

**ST. KITTS AND NEVIS
NATIONAL
COMPETITIVENESS
COUNCIL**

REPORT

September 30, 2010

PREFACE

The National Competitiveness Council (the “Council”) was established on 22nd December 2009 as part of the Government’s Private Sector Development Strategy, and began work in late January 2010.

A list of its members appears on page 4.

The terms of reference of the Council are set out on pages 5-6.

It is to be noted that the remit of the Council is purely advisory. It is to be expected however that serious consideration will be given by the Government to recommendations of the Council. The Council has to date received full and excellent support from all officials, agencies and departments of Government with which it has interacted.

The terms of reference are very wide and require the Council to review the whole economic and social framework of the country. The terms require the Council to issue an annual report.

Despite its relatively short existence the Council has decided to issue its first report at this time because, in its assessment, some of its recommendations require urgent action and have budgetary implications.

At the outset the Council decided to establish an Objective Statement containing the measurable objectives which it suggests for economic development. The deliberations of the Council should focus on recommendations to achieve the stated objectives. The Objective Statement begins on page 7.

The Council has discussed a wide range of issues affecting the competitiveness of the country and its economic and social development but it has decided to focus this first report on issues affecting the preparedness of our human resources to compete internationally and for the country to improve its business climate. These issues are reported under the following headings:

1. Human Resources and Related Issues, and
2. The Business Climate and Entrepreneurship.

Other issues of relevance will be addressed in later reports, including the state of the major industries outlined in the Objective Statement, public sector reform, a detailed look at training and the pros and cons of increasing the size of the population as a means of expanding the economy.

Another issue which the Council has considered and which presents enormous challenges is the issue of violent crime. This phenomenon has the potential to decimate the economy. Beginning at page 26 is a resolution passed by the Council on 27th May 2010 and sent immediately to the Prime Minister. The Council cannot overstate the seriousness of this threat.

As is recognized in the report competitiveness is a journey not a destination. Success for St Kitts and Nevis on that journey will be heavily dependant on substantial economic and social changes including increased fiscal discipline at the national level, excellence in the service industries, quality in manufacturing and improved productivity throughout the public and private sectors. The entire society must establish and maintain an awareness to improve its social discipline as a basis for the changes required to achieve international competitiveness.

St. Kitts-Nevis are, to repeat the true and well worn phrase, at the crossroads. To produce positive results the application of fiscal discipline must be accompanied by fundamental changes in the mindset, attitudes, politics and culture of our people. Unless these changes are made we face the risk, as a nation, of retrogressing. Our report contains substantial recommendations in this regard.

In his address at the official ceremony to mark the 25th Anniversary of Independence in 2008 the Honourable Prime Minister said that an improvement in attitudes is key to the development of St. Kitts and Nevis in the next 25 years. We wholeheartedly endorse that sentiment and call on our society not to delay in planning in a unified manner the action necessary to reverse the negative attitudes which have pervaded our culture.

We thank the Prime Minister and his Cabinet for the confidence placed by them in our ability to make a difference through our work. We will do all within our power to contribute meaningfully to the development of St. Kitts and Nevis.

INDEX

PAGE NUMBERS

List of Members	4
Terms of Reference	5
Objective Statement	7
Report	9
Resolution on Crime	26

NATIONAL COMPETITIVENESS COUNCIL

LIST OF MEMBERS

Charles L. A. Wilkin, CMG, QC, MA (Cantab) (Chairman)	Senior Partner, Kelsick, Wilkin & Ferdinand
Ernest Amory, MBE.	Partner, Amory Enterprises
Keisha Archibald, BSc.	IT Projects Co-ordinator
Scott R. Caines, BA, CPA.	Chairman, C & C Group of Companies
Kishu D. Chandiramani, MBE	Chairman, Rams Group of Companies
Dr. Simon Jones-Hendrickson, Ph.D.	Professor of Economics, University of the Virgin Islands
Earle A. Kelly, BA, MBA.	Executive Director, TDC Group of Companies
W. Anthony Kelsick, BA, B.Comm, CA	Chairman, Horsfords Group of Companies
Sir Edmund W. Lawrence, KCMG, OBE, CSM, JP	Managing Director, National Bank Group of Companies
Wendell E. Lawrence, BSc., CPA	Financial Consultant
Dr. Osbert W. Liburd, Ph.D.	Biologist and Plant Pathologist
Judith Rawlins	Designer/Manager, Brown Sugar

TERMS OF REFERENCE

NAME

The National Competitiveness Council of Advisers.

THE MISSION

The National Competitiveness Council of Advisers shall conduct research, brainstorm on key social and economic issues affecting the Federation of St. Kitts and Nevis, and provide policy advice and recommendations to the Prime Minister with a view to enhancing the competitiveness of St. Kitts and Nevis; strengthening the economic climate and legal framework to make it more conducive to entrepreneurship, business development, and investment; and fostering income generation, employment creation, economic growth and the overall economic and social development of St. Kitts and Nevis.

