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ORGANISATION OF EASTERN CARIBBEAN STATES

PROPOSAL

for

EASTERN CARIBBEAN DEVELOPMENT FACILITY

for the

OECS STATES

Organisation of Eastern Caribbean States
Economic Affairs Secretariat
February 1986

This document is based upon the very intensive efforts of officials of the OECS Economic Policy Review Committee. Having, in a very short space of time, to put together a document of this kind, involving preliminary summary country programmes for each of the countries and requiring a consensus on important policy issues, makes it inevitable that the document is less than definitive on every issue which it addresses. We believe however that the document is generally sufficiently precise on the issues, and on governmental intent, to permit of an early decision by donors in regard to the establishment of the proposed Eastern Caribbean Development Facility.

Economic Policy Review Committee

Organisation of Eastern Caribbean States

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PROPOSED EASTERN CARIBBEAN DEVELOPMENT FACILITY FOR THE OECS STATES

S U M M A R Y

OECS Member Governments wish to propose to the Caribbean Group for Cooperation in Economic Development, the establishment of an Eastern Caribbean Development Facility for the OECS States. This Facility is intended to provide urgently needed financial resources to eliminate the constraining budgetary problems now adversely affecting the countries' development efforts and to facilitate the implementation of structural adjustment measures for the accelerated growth of the economies of the OECS states. OECS Governments are of the view that unless a special facility of the kind being proposed is established as a matter of urgency, their countries could face social and economic disruption within the next few years.

OECS Governments are of the view also that with the additional special assistance now being requested of the donor community, within a period of five to six years their economies could be set firmly on a path of adjustment and self-sustaining progress. This proposal is to be viewed within the context of what appears to be a drying-up of concessionary development capital from traditional sources such as the International Development Association, alongside the ineligibility of these countries for the ordinary financial resources of the World Bank.

Donors are being requested to pledge an amount of approximately US$130 million to be drawn down over a five-six year period to 1991 to meet projected gaps in needed financial resources. This amount is in respect of all seven Member States of the OECS.

All seven Member States of the OECS wish to be parties to the agreement relating to the establishment of the proposed Eastern Caribbean Development Facility, actual access to which will be triggered by a formal application of the World Bank as custodian of the Facility. The Facility will be managed by a Management Committee to consist of representatives of the World Bank, the Eastern Caribbean Development Bank, the Caribbean Development Bank, and the OECS Economic Affairs Secretariat. Approval of countries' applications for access will be conditional upon agreement between the countries and the Management Committee on an economic policy programme to be implemented over an agreed period of time. This programme will include an agreed schedule for drawdown by the countries in amounts that will have been agreed between the parties.

More precise indications of the projected gaps for each Member State over the period to 1991 are contained in the preliminary summary country programmes which are included in this document.

PART A

PROPOSAL FOR EASTERN CARIBBEAN DEVELOPMENT FACILITY (ECDF) FOR OECS STATES

1. BACKGROUND

The OECS States have been experiencing severe economic difficulties over the past decade. Rising import prices accompanied by declining prices for their major export commodities have resulted in deteriorating terms of trade. Recession and protectionism in their major export markets have contributed to a volume decline in their export trade. Recession has also contributed to a reduction in the availability of concessionary finance, and in the flow of private capital and migrants' remittances into the OECS countries. Natural disasters in these small countries have served to emphasize the fragility of their economic bases, and to exacerbate their difficulties. These difficulties were being experienced at a time when the countries were required to bear the increased costs associated with constitutional independence--defence, external affairs, and membership of international agencies.

In these circumstances, governments have had little choice but to attempt, through public sector initiatives, to maintain some growth momentum, and to provide the infrastructure and the climate for foreign and domestic private investment.

This resulted in a burgeoning of external public debt which climbed from US$75 million or 21.5 per cent of gross domestic product (GDP) in 1978 to US$216 million or 44.5 per cent of GDP by the end of 1984. Similarly, central government current expenditures as a percentage of GDP increased from 25.9 per cent in 1978 to 38.8 per cent by 1984, and the overall deficit soared from 0.2 per cent in 1978 to 21.1 per cent in 1984.

The countries experienced cutbacks in their public sector investment programmes because of arrears difficulties and the inability to mobilise funds to provide necessary counterpart finance for capital projects.

There was a budgetary surplus of 0.3 per cent of GDP in 1978, but by 1984 there was a deficit of 1.4 per cent. (See selected economic indicators for 1978-1984 at Table 1.)

TABLE 1: OECS Selected Economic Indicators 1978-1984

	1978	1979	1980	1981	1982	1983	1984
National Accounts							
GDP Growth (%)		6.5	7.8	4.1	2.7	1.1	3.9
Investment/GDP (%)		...	44.2	42.7	38.6	32.4	41.7
Public Investment/ GDP (%)		...	14.2	15.8	14.5	16.2	25.5
Private Investment/ GDP (%)		...	28.3	25.9	23.4	24.5	16.3
Domestic Savings/ GDP (%)		0.9	2.0	3.5	1.6	5.3	7.5
Public Finance							
Central Government Current Expenditure/ GDP (%)	26.2	28.4	28.2	28.3	29.2	30.5	38.8
Current Expenditure on Defence & Public Order & Safety/GDP (%)	3.2	3.2	3.1	3.2	3.4	3.8	...
Central Government Current Account Surplus/Deficit/ GDP (%)	0.3	(0.3)	0.6	(0.6)	(0.1)	(0.7)	1.4
Overall Deficit/GDP (%)	1.3	0.4	4.9	7.7	7.5	4.9	21.1
External Public Debt/GDP	16.9	24.4	24.0	28.8	31.6	38.1	44.5
Debt Service Ratio	1.8	2.5	3.5	5.2	...	3.6	9.6
Public External Debt Service/ Government Expenditures		4.9	4.5	6.0	4.8	...	8.3
External Account							
Terms of Trade	100.0	98.7	87.3	89.4	88.8	90.9	...

The current fiscal problem of the OECS States is neither new nor unique to these countries. Following the oil crisis of 1973, these countries experienced similar problems in not being able to meet their current obligations to regional institutions and to generate sufficient current revenue to provide the necessary counterpart funds to externally financed capital projects. The Governments of the United Kingdom, Trinidad and Tobago, and Nigeria responded in 1976 with the establishment of two programmes in the Caribbean Development Bank (CDB):

i) Counterpart funds for Capital Projects; and

ii) Emergency Funds to Eliminate Arrears to Regional Organisations.

These programmes were intended to address what were considered to be temporary problems. These programmes were most successful in enabling the countries to sustain their development programmes and to meet their recurrent obligations to such regional bodies as the University of the West Indies. Both programmes are being adequately serviced - the latter through direct payments by appropriations from the profits of the Eastern Caribbean Central Bank (ECCB).

Three of the other CARICOM countries, notably Jamaica, Guyana and to a lesser extent Barbados, experienced the same problems. Because of their more permissive monetary arrangements, these governments were able to sustain economic activity for a while by generous money creation. Given the high import ratios in these countries, this strategy impacted negatively on the foreign reserves.

This led to the creation of a Special Caribbean Development Facility (CDF) for Barbados, Guyana, and Jamaica within the framework of the Caribbean Group for Cooperation in Economic Development (CGCED). No such facility was established under the CGCED countries for those other Caribbean countries (OECS) whose economic problems were evidenced not on the external account but in fiscal and economic contraction. Further, it was found necessary to extend this CDF support to the larger countries for longer than the three to five-year period originally envisaged.

Thus, while most CGCED beneficiary countries experienced similar economic problems, the OECS States were not provided with amounts of assistance comparable to those received by other CARICOM States. For the past seven years the OECS States have managed to withstand the worst ravages of economic recession; but the accumulated pressures have begun to be felt on the fiscal account, on the countries' overall economic performance and on their capability to seriously come to grips with the structural problems of their economies.

2. PROPOSAL

Fully resolved to implement economic policies for bringing about the structural adjustment of their economies, yet conscious of the need for significant amounts of concessionary external financial support for this purpose, the OECS States propose the establishment of an Eastern Caribbean Development Facility for the use of these countries.

Specifically, the international community is being requested to:

i) make available additional resources for the creation of an Eastern Caribbean Development Facility for the OECS countries from which countries can draw resources on concessionary terms, over a stated period of time, to finance gaps on their current fiscal and external accounts arising from the implementation of a structural adjustment programme;

ii) accept as the criterion for eligibility for borrowing under this Development Facility, an agreed strategy for structural adjustment.

3. JUSTIFICATION

Over the past five years certain donors have contributed significantly to the development of the OECS countries. The CGCED has helped to facilitate the flow of resources and has contributed to giving a structural adjustment focus to the countries' development efforts. Significant progress has been made in the economic performance of the countries. Assistance has so far been linked with specific projects and there has been one case of sector lending.

Notwithstanding the progress so far achieved, the OECS countries still face serious economic problems, many of these problems attributable to the special characteristics and vulnerability inherent in small-island economies. If these countries are to achieve self-sustaining growth, they have to overcome the severe structural problems inherent in their economies.

