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PROGRAMME PLANNING

Country and intercountry programmes and projects

FIRST COUNTRY PROGRAMME FOR ARUBA\*

<u>Programme period</u>	<u>Actual resources programmed</u>	<u>\$</u>
1987-1991	IPF for 1987-1991	364 000
	Other resources programmed	-
	Total	364 000

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\*Detailed listings of projects and other related data prepared as part of the country programming exercise are available on request. These listings include: (a) ongoing projects; (b) proposed projects; (c) distribution of resources by objective; (d) planned activities of operational funds and programmes under the authority of the Administrator; (e) distribution of new country programme by sector.

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## I. NATIONAL DEVELOPMENT STRATEGIES AND TECHNICAL CO-OPERATION PRIORITIES

### A. Current economic trends

1. Aruba is the most westerly of the Leeward Islands in the Netherlands Antilles. It lies 67 kilometres west of Curaçao and 24 kilometres north of Venezuela, covering an area of 181 square kilometres. The capital, Oranjestad, contains about one-third of the island's 63,000 inhabitants. The soil is generally rocky with little vegetation.

2. On 1 January 1986, Aruba will be granted "status aparte", thereby becoming an autonomous state within the Kingdom of the Netherlands, separate from the rest of the Netherlands Antilles (Curaçao, Bonaire, St. Martin, Saba and St. Eustatius). Matters such as social, cultural, financial, economic and monetary policies will be defined and implemented internally. All economic data for Aruba, previously included in analyses of the Netherlands Antilles as a whole, will henceforth be collected by the Government of Aruba and reported separately. It is expected that Aruba will become fully independent of the Netherlands in 1996.

3. During the past two decades, the Aruban economy consisted primarily of three sectors: (a) the oil refining industry, which included one large refinery; (b) tourism; (c) the public sector. The economic activities involved in these sectors provided about 50 per cent of the total employment in 1984.

4. The present economy of Aruba has a narrow, vulnerable base. Aruba's high dependency on the imports of basic consumer and durable goods is mainly the result of its lack of natural resources and of technical know-how and its small internal market. In 1984, the gross national product (GNP) was \$549 million; per capita income was \$8,700; and the rate of inflation was 1.8 per cent.

5. One result of the rationalization of global operations in the Exxon Corporation was the sudden closure, in March 1985, of the island refinery, the Lago Oil and Transport Co. Ltd.. This completely dislocated the economy and left a large gap in Government revenues, employment, and foreign exchange earnings. In the past two years, Lago contributed directly about 50 per cent of the total foreign exchange earnings, 6 per cent of the total employed labour force, and about 70 per cent of the current income of the Government.

6. Because of Aruba's limited resource base and the length of time needed to diversify the production structure, tourism remains, in the short term, the main source for generating foreign exchange and employment.

7. According to Government planning figures, the overall growth of the Aruban economy is expected to be slow in the future. Based on Government projections, a crisis is expected in 1986, to be followed by two years of

gradual recovery. In order to achieve this recovery, the Government needs to implement a package of measures including tax increases, cuts in subsidies, wage reductions, and the reorganization of public finance and Government services. The Government of Aruba must also obtain external loans of about \$100 million and achieve tourist growth of 10-15 per cent yearly to compensate for losses in the oil sector. If measures are not implemented soon, continued contraction in economic activities will reduce the GNP in 1986 by 32 per cent compared to its 1985 level; personal disposable income will drop by 22 per cent, according to Government estimates.

8. The greatest impact on public finance will come in 1986, when tax revenue collected from Lago and its employees will cease completely. In a relatively short period, the Government of Aruba must implement emergency measures to strengthen Government revenue and reduce expenditures and introduce a new rationality into the planning of public finance. Consequently, major efforts on the part of the Government are expected to be made in (a) reforming public finance; (b) expanding the tourism sector; and (c) maximizing the resources obtained from development aid, which comes primarily from the Netherlands and the European Economic Community (EEC).

#### B. National development strategies

9. The economy of Aruba is presently in a state of flux, owing to the closure of the Lago Oil Refinery at a time when Aruba is about to attain "status aparte". Such a status requires that Aruba be responsible for its own affairs rather than depend on the Central Government of the Netherlands Antilles in Curaçao, as in the past. Therefore, at a time when Aruba is to take many first steps, there is an unexpected downturn in its economy, requiring a re-ordering of development objectives and needs.

10. UNDP project NAN/83/002, Economic planning, is developing a national plan for implementation in 1986. Meanwhile, in the absence of a current national plan, the Government has identified the following development objectives: (a) increase income; (b) increase employment; (c) diversify the structure of production.

