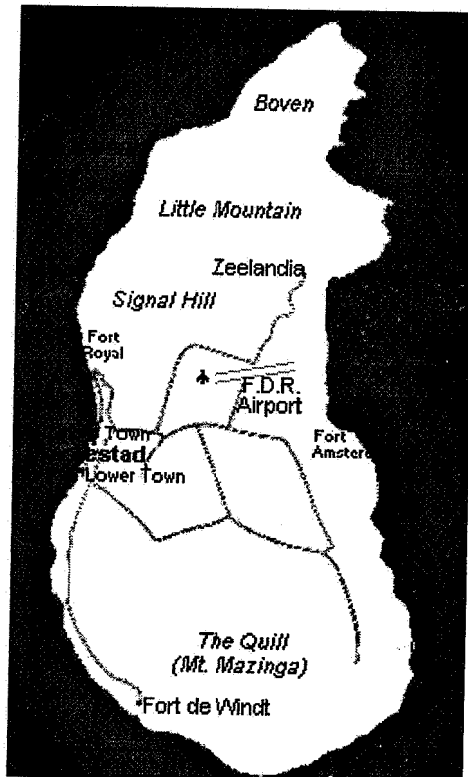


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# Economic Development Program 2004-2007

## *Sint Eustatius*



Island Territory of Sint Eustatius

February 2004

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## **Summary**

### **Economic situation**

The economy of Sint Eustatius is primarily based on oil-transshipment, tourism (mainly diving, hiking, adventure travel and heritage travel), a medical school and some commerce and harbor activities. Unemployment is relatively high, particularly among the youth. The public sector remains one of the largest employers, but public finances are under great pressure. The government budget has a large deficit and government revenue is highly dependent on external assistance. Recently, the economic development of Statia has at its best been stable and it seems fair to state that there is a risk of economic decline in the near future.

### **Challenges and bottlenecks**

Because of limited resources, an insufficient infrastructure, and the lack of a dynamic business environment, even the current level of economic activities is in danger. Positive impulses in the economy (as the visiting shoppers from St. Kitts) are not all based upon sustainable comparative advantages and can relatively easily diminish. Although partly inevitable for a small-island economy, the degree of economic diversification is low. The number of restaurants, shops and construction firms that can supplement the hotel and tourism industry at a high level of quality are limited. Agriculture and manufacturing are almost non-existent. Furthermore, the environmental and ecological situation on the island jeopardizes the cultural heritage and the attractiveness of Statia for tourists.

On the other hand, Statia has a number of strong sustainable comparative advantages as its geographical location, its climate and its natural, historic and cultural attractions, which should form the major challenges for economic development. The coral reefs and historical and modern shipwrecks are a diver's attraction. Other natural attractions of Statia are the Quill (a dormant volcano harboring a tropical rainforest) and the Boven Subsector (an extinct volcano on the north end of the island). Besides the natural attractions Statia offers historical and cultural heritages. Substantial growth of tourism is therefore definitely realistic. The location and attractiveness of the island will also be beneficial for the establishment and expansion of the medical school. Another economic strength and opportunity are the oil transshipments facilities of Statia Oil Terminals that are among the largest in the Windward Islands.

A bottleneck for growth of stay-over tourism is the insufficient hotel capacity. In terms of the infrastructure to carry tourism development, the harbor and airport development offer opportunities, but the need for substantial investments, as well as the uncertainty of financial-economic feasibility, are major bottlenecks to overcome.

### **Objectives and contents of Economic Development Plan**

To start addressing these bottlenecks and challenges the Government of Statia drafted this Economic Development Plan for St. Eustatius 2004-2007. The main objective of the economic development plan is to strengthen and widen the economic foundation of St. Eustatius and create the conditions for a sustainable economic growth and development.

The possibilities of Statia's government are uncertain and are highly dependent on the available financial means. Therefore, two development scenario's are described in de Economic Development Plan 2004-2007: a prudent development path, based on limited financial means, in which some 6,4 million NAFL is invested, and an ambitious development path where an additional NAFL 21,5 million becomes available, partly also from the private sector.

The main areas of focus of the Economic Development Plan are infrastructure investments in the harbor, airport and utilities, Statia's tourism product including

training of personnel, tourism promotion, and small business stimulation with advice, training and loan facilities. In a prudent development path some 4 million NAFL will be invested in the infrastructure, 1 million in tourism and 1.5 million in small business development. In the ambitious scenario substantial more funds will be designated to the improvement of the infrastructure and tourism development.

### **Implementation**

Implementing projects and activities will require a joint effort by the Island Government and important stakeholders as the management of the harbor and the airport, the Tourism Development Foundation, Statia Enterprise Foundation, St. Eustatius Business Association and non-governmental organizations. Within the government, 1 full-time-equivalent of manpower will be assigned for the overall management of the program, and for support by the preparation and executing of the projects. Furthermore, an additional budget for external expertise in preparing and managing projects will be reserved.

In the Economic Development Plan, specific attention is paid to the assumptions and risks related to external dependencies, the conditions for an optimal implementation, the sustainability of the effects of the program, and the financial aspects.

### **Budget and financing**

Total estimated investments costs in the prudent development path, including funds for implementation, add up to some 7 million NAFL. For financing these investments, external support is important. It is anticipated that some 3.6 million NAFL will come from Dutch Development Cooperation Funds. Other donor funds and external financing, own means of the Statia government and private sector contributions will make up for the remaining necessary funds.

### **Effects, monitoring and evaluation**

The results of the Economic Development Plan will be monitored and evaluated based on specific economic indicators. The targeted effects are calculated in economic policy scenarios, as deviations from reference values that reflect the projected economic development without the efforts of the Economic Development Plan. In this reference scenario, the economy of St. Eustatius will show no growth, unemployment will increase and real income of employees in the private sector will decrease. The Economic Development Plan Statia can reverse this negative economic trend.

The effects of the economic development plan of Statia in the prudent development scenario is an increase of stay-over tourists and day-trippers of 8%, an additional annual growth of real GDP of almost 1%, an increase in employment of 0.6%, and a decrease of unemployment. Within the ambitious development path these already positive effects are strongly reinforced. The number of stay-over tourist can increase with more than 4,200; real GDP will increase with an average of more than 2% a year and unemployment will decrease with 3.6% points in four years. These effects will be best visible at the end of the plan period when the effects of more hotel room capacity will show and the harbor development is well under way.

The evaluation of the economic development plan will be based upon the actually realized values of these and other monitoring indicators. The Island Government and the main donors will use these measurements as the principle information for evaluation of the progress and, if necessary, this evaluation will lead to adjustments or adaptations of priorities.

## **1. Introduction**

The island of Sint Eustatius, affectionately called Statia, has a turbulent and rich history. Statia was discovered in 1493 by Christopher Columbus. Throughout the colonial era that followed, the island has changed hands at least 22 times. During the 17<sup>th</sup> and 18<sup>th</sup> century, Statia was a major trading center with some 20.000 inhabitants and thousands of ships calling at her shores. Statia is nicknamed 'The Golden Rock', reflecting its former prosperous trading days and wealthy residents.

Nowadays, the economy is primarily supported by oil-transshipment, tourism (mainly diving, hiking, adventure travel and heritage travel) and some commerce and harbor activities. The recent establishment of St. Eustatius School of Medicine started to contribute to the income and employment of the island.

This economic development plan for Statia 2004-2007 (EDP-Statia) is an extended and updated version of a concise document that was composed by the Island Government in November 2001 as a synopsis of different reports. The EDP-Statia aims at strengthening and widening of the economic foundation of Statia and creating the conditions for a sustainable economic growth and development. The plan contains the specific objectives, strategies and activities on how to establish this sustainable development. With the implementation of the plan and its investments, the Government of Statia, its partners in the private sector and the NGO's, seek an economic development for the benefit of the whole population of the island.

The main areas of focus of the EDP-Statia are:

- Infrastructure investments and investment climate;
- Statia's tourism product and tourism marketing;
- Small business development and development of other sectors.