Project assistance will continue to be needed in order to continue the process of building the necessary infrastructure. Yet, additional amounts will be required to support more comprehensive adjustment policy packages. For one thing, some projects for which donor financing has been identified fail to get started for want of local counterpart funds and for resources for debt servicing. Delays arising from difficulties in generating counterpart funds and in satisfying conditionalities associated with debt servicing are holding back implementation of essential development projects and adding to their costs.

The Facility will provide a financing mechanism complementary to project lending. It is a temporary arrangement designed to allow the OECS countries some breathing space and non-conventional financing to extricate themselves from the economic difficulties which are hampering their economic progress and their utilisation of available donor and institutional financing for projects. It will help to minimise, to tolerable levels, the social and economic dislocations associated with the implementation of structural adjustment programmes. At the same time, the framework proposed for this Facility allows cost savings in the administration of aid and minimises the duplication of aid donor effort. Additionally, it provides a multilateral and focussed arrangement involving both the donors and the recipients where national and regional issues can be meaningfully and realistically addressed.

4. STRUCTURAL ADJUSTMENT ISSUES

The Member States of the OECS commit themselves to taking action on a number of economic policy areas with a view to placing their economies on a sound structural footing bolstered by appropriate fiscal and economic policies. The programmes of structural adjustment as envisaged by the countries relate to the following:

i) policies for the development of the productive sectors;
ii) fiscal reform;
iii) monetary and exchange rate policies;
iv) wages and salaries policies;
v) trade, tariff and export promotion policies;
vi) public administrative reform;
vii) common services.

What follows is intended to give an indication of the issues relating to the structural adjustment of the OECS countries at the national and regional levels and the approaches being adopted by the countries to come to terms with these issues. The preliminary summary country programmes for each of the OECS States and comprise an essential part of this document; they give a more precise indication of the policy issues to be addressed at the respective national levels.

I) Policies for the Development of the Productive Sectors

a) The Problem

The productive bases of the economies of the OECS States are marked by over dependence on a narrow range of export commodities and services. Given the predominance of, variously, bananas, sugar and tourism in these countries, their production structures can be described as monocultural. More so, this traditional export agriculture is affected by relatively high cost, a consequential lack of competitiveness, and an endemic dependence on protected access to traditional markets, or at any rate on the vagaries of international commodity prices. The banana and coconut industries are particularly vulnerable to forces majeures and tropical diseases, circumstances which render the economic fabric of some of the islands tenuous. Yet the large measure of dependence of these economies on traditional export agriculture's significant contribution to growth, employment and export earnings, gives rise to a strong vested interest in its preservation, and to some extent may have weakened enthusiasm for agricultural and sectoral diversification. Traditional agriculture itself has too little dynamism for significantly increasing its output or for increasing its contribution to the development process.

b) The Adjustment Imperative

In regard to the structural pillars of the economies, the adjustment objective must be to place these economies on a sounder, less fragile footing. The policy imperatives are of two kinds:

i) increasing the productive efficiency of traditional agriculture to improve its cost-competitiveness; and

ii) broadening the productive bases of the economies through sectoral and agricultural diversification.

The adjustment objective is the achievement of an appropriate sectoral balance between agriculture, (including non-traditional agriculture), manufacturing, tourism and other services. It calls for a comprehensive export strategy, to include components of economic policy and institutional change. In sum, the entire policy basis for change in the productive sectors is to be given an export orientation.

iii) Progress

OECS governments have for some time now been sensitized to the need to diversify their economies and to increase the efficiency of their agriculture and, with the support of regional and international technical assistance, they have taken steps towards systemic change in these directions. A tremendous amount of work has gone into improving the quality and output of traditional agriculture, investigating possible alternative uses for bananas, and into crop diversification. The groundwork is being laid for increasing the scope for scientific development of traditional and non-traditional export agriculture.

In regard to the manufacturing sector, work is currently in train to develop a set of comprehensive industrial strategies for the OECS countries, with an explicit up-front export orientation. At the wider CARICOM level, efforts are well advanced towards identifying the region's export supply potential and to develop industries with identified export potential. A number of projects have commenced geared towards the agro-industrial development of the economies - an area where considerable potential is thought to reside.

The development requirements of the tourism sector, including intersectoral linkages, are being addressed, tourism sector strategies for the OECS countries are being prepared with the assistance of CIDA.

CIDA now appears committed to embarking on a comprehensive approach to agricultural diversification in the OECS countries; a similar approach to the manufacturing sector is being coordinated by the CDB. Detailed information is still to be obtained on the coverage and approaches of these studies. Through the IARM and OECS formulation of industrial strategies will continue. The opportunity of the Lome III Convention will be taken to pursue identified activities in all the productive sectors.

Complementary of these various activities, efforts will continue towards formulation of, and agreement and comprehensive export strategies for the OECS countries.

II) Fiscal Reform

a) The Problem

The fiscal systems in the OECS countries are generally weak. They are characterised by inadequate control of public expenditure, less than efficient resource mobilization, and inefficient public sector agencies. This situation results in a generally inadequate fiscal performance, manifested in an insufficient contribution of domestic resources to the development effort, and a corresponding near-total dependence on donor and other external financial resources.

b) <u>The Adjustment Imperative</u>

Measures must be put in place that will improve expenditure control, resource mobilization and public sector efficiency.

Improved expenditure control is expected to be achieved through:

i) improved financial programming and planning on current and capital account;

ii) improved cash budgeting and accountability;

iii) improved budget preparation, including improved estimation of resource requirements; and

iv) development of a capability for effective public sector investment programming, including projecting the recurrent budgetary implications of the public sector investment programme.

Improved resource mobilization is expected to be achieved through:

i) reforming all major tax laws and procedures to expand the tax base, eliminate loopholes and allow for improved tax and customs administration;

ii) undertaking a comprehensive review of the policy and administration of all fiscal incentives with the aim of minimizing their revenue cost;

iii) introducing and maintaining a continuous comprehensive programme of in-house and overseas training in all professional areas of fiscal policy and taxation; and ensuring adequate staffing at all levels, especially in revenue departments;

iv) renegotiating double taxation arrangements to ensure that income accruing to non-residents pays a fair share of taxes;

v) reviewing the user charges for public services to reflect the cost of providing these services.

Improving efficiency of public sector agencies is expected to be achieved by:

i) eliminating hidden subsidies such as duty exemptions on imports and free public utility services;

ii) establishing transactions between Central Government and such agencies on a commercial basis where applicable and discharging all indebtness to government of such agencies;

iii) introducing a regime of pricing of public utility services which is calculated to enable such services to meet their operating costs and make a contribution to their long term development.

III) Monetary and Exchange Rate Policies

a) The Adjustment Imperative

Three dimensions of a programme of change in monetary and exchange rate policies can be identified. The first relates to the changes to be effected in interest rates and credit instruments. The second concerns the development of an active exchange rate policy, and the third deals with the regional aspects of these policies.

Interest rates and credit instruments are required to achieve increased mobilisation and retention of domestic savings; and greater use of such savings in socially and economically desirable investments.

The development of an active exchange rate policy is aimed at providing support to production policies and to trade liberalisation measures for strengthening the balance of payments and thereby increasing the return on production for export.

These policies will be designed in the context of increasing harmonisation at the sub-regional level by the Monetary Council of the Central Bank. In so far as this harmonisation needs to be made consistent with trade liberalisation measures taken either at the OECS or CARICOM levels, care will be necessary to exploit substitutability and/or complementarity between exchange rates and tariffs as adjustments measures.

b) <u>Progress</u>

There has been progress towards the use of monetary instruments and the development of the structure of the financial environment. Interest rate policy, in so far as it affects the rate of return to small savers, has been adjusted to increase rates of return to small savers and to make more uniform the conditions to which minimum rates of return apply. Information on effective rates of interest on loans is now communicated to borrowers and to the Central Bank to ensure greater competitiveness among lending institutions. Exchange control conditions are being increasingly harmonised and a Uniform Banking Law for application to all the countries is now under consideration by the various countries. It is expected that this umbrella law to harmonise arrangements for supervision of the financial institutions will be enacted in 1986.

The exchange rate issue is being addressed. Some preliminary work on this issue was carried out by the International Monetary Fund two years ago, and produced results which were inconclusive. The Eastern Caribbean Bank's more comprehensive examination of the issue is quite advanced. The effects of possible variations in the exchange rate on the economies of the Member States have been studied in detail.

The studies have produced several important results. The first is that there are sufficiently significant differences between the countries to make it necessary to consider mechanisms and wider approaches which can reconcile the various interests of the countries. Some countries that are heavily reliant on export agriculture can possibly benefit from an exchange rate change, while those with more secure tourist markets may not require a change in the rate to maintain rapid growth in tourist activity.

The second is that the budgets of a number of countries can be adversely affected by an exchange rate change either because of relatively large external debt obligations or because of inadequate control over wages. The third is that undue burden cannot be place on the exchange rate and that the package of measures should include approaches to ensure growth. In that context, the exchange rate can be effectively combined with fiscal measures, investment programmes and other trade promotion measures.

