as the size of households will in turn decrease.

8.20 **While there are no programs specifically targeting FHHs, a number of public programs deal with specific needs of this group of households in St. Vincent and the Grenadines.** Primary among them are the provision of daycare; the agricultural diversification program in rural areas; public assistance services and low income housing; and certain programs related to employment generation. Shortcomings in the design or implementation of such programs influence the effectiveness of a public response to the problems of poverty and unemployment of FHHs. Costly and scarce childcare services limit FHH ability to join the labor market. Coverage of childcare services in St. Vincent and the Grenadines is low and geographically inequitable. There are only 125 centers that cover about 25-30 percent of the pre-school age population, most of them concentrated in urban and suburban areas. Enrollment among low income groups is even lower with 19 percent of their pre-school age children attending the centers.[65] While day care services are operated through the private sector, NGOs, and churches, the MoEYS is responsible for regulation and quality control of facilities and teachers; and provides a subsidy of EC$200 per month to each center. The centers' financing mechanism uses a combination of public subsidy and user fees that does not guarantee sustainability of the services, especially in poor regions. Fees range from EC$20 to EC$126, and are established geographically rather than based on household income and number of children. Centers in poor regions, particularly in banana growing areas, have been forced to close down as a result of parents' inability to meet the fees. Overall, the design of day care services disadvantages poor families with a large number of children, and the rural population in general. FHHs fall within this group and encounter difficulties of access to affordable childcare.

8.21 **At the moment, existing employment support programs do not accrue major benefits for working age women in St. Vincent and the Grenadines.** The Small Enterprise Development Unit (SEDU) is the public agency responsible for promoting business development through training, information, market research consulting, and other services. While women amount to 32 percent of users, and predominate among training seminars beneficiaries, the proportion of poor women accessing advisory services to start up new businesses or technical assistance to accompany enterprise development is lower as these services are fee based. Additionally, while women constitute the majority of the Non-Formal Skills Training Services (79 percent in 2003), they obtain jobs in a much lower proportion than men upon completion of the program (100 percent of males compared to 50 percent of women in 2003).[66] The gender pattern of participation by area of training reflects traditional spheres of female and male involvement, thus contributing to increase labor market segregation, ultimately limiting the entry

[65] St. Vincent and the Grenadines Poverty Assessment Report, 1996.

[66] A note of caution is due here due to the low numbers of participants in the program (45 men and 208 women completed the course in 2003).

of women into the labor force in higher numbers. Men enroll in courses in plumbing and electrical repair and women further their skills in home making, domestic sewing, or cosmetology. Computer courses, however, while taken by a high proportion of women, have a low rate of placement in the country. Finally, women do not participate in short term Public Works Programs as these have been traditionally targeted to men.

8.22 **Income support programs are the main public mechanism to protect FHHs in St. Vincent and the Grenadines**. Women constitute the main beneficiaries of public cash transfers as well as housing credit. FHHs represented 61 percent of the 18 to 61 years old beneficiaries of public assistance in 2003. The program provides a monthly flat benefit of EC$100 that is equivalent to 94 percent of the poverty line.[67] Overall, eligibility criteria for public assistance favor women heading households as the criteria establish that females heads of household unable to obtain economic support from their partners are entitled to public assistance, while males in the same circumstances are encouraged to find a job, after which, if they do not succeed in the search, they are admitted to a public works program. Women also predominate among the beneficiaries of the low income housing credit program that builds houses for households earning between EC$750 and EC$1,500. Indeed, 61 percent of applicants to the program in 2003 were women. In rural areas, women also comprise the majority of beneficiaries of direct cash transfers under the Agricultural Diversification Program. The program, implemented by the Ministry of Agriculture, targets poor households through cash transfers, employment generation in farms and packing plants; and access to agricultural technology. Women are targeted under the first type of help, receiving a monthly stipend of EC$ 125 -150; while men predominate in the other categories of assistance.

8.23 **Despite the array of existing programs addressing multiple needs of FHHs, they are the poorest in St. Vincent and the Grenadines, indicating possible deficiencies of public planning and lack of coordination among agencies**. Indeed, despite the existence of a considerable number of programs addressing specific needs of FHHs, it is difficult to determine whether those needs have been met yet. The fact that FHHs exhibit the highest rates of poverty nationally suggests that they have not. However, other than that, no situational assessment of this group of households' has been seriously undertaken. Under the current institutional framework, each public agency or department focuses on its program or programs regardless of what other agencies are doing for/with the same target group. This leads to overlaps between programs and to gaps in areas that should be addressed. For example, although not necessarily overlapping on the same household, programs with similar purpose (cash transfers for low income households) exist in at least three different public agencies (the Family Affairs department that provides public assistance; the NIS that provides non-contributory pensions; and the Ministry of Agriculture that provides cash transfers to rural households under several programs). This may not only result in systemic inefficiencies, but may as well hide the system's inability to meet the beneficiaries' needs, as none of the agencies is accountable for the final outcome. Similarly, while young women predominate in all public training programs, they do not receive much business development assistance; and experience serious problems with access to credit, compared to men. Therefore, absence of an integrated, inter-institutionally coordinated strategy for employment creation for women makes the public resources invested in training fruitless, in turn leaving women without a tangible means of livelihood.