The structure and content of the EDP-Statia is as follows:

- Chapter 2: background information on the current economic situation and policies, as well as the main bottlenecks and challenges to be addressed the coming years;
- Chapter 3: the objectives and content of the program, including the general effects and targets of the EDP-Statia;
- Chapter 4: the planned projects and activities to be executed;
- Chapter 5: the implementation of the EDP-Statia in terms of necessary means, organization and timeframe;
- Chapter 6: the assumptions and risks related to the execution of the EDP-Statia;
- Chapter 7: the monitoring and evaluation of the progress and the effects of the EDP-Statia.

## **2. Background**

### **2.1 Characteristics of the Statia economy**

#### *General characteristics*

Sint Eustatius, commonly called Statia, is a small island (population between 2.300 and 3.000) with a (sub)tropical ecosystem. The Island is divided in three parts. The Southern portion, dominated by a volcanic cone "The Quill" is entirely mountainous, forming highly dissected cliffs with the sea. On the Northwest side of the Island an independent oil storage and bunker station (Statia Terminals NV) is located. In between these two volcanic areas lies a low-lying zone on which the majority of the population at Oranjestad as well as the airport is situated.

#### *Economic history*

Sint Eustatius was the richest trading center of the Caribbean during the eighteenth century and at the height of its fame in the last thirty years of the eighteenth century. The Island was a free port, established by the Dutch. The Island exported American and Caribbean products as sugar, coffee, hides, indigo and rum to Europe, and imported iron and timberwork, shoes and textile clothing from Europe. During wars between the Dutch, English, Spanish and French in Europe, the Island was captured twenty-two times by the English and French. There are still a lot of old buildings and ruins left of which the synagogue "Honen Dalim" (1739) and the Dutch Reformed Church (1774) and their cemeteries, Fort Oranje (1636) and the Simon Doncker's Town House (now a museum) are the most imposing ones. There are also several old foundations of forts and batteries, foundations of old merchant houses along the bay in Lower Town and foundations of plantation houses in the countryside.

#### *Current economic characteristics*

In recent history, the economy is primarily supported by oil-transshipment, tourism (diving, hiking, adventure travel, heritage travel), some commerce, harbor activities and agriculture. The recent establishment of St. Eustatius School of Medicine provides an opportunity for the development of small businesses and local entrepreneurs. The public sector remains one of the largest employers. Public finances are under great pressure and government revenue is highly dependent on external assistance. Unemployment is relatively high, particularly among the youth.

The number of stay-over tourists on Statia was 10.100 in 1994. In later years this dropped to 8.200 because of hurricane Luis before rising again to 9.800. The stay-over tourists stay on average seven days on the island; mostly for diving. According to the St. Eustatius Tourism Development Foundation also some 1,200 to 2,000 day tourists do visit Statia yearly. A new development is that since 2003 on average 220 shoppers are visiting Statia from St. Kitts each month.<sup>1</sup> These shoppers stimulate the Statia economy. Since 1999 the number of students of the Medical School has increased from 7 to about 200. It is expected that this number in the next two to three years will rise to 500. The

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<sup>1</sup> It is important to stress that the visitor data of Statia by air and harbor have to be improved. Collection procedures must be improved, controlled and monitored to ensure a more accurate and timely insight in the development of tourism.

economic effects of the Medical School are favorable for the island (retail, cafes, restaurants, renting of apartments) but the exact effects are not yet measured.

## **2.2 Government economic policy**

The main objective of the government policy is to ensure sustainable economic growth through a concentrated effort to orderly expand and diversify the economic base. This will also demand that the infrastructure will keep pace with the expansion. High priority is to enhance and develop the tourism product. This requires the combined effort of the local, central and kingdom governments, as well as the conscious input of each citizen, organization and business entity on the island. An integrated approach is needed in order to succeed.

Among other things, the government policies for economic growth include:

- Harbor investments and the lower town development, where the subsequent tourism growth need to stimulate trade in local arts and craft and duty free items
- Develop and continue to renovate, expand and upgrade the airport facilities to be able to offer diverse services, thereby keeping pace with the growing aviation demands in the region;
- Organizing the local fishermen and restructure the fishery sector to raise production;
- Structure the animal husbandry by promoting better livestock management policies, improve the production at the slaughterhouse with the focus on future export of quality meat;
- Tourism will continue to be the main focus in diversifying the economy, with the main priority the development of a cruise terminal for the attraction of small cruise vessels with the rich history of Statia as the focal point for promotion; furthermore, it is to be ensured that the marine life, the flora and fauna of the island remain viable for future generations to enjoy;
- The establishment of a working forum with the businessmen and government to jointly develop, pursue and exploit potential business and investment opportunities.

## **2.3 Bottlenecks and challenges**

Recently, the economic development of Statia has at its best been stable and it seems fair to state that there is a risk of economic decline in the near future. Because of limited resources, an insufficient infrastructure, and the lack of a dynamic business environment, even the current level of economic activities is in danger. Positive impulses in the economy (as the visiting shoppers from St. Kitts) are not all based upon sustainable comparative advantages and can relatively easily diminish. Although partly inevitable for a small-island economy, the degree of economic diversification is low. The number of restaurants, shops and construction firms that can supplement the hotel and tourism industry at a high level of quality are limited. Agriculture and manufacturing are almost non-existent. Furthermore, the environmental and ecological situation on the island jeopardizes the attractiveness for tourists. The free roaming goats and cows cause erosion that even threatens the historical and cultural heritage of Statia, where also the collection and processing of waste and the enforcement of environmental regulation should be brought up to a higher level.

On the other hand, Statia has a number of strong sustainable comparative advantages as its geographical location, its climate and its natural, historic and cultural attractions, which should form the major challenges for economic development.

The coral reefs of St. Eustatius are a diver's attraction. The waters surrounding St. Eustatius offer deep dives, swallow dives, historical and modern shipwrecks, natural coral reef and coral encrusted lava flows. The sea surrounding Statia from the high water mark to the 30 m (100 ft) contour are designated the Statia Marine Park. Other natural attractions of Statia are the Quill (a dormant volcano harboring a tropical rainforest) and the Boven Subsector (an extinct volcano on the north end of the island). The Quill National Park was pronounced the first official National Park of the Netherlands Antilles in 1998. Besides the natural attractions Statia offers historical and cultural heritages (old buildings, ruins, St. Eustatius Historical Foundation Museum and Fort Oranje). Substantial growth of tourism is therefore definitely realistic. The location and attractiveness of the island will also be beneficial for the establishment and expansion of the medical school.

A bottleneck for growth of stay-over tourism is the insufficient hotel capacity. Besides a few small guesthouses there are three hotels on the island. The estimated number of hotel rooms is less than 70. It is also difficult for the existing properties to be profitable or to reserve capital for future investments. Due to the limited number of rooms and the small size of the individual properties (max. 20 rooms) it is very hard to achieve an acceptable occupancy rate. The focus is necessarily too much on the individual traveler since small groups of more than 15 persons usually cannot be accommodated. Another weakness in the hotel sector is that most properties do not meet minimum international standards. This counts for both the accommodations offered as well as the professionalism of the services. Another bottleneck for the development of Statia's share in the tourism market is the high airplane fares relative to other neighboring small island destinations.

In terms of the infrastructure to carry tourism development, the harbor and airport development offer opportunities, but the need for substantial investment amounts, as well as the uncertainty of financial-economic feasibility, are major bottlenecks to overcome.

An economic strength and opportunity are the oil transshipments facilities of Statia Oil Terminals that are among the largest in the Windward Islands. The government has a long term tax arrangement with Statia Oil Terminals with a yearly contribution of NAFL 600.000. The recent extension of Statia Oil Terminals and the expiration of the old tax arrangement will increase the annual contribution to the government. It seems possible that an agreement can be found with a substantial higher yearly tax arrangement than the current one. Besides the contribution to the government two laboratories, two ship chandlers and the income tax of some seventy local staff members working at the Terminal benefit the economy of the island. However, the harbor does not have any income from the ships charging and discharging at Statia Oil Terminals.

A not be neglected bottleneck for focused economic policies is the limited insight in the economic activities on the island (number of establishments, their activities, profitability, employment, impact of tourism, impact of medical school, et cetera) and often unreliable and incomplete statistics. This is an impediment to develop and to execute a concise economic development strategy. This lack of insights and the lack of comparative



analyses of Statia's position in the Caribbean area can feed subjective opinions on (priorities of) structural arrears that have to be solved before a sustainable economic development can take place.