The Board of Directors of the Eastern Caribbean Central Bank has indicated to the Governments the need for specific fiscal measures which are necessary for managing the economies in an environment in which currencies of the trading partners of the OECS countries are subject to wide fluctuations. In the meantime, the Central Bank is exploring the feasibility of mechanisms which can, at the very least, bring benefits to all the countries if an exchange rate change were to be made.

The results of the ECCB study are to be considered at the next meeting of the Monetary Council of ECCB scheduled for April, 1986.

IV) <u>Wage/Price Policy</u>

Each of the country programmes stresses the importance of taking explicit and direct action to keep increases in public sector wages and salaries in check. It is recognised that increases in the level of public sector wages and salaries can adversely affect:

1. the ability of the countries to increase public sector savings;

2. export-competitiveness;

3. the ability to maintain the exchange value of the domestic currency.

Generally, the countries will seek to keep increases in public sector wages and salaries in an appropriate relationshp to rates of inflation and to seek to have this accepted as the pattern for the entire economy. It is proposed to enter into discussion with private sectors and trade unions with a view to obtaining agreement on a social contract relating to the issues of (i) wages, (ii) prices, (iii) employment and (iv) productivity.

The Governments, in their efforts to deal directly with the issue of wages and salaries, productivity and unemployment, are conscious of the cultural and sociological dimensions of the issue and will be attempting to deal with it from a multi-disciplinary perspective.

The task in manifold. There is the educational dimension which relates to the need to embark on well designed training programmes to improve skills. It also requires education of management to consider changes in operating and remunerative systems that are consistent with necessary changes in work practices. Workers must also be trained to undertake more difficult tasks, to assume more responsibility and to learn how to increase the output of their activities.

Wages policy is one which involves delicate adjustment, particularly when a sharp exchange rate may be contemplated as a means of lowering the real wage in order to increase export competitiveness.

Success in this effort will be demonstrated in the way in which lower living standards are tolerated when currency swings are adverse. In contrast, sharp exchange rate changes to reverse the effect of those currency swings often cause social upheavals.

The Governments of the OECS States now have an increased awareness of these ramifications and this is reflected in the summary country programmes.

V) <u>Trade, Tariff and Export Promotion Policies</u>

a) <u>The Problem</u>

Deriving from their membership in the Eastern Caribbean Common Market (ECCM) and the Caribbean Common Market there is an inevitable regional dimension to the OECS countries' approaches to, and strategies for structural adjustment. To some extent this constitutes both an opportunity for, and a constraint on their ability to implement particular structural adjustment measures.

The countries' membership of these common market arrangements implies a commitment to certain common policies relating not only to exchange rates but also to trade and tariff policies, and to working towards harmonised fiscal, investment and sectoral development policies.

The problem here is that action on some of these measures including those relating to trade and tariffs, requires agreement by all members of the respective common markets. The opportunity is that certain kinds of measures are more acceptable in any one country when they derive from larger region-wide decision-making, to which all of the Member States are parties. Policy on regional issues such as the common external tariff and effective rates of protection require that the circumstances of every individual member of the grouping be taken into account prior to taking joint decisions.

In regard to export promotion there is under utilized scope for national action in regard to policy and institutional arrangements.

b) <u>The Adjustment Imperative</u>

Action in regard to trade liberalization requires a critical re-examination of the rationale for and levels of the region's common external tariffs. It requires that a determination be made of an appropriate level of the tariff with particular regard to desirable levels of protection, for domestic industry; it requires that appropriate levels be set in regard to effective rates of protection, in a way that achieves a desirable balance between a country's need for protecting domestic industry and for supporting an export drive.

Another imperative in this area relates to the need to carefully consider the use of the tariff as a possible alternative or complementary measure to exchange rate variation.

Fullest opportunity is to be taken of the scope that exists at the national levels for establishing appropriate policy and institutional measures for bringing about a significant increase in exports.

VI) Public Administrative Reform

a) The Adjustment Imperative

In relation to their public administrations, the adjustment objective must be the following:

i) to critically examine the existing structure, organisation and management of the public administrative systems of the countries with a view to determining the extent to which these systems now operate in a manner that is likely to contribute maximally to the countries' social and economic objectives, and in a manner which would be fully supportive of the countries economic strategies;

ii) to carry out a systematic process of reform and restructuring of the public administrations in line with the criteria set out at (i) above;

iii) to embark on a systematic process of manpower development and training through a series of appropriate workshops, seminars and on-the-job training, and generally more beneficial exposure to effective public sector management; both to imbue public servants with a more desirable public service spirit and to provide necessary skills.

Governments accept the need to be sensitized to the importance of pursuing efforts in this area and the need to adopt appropriate strategies for public administrative reform and for a continuing effort at improving the capabilities of their public services.

VII) <u>Common Services</u>

Given the very small sizes of the OECS countries and their shortage of high level manpower, there are a number of instances where specific technical services can be more cost-effectively organised and delivered on a joint or coordinated basis. OECS governments propose to continue to work towards the provision of common services, as appropriate, in areas such as fiscal policy and planning and economic planning advisory services, coordinated planning of agricultural and industrial development, public sector management training, trade policy analysis and advice, and export promotion and development.

5. SIZE, ACCESS AND OPERATING PRINCIPLES

The amount of resources required for the Facility (SDF) will be determined by each country's financing gap over the next six years. Final estimates of these gaps will be worked out in the context of each country's adjustment program and overall financing requirements. However, as a guide to donors of the likely magnitudes, a preliminary projection has been made for the countries using readily available data. All seven OECS Member States expect to be in a position to access the Facility. Preliminary projections of the financing gap in these countries' public sector investment requirements over the six-year period to 1991 point to a required overall size of th Facility of approximately US$136 million or, an average, US$3.24 million per annum. (See Table 2.) A more precise indication of each country's financing gap will derive from the detailed

TABLE 2

PROJECTED FINANCING GAP

OECS STATES 1986-1991 (US$ MILLION)

COUNTRY	1986	1987	1988	1989	1990	1991	TOTAL
Antigua/Barbuda	3.79	3.75	3.56	3.35	3.07	2.81	20.33
Dominica	2.68	3.98	3.05	2.57	(0.40)	0.22	12.10
Grenada	3.00	3.50	4.50	4.00	3.00	3.00	21.00
Montserrat	2.32	1.51	1.93	2.67	2.91	3.20	14.54
St. Christopher/Nevis	2.55	2.21	3.01	3.67	3.41	3.90	18.75
St. Lucia	8.00	6.00	5.00	4.00	3.00	2.00	28.00
St. Vincent & the Grenadines	3.10	3.40	3.80	3.60	3.80	3.60	21.30
TOTAL	25.44	24.35	24.85	23.86	18.79	18.73	136.02

country programmes to be prepared after a country has formally sought access to the Facility.

It is envisaged that access to the Facility will be open to any OECS Member State which embarks upon an agreed structural adjustment programme. It is expected that donors will make pledges to contribute to the Facility in specified amounts, and within two months after the signing of a Memorandum of Understanding, will issue non-interest-bearing demand notes to the World Bank for the full amount of their pledged contributions to the Facility.

It is envisaged that a country intending to access the Facility will make formal application to the world Bank, as custodian of the Facility. This application will indicate the program to be pursued over a specified time-frame, the amount of financing required and the country's willingness to enter into consultations with the World Bank with a view to developing a detailed country programme to be agreed between the country and the Management Committee of the Facility, i.e., the World Bank, the ECCB, CDB and OECS/EAS.

Once the programme has been agreed between the country and the Management Committee, the World Bank would be expected to inform the donors that the programme has been agreed, and would indicate the amount of resources required from them and the schedule for making payments.

It is proposed that within a period of two months after a programme has been agreed, the country will be eligible to drawdown an amount equal to 25 per cent of the required amount under the programme; and that subsequent drawdowns, each in an amount equal to 25 per cent of the total amount, will be made at six-monthly intervals on the basis of satisfactory implementation of the agreed programme, and on the basis of a programme review to be carried out by the Management Committee in consultation with the country.

PART B

DRAFT MEMORANDUM OF UNDERSTANDING
FOR PROPOSED EASTERN CARIBBEAN DEVELOPMENT FACILITY (ECDF)
FOR THE OECS COUNTRIES

1. Name

The Facility is to be known as the Eastern Caribbean Development Facility (ECDF) for the OECS Countries.

2. Rationale

The creation of the proposed Facility will respond to the following challenges:

(a) the insufficiency of conventional financing from traditional institutional and bilateral donor sources to finance economic adjustment and essential social support infrastructure projects;

(b) the short repayment terms and high interest rates generally associated with the limited financing available;

(c) the pending graduation of OECS States from access to IDA concessionary resources and their ineligibility for ordinary institutional resources and commercial credit; and

(d) the recognition that OECS countries are at the cross-roads with the countries' medium-term economic futures dependent on the economic policies which we implement and the programme of external financial support which donors now provide.