TERMS OF REFERENCE

The Council will do all that is necessary to carry out its Mission including the following activities:-

- ❖ Provide policy advice and/or recommendations to the Prime Minister on matters referred to The Council by the Prime Minister from time to time, and on an ongoing basis on all matters relating to the Mission of The Council.
- ❖ Identify on an ongoing basis legal and administrative impediments to business development and to the implementation of policies relevant to the Mission of The Council and recommend appropriate changes that would improve the business climate and facilitate the implementation of policies relating to business development, local and foreign investment, and the enhancement of competitiveness.
- ❖ Conduct research in any area deemed by The Council to be of relevance to its Mission and likely to result in findings that would contribute to the quality of its policy advice and/or recommendations to the Prime Minister or to the efficacy of economic decision-making by the Government.
- ❖ Liaise with other Government decision-making bodies engaged in activities related to the Mission of the Council with a view to ensuring a coordinated approach in respect of the relevant policy initiatives pursued by the Government.
- ❖ Consult with private sector entities and Non-Governmental Organizations from time to time when, in the opinion of The Council, the policy advice and/or recommendations to be provided to the Prime Minister or otherwise in fulfilment of the Mission would be significantly enhanced by such consultation and would ensure that appropriate weight is given to the

views, concerns and interests of stakeholders likely to be affected by the relevant policies.

- ❖ Carry out the role, functions and mandate of the Competitiveness Council proposed in the Government's Private Sector Development Strategy that was funded by the European Union.
- ❖ Produce and publish a report on an annual basis outlining the recommendations made by it over the prior year and the rationale for same.

STRUCTURE, COMPOSITION AND OPERATIONS

The members of The Council (including a Chairman) shall be appointed by the Prime Minister, and shall possess among them, the range of skills experience and expertise required for the effective discharge of the functions of the Council.

The Council shall have at least nine (9) members and no more that twelve (12) members.

The Council shall be provided a Secretariat with access to appropriate consultancy, technical and administrative services to effectively support the work of the Council and to carry out on behalf of the Council such research and analysis as is necessary from time to time in keeping with the Mission of the Council.

OBJECTIVE STATEMENT

“To facilitate, through the execution of its mandate, the creation of a strong and internationally competitive service-based economy with excellent service in every sector, vibrant entrepreneurship, a productive and motivated human resource base and a good quality of life for all.”

Key Sectors

The following sectors have been identified as the pillars on which the service-based economy should be built:

- Tourism
- Offshore University Services
- Information and Communication Technologies
- Financial Services
- Manufacturing with special emphasis on food processing, cottage industries, niche products and other high value added products

Support Sectors

The following supporting sectors may complement the key sectors identified above, by fostering economic activity in the various communities and/or by supplying goods and services to the key sectors and minimizing the leakages from the foreign exchange inflows emanating from the export of the output of the key sectors:-

- Agriculture
- Handicraft
- Retail and Commerce

Key Areas of Focus

- Human Resource Development
- Doing Business Survey
 - Government Systems and Processes
 - Professional Services (including appropriate regulation and ethical standards)
 - Public Sector Reform
- Public Education

- Economic climate, including tax policy, fiscal performance, debt management, balance of payments, economic growth and other key indicators of macro-economic stability.
- Social Development, including poverty reduction
- Protection of the Environment
- Constitutional, Legal and Regulatory issues
- Foster entrepreneurship (including small business development and financing)
- Enterprise financing including capital market development
- Investment Promotion and Facilitation (domestic and foreign)
- Technological Development
- Intellectual Property
- Safety and Security
- Government Services
- International profile and image, including presence in International Institutions and informal interaction and networking
- The role of nationals overseas

These areas are cross cutting in that the work of the Council in any of these areas is likely to affect most or all of the key and supporting sectors identified. They would therefore complement the sector-specific initiatives of the Council. While the mandate of the Council is primarily advisory, the Council may also wish to indicate areas where, based on the expertise of members, a more hands-on approach would be appropriate. This would then permit the Council, in its reports, to offer its more direct assistance in specific areas.

REPORT OF NATIONAL COMPETITIVENESS COUNCIL

NOTION OF COMPETITIVENESS

We begin with some comments on the notion of competitiveness. According to the World Economic Forum's "The Global Competitive Report", a country is characterized as competitive if it provides high levels of prosperity to its people. In turn this is a function of how productively the country uses its available resources. The World Economic Forum, which has been at the forefront of national competitiveness analysis for three decades, has adopted a global competitiveness index comprising 12 of what it calls pillars by which it assesses the competitiveness of individual countries. The IDB has recently applied these pillars in its assessment of the competitiveness of 5 Caricom countries- Barbados, Guyana, Jamaica, Trinidad and Tobago and Suriname. As far as we are aware no international body has carried out such formal assessment of St. Kitts and Nevis. The Council does not presently have the data and research support that would enable us to carry out ourselves an assessment of that type.