Related to this, the responsibilities and contributions of the government and the private sector need to be well defined and accepted. By all stakeholders, including the private sector, much is expected from the island government and from international donors. However, the development of the private sector should be the central focus with a government that helps creating the right conditions and infrastructure. It is a reality that the government has limited capacity to fund and execute an economic development plan in order to press certain developments. Technical assistance and training seems to be required to develop and execute realistic projects, to enforce government regulation<sup>2</sup>, to execute feasibility studies and to search for finance from different sources. In addition, with the current level of economic activities, the insufficiency of infrastructure, and the dependency on the government, the island is lacking a strong dynamic private sector. New impulses and new blood is needed to revitalize the private sector.

The major challenges for economic development of Statia are summarized as follows:

- Social cohesion and a broad support for a realistic development strategy, based upon a clear insight of Statia's economy and its relative position in the Netherlands Antilles and the Caribbean; this development strategy needs to be guided by the community's own leadership and capacity, with a supporting contribution of Dutch development cooperation or other external aid.
- Improvement of the general infrastructure and business climate, with explicit priorities in the selection of investment projects, closely related to short- and long-term economic development targets.
- Facilitate the growth of hotel room capacity.
- Promotion of tourism (niche marketing, structural promotion, exploitation of natural, cultural and historical assets, marina, training).
- Strengthening of small business development and to maximize the new influx of private businessmen.
- Increase the public priorities for the environment (waste disposal, car wrecks, grazing of cattle in restricted areas, sewage et cetera).

## **2.4 Target groups and stakeholders**

The main target groups for the EDP-Statia are:

- Stay-over tourist from the USA, The Netherlands and elsewhere;
- Day-trippers mainly from Sint Maarten;
- Statia's private sector;
- Staff members within the Administration;
- Statia's community benefiting from employment and economic growth.

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<sup>2</sup> In particular in the negotiations between Statia Oil Terminals and the government, the contacts and contracts with new investors in the hotel sector and the environmental objectives a more sustained enforcement is desirable.

The major stakeholders involved in the EDP-Statia are:

- Statia Government,
- Management of Statia's harbor,
- Management of the Franklin Delano Roosevelt Airport,
- St. Eustatius Tourism Development Foundation (SDTF),
- Statia Enterprise Foundation (SEF),
- St. Eustatius Business Association (STEBA),
- Non-governmental organizations of Statia.

## **2.5 Background information**

Available background information and reports:

- From Party Program To Governing Policies: Targets for the 2004 budget year, The Government of St. Eustatius
- St. Eustatius Business Association (STEBA), 1-year Action Plan, October 2003 – September 2004;
- Statistics of visitor arrivals, 1980-2001, 2002, 2003;
- St. Eustatius Tourism Development Foundation, Investing? St. Eustatius! Your Search Ends here!, SWOT-analysis, 2003;
- St. Eustatius Tourism Development Foundation and Department of Economical Affairs Sint Eustatius, Sint Eustatius Investment Guide;
- Ivey, Harris & Walls, Proposal for Professional Services to Provide Conceptual Master Planning for Marina Expansion and Historical/Tourist area for the Marina Gallowsbay, St. Eustatius, 2001
- Synopsis of projects to catch up the St. Eustatius economy, 2001;
- St. Eustatius Tourism Development Foundation, The Caribbean's Hidden Treasure Statia;
- Arcadis/Grabowsky & Poort St. Maarten N.V., Updating Masterplan Airport Sint Eustatius, 1998;
- Tourism Policy 1995-1997;
- Lee Young & Partners, Proposal for Consultancy Services for the Development of the Port of St. Eustatius, 1994;
- PBSA, Physical Development Plans, St. Eustatius, 1988.

## **2.6 Other relevant activities**

For a sustainable economic development the environmental policy and ecological awareness of government, STENEPA, NGO's, the private sector and citizen is of utmost importance. The cleanness of the island and its surrounding waters (no visible waste disposal, no car wrecks, no free roaming cattle, treatment of sewage water) is a major element of the quality of Statia's tourist product.

In order to find solutions for the substantial budget deficits, as well as to create the financial possibilities to make some investments in the infrastructure of the island, responsible financial management is required. The Statia Government hereby aims at:

- Formalizing the establishment of the Solidarity Fund;

- Upgrading the Island Government administration as the fundamental basis by which financial accountability will be ensured;
- Increasing the confidence of external financiers by maintaining sound financial management;
- Broaden the economic base resulting in increased income for the island;
- Re-negotiate and finalize a fairer financial agreement with S.O.T.

However, for the short term it will remain very difficult to establish some financial stability, where the budget of 2004 shows considerable financial deficits, and extra financial support is necessary to finance the budget deficit.

### **3. Objectives and content of the program**

#### **3.1 Reference path**

The development of Statia's economy without an explicit development policy is the starting point to analyze the objectives and the content of EDP-Statia. For the Statia economy a technical reference scenario was made for the period 2004-2007. This technical reference scenario is an economic forecast excluding the expected effects of development policies as they are formulated in EDP-Statia. With this technical reference path the effects of the policy measures of EDP-Statia can be analyzed in the context of the economy as a whole. This technical reference path not only includes the target variables (e.g. more stay-over tourists) but also macro-economic objectives (e.g. increase of GDP, real income growth employees in enterprises, increase in employment or decrease of number of inhabitants below the poverty line).

For some variables in the technical reference path preliminary figures for the year 2003 are available. These variables are 'consumer price' and 'number of tourists' for which there are monthly figures available. For other variables the figures in the technical reference path for the year 2003 are estimations based on historic data and for some variables these estimations were necessarily based on realized figures for the years prior to 1997.<sup>3</sup>

Future economic developments are based on starting values of the year 2003 and the behavioral equations in the economic model of Statia's economy. The growth of population and the labor productivity trend for example are forecasted based on the realized growth of these variables in the past years. Additional assumptions were necessary for variables that are exogenous in the models: the number of tourists<sup>4</sup>, prices, private investments, world trade and world prices.<sup>5</sup>

The number of tourist on Statia was 10.1 thousand in 1994, in later years this dropped to 8.2 thousand (1995 hurricane Luis) before rising again to 9.8 thousand. The average number of stay-over tourists was 9.100 a year. For the technical reference path we use the preliminary assumption that without additional investments the number of tourists will be stable at a level just under 10 thousand. In a dynamic market as tourism, with strong competition from the neighboring small islands, promotion and marketing activities are of great importance. Current activities are partly based on free publicity and some small-scale activities of the private sector. This is not a sustainable situation and to guarantee sufficient marketing and promotion of Statia as a tourist destination, structural funding is necessary. A last challenge regarding tourism development is the continuous improvement of productivity and client-orientation of personnel working in the tourism and tourism-related sectors.

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<sup>3</sup> The same formula's used for forecasting are used to estimate the missing values for the past. This procedure is used to estimate the most plausible trend (technical reference path) of important economic variables.

<sup>4</sup> The development of the number of tourists in the reference path was made on an elaborated analysis of the micro tourism database, which was improved and updated within the framework of this study.

<sup>5</sup> World trade and world prices are derived from international sources.

Tourist promotion activities, accommodation on the island and quality of tourist services are without policies measures not enough to keep or to increase St. Eustatius' share in the tourist market.

Assuming no real changes of the private investments is in line with the assumption about declining tourism growth and the present low hotel occupancy rate (40-50%). For inflation on the Windward Islands (there are no figures for St. Eustatius separately available) we assume that in the future it will be equal to the average of the past ten years: 1,7%. Without policy measures GDP, employment and export will not increase in the coming years and unemployment will increase. Without policy measures the economy will perform worse in the plan period (reference values) than in the period 1992-2003 (average).

The table below shows some of the variables that are calculated for the technical reference path.

Indicators	Average 1992-2003	Reference values 2004 - 2007
# Stay-over tourists (x 1,000)	9.1	10.0
# Day trippers (x 1,000)	n.a.	1.5
GDP-growth (% change a year)	2.0	0.0
Employment (x 1,000)	1.7	0.0
Unemployment (%)	10.9	15.5
Export-growth (% volume change)	3.1	0.0
Private investment (% change)	1.6	0.0
Real income growth average employee in enterprises	n.a.	-/ 0,2

### **3.2 Long term development objectives**

The development strategy of Statia as described in the synopsis of projects to jump-start the St. Eustatius economy of 2001 is:

“To become less dependent on administrative and managerial aid, in such a way that the social and economic development of the population can be funded with the islands own resources as much as possible.”