11. In order to achieve these objectives, the most important development strategies will be to (a) fortify and expand the tourism sector; (b) increase agricultural and fishery production; and (c) strengthen the industrial sector.

#### Tourism

12. Tourism is currently Aruba's main source of foreign exchange earnings and employment. During the past 15 years, the growth in this sector has to a large extent absorbed the loss of employment in absolute numbers, but not the highly skilled employees who have been forced to seek employment outside Aruba. The decline in Venezuelan tourists since 1983, due to the devaluation of the bolivar, has interrupted years of a steady growth rate in the number of

tourists visiting Aruba, especially those in the higher income brackets. This has had severe consequences for the local trade sector as shops and businesses were forced to lay off labour or close completely. Other tourist markets were immediately explored to compensate for this loss and were found through an increase in promotional activities aimed at tourists from the United States of America. However, the per capita expenditure rate of U.S. tourists has tended to be lower than the per capita expenditure rate of Venezuelan tourists.

13. With a feasible annual growth rate of 25 per cent in room capacity, the tourist sector has the greatest absorption capacity. The average annual growth rate, in terms of the number of tourists, has been around 3.2 per cent in the past five years and is expected to increase to 10 per cent annually as the sector expands. Hence, it is a Government priority to assist in facilitating the expansion of this sector by means of tax concessions and other incentives.

#### Agriculture and fisheries

14. Despite Aruba's lack of natural resources and presently unfavourable economic conditions, the expansion of agricultural and fishing activities is strongly supported by the Government, since it would increase employment and lead to savings in foreign exchange through import substitution. In the long run, an estimated 500 people could be directly employed, with a productivity capable of assuring an acceptable standard of living. However, increased efforts in investment and technical support are needed to identify viable projects, especially in view of Aruba's limited arable land and high labour costs.

#### Industry

15. One of the main objectives of the Government is to increase its overall level of competitiveness by diversifying its current weak structure of production and reducing its dependence on the external sector. By introducing a variety of tax incentives, the Government intends to stimulate the establishment of different industries, especially assembly and import-substitution industries. However, the immediate expansion of this sector is limited by lack of capital, technical know-how and the fact that the internal market is small.

#### C. Technical co-operation priorities

16. In the absence of a national plan, there is no mechanism through which to identify Aruba's total technical co-operation needs. One objective of project NAN/83/002, Economic planning, is to advise the Government on how to assess such needs. Another objective is to locate sources of financing the future projects aimed at strengthening Aruba's economic position following the present period of transition.

17. During the drafting of the country programme, the Government established the following overall needs and priorities:

(a) Tourism. Identification of new markets to offset the loss of tourists from Venezuela; development and expansion of tourism-related industries; and incentives through legislation to facilitate the expansion of the tourism industry;

(b) Agriculture, animal husbandry and fisheries. Planning for expansion in this sector; training of farmers in increasing crop yields and livestock; incentives to expand the sector; and studies on import substitution;

(c) Industry. Studies on industrial promotion; identification of new areas for expansion of this sector; advisory services on investment promotion; tax incentives through legislation and advisory services on import-substitution industries.

#### D. Aid co-ordination arrangements

18. Netherlands aid totals about \$7.5 million annually. Aid from the EEC totals about \$5 million over the five-year period 1987-1991. To assist Aruba in the present financial crisis caused by the closure of the Lago Oil Refinery, the Netherlands Government will give Aruba a loan totalling \$33 million over a three-year period. In meeting the requirements for the above areas of technical assistance, the Government will depend primarily on the IPF resources of UNDP, totalling \$364,000, as well as on other sources of funding from the United Nations system. As assistance from the Netherlands Government and the EEC will concentrate on capital investment and/or lines of credit, it is unlikely that funds will be used from these sources for technical assistance needs. No formal arrangements currently exist between UNDP and other donors outside the United Nations system for effecting co-ordination. The Aruba Government itself carries out such co-ordination through the Department of Economic Development.

## II. THE COUNTRY PROGRAMME

### A. Assessment of current country programme

19. The fourth cycle country programme (1987-1991) will be the first for Aruba in its new, autonomous status. Therefore, the assessment of the ongoing country programme is based on projects executed in Aruba during 1982-86 as part of the third cycle country programme for the Netherlands Antilles.

20. The broad development objectives of Aruba during 1982-86 were essentially those of the Netherlands Antilles as a whole, namely to increase the standard of living and reduce unemployment. Additionally, a distinct objective was to strengthen the capacity of the Government of Aruba to be more self-reliant in public and development administration.