We note that competitiveness can be an elusive concept and the traditional pillars or variables may be useful but not entirely sufficient for a true evaluation of our situation. Competitiveness is not static, it is a dynamic process. We have in our short existence sought to identify and analyze some of the pillars or variables which we consider of immediate relevance to us. Our first report will focus on human resource issues and the business climate.

GENERAL OBSERVATIONS

Before we get more specific we make a few general points:-

1. The size of our country should not be a deterrent to its competing globally. Despite being one of the smallest nations in the world in terms of physical size and population, St. Kitts and Nevis has achieved a standard of living and a quality of life in excess of many larger, developing nations. We should not therefore approach our development with the negative attitude that our small size prevents us from competing.
2. No country in the world is competitive in all industries. A country can be globally competitive only in a few industries. China dominates in export manufacturing, Japan in electronics, the USA in the IT industry and Barbados in tourism. It is critical in our approach to become globally competitive that we decide definitively the industries and sub-sectors of industries in which we will seek to be competitive. We will revert to this point later.

3. We must first define ourselves as a country in order to define our path to competitiveness.
4. The Council supports the view strongly promoted by Professor Michael Porter, the guru in this field of economics, that productivity sets a nation's standard of living and is therefore a key factor in determining how competitive a country will be.
5. We take the view that the economy of St. Kitts and Nevis is at the crossroads. The factors which will propel it positively forward are a careful selection of the industries in which it will seek to compete, improved productivity at every level and in every such industry, the development of a culture of excellence in service (of which we are quite capable) and a cohesive approach to our development involving all sectors of our society using the maximum brain power available to plan and innovate.
6. The major threats to our development are, in our opinion, low levels of productivity and efficiency, unacceptably high level of crime, the high national debt, the political polarization and disunity of our society and the generally declining attitudes and ill discipline.
7. In the development of selected industries and in all commercial and public enterprises we must promote and factor in the use of cutting edge technology to improve our competitiveness.

We turn now to the specific recommendations.

INDUSTRY SELECTION

We noted earlier that a critical component in competitiveness is the correct selection of industries on which the country should focus. Tourism is currently our major industry. We do not believe that the country will be able to compete in mass tourism. We support instead the pursuit of up market tourism and niche areas such as medical tourism, sports tourism, ecumenical tourism, convention tourism and education tourism.

The Council is of the view that our greatest strength is in offshore education services which sector brings benefits in both education and tourism. It is our strongly held view that we can and should seek to become a world leader in this field. This industry already contributes about 10-12 per cent of our GDP and, despite the world economic recession, continues to grow. If the projections in the near term increase in total numbers of students to 3,500 materializes it may well surpass tourism as the largest contributor to GDP. Its orderly growth should be dynamically pursued. We cannot but note that Government spends millions, as it should, on tourism promotion but there isn't a single Government office devoted

to the promotion of the offshore education sector. We should not take that industry for granted. We must build on the strong competitive advantage which we presently hold. We have read carefully the ISSSED report entitled "Strategy and Action Plan for the Offshore Education Sector". We support the call in that document for Government to build its institutional support for the sector, including the strengthening of the Accreditation Board and greater standardization and transparency in the investment process.

We recommend that Government convene a conference involving the industry and civil society to review that report and to place the development of that key industry on the front burner.

Stronger marketing and public relations support is also required for the sector. The need to minimize threats to the security of this sector must be ascribed high priority.

There is also a planning aspect to the further development of this sector. Thought should be given to the creation of clusters around the offshore schools to exploit the economic synergies.

Manufacturing, particularly in the area of electronics assembly, continues to be a major contributor in terms of employment and exports. While we are cognizant of the threats to that sector we urge Government to nurture it as best it can.

We do not see a great future for the financial services industry in its present form, at least not in St. Kitts. We recommend that the current model be reviewed. We do not know enough about Nevis' latest thrust in that industry to comment on it or to learn from it for the entire Federation.

HUMAN RESOURCES AND RELATED ISSUES

As the economy will be dependent primarily on service industries the development of our human resources will be key to St. Kitts and Nevis in its bid to become internationally competitive. There are currently several deficiencies in this area.

SERVICE

To compete strongly we must improve our levels of service. The pursuit of excellence in service should be a major plank in the further development of our service-oriented economy. The aim should be to create as part of our culture, without losing any of the other positive aspects, a commitment to and pride in excellent service. We cannot rely simply on our friendliness and warmth as a people. Excellent service should complement our natural friendliness and warmth. Likewise, excellence in the delivery of service should become part of

our national identity. With the correct social and economic stimulation that is an achievable goal over the medium term.