The main actual policy issues to be addressed for long-term development are:

- Constitutional affairs with some form of close affiliation with Holland;
- Responsible financial management and accountability;
- Sustainable economic growth and infrastructure;
- Public health with combating health problems as diabetes and health promotion and prevention strategies;
- Education in the broadest sense;
- General welfare with focus on public housing, sports and culture, public safety and youth affairs;
- Environmental issues with cliff erosion as a priority. .

### **3.3 Program objectives of EDP-Statia**

#### **Overall objective**

The overall objective is to attract more tourists and stimulate new investments in the private sector, stimulated and facilitated by carefully selected public investments and policy activities.

Based on the major bottlenecks and challenges the EDP-Statia consists of three parts ('infrastructure investments and investment climate', 'tourism development, promotion and marketing' and 'small business development') each with its own objectives. For these three parts of the program specific bottlenecks, objectives and the main focus of selected projects will be addressed.

#### **Infrastructure investments and investment climate**

##### *Bottlenecks*

The main bottlenecks in the infrastructure and the investment climate are:

- Insufficient initiatives and dynamism in the private sector; new blood and impulses are needed.
- Length of runway, beacon lights and approach/runway lights of St. Eustatius airport make a larger airlift to the island technically possible. With some increased capacity of check-in, check-out and immigration facilities and the implementation of security apparatus the capacity can be used without impediments. With a new apron, parking and cargo facilities and refueling capacity private and business small planes may use F.D. Roosevelt Airport.
- The development of a sheltered harbor and a protected marina in Gallowsbay stagnated ten years ago; visits of tourists by sea are quantitative negligible;
- The lack of modern utilities and competitive prices for utilities (water, energy) is a bottleneck to attract new and more tourists and businesses.

##### *Objective*

A more modern infrastructure and a more attractive business climate that will create new impulses and investments in the private sector.

##### *Focus of projects*

The scope and magnitude of projects that create the foundations for a realistic and sustainable economic development should take into consideration the financial and human capital restraints of the island government. In a more prudent development path – apart from the necessary improvement of the collection, analysis and use of socio-economic data - there are possibilities in the coming years to invest modestly in the economic infrastructure, to carry out a feasibility study for the harbor development (including a marina and waterfront reconstruction) and for some stepwise investments in utilities. This will be a first step to attract new private investors and additional tourists. In a more ambitious development path (depending of the means of government and external sources, as well as the results of the feasibility study) the development of the harbor will be carried out in the near future. Additional tourists coming from the marina do not strain the existing limited hotel capacity. The development of the harbor should be carried out with investments of the government, private partners and donors to guarantee that the development is economically feasible. Private investments need to be accommodated by government investments in utilities.

## **Statia's tourism product and marketing**

### *Bottlenecks*

The bottlenecks in Statia's tourist product, marketing and promotion:

- Vicious circle of limited number of hotel rooms, small size of individual properties and low occupancy rates;
- Quality of the staff working in the tourist sector and only sporadic training efforts;
- No sustained marketing and promotion of Statia's tourist attractions;
- Day-trippers and short-stay tourists difficultly experience the uniqueness of Statia because of unfavorable first impressions and the lack of unique products, services and experiences;
- Erosion and deterioration of waterfronts.

### *Objectives*

Facilitate the enlargement and quality improvement of Statia's tourism product and make Statia better known by potential stay-over tourists and day-trippers.

### *Focus of projects*

As a result of the increased capacity of the airport, upgrading of the existing hotel capacity, sustained training of hospitality sector workers and some investments in utilities an increase of tourists visiting the island is possible, also in a prudent development path. In the ambitious development path the development of the harbor, the more ambitious investments in utilities and the sustained acquisition efforts of government will attract foreign private investments for new hotel capacity. For the promotion and marketing of Statia as a tourist product sufficient ideas are available at St. Eustatius Tourism Development Foundation. The activities carried out with the means of 9/11 have been successfully.

## **Small business development and development of other sectors**

### *Bottlenecks*

The bottlenecks of small business development and the development of other sectors are:

- Entrepreneurial spirit, impulses and initiatives;
- Diversification and low profitability;
- No financial possibilities of small local construction firms to participate in large construction works (airport, harbor, utilities);
- Missing Chamber of Commerce;
- No guaranteed continuation of the SESNA-program after 2005.

### *Objectives*

Enlarge the contribution to the economic base; increase the level of professionalism and increase the level of investments of small businesses by introducing new impulses to the economy.

### *Focus of projects*

These objectives will be 'automatically' stimulated by the increase of the number of tourists, due to the structural promotion of Statia, upgrading of the current hotel capacity, vocational training and the increased airlift capacity of the airport. In the ambitious development scenario the development of the harbor, the marina and the expansion of hotel capacity will further stimulate the development of new businesses and other sectors. Projects should be additional to and facilitating these developments and

focused on business surveys, enhancing standards, advisory services for the business community, training of entrepreneurs and the possibility to obtain soft loans.

### **3.4 General program effects and targets**

#### **Overall program effect**

The overall effect of the implementation of the EDP-Statia is to add new impulses to the economy, to lessen the dependency of the government, to attract more tourists, and to stimulate private investments. In the prudent development path it is targeted that in four years an additional annual economic growth of close to 1%, 0.6% employment growth, and a decrease of unemployment is realized, and that NAFL 2 million private investments can be stimulated. If the more ambitious development path proves feasible, the program effects will be larger, but the structural effects on tourism and other economic activities will be mainly visible after the plan period.

#### **Infrastructure investments and investment climate**

The effect of infrastructure investments and a better investment climate makes the visit of more tourists possible, add new impulses to the economy and stimulates a higher level of (foreign) direct investments.

#### **Statia's tourism product and marketing**

The effects of the structural marketing and promotion of Statia's tourism product, the upgrading of accommodation, structural training of staff and the elimination of some of the impediments in infrastructure (airport, utilities) will increase the number of tourists. It is estimated that the number of stay-over tourists can increase with eight percent in the period 2004-2007 (approximately 800 additional tourists). Without the plan and its investments the number of tourists will remain steady or even decline.

The more ambitious development, with substantial investments in the harbor/marina, the construction of a new hotel capacity, and a further elimination of the bottlenecks in utilities is realized, will create substantial further growth of the number of tourists visiting Sint Eustatius.

#### **Small business development and development of other sectors**

The additional number of tourists and the new impulses to the economy will have positive effects on the development of small businesses. The activities of the Small Business Foundation, the continuation of SESNA's program and the initiatives of STEBA should stimulate the harvest of these positive effects. For the development of small businesses and other sectors no specific targeted effects are formulated. It is foreseen, however, that some 2 million NAFL in private investments is realized, partly as a result of the small business stimulation.



## 4. Activities

### 4.1 Activities and outputs

The possible projects necessary to reach the objectives of the EDP-Statia are listed in the following table, categorized by the main parts of the plan, with a distinction in activities and output, followed by a short description of the specific background and objectives of these projects.

The execution of the EDP-Statia is to some degree flexible and the list of projects is neither final nor exhaustive. During the course of the implementation of the program it might prove necessary to add or remove projects and also priorities may be subject to change due to, amongst other things, external developments and available funds.

Some of the projects do not need large funding and are conditional for the execution of the plan (statistical data, business surveys and socio-economic research, yearly updates of the investment guide, structural promotion and marketing of Statia's tourism, hospitality and vocational training, enhancing standards and S.E.F.). Other projects (development of harbor infrastructure, airport facilities and improve utilities) do need important public and private funding. Before investments are carried out feasibility studies are desirable.