21. There were three projects in Aruba during 1982-86, totalling \$778,694, of which \$360,000 (excluding overhead) was financed from Government cost-sharing. In terms of sectoral breakdown, 76 per cent was in general development issues, policy and planning, with the remaining 24 per cent in employment. Of the \$3.3 million country programme commitment by the Netherlands Antilles during 1982-86, including cost-sharing, the Aruba commitment represented 24 per cent of total programme resources.

22. Project NAN/80/002, Social planning, which was completed in 1983, had as its objective to assist the Government in establishing social planning by developing an inventory of the social sector, analysing the findings, and preparing a plan of action consistent with the Government's overall objectives. Upon completion of the project in 1983, a Planning Unit was set up in the Department of Economic Development and the technical skills of the national staff were upgraded with the assistance of an expert.

23. To build on the data gathered and to implement the recommendations made by the social planning project, the Government expanded the Planning Unit to include economic planning. Accordingly, project NAN/83/002, Economic Planning, was approved in 1983 and will continue through 1986. Phase II of the project is expected to start in early 1987.

24. The economic planning project has as its objective to assist the Government in preparing short-, medium- and long-term plans. The project has seven counterpart staff who are being trained by two international experts. Substantive studies have been prepared for review by Government officials to determine economic policies on: (a) the impact on the economy of the closure of the oil refinery in Aruba; (b) the identification of new areas for economic growth; and (c) the establishment of short- and medium-term studies related to Aruba's new status in 1986 and the economic policies related to that change.

25. In responding to the Government's goals of increasing employment and generating income, project NAN/83/003, Silkscreen printing, was approved in October 1983. Twenty nationals are being trained in the skills needed for the manufacture of local crafts for sale. Assistance has also been given to nationals to develop their own craft industries. Upon the departure of the expert in 1985, trained counterpart staff have assumed the responsibilities for production. The overall management of the project will continue to be under the local manager.

### Conclusions

26. Despite the island's comparative remoteness and the fact that there is no UNDP office in Aruba, the overall programme has been successful in terms of inputs delivered and outputs originally expected. Specifically, adequate numbers of counterpart staff were available to be trained. Equipment for project NAN/83/003, Silkscreen printing, arrived late, thereby delaying training and project implementation.

27. As most of the programme's costs were met through Government cost-sharing, payment in advance facilitated the implementation of project activities, especially in the recruitment and identification of counterpart staff.

28. The excellent rapport existing between the technical departments in Aruba and Curaçao contributed greatly to the swift channelling of requests from Aruba through the Central Government of the Netherlands Antilles for technical assistance from the United Nations system.

#### B. New programme proposal

29. To assist in meeting the objectives of the Government described in paragraph 10 above, technical assistance in the following development objectives identified by the Government during its consultations with UNDP will be required: (a) expansion of tourism and related industries; (b) increase in agricultural and fisheries production; and (c) strengthening of the industrial sector.

#### Expansion of tourism and related industries

30. To offset losses in income and employment from the closure of the Lago Oil Refinery, the expansion of tourism and its related industries will be an important objective of the country programme. Development of this sector will also have linkages with other sectors such as agriculture, fisheries, and light manufacturing. Although tourism alone cannot sustain the economy at its high level of the 1970s, it is the most viable sector to develop at present to stem the decline in the economy of Aruba until other sectors are identified and developed.

31. In the area of tourism, UNDP technical assistance will be required for the training of personnel in the marketing aspects of tourism as well as in the development of small-scale industries, e.g., handicraft, related to the tourism sector. Advisory services will be necessary regarding expansion of the tourism sector. Assistance in the identification of tax incentives to promote investment is also required.

32. Pipeline proposals and ideas in this sector are:

- (a) advisory services to identify new markets;
- (b) advisory services on new handicraft designs and manufacture;
- (c) advisory services on investment promotion through tax incentives;
- (d) training of nationals in tourism promotion.

33. UNDP assistance will be complementary to the requests from the Netherlands Government or EEC for capital investment or credit lines required during Aruba's period of transition, in particular to carry out its responsibility for infrastructure development related to tourism.

34. No programmed reserve is envisaged for this objective.

Increase in agricultural and fisheries production

35. As Aruba imports 95 per cent of its food, a major effort of the Government will be to reduce these imports through increased agricultural production and import substitution. Given the limited amount of arable land, it is essential that the maximum produce be achieved through techniques to expand productivity. The methods presently used for fish and livestock breeding must also be enhanced to increase present yields.