There has been insufficient emphasis on the quality of service in our tourism product and generally. There has not been a continuous and concerted national effort to promote the ideals of excellent service and to sensitize the public to its importance to the livelihood of everyone. Such effort is now essential. We set out what we perceive as the broad parameters of such effort:

1. It should include the establishment with public/private sector consensus of standards of excellence in each industry and sector and a system to measure and report on the quality of service in the key economic sectors. There are ample precedents from work done by other countries which we can study and adopt or adapt to our needs.
2. It should include a massive public awareness campaign with a positive message of empowerment and focus on the importance of excellent service and positive attitudes towards self, work and country.
3. It should inculcate an intolerance for poor service and encourage everyone to demand excellent service.
4. It should target negative attitudes which militate against good service such as:-
 - a) the confusion of service with servitude.
 - b) the increasing hostility in inter-personal relations and contact within our community; and
 - c) negative attitudes which contribute to ill-discipline and disorder in the society.
5. It should include a message of the importance of productivity to economic development as outlined below.
6. The messages should be embedded in the school curriculum at every level and brought to public attention by the most effective means of communication.
7. The campaign should be spread initially over 2-3 years with provision for extension if necessary.
8. Pre-qualified locally owned entities, and joint ventures including local entities, with experience and expertise in this area, should be invited on a competitive basis to submit their recommended public awareness campaign and bid for executing same.

9. We are not experts in this field but the campaign should include the following:-

- a) a slogan competition with substantial prizes;
- b) highlighting of exemplary individuals and businesses;
- c) the use of vehicle licence plates to carry a suitable slogan;
- d) radio and tv advertising sponsored by local businesses; and
- e) billboards and other effective promotional methods.

10. An initial budget should be established of EC\$100,000 to meet the cost of the campaign.

11. An organizing committee should be established and provided with the budget to arrange and oversee the campaign.

12. Representatives of the media should be included in that committee as media houses should play a key role in implementation of the campaign and will benefit from it.

13. The National Competitiveness Council is prepared to participate in the organizing committee.

PRODUCTIVITY

There is an inextricable link between productivity and prosperity. Productivity growth in the private sector tends to lead to increased profits which benefit shareholders, employees and consumers and increase Government tax revenue. Productivity growth in the public sector tends to lead to cost efficiencies and savings to the public purse and contributes to productivity in the private sector. Strong national productivity makes a country more competitive and attractive to local and foreign investors.

“Over long periods of time, small differences in rates of productivity growth compound, like interest in a bank account, and can make an enormous difference to a society's prosperity. Nothing contributes more to material well-being, to the reduction of poverty, to increases in leisure time, and to a country's ability to finance education, public health, environment and the arts than its productivity growth rate” (Baumol, Williams J and Alan S. Blinder 2009, 11th Edition 491).

This message needs to be adequately communicated in St. Kitts-Nevis. Sustained increases in productivity should become a national goal and should be strongly but simply communicated as such.

We recommend a review of best international practices in this area and the adoption of a system to assess and measure productivity in all sectors

DISCIPLINE AND ORDER

These are key ingredients in the image and development of any country. Ill-discipline and disorder are too prevalent in our community and are growing alarmingly. They negatively affect the standards of service and productivity and should be confronted simultaneously with the pursuit of excellence in service.

Many of the laws which provide the foundation for such confrontation already exist. We recommend that they be more stringently enforced, including the laws against littering, loitering, noise pollution and illegal vending. The blocking of sidewalks and lack of respect for traffic laws, which create disorder on the roads of Basseterre in particular, should also be confronted by additional legislation where necessary (e.g to establish bus stops) and enforcement of these and existing laws should be stepped up.

By way of example an experienced observer noted over the period of five minutes on a busy lunch hour between the Circus and Bay Road 16 open and flagrant infractions of the law. While this is not a scientific sample it points to an anecdotal case to which attention should be paid and appropriate action taken.

Harassment of visitors in Basseterre and on the beaches is also growing and must be addressed now before it escalates beyond reasonable control.

BEAUTIFICATION

The appearance and cleanliness of a country go hand in hand with service in the attraction of visitors and investment. St. Kitts has outstanding beauty and has always had a good reputation for cleanliness of its public areas. This reputation is being eroded. A positive effort should be made to reverse the decline and to enhance the beauty of Basseterre and the countryside. To this end we recommend:

1. The creation of an Historic Basseterre zone by legislation which controls building design and standards in the zone and includes incentives for maintenance and reconstruction of buildings within the zone.
2. The Basseterre Beautiful Committee should be reactivated with participation of private and public sector representatives. This committee should be given statutory status in the legislation referred to above and be given responsibility for

planning the enhancement of the historic zone including Independence Square and The Circus.

3. A similar committee should be established for planning the beautification of the villages and countryside. This committee should include "elders" and youth of the rural communities.

4. Legislation should be enforced (and amended where necessary) to compel the owners of vacant lots throughout the nation to keep them clean. Government should be empowered to contract for the cleaning of lots which are not kept clean by the owner and Government should levy a charge onto the property tax of the owner to cover the cost. This will help from several perspectives by removing a haven for vermin, contributing to the clean appearance of the islands and provide work for cleaning contractors and personnel. Current efforts in this regard are not effective.