[67] See social protection chapter in this report for more details on the program.

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Table A1 Central Government Fiscal Accounts St. Vincent and the Grenadines 1990-2003 (continued)
(in EC$ Millions)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Current Revenue	**152.30**	**159.92**	**166.35**	**175.70**	**181.84**	**189.20**	**209.77**	**222.90**	**240.05**	**252.16**	**255.72**
Tax Revenue	128.60	131.61	135.56	141.76	157.34	165.20	181.87	192.30	210.03	215.17	216.25
Non-Tax Revenue	23.70	28.31	30.79	33.94	24.50	24.00	27.90	30.60	30.02	37.00	39.47
Current Expenditure	**121.40**	**116.82**	**128.64**	**149.84**	**155.15**	**166.32**	**180.82**	**191.95**	**204.67**	**233.78**	**240.91**
Personal Emoluments and Wages	63.30	63.48	68.39	81.50	87.58	93.09	98.82	107.50	111.49	127.78	127.45
Other Goods and Services	29.50	31.22	37.38	39.14	34.04	36.09	41.19	42.00	44.58	50.71	53.13
Transfers and Subsidies	22.40	16.82	16.33	21.80	24.93	24.84	28.90	28.48	32.68	32.07	34.73
Interest Payments	6.20	5.30	6.54	7.40	8.60	12.30	11.90	13.97	15.92	23.22	25.60
Capital Revenue	-	0.20	-	0.44	4.11	2.25	0.85	2.06	6.20	4.89	1.31
Grants	-	32.20	14.61	1.00	7.64	4.06	7.33	12.70	14.46	12.60	9.67
Capital Expenditure	34.60	60.30	56.60	53.80	43.28	24.92	28.30	81.96	84.21	63.55	35.18
Current Fiscal Balance	30.90	43.10	37.71	25.86	26.69	22.88	28.95	30.95	35.38	18.38	14.81
Primary Fiscal Balance (after grants)	2.50	20.50	2.26	-19.10	3.76	16.57	20.73	-22.28	-12.25	-4.46	16.21
Overall Fiscal Balance (after grants)	-3.70	15.20	-4.28	-26.50	-4.84	4.27	8.83	-36.25	-28.17	-27.68	-9.39
Primary Balance (before grants)	2.50	-11.70	-12.35	-20.10	-3.88	12.51	13.40	-34.98	-26.71	-17.06	6.54
Overall Balance (before grants)	-3.70	-17.00	-18.89	-27.50	-12.48	0.21	1.50	-48.95	-42.63	-40.28	-19.06
Total Expenditure	156.00	177.12	185.24	203.64	198.43	191.24	209.12	273.91	288.88	297.33	276.09
Total Primary Expenditure	149.80	171.82	178.70	196.24	189.83	178.94	197.22	259.94	272.96	274.11	250.49

Source: ECCB and IMF

Table A1 Central Government Fiscal Accounts St. Vincent and the Grenadines 1990-2003
(in EC$ Millions)

Year	2001	2002	2003
Current Revenue	**268.14**	**301.81**	**316.49**
Tax Revenue	230.56	259.81	270.49
Non-Tax Revenue	37.58	42.00	46.00
Current Expenditure	**258.70**	**276.07**	**275.39**
Personal Emoluments and Wages	132.48	142.61	136.02
Other Goods and Services	52.94	63.94	64.00
Transfers and Subsidies	48.65	43.44	48.00
Interest Payments	24.63	26.08	27.37
Capital Revenue	1.02	0.78	0.84
Grants	17.28	10.50	10.00
Capital Expenditure	46.73	63.31	75.76
Current Fiscal Balance	9.44	25.74	41.10
Primary Fiscal Balance (after grants)	5.64	-0.21	3.55
Overall Fiscal Balance (after grants)	-18.99	-26.29	-23.82
Primary Balance (before grants)	-11.64	-10.71	-6.45
Overall Balance (before grants)	-36.27	-36.79	-33.82
Total Expenditure	305.43	339.38	351.15
Total Primary Expenditure	280.80	313.30	323.78

Source: ECCB and IMF

Table A2 Central Government Fiscal Accounts St. Vincent and the Grenadines 1990-2003 (continued)
(In Constant 1995 EC$ Millions)