#### Infrastructure investments and investment climate

PROJECT ACTIVITIES	PROJECT OUTPUT
<b>Infrastructure investments and investment climate</b>	
Statistical data, socio-economic research and information	Clear-cut analysis of Statia's socio-economic situation, analysis of arrears, regular updated Investment Guides
Airport facilities	Increase capacity of check-ins, check-outs, immigration, installation of security equipment, apron, parking facilities, refueling capacity
Development of harbor infrastructure	A technical and economic feasibility study and master plan (2004); stepwise development of the harbor and the Gallowsbay marina
Utilities	More efficient water distribution and energy production

#### *Statistical data, socio-economic research and information*

To assess the economical situation in St. Eustatius it is necessary to establish the present level of economical activities. The public and private sector and potential foreign investors need reliable and timely statistics before making investment decisions. In St. Eustatius statistics are limited, often unreliable and incomplete. The arrivals data by air and sea are incomplete and not timely available; there are no accurate statistics of the occupancy rate, the number of enterprises, the formal and informal employment by

sector, the turnover and profitability by sector. The latest thorough study about Statia dates from 1988.

Organizations involved with collection and interpretations of statistics need to be upgraded. Collection procedures of data must be improved, controlled and monitored to ensure reliable data. For this purpose extra personnel need to be hired and trained. Also the hotel occupancy figures should be closely monitored based on the payment of room tax required by government. Funding needs to be made available both through government and private sector. A future Chamber of Commerce can play an active role in collecting statistical information (e.g. carry out business surveys).

The Investment Guide of Statia is an important instrument to communicate with potential foreign investors. This Guide should be updated regularly.

#### *Airport facilities*

Since the early nineties the airstrip has been extended to 1,300 meter. This allows airplanes with 50 seats to use Statia airport. However, since the completion this has rarely happened. The only airline that has scheduled flights to and from St. Eustatius is WINAIR. This airline uses aircraft with a capacity of only 19 persons. WINAIR services Statia five to seven times a day. The total number of passengers that can be transported to and from the island on a daily basis is therefore around 100. This includes the number of local travelers that take the majority of the available seats. The airlift capacity to and from Statia does not permit groups of tourists of twenty people or more to visit the island. If the airport is equipped with metal detectors and other international security requirements and more check-in and check-out facilities carriers like American Eagle can fly to St. Eustatius and larger groups of visitors can visit the island.<sup>6</sup> When the above-mentioned conditions are met and minor investments are made, more carriers can be attracted to fly to the island not only from St. Maarten but also for instance from Puerto Rico. The latter will increase the accessibility from the US market. The increased and better facilities of the airport will make the established of a new hotel capacity in time possible.

Another priority of the development of F.D. Roosevelt Airport is to realize investments in a new apron, parking and cargo facilities and refueling capacity for small private and business planes. The improved services of the airport will stimulate new impulses in the economy and give an impetus to the development of new economic activities.

#### *Development of harbor infrastructure*

The harbor is an incomplete development project that started more than 10 years ago. At that time as a first phase of development a previous 120-meter open pier has been replaced with a pier of 60 meter protected by a breakwater. This is insufficient to permit greater and secured use of the harbor facilities.

The most recent plans are to expand the present breakwater and pier, dredge the basin directly around the pier, construct a breakwater for the marina, develop the marina and reconstruct and conserve the historical waterline.

These plans are promising because they do not drain on the existing hotel infrastructure, add new economic impulses to the economy, may interest private investments and are a stimulus for the development of new diversified economic activities. The project needs to be seriously studied for its technical and economic feasibility. In particular for the

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<sup>6</sup> The outline of a feasibility study of Arcadis/Grabowsky & Poort St. Maarten for an update of the masterplan of the airport of Sint Eustatius gives no clear indications that important infrastructure investments at the airport (extension of apron area, hangars, extension of the runway, new terminal building) will lead to an increase of tourists.

development of Gallowsbay marina private partners should be sought to join the project. Profitability and commercial success are much more guaranteed with private investors. These private investors add much needed new blood to the Statia business community. The feasibility study is the first important step for the development of the harbor. The feasibility study will give insights in the costs of development, the timeframe of development, the commercial potential of the harbor and the marina, the possibility to attract foreign private investments, to create public-private partnerships, the possibility of a partnership with CPA and the contribution of donors. These insights will lead to a master plan with a timeframe and yearly investments.

#### *Utilities*

For further economic development, upgrading of Statia's tourist product and an increase of tourists visiting Sint Eustatius the services of utilities need improvement and the costs have to be competitive. In particular the quality and costs of water distribution and of energy need attention and call for further investments.

There is no permanent water distribution network on the island. Rainwater is collected in cisterns. In periods of drought, which are very common and sometimes can last up to six months or more, water needs to be delivered by trucks. A recently constructed water plant is not yet in operation. Also after operation it will not improve the distribution since no network is included. This situation is an impediment to attract more tourists and economic activities to the island. The structural solution ought to look after concerns the construction and exploitation of a durable water-distribution network.

Electricity on the island is generated by diesel generators. Shell has a monopoly in the delivery of the fuel. As a result the electricity company is unable to make use of less expensive energy. At present the cost for electricity is NAFL 0.175 per KW. However, a so-called fuel clause of NAFL 0.1909 more than doubles the actually current bill. This fuel clause fluctuates with the price for oil on the international markets, but is rarely less than the electricity price charged per KW. The high level of energy costs is a comparative disadvantage for the economic development of the island. Lower energy costs can be achieved by ending the monopoly of Shell and to study the possibilities of producing cheaper forms of energy.<sup>7</sup> In Saba a plan to construct a Windmill Park is in its final stages. A foreign investor is attracted to build and operate this park for a number of years. A required condition is that the electricity company buys a minimum quantity of current. When the windmills are in operation the result will be that the amount under the fuel clause presently charged will nearly be eliminated. This will result in a reduction of the electricity bill with at least 40%. A similar project as on Saba needs to be carried out on St. Eustatius.

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<sup>7</sup> In Saba a plan to construct a Windmill Park is in its final stages. A foreign investor is attracted to build and operate this park for a number of years. A required condition is that the electricity company buys a minimum quantity of current. When the windmills are in operation the result will be that the amount under the fuel clause presently charged will nearly be eliminated. This will result in a reduction of the electricity bill with at least 40%.

**Statia's tourism product and marketing**

PROJECT ACTIVITIES	PROJECT OUTPUT
<b>Statia's tourism product and marketing</b>	
Promotion and marketing	Execution of yearly promotion and marketing activities
Sustained hospitality training	Number of staff members trained annually
Develop policy instruments and execute policy instruments to stimulate local products, services and experiences	Instruments developed (information, advice, promotion, incentives) and implemented to experience uniqueness of Statia
Upgrade, extend existing properties and a new 50 – 100 room hotel	Extension of existing properties (2004 onwards) and construction of a new hotel to accommodate medium-sized groups of visitors (2006-2007)

*Promotion and marketing*

A tourism promotion program financed with funds that were made available after 9/11 has been quite successful. However these moneys are now depleted. If there will be no continuation in marketing and promotion it is expected that the increase of tourists, in particular divers, will stagnate or even drop to earlier levels.

*Hospitality training*

The level of service in the hotels and restaurants needs to be improved through better and sustained training of staff working in the hospitality sector. Only occasional training will not result in a sustained development of the tourist sector. A structured and comprehensive program must be developed based on the demands of the hospitality sector.

*Products, services and experiences linked to Statia's uniqueness*

Tourists that are staying for several days at Statia are step-by-step experiencing the uniqueness of the island. However, tourists that are staying for a short period on the island do not easily experience this uniqueness because there are no specific products, services and experiences focused on the cultural, historical, social and natural richness of the island. Often a negative first impression compared to other neighboring small islands has the upper hand and this is hampering mouth-to-mouth publicity of the island. Policy instruments (information, counseling, training, pilot projects, best practices, incentives) should be developed and implemented to develop the possibility of tourists to experience the uniqueness of St. Eustatius.

*Upgrade and extend existing properties and construction of new 50-100 room hotel*

Firstly investments need to be attracted to upgrade and extend existing properties. Only more capacity will break the vicious circle of low occupancy rates and low profitability because only individual tourists can be attracted to the island. There is a tendency that hotel room is decreasing on the island because hotel rooms and apartments are transformed in housing for medical students. To guarantee a healthy growth in the

tourism industry more rooms are necessary and at the same time the occupancy rates have to increase.