5. The unsightly and chaotic Basseterre bus terminal should be cleaned up, reorganised and improved.

6. A careful and comprehensive look should be taken at the planning of the greater Basseterre area.

TRAFFIC IN AND AROUND BASSETERRE

Ease of movement is important to visitors who do not want to spend long periods in traffic, particularly on a small island. This is becoming more frequently the case in St. Kitts. We recommend that a general review be undertaken with public consultation on the traffic system in Basseterre with a view to reducing congestion. To improve traffic flows in the capital consideration should be given to increasing the number of roads restricted to one way traffic.

Consideration should also be given to establishing minimum speed limits on the Frigate Bay Road, the Sir Kennedy Simmonds Highway and the F.T Williams By pass road. We do not advocate speeding but these are our equivalent of highways and it is not unusual to have minimum speed limits on highways. Motorists should not have the frustration and danger of driving on these roads behind cars which are crawling for leisure or for whatever other reason.

The use of the highways by learner drivers should not be permitted during the morning and afternoon "rush hours".

PUBLIC SECTOR REFORM

We view the proposed public sector reform as important in the thrust for excellent service nationally and for improved productivity. We welcome its immediacy as expressed in the Throne Speech at the recent opening of the current National Assembly. We trust that it will effectively modernize the public service. We urge that a measurable improvement in the standard of public service be forged by a streamlined structure and enforced efficiencies. An essential ingredient of the reform must be training which emphasizes a too often overlooked fact that Civil Servants are appointed to serve. Civil Servants should be made to understand that the taxes of residents pay their salaries. We expect also that the reform will establish new standards for recruitment of Civil Servants, for assessing their performance, for determining the award of contracts and other Government services and a new openness in Government processes. We look forward to participating in the debate on this subject.

TRAINING

The importance of training cannot be overstated. As indicated above we get the clear impression that the levels of training within our key sectors are variable and sporadic.

While it is not possible to compel or to standardize training we feel that it should be possible to sensitize the participants to the importance of training. This should be done by consultation between the private and public sector agencies in each industry and particularly in tourism.

At an institutional level we support the policy of upgrading the CFB College to a University. In terms of education for tourism a careful review is required of the training offered at the CFB Tourism and Hospitality school. That school should be upgraded in consultation with and involvement of the industry.

Potential co-operation with the offshore schools should be explored.

Particular attention should be paid to technical/vocational and service training and to training geared to producing entrepreneurs.

We are aware of the Education White Paper and research and review being undertaken in this area and look forward to the product of such exercises. We recommend this as an area for more in depth study by this Council in 2011.

POLITICAL CULTURE

The political culture on St. Kitts clearly impacts negatively upon productivity in our economy and therefore our competitiveness. The extraordinary depth of

political rivalries and the widely held perception that progress is dependent on party affiliation have led to an unhealthy divide. This has engrained in too many of our people the attitude that if they are supporters of the party in power they need not be productive and if they are supporters of the party in opposition they should not be productive. Many Government supporters assume that they are entitled to advantage and many opposition supporters assume that they will be disadvantaged. Neither is necessarily the case but perception is often more powerful than reality. In this case any such perception should be reversed. Party above all else should become Country above Self or at the very least Country and Self. The political tribalism from which we suffer will not easily be changed but its continuance will severely harm the continued conversion of our economy and efforts to improve our competitiveness. We suggest the following measures to address this issue:

1. Public sector reform should make the Government recruitment, procurement and contract award processes more open
2. Consideration should be given to the introduction of Freedom of Information legislation.
3. Representatives and Senators should (by their language and conduct) show greater respect for each other in National Assembly proceedings.
4. Politicians should (by their language and conduct) show greater respect for each other generally and encourage their supporters to do likewise.
5. The services of ZIZ should be improved to make the station a truly national one accessible to all views as was agreed in the Four Seasons Accord of 1994.
6. Representatives of all political parties should be invited to participate in broad based discussions with Government and the social partners on issues of national importance such as crime, public sector reform and tax reform. Excessive politicization of these issues is harmful.
7. The Prime Minister should initiate the action above and other action to unify the country.
8. As a tangible sign of such intent all party political signage remaining in place from the 2010 General Election should be removed. The law should require all political signage to be removed from public display three weeks after elections are concluded.

EMPLOYER/EMPLOYEE RELATIONS

We are aware of the importance of good employer/employee relations to service excellence and productivity and thereby to competitiveness of the country. We think it is a fair assessment that such relations are generally good and that the current system in St. Kitts and Nevis, based on consultation through the tri-partite process and dispute resolution through conciliation, has worked.

We accept that the system can always be improved but we warn against wholesale changes. We particularly warn against legislative action to "entrench" employment as has been done in some neighbouring countries. Such action may well be counterproductive and discourage investment in labour intensive enterprise

Significant changes to the system should be made only on the basis of tripartite consensus

BUSINESS CLIMATE AND ENTREPRENEURSHIP

The economic reality is that the private sector is the engine of growth and that Government's primary role (rather than being a direct participant in business) should be as facilitator of that growth and beneficiary of taxes resulting therefrom to fund its programmes and operations.