36. In order to utilize the available resources in Aruba effectively, the Government requires assistance in agricultural planning and the setting up of the necessary institutions for its agricultural activities. In addition, technical assistance will be requested from UNDP for advisory services to assess the needs in the agri-horticultural sector; the use of catchment areas to harness run-off water for irrigation purposes; improved planning and marketing by local food producers; control of the use of ground water through legal and administrative procedures; poultry, livestock and fishery development; and development of agro-industries.

37. UNDP assistance will complement the activities of the Netherlands Government and EEC in financing for water catchment development and the supply of farm machinery and insecticides.

38. No programmed reserve is envisaged at this time.

Strengthening of the industrial sector

39. To achieve its objective of diversification and strengthening of the economy, the Government of Aruba needs to identify new industries to generate income and increase employment. As Aruba is basically a service-oriented society with high labour costs, the need to develop new manufacturing and service industries on a competitive basis is crucial in order to alleviate the high unemployment recently aggravated by events in the petroleum-processing sector.

40. UNDP will be requested to provide advisory services to help accelerate the pace of industrial development and diversification in Aruba. In the development of agro-industries, technical assistance will be required from UNDP in identifying such industries and assessing their potential.

41. To assist Aruba in small-scale industry development, advisory services will be required to identify new manufacturing possibilities. Assistance will be required to analyse the investment promotion potential as well as to advise on how to institutionalize industrial investment promotion activities. Consultancies will be needed to advise on how Aruba can benefit from participation in the Caribbean Basin Initiative (CBI) and the EEC. Based on



studies and recommendations made at the macrolevel by the Economic Development Department, advisory services will be required to identify projects at the microlevel, which will help to diversify the economy.

42. UNDP technical assistance will complement the activities of the Netherlands Government and the EEC involved in establishing tax-free zones, building industrial halls and investment promotion. In this regard, the United Nations Industrial Development Organization (UNIDO), is expected to provide advisory services to Aruba under its Special Industrial Services (SIS) programme to assist in identifying new areas for industrial diversification.

43. UNDP will be asked to continue its co-operation in social and economic planning on the strength of its past assistance to Aruba. Specifically, project NAN/83/002, Economic planning, will be expanded into Phase II, with new objectives to include areas such as sector and project identification with a view to promoting the country's investment potential.

44. No programmed reserve is envisaged at this time.

#### Linkages

45. During the third programming cycle, Aruba had the benefit of visits by regional advisers from the International Telecommunication Union (ITU), the United Nations Industrial Development Organization (UNIDO), the International Labour Organisation (ILO), the World Meteorological Organization (WMO), and the United Nations Department of Technical Co-operation for Development (UNDTCD) to advise on the respective sectoral responsibilities which would be assumed on the achievement of "status aparte". Efforts are now under way to initiate Aruba to the benefits of Technical Co-operation Among Developing Countries (TCDC) through a hotel training programme to be held jointly with Suriname. In view of its new status, Aruba will now participate separately in UNDP regional projects. As a consequence of the new status, efforts will be made during 1986 to expose Aruba to the whole spectrum of the technical co-operation possibilities within the United Nations system. As a start, the Director for Development Co-operation will undertake, in early 1986, a study tour, facilitated by the the UNDP/TCDC Unit, on technical assistance.

#### C. Unprogrammed reserve

46. An unprogrammed reserve of \$36,400, or 10 per cent of the IPF, is being earmarked for unforeseen needs during the fourth cycle to allow for new programme initiatives.

Annex

## FINANCIAL SUMMARY

## I. ACTUAL RESOURCES TAKEN INTO ACCOUNT FOR PROGRAMMING

A. <u>UNDP-Administered sources</u>	\$	\$
Third cycle IPF balance	-	
Fourth cycle IPF	364 000	
Subtotal IPF		364 000
Special Measures Fund for Least Developed Countries	-	
Special programme resources	-	
Government cost-sharing	-	
Operational funds under the authority of the Administrator	-	
UNDP special trust funds	-	
Subtotal, UNDP non-IPF funds		364 000
 B. <u>Other Sources</u>		
Funds from other United Nations agencies or organizations firmly committed as a result of the country programme exercise	-	
Parallel financing from non-United Nations sources	-	
Subtotal, other sources		-
 TOTAL ACTUAL RESOURCES TAKEN INTO ACCOUNT FOR PROGRAMMING		<u>364 000</u>

## II. USE OF RESOURCES

Ongoing projects	25 000	
New project proposals	302 600	
Programmed reserve	-	
Subtotal, programmed resources		327 600
Unprogrammed reserve		<u>36 400</u>
 TOTAL USE OF RESOURCES		<u>364 000</u>

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