Besides upgrading and extending the existing hotel capacity, investors need to be interested - preferably with affiliation to an international chain - to construct one or more new hotel properties on the island. This or these hotel properties may be even linked to a golf course and this or these hotel properties can operate on the market of business meetings, conferences, and incentive travels. Also a promising new trajectory to extend and upgrade Statia's hotel capacity could be the construction of eco-lodges. These lodges can build on the natural strength of Statia and can be a cheap alternative for an international hotel. In this way the relatively high airplane fares to Statia can be counterbalanced.

Although, it will take time to attract foreign investors in new hotel capacity and first some facilities need to be upgraded (airport, utilities) government should immediately start activities to acquire new foreign investments in the hotel sector.<sup>8</sup>

### Small business development and development of other sectors

PROJECT ACTIVITIES	PROJECT OUTPUT
<b>Small business development and development of other sectors</b>	
Small business development	Activities of Small Enterprises Foundation and continuation of the SESNA programs
Enforcement of minimum standards of operating of hospitality establishments	Percentage of businesses operating under the standards; number of infractions tot the standard
Vocational training	Number of student trained yearly

#### SEF/SESNA

The overall objective of the Small Business Foundation and SESNA is "to strengthen the contribution of the small business sector to economic growth and to structural employment generation and consolidation".

The purpose of SEF/SESNA is to:

- Provide essential business skills training and business advisory services to selected small business entrepreneurs;
- Update the quality of small business support organizations;
- Facilitate better access to credit through the provision of a marginally lower interest rate revolving credit fund;
- Generate an improved small business policy framework.

The annual management reports and work programs of the SESNA Advisory Unit Statia provide detailed information on the so far executed activities, the running activities and future plans. The financing of the SESNA program by the European Union will end 2005. For the continuation (internal and external) funding will be sought. In EDP-Statia financing of SESNA after 2005 is foreseen. The island government already pays the manager of the Small Enterprises Foundation.

<sup>8</sup> The period for attracting investment in the hotel sector is often a lengthy process, especially in the case of less developed destinations like Statia. E.g. the St. Kitts Government and Marriott negotiations took at least two years to finalize.

*MSE Support Organizations*

Sint Eustatius Business Association (STEBA) can in the near future be transformed into a Chamber of Commerce. For this purpose a proposal has already been submitted to the government. The broadening of the financial base as a result of this will enable to support the private sector more adequately. It is expected that the number of businesses registered will increase to well over 150. A business survey, sponsored by SESNA will be carried out in January 2004 after which the Commercial Registry will be established in St. Eustatius.

*Minimum standards of operating of hospitality establishments*

Many of Statia's restaurants, eating establishments, bars, hotels, car rental companies et cetera are operating below minimum standards of the hospitality sector. There are too many establishments springing up in various sectors further compounding the situation of low standards due to the lack of training, knowledge, experience and capital. This is a serious impediment for sound and sustainable small business development.

The St. Eustatius Tourism Development Foundation has already presented a draft of minimum standards to the government. The government should implement these standards. Existing establishments can receive a certain amount of time to meet these minimum standards, while new establishments would be required to meet these standards from the start of business. Within relatively short time these standards could be clearly visible, improve Statia's tourist product and strengthen the viability of businesses on Sint. Eustatius.

*Development of other sectors*

*Restaurants and shops* rely largely on the improvement of the hotel sector. Except for a few restaurants and shops needs upgrading. The minimum standards of operating will be of importance for this upgrading. An extra influx of visitors will furthermore create the opportunities for new investors to establish shops and restaurants on the island.

*Construction* on the island is limited mostly to private homes and government development contracts. The larger contractors rely almost totally on the latter. A disruption in development projects stagnates this sector and results directly in a raise in the unemployment rate. Guarantees could make it possible that small constructions forms participate in large works (airport, harbor, utilities).

*Agriculture* is almost non-existent. Long periods of drought make growing of crops very difficult. Working in the field is not favored among the younger generations. Husbandry is done usually very informal. Most farmers do not have land and their animals are roaming over the entire island. Land has to be designated for animal husbandry. In periods of drought many die due to shortage of food and water. Land has to be designated for animal husbandry. Research need to be carried out to the possibilities of irrigation or hydroponics and young persons need to be encouraged to work in the agricultural sector.

*Fishermen* need to be encouraged to take fisheries as a fulltime profession rather than a side job.

*Manufacturing* is non-existing. New investors are needed.

*Vocational training*

Presently a small carpentry factory in collaborations with a school for vocational training is attempting to start operations. Lack of sufficient funding for the latter is causing the delay of this project. To start the vocational training school 'Zagen en Schaven' new funds are needed. Initiatives of the government and the private sector to stimulate

vocational training are needed not to hamper economic development and to reduce the unemployment rate.

## 4.2 Project database

For the *prudent development path* an indicative list of project activities is drawn. The content, timetable and investment amounts of the activities are indicative because in many cases the results of feasibility studies are needed. E.g. a feasibility study (technically and economically) for the harbor development (NAFL 100,000), a feasibility study for the master plan of the airport (NAFL 200,000) and a feasibility study of the upgrading of utility services (NAFL 100,000).

In the prudent development path is supposed that investments to improve the statistical data, to upgrade the services of the airport, to start the redevelopment of the harbor, projects to mitigate the effects of erosion, partly upgrading of utility services, funds for the structural promotion and marketing of the islands tourist product, services and experiences, for the training of workers in the hospitality sector, vocational training and the development of the small business sector are available for the whole planning period. The funds needed for the next four years are estimated NAFL 6,4 million.

### *Indicative list of project activities (prudent development path)*

PROJECT ACTIVITIES	TOTAL (x 1,000 NAFL)
<b>Infrastructure investments and investment climate</b>	
Statistical data, research and information	370
Feasibility studies, investments, economic infrastructure	1,520
Projects to mitigate the effects of erosion (Gallowsbay)	500
Upgrading of services of utilities	850
<i>Total infrastructure investments</i>	<i>3,240</i>
<b>Statia's tourism product and marketing</b>	
Promotion and marketing	950
Hospitality training	200
Implementation of policy instruments to stimulate the development of products, services and experience of Statia's uniqueness	500
Upgrading, extending existing hotel capacity	n.a.
<i>Total Statia's tourism product and marketing</i>	<i>1,650</i>
<b>Small business development and development of other sectors</b>	
Small business development	1,320
Implementation of minimum standards	-
Vocational training	200
<i>Total small business development</i>	<i>1,520</i>
<b>Total of all projects</b>	<b>6,410</b>

Depending of the results of the feasibility studies, the resources of government, external funding and the private investments that can be acquired a more *ambitious development plan* can be executed. In this ambitious development plan the further development of the harbor and the construction of a new hotel (with eventually a golf course) is foreseen. The content, timetable and investment amounts of the activities are indicative because at this stage the results of the feasibility studies and the available amounts of public (island, donors) and private funding are not yet known. Indicatively, it is estimated that the harbor development will demand six year of investments of NAFL 5 million annual (breakwaters, roll-off facilities, pier, onshore facilities, marina and waterfront restoration). These investments will require to be financed by both the private sector (for the marina development) and by public investments. The further investments in upgrading of the services of utilities are spread over a longer time. The investments for an expansion of hotel room capacity are estimated at some NAFL 5 million (a 50-room hotel) and assumed to be made by foreign investors. The ambitious development plan asks in four years time NAFL 21,5 million above the prudent development plan.

*Indicative list of project activities (ambitious development path)*

<b>PROJECT ACTIVITIES</b>	<b>TOTAL (x 1,000 NAFL)</b>
Development of harbor infrastructure	15,300
Upgrading of services of utilities	1,180
<i>Total infrastructure investments</i>	<i>16,480</i>
New 50-room hotel	5,000
<i>Total Statia's tourism product and marketing</i>	<i>5,000</i>
<b>Total of all projects</b>	<b>21,480</b>



## 5. Implementation

### 5.1 Inputs

The necessary means for implementing the EDP-Statia mainly concern input of personnel and running costs of the Island Territory of Statia, supported by the Tourism Development Foundation Sint Eustatius, the Small Business Foundation, Statia Enterprise Foundation, St. Eustatius Business Association (STEBA) and Statia's non-governmental organizations. It is estimated that for the implementation and managing of the program, as well as the preparation and executing of the projects, a total of one full time equivalent (FTE) of manpower is needed.