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3. Purpose

The purpose of the Facility is to mobilise the concessionary resources necessary to support an economic adjustment programme which will, within five years, place the OECS countries:

(a) in a situation of credit-worthiness for conventional financing;

(b) on a path of self-sustained growth;

(c) at a level of public sector savings of not less than 5 percent of GDP; and

(d) in a position where external arrears are eliminated within five years on the basis of an agreed schedule for repayment.

4. Size of the Facility

The size of the Facility will be the amount of additional unidentified financing required to meet the countries' objectives over the planning period. The requirements are tentatively projected at US$ 136 million over the six-year period but a more precise determination will be made when detailed and comprehensive country-specific economic programmes have been formulated.

5. Contributors

Contributions to the Facility will come from all donors which indicate a willingness to participate and to subscribe to the objectives and principles of the Facility.

6. Terms and Conditions

Interest - 1 percent per annum for the first ten years and 2 percent thereafter.

/3. ...

Maturity	-	Forty years inclusive of a ten-year grace period after first disbursement.
Repayments	-	One hundred and twenty equal quarterly instalments beginning from year II after first disbursement.
Currency of Loan	-	Loan amount will be denominated in EC$.
Procurement	-	No special procurement conditions will apply.
Drawdown by countries	-	Half-yearly and within three months after the period to which it applies.

7. Establishment of Facility

The Facility will come into being on the signing by the relevant parties of a Memorandum of Understanding which will include a statement of the purposes of the Facility, the obligations and roles of the respective parties, and the procedures and conditions of access. The relevant parties will include the recipient countries, the donors and the relevant regional and international agencies.

8. Operating Principles and Procedures

Donors will make pledges to contribute to the Facility in specified amounts and within two months after the signing of a Memorandum of Understanding will issue non-interest-bearing demand notes to the World Bank for the full amount of their pledged contributions to the Facility.

A country intending to access the Facility will make formal application to the World Bank, as custodian of the Facility.

/4. ...

This application will indicate the programme to be pursued over a specified time-frame, the amount of financing required and the country's willingness to enter into consultations with the World Bank with a view to developing a detailed country programme to be agreed between the country and the Management Committee of the Facility, i.e., the World Bank, the ECCB, CDB and OECS/EAS.

Once the programme has been agreed between the country and the Management Committee, the World Bank will inform the donors that the programme has been agreed, indicate the amount of resources required from them and the schedule for making payments.

Within a period of two months after a programme has been agreed, the country will be eligible to drawdown an amount equal to 25 percent of the required amount under the programme.

Subsequent drawdowns, each in an amount equal to 25 percent of the total amount, will be made at six monthly intervals on the basis of satisfactory implementation of an agreed programme, and on the basis of a programme review to be carried out by the Management Committee in consultation with the country.

9. Management

The Facility will be managed by a Management Committee consisting of the World Bank, the ECCB, the CDB and the OECS/EAS, with the World Bank as custodian and convenor. The World Bank will have the responsibility for:

(a) preparing, with the beneficiary country and designated regional institutions, (and with the assistance of the IMF as necessary), country economic programmes involving macro-economic and sectoral policies - and the public sector investment programme, for purposes of facilitating country access to the Facility;

(b) monitoring (with the assistance of the IMF as necessary) with designated regional institutions, country performance on the implementation of programmes and country eligibility for drawdowns from the Facility;

(c) convening meetings of contributors, beneficiary countries and participating institutions to:

(i) obtain mutual agreement on the content and phasing of programmes; and

(ii) review annually the overall performance of the Facility;

(d) ensuring that programme resources are channelled to ECCB on a timely and as agreed basis for the countries' accounts;

(e) providing as necessary structural adjustment-type loans outside the Facility to support the financing of the economic adjustment programme.

10. Role of Other Institutions

(a) CDB

(i) participation in the preparation and monitoring of the country programmes with special regional responsibility for the PSIP;

(b) EAS

(i) participation in the preparation and monitoring of the country programmes with special regional responisbility for assisting in devising and designing acceptable macro-economic policies;

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(ii) holding discussions with relevant regional agencies to obtain consensus on the resolution of regional issues critical to the successful implementation of national programmes;

(c) ECCB

(i) participation in the preparation and monitoring of the country programmes, with special regional responsibility for the demand management programme and external debt;

(ii) channelling and acting as custodian for funds disbursed to beneficiary countries;

(iii) provision of bridging finance to countries;

(iv) making a contribution to the required financing under the Facility;

(v) collection of debt service and making repayment, as appropriate.

11. Role of beneficiary countries and contributors

(a) Beneficiary countries

(i) provide firm indication of interest in the establishment of the Facility by giving indications of medium-term objectives/targets and programmes that it is prepared to implement;

(ii) work with institutions and donors in developing an agreed medium-term economic programme;

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(iii) implementation of programme; and

(iv) the Director of Finance and Planning to have responsibility for the coordination and monitoring of the implementation of the programme.

(b) Contributors

(i) within two months after the signing of the Memorandum of Understanding, issue non-interest-bearing demand notes to the World Bank for the full amount of the pledged contribution to the Facility;

(ii) within one month after a country programme has been agreed by all the parties concerned make payments to the World Bank in an amount equal to 25 percent of the total commitment to the Facility; and

(iii) once a country programme has been agreed, make payments to the Facility as required in keeping with the objectives and operating principles of the agreed programme.

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PROPOSAL FOR

EASTERN CARIBBEAN DEVELOPMENT FACILITY

FOR OECS STATES

PART C

PRELIMINARY SUMMARY
COUNTRY PROGRAMMES

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ANTIGUA AND BARBUDA

Summary of Proposed Country Programme for 1986-91

1. MACRO-ECONOMIC OBJECTIVES

(i) An average growth rate of 5% per annum;

(ii) An increase in public sector savings from -2.0% of GDP in 1983 to 7.5% of GDP by 1990;

(iii) A reduction of the unemployment rate from an estimated 20% in 1984 to about 15% by 1990. This means an annual creation of 1,200 new jobs.

(iv) The reduction of gross external debt and accumulated arrears from 61.3% of GDP in 1983 to 50% of GDP by 1990 in order to restore credit-worthiness.

2. SECTORAL OBJECTIVES/TARGETS

The overall sectoral objectives are to expand the productive private sectors with emphasis on tourism, manufacturing and agriculture. The relative objective emphasès will be on:

(i) Tourism: To ensure continued highgrowth in the sector and increase benefits accruing to nationals both within the hotel industry and in supporting economic activities.

(ii) Manufacturing: To further develop the export orientation, attract enclave industries and, to a lesser degree, to stimulate the development of small enterprises which can exploit the local market.

(iii) Agriculture: To arrest the decline in the sector, reduce the importation of goods and create linkages with the tourism sector by production of fruits, vegetables and meat products.

Specific targets of the productive sectors are being finalised as studies become available. Tentative projections for the major productive sectors are as follows:

Tourism

(i) growth (value added) of 7% per annum;

(ii) 6% increase per annum in average daily visitor expenditure;

(iii) 10% increase in visitor arrivals;

(iv) annual direct creation of 500 new jobs.

Manufacturing

(i) growth (value added) of 7.5% per annum;

(ii) volume increase in exports of 10% per annum;

(iii) new job creation of 500 per annum.

Agriculture

(i) growth (value added) of 6% per annum;

(ii) volume increase in export of 10% per annum;

(iii) new job creation of 100 per annum.

3. KEY ISSUES AND CONSTRAINTS

General

(i) Small island diseconomies;

(ii) weak and over extended public sector institutions;

(iii) critical shortage of management personnel;

(iv) very limited entrepreneurial class;

(v) an exchange rate which cannot be varied because wages and salaries are already low in an open economy with a militant labour force and where skills are scarce and can easily migrate;

(vi) largely as a result of inappropriateness of educational system, a high incidence of unemployment and under-employment particularly in the young age groups and the associated difficulty of absorbing school leavers in the employment market;

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(vii) high production and transportation costs and limited efficient support infrastructural and institutional facilities;

(viii) limited manufacturer and farmer access to available loan credit and the unavailability of venture capital;

(ix) limited market knowledge and marketing expertise.

4. SECTORAL STRATEGIES

Tourism

(i) An on-going programme of tourism marketing;

(ii) development of historical sites and a National Park;

(iii) planning of tourism orientated activities like street fairs, duty free shopping areas etc;

(iv) provision of management and vocational training;

(v) the redevelopment and improvement of certain sections of St. John's in order to maintain aesthetic appeal;

(vi) improved entertainment facilities;

(vii) improvement of the runway at V.C. Bird International Airport;

(viii) improvement of berthing facilities at the Deepwater Harbour.

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Manufacturing

(i) Expansion of labour-intensive enclave industries;

(ii) small enterprise assistance in financing and management training;

(iii) continuted construction of and the encouragement of private sector ownership of factory shells;

(iv) exploration of joint venture possibilities with regional and extra-regional entrepreneurs;

(v) continued investment promotional activity.

Agriculture

(i) Diversify from plantation crops to fruit and vegetable crops;

(ii) increase the amount of local fish and meat processed for the tourism market;

(iii) promotion of foreign commercial investment in agriculture for exports.