The measures recommended are intended to enhance Government's facilitation of the private sector and its promotion of investment, both local and foreign. The measures recommended will also remove some existing disincentives to investment and to doing business generally.

TAXATION

1. The rate of corporate income tax of 35 per cent is comparatively high. Despite the difficult economic times this rate should be kept under constant review. Reduction of the rate will stimulate additional local investment which should more than offset the taxation revenue lost directly as a consequence of the reduction.
2. The entire system of corporate taxation should be reviewed with a view to removing several anomalies which are unique in the OECS, unfairly tax capital and retard business start ups and investment. These include restrictions on capital allowances, losses carried forward, group tax relief, deductible earnings and on depreciation of buildings constructed before 1996.

3. There have been substantial improvements in recent years in the collection of Government revenue by the Inland Revenue Department and Customs. There is still however not a fully level playing field. This is a major disincentive to business. Taxes should be collected across the board without fear or favour. Current abuses and weaknesses include under collection on persons making shopping trips to Statia and St. Maarten, under invoicing, favoritism and failure to collect at point of entry. We recommend that further improvements be made in the resources of the Inland Revenue Department and Customs and in their collection efforts.
4. The Ministry of Finance is not sure of the total tax base because many businesses fall between the cracks and are not registered or pay taxes. This includes some of the informal trading sector and many services. The introduction of VAT may not necessarily improve this situation. Improved identification of businesses liable to tax and collection from such businesses is essential to level the playing field and to increase Government revenues.

VAT

It is understood that the implementation of VAT in St Kitts and Nevis is being done to bring us in line with other countries in the region and in fact the world as well as to capture the potential tax revenues from the consumption of services which are currently not being taxed or taxed at a rate lower than the consumption of goods.

There are areas of concern or caution however which the Council feels ought to be noted in the implementation of VAT, namely:

Implementation issues. While there will be several issues to be dealt with at the time of implementation, one of the more pressing ones is the matter of existing goods and inventories which will be on hand at that time. Unless a proper approach is applied there is a great risk of one or all of the following: a double taxation on those goods, an immediate significant increase in the cost of these goods to the final consumer and/or a significant loss of profit to the merchant.

Tax Rate. A rate of 17% has been established. This is 1 to 2 % points more than the rates in other OECS economies. Based on experience of other OECS economies, VAT could increase tax revenues by \$45 million to \$80 million. Most of the increase in revenues will come from VAT on services. This tax on services will be borne almost entirely by the consumer as businesses will have the ability to apply these increased VAT tax expenses from services (input vat) against VAT payable from sales(output vat).

VAT will also have the effect of increasing the cost of goods to the consumer. For goods which currently bear the full consumption tax rate of 22.5 %, VAT will exceed this tax which it will replace by 25-30 % and the likely cost of these goods to the consumer by over 3%. For the basket of basic foods on which the consumption tax is zero, VAT may increase the cost of these goods by 17%. VAT will therefore result in significant inflation in goods and more so in food. VAT on goods could increase tax revenues by \$20- \$30 million.

Added to the more significant increased cost of services, the cost of living to the consumer may increase significantly, which will have the unintended effect of contracting the economy to an extent to threaten the desired increase in tax revenues. The Council is recommending that this be monitored carefully to get the accurate economic and statistical impact.

The lower income consumer will bear an undue proportion of the tax burden as several of the existing zero consumption tax basic food items have not been given the same zero rating under VAT. This sector spends a higher proportion of their disposable income on these basic food items than other sectors do. Therefore the impact on the cost of living may be greater for this sector than any other unless some consideration is given to their situation.

FISCAL INCENTIVES

Fiscal incentives are an important means of encouraging investment in targeted sectors and in promoting economic development. The grant of such incentives should however be fully regulated.

We note that, quite properly, statutory authority was obtained by way of the St. Christopher and Nevis (Special Resort Development) Act 2007 for incentives to Christophe Harbour and any other real estate developments to come of more than 350 acres. Many other fiscal incentives are however granted without statutory authority or in excess of the limits of such authority where legislation exists.

We note that the Fiscal Incentives Act which provided the statutory basis for incentives to manufacturers was passed into law in 1974. The Hotels Aid Act which governs incentives to hotels was passed in 1956. Neither of these Acts has been adequately amended to accommodate developments in these industries. Many of the incentives actually granted exceed the authority of the Acts. In addition incentives are granted for other types of business on an ad hoc basis by executive decision without legislative basis. Apart from the questionable legal enforceability of such incentives they create a culture of expectation and a perception of an unlevel playing field. We recommend strongly that Government

regularise the basis for fiscal incentives, that incentives be granted on the basis of statutory authority and policies thereunder which are fully publicised.

The current system does not enable Government to assess or track the value and effectiveness of the incentives it grants. Incentives are Government's contribution to investment and growth and their impact on economic development should be measurable.

PUBLIC/PRIVATE SECTOR RELATIONS

The adoption by Government of the Private Sector Development Strategy, out of which the National Competitiveness Council was established, is a good step. Further action is needed however to create a strong relationship between the public and private sectors without which economic development is constrained and our competitiveness negatively affected.