For external expertise in preparing and managing projects, including support in frequent monitoring of results and effects (see Chapter 7), an additional budget, as part of the EDP-Statia funding, of 100,000 NAFL will be reserved.

Annual implementation costs (x 1,000 NAFL) are estimated to be:

▪ One FTE manpower (x 50,000 NAFL)	50
▪ External expertise	100
<b>Total annual implementation costs</b>	<b>150</b>

### 5.2 Organization and procedures

The Island Counsel & the Executive Counsel of Statia, and in particular the Commissioner for Economic Affairs, are ultimately responsible for the implementation of the EDP-Statia. The Planning Bureau (not yet in place) will overall manage and monitor progress of the EDP-Statia, where also the Departments of Finance and Economic Affairs will be closely involved.

Various stakeholders, inside and outside of the government, will compile project proposals and implement projects. The projects and activities regarding the infrastructure and the business environment climate will mainly be handled by the government agencies. The Tourism Development Agency will have the lead in the projects related to the improvement of the tourist product and marketing, where the Statia Enterprise Foundation and STEBA will execute most of the projects in stimulation and promotion of small business activities. The St. Eustatius Business Association will be involved in all parts of the program and in stimulating the spin-off in terms of private investments.

Project owners report on a half yearly basis to the overall management of the EDP-Statia with both financial and non-financial information.

The management of the program entails the updating of the program and the twice a year evaluation of the progress. Based upon the evaluations, monitoring reports will be submitted to the Executive Counsel and the Economic Department of the Central

Government. If necessary, the program management will also advice project-owners and consult the Commissioner of Economic Affairs.

For the part of the EDP-Statia that will be supported by development cooperation funds of The Netherlands, the soon to be installed Development Fund will deal with requests for financing of individual projects. The main criteria for approval will be the accordance with the objectives of the EDP-Statia, efficiency, effectiveness and sustainability.

### 5.3 Timeframe

The EDP-Statia has in principle a duration of four years and will start as soon as there is a formal commitment of the Statia government. For the use of Dutch development cooperation funding, the EDP-Statia has to be approved as a solid base for sustainable economic development by the Dutch government.

Within the EDP-Statia the projects and activities are phased based on economic policy priorities, availability of funds, interdependency of projects and implementation capacity.

### 5.4 Estimated investment cost and financing plan

The preliminary and indicative estimated investments costs of the *prudent development plan* EDP-Statia are NAFL 7,0 million (including the costs of implementation) for the coming four years. In this estimate, contribution of the private sector, for instance related to the airport development and the upgrading of utility services, is foreseen. The feasibility studies will make clear whether this supposition is realistic. Due to the difficult financial situation of the island government the financial participation of the island government is limited to NAFL 460.000. It is anticipated that international donors (including the Dutch government) have funding available of an amount between 4 and 5 million NAFL for the coming four years.

The following table gives an indication of the investment costs (x 1,000 NAFL) in the period 2004-2007 and their preliminary anticipated sources of finance.

#### Sources of financing of prudent development path

EDP-Statia	Statia	Donors	Private	Total
Infrastructure and investment climate	160	2,040	1,040	3,240
Tourism development and promotion	-	1,650	-	1,650
Small business development	-	510	1,010	1,520
Implementation	300	300	-	600
<b>Total</b>	<b>460</b>	<b>4.500</b>	<b>2.050</b>	<b>7,010</b>

### *Own Government*

The investments of the government for the economic development program in the coming four years – additional to other current activities of government that support and facilitate economic development – come from (reallocation within) the current budget or indirectly through government subsidized organizations or government owned companies (public utilities, harbor, airport, et cetera). Due to the program there will be higher economic growth, an increase in real incomes, an increase in profitability of enterprises (higher growth of labour productivity) and a decline in number of unemployed. The government can use these additional incomes or reduced expenditures to partly finance projects and activities of the economic development plan.

### *Donors*

The funding that is anticipated from donor funds in the coming four years consists of two parts:

#### **1. Dutch development cooperation funds**

This entails the island's share of the available funds from the Dutch development funds. The amount of anticipated donor funds from The Netherlands Government are derived from:

- The total available funds for development cooperation (annual some 40 million euro);
- A 50% share for sustainable economic development;
- A division over the Island Territories and the Central Government as proposed in the Wijers-report;
- For St. Eustatius this share is 2%, which equals to estimated funds of 3.6 million NAFL for the coming four years;
- It needs to be taken into account, that costs of projects (supported by development funds and not included in this program) that are already in execution will form a part of the determined donor budget; these projects in general already contribute to the policy targets and economic effects of the program, but however limit the budget for new activities and will make the setting of further priorities necessary.

#### **2. Other donor funds and external financing**

This amount of anticipated funds (NAFL 0.9 million for four years) consist of the following sources:

- Other international donors as the European Union (average annual flow of European Development Fund to the Netherlands Antilles between 1986 and 1999 was 7.2 million NAFL), United Nations or (technical) assistance from more regional institutions;
- Dutch and international funds and charity foundations that support social, cultural, heritage and environmental projects, be it directly to the government or through the participating stakeholders in the program.

### *Private sector*

The private sector 'contributions' to reach the objectives and targets of the economic development plan are can consist of various elements:

- So-called spin-off investments that are triggered or facilitated by public investments in the infrastructure, eliminations of bottlenecks, and the introduction of instruments, incentives and policies;

- Public-private-partnerships in investments in the infrastructure or utilities, and the development of infrastructure-related sites or projects;
- Matching of, or contribution to tourism marketing and promotion activities and contributions to, or co-financing of training and advice activities (SESNA).

For the *ambitious development path* a substantial increase of public funding, foreign investors capital, and international donor funds is needed. Where private investors will have to invest in the additional hotel room capacity and the marina of Gallowsbay, public funds are needed<sup>9</sup> to invest in the infrastructure of the harbor (breakwaters, peer et cetera) and the further upgrading of utility services. The feasibility studies and the future financial situation of Statia's government will make clear if this is feasible.

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<sup>9</sup> It might prove feasible to use additional tax receipts of the extended Statia Oil Terminals for these investments

## 6. Assumptions and risks

Assumptions link the EDP-Statia to its environment, including those activities and developments that are important for the success of the plan, but cannot be directly controlled by it. The following table gives an overview of the most important assumptions, and a judgment of the risks that the assumptions do not hold and the mechanisms to react to situations where risks actually occur. Specific attention is paid to the assumptions and risks related to the conditions for an optimal implementation of the EDP-Statia and to the sustainability of the effects of the program.

ASSUMPTIONS	RISKS
<b>External dependencies</b>	
No major damages caused by a natural disaster will occur	Low-to-medium-risk: statistically every five year a tropical storm or hurricane will effect the island; most constructions are hurricane proof; a disaster emergency plan is in place
New institutional relations in the Netherlands Antilles and between the islands will not hamper the execution of Statia's plan	Low-risk: all stakeholders are aware of this risk and can come up with arrangements to diminish the consequences
The EDP-Statia will have no substantial negative social external effects	Low-risk: stakeholders and NGO's are involved to seek social-economic synergy; environmental development forms major part of the EDPS
The EDP-Statia will have no substantial negative environmental external effects	High-risk: the plan itself has no external environmental effects; nevertheless the ecological situation of Statia (erosion, dechets) is a severe impediment to become more attractive for tourists
<b>Program level</b>	
Methodological approach is adequate to reach overall program objectives	Low-risk: EDP-Statia is based on logical framework and analyses by World Bank and other institutions
EDP-Statia has full administrative support	Low-risk: EDP-Statia is formally approved by Island Counsel and has full commitment by Commissioner of Economic Affairs
There is sufficient institutional and management capacity to implement plan	Medium-risk: Statia should prove its capacity to execute programs and projects; therefore a budget is reserved for external support
The program has support of the social partners and other economic stakeholders	Low-risk: stakeholders participated in formulating bottlenecks and solutions; furthermore feedback was guaranteed in a workshop on the draft EDP-Statia; the relatively small size of the island makes direct involvement of social partners and stakeholders easy
Upgrading and extending existing hotel capacity	Medium-risk: without specific policy instruments (subsidies, soft loans, tax credits et cetera) it will be difficult for the existing hotels to upgrade and extend their capacity

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<b>Funding, finance</b>	
Private investments in airport facilities and utilities	Medium-risk: the feasibility study will identify if these investments can be acquired; fees can finance the amortization of the investments; without these investments the economic development will take place at a slower pace
Private investment marina Gallowsbay and new hotel facility (ambitious development path)	Medium-risk: the feasibility study will identify if these investments can be attracted from abroad and negotiations of government with international hotel chains will show positive or negative results. Sustainable development of Statia will take place at a slower pace.
Statia funding will be available (ambitious development path)	Medium-risk: the financial situation of the government is under pressure; bilateral agreements with Central Government and decisions on Solidarity Fund are necessary
Donor funding will be available	Low-risk: Commitments on part of the Dutch Government and European Union are firm

## 7. Monitoring and evaluation

### 7.1 Methodology and selection of indicators

The progress and the success of the EDP-Statia will be monitored frequently. With the help of monitoring indicators the progress of the program and its activities, related to the development objectives, program targets and timeframe, will be measured objectively.