Public Policy

(i) To improve Government financial management and revenue collection;

(ii) to increase the financial viability of Public Utilities;

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(iii) to divert to the private sector productive enterprises which are publicly owned wherever possible;

(iv) to retain the ownership of land and make it available for purposes specified so as to retain control over its development;

(v) to computerise the Statistics Department, Treasury, Ministry of Finance Headquarters and the Ministry of Economic Development;

(vi) to improve planning and inter-ministerial liaising between the Ministry of Finance, Ministry of Economic Development and the Prime Minister's Office;

(vii) to establish facilities in conjunction with existing donor agencies for on-lending funds for venture capital and the construction of factory shells.

Fiscal Policy Reform Programme

(i) The introduction of measures aimed at widening the tax base (excluding personal income tax) in order to increase government revenues by 12% per annum in nominal terms. (in progress);

(ii) to have in place a permanent negotiating team to undertake all government negotiations with respect to wages, including statutory bodies. This negotiating team will attempt to keep wage increases in the public service to the level of inflation;

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(iii) the government instituted a hiring freeze on non-establishment workers in 1983 and from FY 1986 will begin to reduce the number through attrition;

(iv) to put in place a system to monitor statutory bodies more effectively and to reduce subsidies to those which are profitable and divest or close down others which are not;

(v) in consultation with the Eastern Caribbean Central Bank, implement interest rate and credit policies which will ensure the efficient mobilization of fund for the private sector.

5. PUBLIC ADMINISTRATIVE REFORM

The rapid expansion of the public sector highlighted the need to transform from a colonial type institution to a development orientated administration. The main weaknesses are as follows:

(i) The need to clarify the functions of various administrative units to avoid duplication and mis-allocation of resources;

(ii) substantial shortages of technical/professional and senior personnel is compounded by a large number of low level non-technical personnel requiring detailed supervision;

(iii) lack of co-ordination betweer various Ministries and non-compliance and irregularities in operational procedures.

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Government is committed to undertaking a re-classification of the categories of workers with a view to finding ways of more effectively utilising the public sector's manpower resources. The re-classification would help in the proper deployment of appropriate staff. Training will be introduced to all levels of staff within the service.

The Finance and Audit Act has been revised, and is now in place; donor assistance is being sought to assist in the upgrading of the General Orders, Financial Instructions and Stores Rules.

Human Resource Development

The Government recognises that all its efforts for the economic development of the country must be accompanied by a continuing enhancement of managerial, technical and personal skills of its people. The Government is in the process of obtaining technical assistance to help undertake a human resource study.

The capabilities of appropriate institutions will be used for advice and to train manpower as well as provide organisation development and administrative reforms.

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All means necessary will be used to attract and retain qualified persons within Antigua and Barbuda. Career guidance will be provided in secondary schools in order to direct school leavers into various sectors of the economy.

Education and training will be given highest priority in the socio-economic development thrust of the Government.

An expert has been contracted to review the current school and technical college curriculums with the view to designing one more appropriate for the developmental needs of Antigua and Barbuda.

6. PSIP FINANCING GAP

The public sector investment programme 1986 to 1991 stresses economic infrastructure and productive investments. Public sector investments of 13% of GDP are expected throughout the period.

A projection of the Antigua/Barbuda public sector financing gap for the period 1986 to 1991 is given in TABLE I. The Table shows that between 1985 and 1988 the financing gap is expected to increase from U.S.$3.31m to US$3.56m. From 1989, because of increased public sector savings, it is expected to decline. A total of US$20.33m financing will be required for the period.

TABLE I

ANTIGUA/BARBUDA - PUBLIC SECTOR FINANCING REQUIREMENTS

(U.S.$M)

		1985	1986	1987	1988	1989	1990	1991	Total 1986 to 1991
	Total Financing Requirements	29.41	31.38	34.65	37.54	40.90	44.60	49.22	238.29
1.	Public Sector Capital Expenditure	20.61	22.68	24.95	27.44	30.20	33.20	36.42	195.50
2.	Amortization	7.80	5.20	6.20	6.60	7.20	7.90	12.80	53.70
3.	Other Debt Obligations		3.50	3.50	3.50	3.50	3.50	..	17.50
	Financing Sources								
	Domestic								
4.	Public Sector Savings	4.75	7.72	11.23	15.30	20.00	25.42	31.64	111.31
5.	Other Domestic	4.00	..	..	..	..	..	..	..
6.	External	20.66	23.66	23.42	22.24	20.90	19.18	17.50	126.98
7.	Project-Related	17.35	19.87	19.67	18.68	17.55	16.11	14.77	106.65
8.	Financing GAP	3.31	3.79	3.75	3.56	3.35	3.07	2.81	20.33

Notes

1. Projected at 13% of GDP
2. As in World Bank economic Memoranda
3. Projected repayment of arrears over five years
4. Public sector savings, projected to improve steadily to reach 7.5% of GDP by 1990. (See TABLE 2)
5. Assumes no further borrowing
6. Residual between total requirements and domestic sources.
7. External sources finance 84% of the PSIP
8. Financing GAP is residual.

TABLE 2

ANTIGUA AND BARBUDA: CENTRAL GOVERNMENT REVENUE

(E.C.$M)

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Domestic current revenue [1]	53.2	63.9	79.4	92.9	87.9	98.4	110.2	123.4	138.2	154.8	173.4	194.2	217.5
Domestic current expenditure [2]	63.2	77.2	90.7	112.1	110.1	108.0	114.5	121.4	128.6	136.3	144.50	153.16	162.35
Current account balance	(10.0)	(13.3)	(11.3)	(19.2)	(22.2)	(9.6)	(4.3)	2.0	9.60	18.5	28.9	41.04	55.15
Social Security & Medical Benefits [3]							12.84	14.13	15.54	17.09	18.81	20.69	22.70
State Enterprises [4]							4.28	4.71	5.18	5.70	6.27	6.90	7.57
Public Sector Savings							12.82	20.84	30.32	41.29	53.98	68.63	85.42

1. Projected 12% growth rate from 1983.
2. Projected 6% growth rate.
3. Projected at 3% of GDP market prices.
4. Projected at 1% of GDP market prices.

D O M I N I C A

COUNTRY PROGRAMME

OUTLINE

1. Economic objectives and strategies

2. Policy issues:

   (a) macro-economic

   (b) sectoral

3. Needed programme interventions

4. PSIP financing gap and financing plan.

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D O M I N I C A

COUNTRY PROGRAMME

ECONOMIC OBJECTIVES & STRATEGIES

The period 1980-81 was marked by abnormally high growth rates as the economy began the process of recovery from the debilitating effects of the 1979 hurricane. In 1982-83 economic growth levelled off at 2.4 per cent per annum. In 1984 despite the production and marketing problems experienced by the leading industrial enterprises, the economy registered a four per cent growth rate - this growth performance was aided by the recovery of the agricultural sector and significant expansion of the construction sector. It is estimated that growth slowed in 1985, consequent on the levelling off of the major road reconstruction projects which peaked in 1984. Moreover the problems which affected intra-CARICOM trade in 1984, remained largely unresolved in 1985.

In 1984, agriculture contributed 30 per cent of GDP, manufacturing 8 per cent and government services 23 per cent.

Dominica's economic structure is characterised by low productive capacity, weak public finances and weak balance of payments. The key development issues centre on the need to raise output and exports and to increase public sector savings. Success in tackling these issues is expected to help to reduce unemployment, a principal goal for Government's policy. Over the five-year period to 1991 the Government is aiming at an average annual rate of growth of five per cent and to provide the basis for reduced unemployment and self-sustaining growth in the long-term.

The strategy calls for strong support for private sector activity, extra-regionally orientated production of traditional and non-traditional agriculture commodities and processed foods, expansion of the manufacturing sector and a systematic approach to the growth of the tourism sector.

Unemployment is expected to be reduced through tax policy to stimulate housing construction, and through land settlement and rural development programmes.

The strategy will be underpinned by appropriate fiscal policy aimed at maintaining a balance on the fiscal and balance of payments accounts.

POLICY ISSUES

Dominica's economic situation is characterised by a weak balance of payments situation and weak public sector finances. This calls for concerted action at the macro-economic and sectoral levels to raise the level of public sector savings and to increase the levels of output and exports.

MACRO-ECONOMIC ISSUES

Dominica's public sector is very large in relation to GDP - public investment accounts for about 30 per cent of GDP and over 60 per cent of gross investment. Significant progress has been made in the last two years and effective measures are being taken to control current expenditure, especially wages and salaries, and to generate sufficient savings to help finance public sector investments. Success in this area will reduce the upward pressure on tax rates and increase the availability of loanable funds to the private sector and facilitate investment and growth.

Raising the level of public sector savings requires that action be instituted in the following areas -

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(i) Wages and Salaries

The Government fully accepts the need to keep wages and salaries in check and proposes to work towards a national concensus on incomes and prices policies, within the context of the country's macro-economic situation and prospects, and within the context of alternative policy measures. Necessary corrective fiscal and other measures will be employed to reduce the pressure on the balance of payments. The Government has already achieved significant progress in keeping public sector wages and salaries in check and is committed to continuing its efforts in this direction. It is proposed to operate on wage and salary in the public sector and on the share of wages and salaries in recurrent expenditure. It is expected that in the future development of a country programme for Dominica, acceptable targets will be agreed for the share of wages and salaries in recurrent expenditure. Through its ongoing efforts in public administrative reform and organised support for private sector activity, the Government expects to be in a position to streamline the public sector, provide for greater efficiency, and provide greater employment opportunities in the private sector.