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Current Revenue	**178.16**	**177.33**	**178.29**	**180.56**	**185.00**	**189.20**	**200.91**	**212.43**	**224.09**	**233.00**	**235.82**
Tax Revenue	150.43	145.94	145.29	145.68	160.07	165.20	174.19	183.27	196.07	198.81	199.42
Non-Tax Revenue	27.72	31.39	33.00	34.88	24.93	24.00	26.72	29.16	28.02	34.19	36.40
Current Expenditure	**142.01**	**129.54**	**137.87**	**153.98**	**157.84**	**166.32**	**173.18**	**182.93**	**191.06**	**216.01**	**222.16**
Personal Emoluments and Wages	74.05	70.39	73.30	83.75	89.10	93.09	94.65	102.45	104.08	118.07	117.54
Other Goods and Services	34.51	34.62	40.06	40.22	34.63	36.09	39.46	40.03	41.62	46.86	49.00
Transfers and Subsidies	26.20	18.65	17.50	22.40	25.36	24.84	27.68	27.14	30.51	29.63	32.02
Interest Payments	7.25	5.88	7.01	7.60	8.75	12.30	11.40	13.31	14.86	21.45	23.61
Capital Revenue	-	0.22	-	0.45	4.18	2.25	0.81	1.96	5.79	4.52	1.21
Grants	-	35.71	15.66	1.03	7.78	4.06	7.02	12.10	13.50	11.64	8.92
Capital Expenditure	40.47	66.86	60.66	55.29	44.04	24.92	27.11	78.11	78.61	58.72	32.44
Current Fiscal Balance	36.15	47.79	40.42	26.57	27.15	22.88	27.73	29.50	33.03	16.98	13.66
Primary Fiscal Balance (after grants)	2.92	22.73	2.42	-19.63	3.82	16.57	19.86	-21.23	-11.43	-4.12	14.95
Overall Fiscal Balance (after grants)	-4.33	16.85	-4.59	-27.23	-4.93	4.27	8.46	-34.55	-26.30	-25.57	-8.66
Primary Balance (before grants)	2.92	-12.97	-13.24	-20.66	-3.95	12.51	12.84	-33.34	-24.93	-15.76	6.03
Overall Balance (before grants)	-4.33	-18.85	-20.25	-28.26	-12.70	0.21	1.44	-46.65	-39.79	-37.22	-17.58)
Total Expenditure	182.48	196.40	198.53	209.27	201.88	191.24	200.29	261.04	269.67	274.73	254.60
Total Primary Expenditure	175.23	190.53	191.52	201.66	193.13	178.94	188.89	247.73	254.81	253.28	231.00

Source: ECCB and IMF

Table A2 Central Government Fiscal Accounts St. Vincent and the Grenadines 1990-2003
(In Constant 1995 EC$ Millions)

Year	2001	2002	2003
Current Revenue	**245.20**	**273.13**	**285.43**
Tax Revenue	210.84	235.12	243.94
Non-Tax Revenue	34.37	38.01	41.49
Current Expenditure	**236.57**	**249.84**	**248.36**
Personal Emoluments and Wages	121.15	129.06	122.67
Other Goods and Services	48.41	57.86	57.72
Transfers and Subsidies	44.49	39.31	43.29
Interest Payments	22.52	23.60	24.68
Capital Revenue	0.93	0.71	0.76
Grants	15.80	9.50	9.02
Capital Expenditure	42.73	57.29	68.32
Current Fiscal Balance	8.63	23.29	37.07
Primary Fiscal Balance (after grants)	5.16	-0.19	3.20
Overall Fiscal Balance (after grants)	-17.37	-23.79	-21.48
Primary Balance (before grants)	-10.65	-9.69	-5.82
Overall Balance (before grants)	-33.17	-33.29	-30.50
Total Expenditure	279.31	307.13	316.69
Total Primary Expenditure	256.78	283.53	292.00

Source: ECCB and IMF

Table A3 Central Government Fiscal Accounts St. Vincent and the Grenadines 1990-2003 (continued)
(As percentage of GDP)