We recommend in this regard that dialogue between the Government and the private sector representative bodies (particularly the Chamber of Industry and Commerce but also other representative organs of specific service sectors and the professions) be institutionalized to facilitate ongoing official contact and to reduce misunderstandings. There should not be, in a country the size of St. Kitts and Nevis, where contact is so easy, the levels of mistrust and hostility as have existed in the past. It is absolutely essential for the improvement of the competitiveness of St. Kitts and Nevis that there be greater harmony, contact and dialogue between the public and private sectors. This should extend below the level of the political leaders to the top levels of the Civil Service and to all sub sectors within the private sector.

GOVERNMENT TENDERING & PURCHASING

Government is a large consumer of goods and services. By its leverage Government can affect the prospects of individual businesses. It is important therefore that the exercise of these powers, and of Government business generally, be totally transparent in fact and in appearance. We recommended that Government review best practices internationally in this area and introduce legislation to regulate same.

PUBLICATION OF GOVERNMENT POLICIES

Certainty as to Government policy is critical to business stability, efficiency and development. All Government policies which in any way affect or impact on business, industry, investment and entrepreneurship should be published on a Government website.

Given the vast acreage of land owned by Government a clearly enunciated and detailed land use and sale policy should be published on a Government website and in hard copy available at the Government Information Desk. This should include a clear statement of the process to be followed to purchase or lease Government lands and plans of the available areas.

LEGAL SYSTEM

The wheels of the legal system grind too slowly in respect of civil litigation. Justice delayed is often justice denied. The ever increasing criminal activity in the Federation has resulted in the Judges being pre-occupied for much longer than before in presiding over the Criminal Assizes. The time slots set each year for the trial of civil cases are far shorter than they should be. The need for a civil division of the High Court with a Judge dedicated to that work is very evident.

We recommend also that legislation be enacted to allow for attachment of wages to satisfy civil judgments in the High Court and Magistrates Court. This, we are advised, will help to reduce the time of the Courts occupied by proceedings for enforcement of judgments.

We also recommend the early computerization of the official deeds and title records and the separation (as was done with the Companies Registry) of the Registries of Deeds and Titles from the Supreme Court Registry. This will facilitate the more efficient operation of these Registries which contribute to the generation of substantial revenues for Government by way of stamp duties and filing fees.

ENTREPRENEURSHIP

It is worthy of note that St. Kitts and Nevis has the largest number of public companies in the OECS and the largest number of companies listed on the Eastern Caribbean Securities Exchange. The oldest public company on St. Kitts is 50 years old. These companies have a proud record of investment, growth, employment and human resource development. Approximately ten thousand Kittitians and Nevisians are shareholders of the major public companies.

The small and medium size business sectors are also important facets of the service economy which we are developing. The competitiveness of their business and their ability to survive and grow are vital to the competitiveness of the country as a whole.

There has since independence been a steady increase in the number of small and mid size private businesses opened and operating in the Federation. There are still however substantial impediments to the start up and operation of such business enterprises including access to capital, access to training and access to

business consultancy. A number of programmes and initiatives have been established in the past few years to address these needs. There appears however to be little co-ordination and rationalization of the efforts of the providers which include the FND, Development Bank, the Credit Union, NEDD and SKIPA. We recommend that a joint public/private sector study be undertaken to assess these programmes and to recommend improved rationalization and effectiveness.

Ways should be sought to expose more students to entrepreneurship skills and opportunities. The Junior Achievement Programme operated through the Chamber of Industry and Commerce and the TDC Warren Tyson Scholarship Programme are sterling examples.

The world is becoming more interconnected. Trade and international agreements will permit foreign owned businesses to move into our country more easily. Our entrepreneurs will face even fiercer competition in future from without. Productivity and excellence of service will be critical factors to the survival of businesses of every size and type. We cannot overstress this fact and use as a simple example the ease with which and extent to which a Chinese owned and operated air-conditioning maintenance service has penetrated the local market despite the existence for over 40 years (through the Technical College) of local training for air-conditioning service and maintenance technicians. What has been lacking in this field has been the high quality of service and the entrepreneurial spirit necessary to convert the training into established businesses. The same could occur in other service and business areas.

It is important also that as a country we recognize the entrepreneurial opportunities available in the growing villa developments on the Southeast Peninsula, Frigate Bay and in other areas of the two islands. These opportunities should be widely promoted through the media and directly to students within the education system.

Street and sidewalk vending have grown out of control. The lack of enforcement and regulation of this informal sector is unacceptable and a disincentive to businesses which follow the law, pay rents and taxes and provide employment. The disorder which this phenomenon encourages is also a danger to peace and good order. There are examples within the region both of the chaos created by this sector and of methods of controlling it. We fully support the stated intention of the Development Control and Planning Board to enforce the law in this area. We urge Government to liaise with the private sector to identify and secure a site for a vendors' market which, if tastefully designed and efficiently planned and built, can enhance the historic town of Basseterre.