(ii) Public Expenditure Control

In addition to its efforts to control the share of wages and salaries in total expenditure, the Government will work towards further control of public expenditure in order to maximise the local contribution to public sector investment. This will be done through training programmes in public sector financial management and expenditure control and accountability and through the ongoing efforts in administrative reform and reorganisation.

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(iii) Divestment

The Government's efforts to control public expenditures and increase public sector savings will be assisted through a continuation of its policy to divest from public or quasi-public enterprises. Government has already eliminated public sector subventions to all public or quasi-public agencies. The Government will seek to ensure that the reorganized Dominica Export-Import Agency is properly instituted before deciding on the extent of governmental involvement in its operations.

(iv) Public Administrative Reform

There is an exercise currently intended to lead to a comprehensive reorganisation of the public service. This exercise is being carried out with the assistance of CIDA, through the Inter-Agency Resident Mission. Implementation of the recommendations coming out of this exercise is expected to lead to a streamlined and more productive public service, which is expected to impact positively on the public sector finances.

(v) Public Sector Investment Programming

The Government recognises the need to increase its capability to properly formulate public sector investment programmes and proposes to take advantage of formal and informal training opportunities to increase national capability in this area in a way which integrates budgeting into national economic planning.

(vi) Unemployment

It is a major goal of policy to reduce unemployment. Success in raising output and exports and in increasing public sector savings will help to reduce unemployment.

The government proposes to employ fiscal policy to stimulate the construction sector and to impact directly on employment. The Government's land settlement and rural development programmes are intended to provide increased opportunities for gainful employment. Success in following the various strategies for increasing sectoral output especially in manufacturing, will contribute to reducing unemployment.

SECTORAL

There is an urgent requirement to increase the efficiency and output of all economic sectors to make for reduced unemployment and balance of payments improvement.

(i) Agriculture

The chief policy objectives in agriculture are to revive the lagging traditional sectors of bananas and citrus, and to diversify the agricultural base. Successive programs to address specific problem areas of the ailing banana industry include a major restructuring of the marketing branch of the industry, UK technical assistance for financial management, and the adoption of field packing, which has reached some 65 per cent in 1985, and is targeted to reach 90 per cent by end 1986. These programs have resulted in efficiency gains at the Banana Marketing Corporation, improved fruit quality and a higher price to the farmer. The industry, however, continues to turn in a disappointing performance, production being still some 20 per cent below the 1978 levels. To stimulate production to prehurricane levels (a target of 50,000 tons by 1988 has been set), it is necessary to promote further improvements in productivity and farmgate price. Further cuts in operating costs will be sought in order to achieve a higher producer price.

One option under consideration is refinancing of the burdensome growers' debt outstanding to the domestic banks, which currently absorbs about EC3 cents per lb. of bananas. To address the productivity issue, Government is focusing on the problem of farm access roads, resolution of which would reduce the amount of rejected fruit and acclerate the adoption of field packing, which itself is a productivity-enhancing method. Government may also wish to consider reviewing the adequacy of research relevant to Dominica's conditions.

A major challenge for the citrus industry has been identification of markets for processed citrus products following the closure in 1979 of expatriate-owned processing facilities. Some progress was made during the last year and markets are slowly being developed, particularly in the U.S. The remaining task is to raise production levels for grapefruit and lime to the capacity levels of the processing plant now operating under government ownership, only at 50 per cent of capacity. To tackle the grapefruit problem, government is giving active consideration to restructuring the Citrus Growers' Cooperative Association somewhat along the lines of the restructured Banana Marketing Corporation. The ongoing lime rehabilitation project, begun with EDF financing, may need to be accelerated. Production will have to be increased to facilitate full-plant operation of the lime-processing plant.

Success of the treecrop diversification scheme, the planting phase of which was completed in 1985, is conditional upon the availability of markets once output exceeds regional demand in another two years. Two approaches are being pursued: market studies to assess the demand in Europe, the United States and Canada; and restructuring the existing marketing agencies to increase their effectiveness. Inadequate shipping links pose a problem for reaching certain

US and Canadian Markets. The Government is also exploring together with the other Windward Island Governments the possibilities for joint marketing arrangements.

An important element of the Government's employment strategy is the distribution and settlement of government-owned lands. The process of land allocation has begun following the design of rural development strategies by the OAS for designated locations. The Government is seeking from IFAD a second line of credit for small farmers to cultivate some 2,000 acres of land in a variety of crops within the framework of an integrated rural development project.

(ii) Industrial Development

The Government's industrialization strategy has focussed on the establishment of agro-manufacturing for export to the CARICOM market. Recent CARICOM-related trading problems point clearly to the need for a reorientation of the thrust of manufacturing activity to extra-CARICOM markets. The investment promotion strategy needs to be more effectively groved to take advantage of preferential arrangements such as the Caribbean Basin Initiative and the Lome Convention.

It is proposed to lend further support to small and medium-scale manufacturing for the domestic and export markets by providing training and technical services through industrial nurseries and through other appropriate institutional and policy support. In particular the Government intends to lend active support to efforts to access the relatively large markets of the neighbouring French Islands of Martinique and Guadeloupe.

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(iii) Tourism

Tourism certainly has the potential to make a larger contribution to income and employment in Dominica. A tourism sector plan is being formulated to provide a framework for increased investment in the sector. It is hoped to attract institutional and private capital for the development of Dominica's unique tourist attractions. A major prerequisite for take-off in this sector relates to the need for infrastructural development to facilitate access to tourist attractions. Efforts are currently being made to obtain expert assistance for improved marketing and for product development.

(iv) Natural Resources Management

Dominica's water and forest resources are its two most significant assets. To effectively develop and exploit these resources for export, however, Dominica needs to determine: the effective carrying capacity of the land; the sustainable yield of the forest; the minimum amount of watershed that must be maintained to prevent erosion and silting of lakes, rivers and streams; maximum potential for hydro and geothermal electric generation; and, the economic potential for export of water through commercial barging. The Government recognises the need for a natural resources plan and policy based on a survey of existing resources. It is proposed to carry out a natural resources survey and to obtain other relevant assistance for planning and implementation.

NEEDED PROGRAMME INTERVENTIONS

The programme interventions necessary for bringing about the policy changes required must be carefully formulated and effectively executed. A definitive statement of these should derive from further discussion between Dominica Government representatives and officials of the donor agencies involved in the Special Development Facility.

Yet it is possible at this stage to give an indicative listing of the kinds of programme interventions that might be necessary to make for increased growth and employment in agriculture, manufacturing and tourism -

in agriculture:
- technical and financial assistance to the banana industry to improve yields, packing, landing and marketing;
- extension and applied research in non-traditional export crops;
- greater private investment in agro-processing;
- secure overseas markets for primary and processed non-traditional agriculture;
- rural development and land settlement;

in manufacturing
- investor search services;
- improved efficiency of public administration; fiscal policy and incentives for private sector;
- fostering encouragement of industrial nurseries with complementary support services;
- formulating clearly defined policies for encouragement of private, domestic and foreign investment;
- adequate physical infrastructural support;
- export marketing institutions;

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in tourism:

- tourism sector plan;
- technical assistance for product development and marketing;
- financial assistance for improvement of tourism infrastructural facilities;
- encourage marketing and promotional efforts of private sector;
- within the framework of country's macro-economic programme, to increase linkages between tourism and agriculture and industry.

FINANCING GAP AND FINANCING PLAN

Although projects have not yet been identified beyond 1986/87, the size of the PSIP as indicated below and envisaged under the adjustment programme, is broadly consistent with the country's restructuring objectives of accelerating economic growth, generating employment and strengthening the balance of payments. However, the achievement of the requisite level of investment and consequently the targeted (5 per cent per annum) level of growth, is very much dependent on the inflow of external resources. The PSIP will, over the period, continue to emphasize the physical infrastructure which is so essential to ensure a sufficient level of private investment. Emphasis will also be given to the agricultural sector and to the provision of support facilities for the industrial sector.