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Current Revenue	**28.47**	**27.86**	**26.40**	**27.24**	**27.68**	**26.54**	**27.89**	**27.93**	**27.95**	**28.30**	**28.27**
Tax Revenue	24.04	22.93	21.52	21.98	23.95	23.17	24.18	24.10	24.45	24.14	23.91
Non-Tax Revenue	4.43	4.93	4.89	5.26	3.73	3.37	3.71	3.83	3.49	4.15	4.36
Current Expenditure	**22.69**	**20.35**	**20.42**	**23.23**	**23.61**	**23.33**	**24.04**	**24.05**	**23.83**	**26.23**	**26.63**
Personal Emoluments and Wages	11.83	11.06	10.86	12.64	13.33	13.06	13.14	13.47	12.98	14.34	14.09
Other Goods and Services	5.51	5.44	5.93	6.07	5.18	5.06	5.48	5.26	5.19	5.69	5.87
Transfers and Subsidies	4.19	2.93	2.59	3.38	3.79	3.48	3.84	3.57	3.80	3.60	3.84
Interest Payments	1.16	0.92	1.04	1.15	1.31	1.73	1.58	1.75	1.85	2.61	2.83
Capital Revenue	0.00	0.03	0.00	0.07	0.63	0.32	0.11	0.26	0.72	0.55	0.14
Grants	0.00	5.61	2.32	0.16	1.16	0.57	0.97	1.59	1.68	1.41	1.07
Capital Expenditure	6.47	10.51	8.98	8.34	6.59	3.50	3.76	10.27	9.80	7.13	3.89
Current Fiscal Balance	5.78	7.51	5.99	4.01	4.06	3.21	3.85	3.88	4.12	2.06	1.64
Primary Fiscal Balance (after grants)	0.47	3.57	0.36	-2.96	0.57	2.32	2.76	-2.79	-1.43	-0.50	1.79
Overall Fiscal Balance (after grants)	-0.69	2.65	-0.68	-4.11	-0.74	0.60	1.17	-4.54	-3.28	-3.11	-1.04
Primary Balance (before grants)	0.47	-2.04	-1.96	-3.12	-0.59	1.75	1.78	-4.38	-3.11	-1.91	0.72
Overall Balance (before grants)	-0.69	-2.96	-3.00	-4.26	-1.90	0.03	0.20	-6.13	-4.96	-4.52	-2.11
Total Expenditure	29.16	30.86	29.40	31.57	30.20	26.82	27.81	34.32	33.63	33.36	30.52
Total Primary Expenditure	28.00	29.93	28.37	30.42	28.89	25.10	26.23	32.57	31.78	30.76	27.69

Source: ECCB and IMF

Table A3 Central Government Fiscal Accounts St. Vincent and the Grenadines 1990-2003
(As percentage of GDP)

	2001	2002	2003
Current Revenue	**28.75**	**30.97**	**31.15**
Tax Revenue	24.72	26.66	26.62
Non-Tax Revenue	4.03	4.31	4.53
Current Expenditure	**27.73**	**28.33**	**27.10**
Personal Emoluments and Wages	14.20	14.64	13.39
Other Goods and Services	5.68	6.56	6.30
Transfers and Subsidies	5.22	4.46	4.72
Interest Payments	2.64	2.68	2.69
Capital Revenue	0.11	0.08	0.08
Grants	1.85	1.08	0.98
Capital Expenditure	5.01	6.50	7.46
Current Fiscal Balance	1.01	2.64	4.05
Primary Fiscal Balance (after grants)	0.60	-0.02	0.35
Overall Fiscal Balance (after grants)	-2.04	-2.70	-2.34
Primary Balance (before grants)	-1.25	-1.10	-0.63
Overall Balance (before grants)	-3.89	-3.78	-3.33
Total Expenditure	32.74	34.83	34.56
Total Primary Expenditure	30.10	32.15	31.87

Source: ECCB and IMF

Table A4 Main Economic Indicators St. Vincent and the Grenadines 1990-2003 (continued)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
						(In Current Millions EC$)					
GDP at Market Prices	535.00	574.00	630.00	645.00	657.00	713.00	752.00	798.00	859.00	891.18	904.54
						(In Constant 1995 EC$ Millions)					
GDP at Market Prices	618.88	628.30	665.47	680.70	667.06	712.60	722.55	750.48	789.85	811.92	822.20
						(Real Growth Rate, Market Prices)					
GDP	6.81	1.50	5.59	2.24	-2.05	6.39	1.38	3.72	4.98	2.72	1.25
						(1995=100)					
CPI	79.44	85.49	90.18	93.31	97.31	98.29	100.00	104.41	104.93	107.12	108.23
Total Central Government Debt							331.48	331.48	366.78	545.54	565.32
Domestic							115.75	115.75	115.95	130.86	151.17
External							215.73	215.73	250.83	414.68	414.15

Source: IMF

Table A4 Main Economic Indicators St. Vincent and the Grenadines 1990-2003
(Year)

	2001	2002	2003
	(In Current Millions EC$)		
GDP at Market Prices	932.80	974.38	1,016.04
	(In Constant 1995 EC$ Millions)		
GDP at Market Prices	823.76	840.32	859.67
	(Real Growth Rate, Market Prices)		
GDP	0.19	1.97	2.25
	(1995=100)		
CPI	109.35	110.50	110.88
Total Central Government Debt	600.52	639.19	647.95
Domestic	160.12	199.94	156.67
External	440.40	439.25	491.28

Source: IMF