ACCESS TO THE DIASPORA AS A MARKET AND RESOURCE BASE

Traditionally, the diaspora has been seen as a source of remittances and bank savings, as overseas votes and as retirees. The diaspora should play a wider and more significant role in the development of our country. We recommend that a more in depth look be taken at the further potential of the diaspora as a market for shares, land, local products and investments and as a resource in services, in tourism and in promotion of our country. For example the many outstanding medical doctors of St. Kitts-Nevis origin in North America should be encouraged to promote investment in medical tourism through contacts with their colleagues. Excellence of the medical services offered is the key to success of this type of venture. Doctors are best placed to identify their fellow professionals with the expertise and interest in this field and to become involved themselves in it.

The large number of highly qualified nationals abroad should also be targeted to contribute their expertise part time at home as do some medical doctors already.

A formal network system should be established to link the diaspora, and organizations within it, with the St. Kitts-Nevis market and the business and arts communities and to promote greater contact and collaboration generally between residents and the diaspora. The system should be designed to foster the development of diaspora networks, beyond the traditional social media contact, to promote interest in areas such as business, the professions, opportunities in higher education and information technology. Exchange visits, conferences and forums should be organized to promote such contact.

We recommend that a data base of the diaspora should be established through the embassies and high commissions working with a local agency involving the public and private sectors. The data base so created should be made available to genuine local entrepreneurs and organizations and used by Government to promote its land sales. We are sure that this direct interest in them will stimulate a patriotic response from the tens of thousands of our nationals in the diaspora and lead to greater interest by successive generations of them in their home country.

Use of the diaspora to promote our tourism product should be enhanced. Greater use should be made of internationally known Kittitians and Nevisians in the promotion of our country abroad. These include Kim Collins, the writer Caryl Phillips, English Premier League footballers Micah Richards and Joleon Lescott, actor/comedian Dexter Felix and the singer Joan Armatrading.

CONCLUSION

In the final analysis as we submit this first report, we are mindful of the fact that there are many other salient points and areas that we could have covered. But given the time frame of the start of The Council, and the urgency to complete this report within the time frame that we set for ourselves, we wanted to put on the agenda the many and varied issues that we have covered. It is our view that as time goes on we would come back to some of these issues with more details, with data and statistical analyses and with other recommendations all geared to making our nation as competitive as it could be from a systemic and systematic point of view. We live in a global society and we have to compete in that global society. But, we have to develop the essential ingredients to operate from an effective, efficient and excellent perspective at home at the same time as we tackle the inevitable external challenges to our competitiveness.

27th May, 2010

RESOLUTION ON CRIME

Escalating violent crime poses a grave and immediate danger to the competitiveness of St. Kitts and Nevis. The trend is likely, if not checked and reversed, to severely damage our economy.

We regard the level of violent crime as a national crisis which requires a national response to re-assert the authority of the State and to address the causes. We find it unhelpful to the resolution of the crisis for it to be politicized. Everyone must be part of the solution. However, the Government and the security forces must lead and be innovative in the fight against crime.

The causes of the crisis are many, varied and well known but worth repeating.

- Gangs and misguided youth
- Deportees
- Easy availability of illegal weapons
- Limited male role models
- Children having children
- Poor parenting
- Disappearance of “community parenting”
- Political tribalism
- Weak law enforcement and crime detection
- Lack of public confidence in and co-operation with the police
- Violence on television, the internet, video games and other electronic devices
- Increased tolerance of violence generally
- Other negative influences on youth
- Imported habits
- Decline in respect for the law
- Decline in discipline generally
- Inadequate attention to low achievers in the education system
- Decline in spiritual pursuits
- Inhumane prison facilities
- Lack of correctional facilities for young offenders

There may well be more than the 20 causes listed and these causes are not stated in order of priority.

Many of the causes reflect an endemic decline in attitudes and the growth of negative cultural influences. The responses must target these attitudes and influences and seek to reverse them. Programmes to address some of these causes already exist. With public and financial support for the effective of these programmes and with additional nationally co-ordinated programmes success can be achieved. Such success will be long or at best medium term. We

recommend in this regard that Government establish a body including all political parties and the best available representatives of civil society, with full time expert and organizational support, to strategize on a national effort to address the attitudinal and cultural causes of violent crime.

The pressing short term aspect of the solution lies in the physical fight against crime.

This requires:

1. Vastly improved management and equipment of law enforcement.
2. A stronger proactive approach to criminal activity and criminals
3. More effective crime detection
4. Greater deterrence
5. Regional assistance

We are not experts in crime fighting and cannot make direct operational recommendations. We are however capable of assessing and in this case entitled to assess performance and action based on the crime statistics and results of the security forces. On this basis it is irrefutable that current action is failing miserably. As in any enterprise or service, management must take responsibility for the performance of this public service. We urge a new, firmer, more direct and proactive approach from Government and from the security forces.