Over the six-year period July 1986 to June 1991, Dominica is projected to have a financing gap of US$12.1 million, or on average US$4 million per annum. (See Table 1). This projection must necessarily be tentative and is intended at this stage merely to give an indication of the required financing magnitudes. The

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TABLE I

DOMINICA'S PUBLIC SECTOR FINANCING REQUIREMENT*

(1982-1991) (US$ MILLION)

	1982/3	1983/4	1984/5	1985/6	1986/7	1987/8	1988/9	1989/90	1990/1	1990/2
1. Total Financing Requirements	13.00	16.0	23.60	30.40	23.10	25.20	25.30	27.50	25.00	26.50
2. Public Sector capital expense	12.30	14.8	21.00	27.50	20.40	22.30	21.70	23.70	21.50	23.40
3. Amortization	0.70	1.10	2.30	2.30	2.50	2.90	3.60	3.80	3.50	3.10
4. Other debt objections	0.00	0.10	0.30	0.60	0.20	0.00	0.00	0.00	0.00	0.00
FINANCING										
5. Public Sector savings	-0.50	0.90	0.04	1.11	0.40	2.21	3.62	5.26	7.17	7.81
6. Domestic borrowing	-2.90	-0.50	2.80	0.00	1.52	0.45	0.43	0.47	0.43	0.47
7. Total Domestic Financing	-3.40	0.40	2.84	1.11	1.92	2.62	4.05	5.73	7.60	8.28
8. External Financial Requirement	16.40	15.60	20.80	29.29	21.18	22.58	21.25	21.77	17.40	18.22
9. Project-related grants and loans	14.90	9.70	16.30	22.70	18.50	18.60	18.20	19.20	17.80	18.00
10. Financing Gap	1.50	5.90	4.50	6.59	2.68	3.98	3.05	2.57	(0.40)	0.22

* See notes to Table 1, Page 13

projection rests on a number of critically important assumptions (see notes to Table 1) relating to the share of public investment to GDP, the level of financing from domestic sources and the level of project related external financing. It is expected that the projection of the external financing requirement will be revised in the course of the detailed discussions to take place in preparation of the country programme.

NOTES TO TABLE

Line 2 - GDP at current market prices is targeted to grow at 9% annually; total investment is projected at 30% of GDP; public sector investment is targeted at 67% of total investment in 1986 and 1987, 60% in 1988 and 1989, and 50% in 1990 and 1991. 1985/6 figures are based on actual data for July-December 1985. Data for 1982-84 are actual.

Line 3 - Based on IMF projections.

Line 4 - Projected arrears. It is assumed that all arrears will be cleared by FY 1986-87.

Line 5 - Public sector savings are projected to increase from 0.05% of GDP in 1984 to 1.4% in 1985, 1.5% in 1986, 2% in 1987, 3% in 1988, 4% in 1989, and 5% in 1990 and 1991.

Line 6 - Projections are based on Government's policy of restricting public sector borrowing from domestic sources in order to release resources for investment by the private sector, and are consistent with the strategy of creating conditions favourable to private investment. Domestic borrowing is projected at 2% of public investment over the period from 1986/7.

Line 9 - Projections based on anticipated scope for grant and loan financing.

Line 10 - Residual.

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GRENADA

Summary of Proposed Country Programme for 1986-91

Preamble: (i) Projections of the main elements of the Macro-economy of Grenada, Carriacou and Petit Martinique over the 1986-91 planning period.

(ii) Data sources include studies on the Grenada economy by the C.D.B, the I.M.F., the World Bank, U.S.A.I.D., and programmes in preparation by the Ministries of Finance and Government ministries and departments.

(iii) Continuous examination of issues will lead to clearer definition of programmes.

1. Macro-economic Objectives

(i) Maintenance of a high rate of total investment at about levels between 35% and 40% of gdp. Private sector investment which averaged 7% of gdp in the 1982-84 period is expected to increase in proportionate terms to about 15% of the gdp in the latter years of the planning period. (See Table 4).

(ii) Real gdp growth of between 3½% and 4% per annum to be achieved by:

- agricultural growth rate of 4% per annum;
- manufacturing sector increase of around 6% per annum;

- growth rate of tourism averaging 15% per annum;
- Government services to be held at the 1985 level in real terms throughout the planning period. (See Table I).

(iii) Public sector savings to be increased from about 3% of gdp to about 6% of gdp.
Central Government savings will be the major source of growth of public sector savings (See Table 5).

(iv) Growth in production directed towards increased exports of goods and services which will increase in proportion from slightly under 60% to about 70% of gdp at the end of the planning period.

(v) Ratio of imports of goods and non-factor services should not exceed the 1985 level. Imports of goods for consumption purposes should fall in relation to gdp to allow for increases in proportion of intermediate and capital goods.

(vi) 2% annual growth in net employment from growth in employment in infrastructural development, hotels, residential and non-residential construction. This will generate 50% of new employment.

Public sector employment will decline. Estimates will be provided later as fiscal reform programme is finalised.

(vii) Debts were rescheduled in 1985 to manageable proportions. Further debt rescheduling negotiations will be pursued when appropriate.

2. Main Policy Areas and Constraints to Development

Policy Areas

(i) Liberalising the economy to allow for greater investment by Grenadians at home and abroad and by foreigners willing to participate in the development objectives of Grenada either on their own or as joint venture partners.

(ii) Programmes to raise productivity of labour, yields of agricultural land, and higher rates of investments.

(iii) Policies to reflect costs more fully in prices, including exchange rates and interest rates. Approaches to secure joint approaches at regional level in respect of exchange rates and interest rates.

(iv) Greater efficiency of public enterprises achieved by privitization of the majority of the enterprises and by placing others under decentralised statutory bodies managed in accordance with clearly established accountabilities.

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Recommendations of Working Group Report in early 1985 are being implemented.

(v) Training to fill gaps in managerial and middle level skills. U.S.A.I.D., O.A.S., and Grenada Chamber of Industry and Commerce (GCIC) have mounted training programmes to compensate partly for skills lost through migration and to inculcate entrepreneurial skills and attitudes.

(vi) Improving the education system to provide the necessary knowledge and values to aid higher productivity.

Constraints

(i) Image factors which affect confidence. This affects policies designed to attract investment and skills to Grenada. It also impacts unfavourably on the environment for attracting tourists.

(ii) Shortage of skills

(iii) Deficiencies in the transport and communications infrastructure. Despite investment of about EC$240 million in the last four years, an additional EC$80 million to EC$100 million is needed to make transport and communication system efficient.

(iv) Inadequate scientific and technological base.

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(v) Complexities in securing the maximum advantages from sub-regional and CARICOM co-operation.

(vi) Protectionism in the external markets in CARICOM and in the developed countries.

(vii) Instability in the currency values of Grenada's main trading partners.

(viii) Necessary time for conceptualisation of training programmes, for securing personnel and for formulating policies.

3. Sectoral Targets

(i) Overall agricultural production to be increased by about 20 to 25% over the next 5 to 6 years. (See Table I).

(ii) Revitalising and diversifying agriculture to include orchard cultivation - avacados, passion fruit, papaya, mangoes and non-traditional crops.

(iii) Model farms programme to be an important element of the farming programme.

(iv) Annual growth of the major agricultural exports is projected in Table 2.

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Manufacturing

(i) Present emphasis in manufacturing is on the construction of factory shells. Average annual growth of 6% projected over the planning period.

40,000 sq.ft. under construction in 1986 should increase to 100,000 sq.ft. in 1990.

(ii) Present share of manufacturing in gdp will not increase by more than one percentage point because contribution of manufacturing is still small.

Tourism

(i) Present plans envisage a doubling of growth in foreign exchange earnings from tourism.

(ii) Number of rooms is likely to increase from present levels of 600 to about 1500 at the end of the planning period.

(iii) Stay over visitors to increase by about 70% from the current level of 43,000.

(iv) Uneveness in tourism performance expected. In Table 3, index relates to end of planning period levels. Even growth projected in Table 1 - included only for estimating likely intermediate bench marks.

4. Strategy and Intervention Programmes

(a) Overall macro-economic issues

(i) A very tentative projection of the relationship between the supply and use of resources is given in Table 4.

(ii) Emphasis as earlier indicated on maintaining a high rate of investment of almost 40% of gdp.

(iii) Fiscal policy to be designed to encourage the relatively high levels of private investment projected in Table 4.

(b) Fiscal Reform

(i) Fiscal reform is clearly crucial to the investment and the growth objectives.

(ii) Considerable amount of study necessary for the design of specific measures to achieve investment objectives.

(iii) Taxation and expenditure approaches together with the management of the public enterprises are expected to public sector savings from 3% of gdp in 1985 to about 5 to 6% of gdp in 1990 to 1991. (See Table 5).

(iv) Studies are not complete and it is now possible to provide only a time table of the fiscal review work programme.

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This is summarised together with what has been achieved as follows:

	Action	Date
(i)	Seminars to sensitise Public Officers of Reforms to the Budgetary Process.	October, 1985
(ii)	Preparation of programmes for inclusion in the 1986 Budget.	November, 1985
(iii)	Review of existing taxation system and broad elements of new tax structure.	November, 1985
(iv)	Review of item (ii) and incorporation of agreed programmes in the Budget.	December, 1985
(v)	Minimising cost of programmes by incorporating proposals of an Organisation and Methods report.	December, 1985
(vi)	Development of output measures of programmes.	January to April, 1986
(vii)	Cadastral mapping to be completed	May, 1986
(viii)	Completion of Valuation Roll for Property Tax.	September, 1986
(ix)	New proposals for income tax rate structures.	October, 1986
(x)	Budget preparation programme	November to December, 1986

(c) Monetary Policies

(i) Design of and rates on instrument for facilitating the intermediation process and for ensuring the efficient use of mobilised resources.