It is important to realize that the measuring of economic development (and consequently the effects of an economic program) is an art in itself. For small islands with little economic data this is even more difficult. On top of that, future developments depend much on externalities and for small-size economies 'individual' occurrences or developments can have a large influence on the outcome. In order to by-pass lengthy discussions on the validity or plausibility of economic forecasts, monitoring indicators will be presented as deviations of a so-called reference path.

This **reference scenario** pictures the economy in the coming years, based on the trends of the recent past and insights of local stakeholders, without having the pretension of closely predicting the future economic development. The targets and effects will be reflected in a **policy scenario** as deviations from the reference values. The trend plus the policy effects result in the target values<sup>10</sup>.

The main criteria for the selection of the key monitoring indicators are:

- Close linkage to the program objectives and desired effects;
- Indicators are as SMART as possible (Specific, Measurable, Acceptable, Reasonable and Timely);
- Availability of (recent) data;
- Determinable by independent institutions.

### 7.2 Monitoring indicators

The following table gives the reference- and policy values of the key monitoring indicators for measuring the effects of the *prudent development path* of EDP-Statia for the years 2004-2007. A selected number of direct results and macro-economic effects are chosen to monitor the structural economic development of St. Eustatius. The EDP-Statia directly targets for tourism arrivals and private investment. Indirectly this will positively affect GDP and other macro- and socio-economic indicators.

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<sup>10</sup> See for more detailed information, an explanation on the used methodology and the Antillyse economic model as shareware: [www.micromacroconsultants.com](http://www.micromacroconsultants.com)

**Program effects and monitoring indicators in prudent scenario:**

	Reference values		Policy effects	Target value
	2004	2007	2004-2007	2007
<b>Absolute effects:</b>				
Stay-over tourists	9,995	9,995	+ 802	10,797
Day trippers	1,530	1,576	+ 127	1,703
GDP (in mln. NAFL)	94.1	99.9	+ 1.8	101.7
Employment private sector	968	969	+ 21	990
Unemployed	221	235	-/ 15	220
Unemployment %	15.5%	16.4%	-/ 1.1%	15.3%
Income < 1000 NAFL/month <sup>1</sup>	969	992	-/ 15	977
Income < 1000 NAFL/month % <sup>2</sup>	50.2%	50.7%	-/ 0.9%	49.8%
	Recent history	Reference scenario	Policy effects	Policy scenario
Average annual growth:	1989-2003	2004-2007	2004-2007	2004-2007
Real GDP	1.9	0.0	0.8	0.8
Employment private sector	1.4	0.0	0.6	0.6
Net real income		-/ 0.2	0.2	0.0

<sup>1</sup> Number of persons of 15 years and older with net income below 1000 NAFL per month, including persons with no income

<sup>2</sup> Percentage of persons of 15 years and older with net income below 1000 NAFL per month, including percentage of persons with no income (30.5% in 2004)

The effects of the economic development plan of Statia (prudent development path) is an increase of stay-over tourists of some 800 (+8%), and an increase of day-trippers of almost 130 (+8%). Mainly because of this tourism growth, an additional annual growth of real GDP of almost 1%, an annual increase of employment of 0.6% and a decrease of the unemployment rate after four years of more than 1 percentage point, is expected. In the macro-economic scenario it is assumed that the extra growth of the production in the private sector will have some positive effects on the profitability of companies (and thus indirect on investments and employment) and will lead to a moderate growth of real income per employee (some 0.2% annually). If the real incomes show a higher increase, this will automatically lead to less growth of employment.

In the reference scenario it is calculated that the number of persons of 15 years and older that have a net income less than 1000 NAFL per month will be 992 in 2007. This includes the relatively large group of people with no income (for example housewives and students). In the policy scenario calculations 15 persons cross this income line, resulting in 977 persons with a net income below 1000 NAFL per month in 2007.

Without the development plan some indicators are negative (no real GDP-growth, no growth of employment and a decline of real income of employees in the private sector). With the development plan these indicators are reversed in positive direction.

With the *ambitious development path* the positive effects of the economic development plan are strongly reinforced (see table below). The effects will be best visible at the end of the plan period when the effects of more hotel room capacity will show and the harbor development is well under way.



**Program effects and monitoring indicators in ambitious scenario:**

	Reference values		Policy effects	Target value
	2004	2007	2004-2007	2007
<b>Absolute effects:</b>				
Stay-over tourists	9,995	9,995	+ 4,230	14,225
Day trippers	1,530	1,576	+ 279	1,855
GDP (in mln. NAFL)	94.1	99.9	+ 7.7	107.6
Employment private sector	968	969	+ 70	1,039
Unemployed	221	235	-/ 49	186
Unemployment %	15.5%	16.4%	-/ 3.6%	12.8%
Income < 1000 NAFL/month <sup>1</sup>	969	992	-/ 40	952
Income < 1000 NAFL/month % <sup>2</sup>	50.2%	50.7%	-/ 2.5%	48.2%
	Recent History	Reference scenario	Policy effects	Policy scenario
Average annual growth:	1989-2003	2004-2007	2004-2007	2004-2007
Real GDP	1.9	0.0	2.2	2.2
Employment private sector	1.4	0.0	1.8	1.8
Net real income		-/ 0.2	0.2	0.0

<sup>1</sup> Number of persons of 15 years and older with net income below 1000 NAFL per month, including persons with no income

<sup>2</sup> Percentage of persons of 15 years and older with net income below 1000 NAFL per month, including percentage of persons with no income (30.5% in 2004)

In this scenario, the number of stay-over tourist will increase with more than 4,200 and day-tourists with 279 (+18%). Real GDP will increase with an average of more than 2% a year and employment in the private sector will increase with 1.8% annually. The unemployment rate will decrease substantially with 3.6% in four years, and the number of persons with a net income below 1000 NAFL per month goes down to some 950.

### 7.3 Evaluations

The annual evaluation of the overall success of the EDP-Statia will be based upon the actually realized values of the monitoring indicators as reflected in paragraph 7.2. The collection of the data and the determination of the indicator values will be conducted by an independent organization. All actually statistical information can be delivered by the Central Bureau of Statistics of the Netherlands Antilles (CBS), including information that CBS gets from other institutes like the Central Bank, Tourist Offices, et cetera. What is needed is an annual update of all figures as in the Antillyse model for each island (the sum gives the whole of the Netherlands Antilles). CBS already provides this information for Curaçao and the business-plan of CBS states that similar consistent databases will be made for all other islands. In the economic program for the Central Government a project is included to facilitate CBS in order to guarantee that the information will become available for each island already in the year 2004.

The Island Government and the main donors will use these measurements as the principle information for evaluation of the progress of the EDP-Statia and, if necessary, this evaluation will lead to adjustments or adaptations of priorities.

Twice a year, the management of the EDP-Statia will make an internal evaluation of the EDP-Statia in which the progress of the projects and activities will be the main focal point. Some external support for the frequent monitoring of the results and effects of the program is necessary. Where CBS will provide up-to-date figures in a consistent database that feed the economic model, Statia government officials will need some training & support to use the model for monitoring and evaluation purposes. A small budget is included in the implementation cost.