(ii) Closer supervision of the system for credit allocation. A Uniform Banking Law for application to the OECS sub-region will be enacted in 1986 and adjustments to the structure of the financial system will proceed in the context of the Law.

(iii) Grenada has co-operated with the Eastern Caribbean Central Bank in the study of the likely impact of an exchange rate change on the economy.

Debt servicing difficulties are likely to worsen the present imbalance of the Current Budget. As already mentioned, necessary steps are being taken to improve the Budgetary balance, recognising that the capability for managing an exchange rate change is crucial for deriving the benefits from the change.

(iv) Greater reliance is being placed on harmonising fiscal measures for providing support to farmers in the export sector.

(v) Notwithstanding these difficulties, Grenada will continue to contribute to a study of approaches for joint exchange rate action.

(d) <u>Sectoral Adjustment Issues and Intervention/Action Time Frame</u>

<u>Agriculture</u>

(i) Major issues - revitalising farms
- diversifying agricultural output
- increasing the participation of young farmers
- acquiring the technology to increase yields
- increasing prices paid to farmers.

(ii) Model farms to be developed for increasing farm productivity and for attracting young people into farming.

Of the 3500 acres of Government owned land, 2500 acres will be available under the Model Farms Project to be allocated to young farmers and graduates of farm schools.

(iii) World Bank and CDB are participating in a Project specifically designed for diversification of agricultural output.

(iv) Progressive reduction and eventual removal of export duty on cocoa.

(v) Streamlining and improvement in the operations of the producer associations.

(vi) Linkages with manufacturing activity and with the tourism sector form key aspects of the development strategy.

(vii) Capital projects included in Table 6 will emphasize diversification and feeder roads.

Manufacturing

(i) Factory space to be developed as set out in the Sectoral Targets in Section 3.
Funding from CDB and from USAID through the Eastern Caribbean Central Bank is already available.

(ii) Improvement in transport to complement facilities provided by the new airport.

(iii) Provision of credit for the finance of working capital to be made through the commercial banks.
Export credit guarantee arrangements available through the Eastern Caribbean Central Bank to be utilised for facilitating exports of manufactures.

Tourism

(i) Constraints include:

- image factors mentioned earlier
- inadequate room capacity
- weak infrastructural facility
- poor marketing of the Grenadian tourist product.

(ii) Public Sector Investment Programme designed to reduce constraint of poor infrastructure.

(iii) Room expansion programmes already in operation. 180 rooms have been added since the Ramada Inc. began operations in January 1985.

(iv) Promotional programmes being developed under the regional programmes managed by CTRC.

(v) Grenada pursuing airline operations to take advantage of greater demand for the Grenadian tourist product.

(vi) Locally tourist attractions to be developed to provide greater appeal to tourists.

6. <u>Public Sector Investment Programme (PSIP)</u>

(i) Programme will be managed within the financing availabilities as set out in Table 7.
Sectoral distribution of the programme analysed in Table 6 highlights the importance of investments in Transport and Communications and Public Works.

(ii) Main Projects of the PSIP are as follows:

(i) <u>Agriculture</u>

(a) <u>Agricultural Revitalization</u>

The main objective of this programme is to rehabilitate the agricultural sector through the provision and strengthening of the necessary support such as pest management, fertilizer subsidy schemes, plant pathology and training.

Financing Source: USAID

Terms & Conditions: Grant

Duration 1984 - 1986

(b) Crop Diversification Project

The project aims at providing support services and infrastructure necessary for the rehabilitation of existing crops, as well as introduce new plantings on some 3000 acres of farm land.

Financing Source: IBRD/CDB

Terms and Conditions: Soft Loan

Duration: 1986 - 1989

(c) Model Farm Development

The project aims at bringing government owned farms under direct cultivation by interested farmers. The project is designed to create a series of model farms of 5 - 15 acres under lease/purchase agreements with farmers.

Financing Source: Not fully determined.

(ii) Tourism

Development of Tourism Attractions

This entails the development and upgrading of historical and natural areas of interest and beauty in order to give more opportunities to visitors to enjoy their visits to Grenada.

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Seven pre-selected attractions are planned to be developed in 1986. Other attractions are to be phased as financing is negotiated.

Financing Source:	USAID
Terms and Conditions:	Grant
Duration:	1986

(iii) Infrastructure

(a) Roads

A number of road programmes will be undertaken, chief of which are:-

- The Eastern Main Road, which entails the reconstruction of the entire road ending at Sauteurs, St. Patricks. About 20 miles of road are expected to be reconstructed.
- The Western Main Road which includes the reconstruction of the main arterial road leading from St. Georges on the West coast for some 5.42 miles.
- Roads & Bridges Repair: This programme seeks to repair and rehabilitate a number of primary and secondary roads spread throughout the island.

Financing Sources:	CDB/EDF/USAID
Terms:	Loan (CDB), Grant (USAID/EDF)
Duration:	1986 - 1989

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(b) Water

Upgrading of Rural Water Systems

This is a phased programme of improvement and expansion of the water systems in selected rural areas. The work entails purchase and laying of distribution lines, building of dams, pipe replacement and increasing storage and filtration systems.

Financing Source:	CDB/USAID/CIDA
Terms and Conditions:	Grant
Duration:	1986 - 1990

Concord Water System

The development of the dam, filtration, storage and distribution network for harnessing Concord River. A total volume of 2.0 mgd is expected to service St. George's and the main tourist and industrial centres of the island.

Financing Source:	CIDA
Terms and Conditions:	Grant
Duration:	1988 - 1990

(c) Energy

Expansion of generating capacity: GRENLEC

This entails the acquisition of 2 new generators to increase the capacity of the electrical generating plant. The programme also includes a phased overhaul and re-conditioning of aged generators.

Financing Source(s):	USAID, BDD
Terms and Conditions:	Grant
Duration:	1986 - 1988

(iv). Industry

Industrial Estate Construction

This entails the construction of 40000 sq.ft. of factory space in the South-West portion of the island.

Financing Source:	CDB
Terms and Conditions:	Loan
Duration:	1986 - 1987

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TABLE: I

GRENADA REAL GDP BY SECTORAL ORIGIN

(In Millions of EC dollars)

	1980	1981	1982	1983	Prel. 1984	Projections 1985	1986	1987	1988	1989	1990
Real GDP at Market Prices	169.7	183.2	184.2	179.0	182.5	188.0	194.6	202.3	210.4	218.8	227.6
Agriculture	40.4	46.6	40.1	41.1	41.2	38.5	39.8	41.5	43.2	45.0	46.9
Crops	34.8	41.1	34.6	35.1	36.1	32.9	34.0	35.6	37.2	38.9	40.6
Livestock, forestry & Fishing	5.6	5.5	5.6	6.0	5.1	5.6	5.8	5.9	6.0	6.1	6.2
Quarrying	1.6	2.1	2.3	1.8	1.8	2.0	2.1	2.2	2.3	2.4	2.5
Manufacturing	8.6	11.5	13.0	11.7	10.1	11.3	11.9	12.7	13.4	14.2	15.1
Electricity and Water	3.7	3.6	3.7	3.6	3.6	3.7	3.8	3.9	4.0	4.1	4.1
Construction	11.3	14.6	15.9	12.7	12.9	14.7	15.5	16.5	17.3	18.0	18.5
Transport and Communications	12.5	12.6	13.8	13.5	13.8	14.2	14.6	15.1	15.5	16.0	16.3
Hotels and Restaurants	7.4	7.4	7.1	7.4	9.1	12.6	14.5	16.6	19.2	22.0	25.3
Wholesale and retail trade	30.3	29.7	31.6	30.4	30.9	31.5	32.5	33.8	35.1	36.5	38.0
Finance and Housing	10.7	10.9	11.9	12.0	12.1	12.2	12.5	12.7	13.0	13.3	13.5
Government Services	35.4	35.8	36.1	36.1	38.4	38.8	38.8	38.8	38.8	38.8	38.8
Other Services	7.8	8.4	8.7	8.6	8.6	8.6	8.6	8.6	8.6	8.6	8.6
(Annual percentage Changes)											
Real GDP at Market Prices	1.8	7.9	0.6	-2.8	2.0	3.0	3.5	4.0	4.0	4.0	4.0
Agriculture	-5.4	15.5	-13.9	2.5	0.1	-6.4	3.3	4.2	4.2	4.2	4.2
Crops	-8.0	18.2	-15.9	1.6	2.7	-8.8	3.5	4.5	4.5	4.5	4.5
Livestock, forestry and fishing	19.1	-1.6	1.3	7.7	-15.2	10.7	2.0	2.0	2.0	2.0	2.0
Quarrying	33.3	31.5	9.3	-21.7	0.0	10.0	6.0	6.0	5.0	4.0	3.0
Manufacturing	6.7	34.3	13.3	-9.9	-13.9	11.4	6.0	6.0	6.0	6.0	6.0
Electricity and Water	2.8	-2.7	2.8	-2.7	0.0	2.0	3.0	3.0	2.0	2.0	1.0
Construction	21.9	28.5	8.9	-19.8	1.6	13.6	6.0	6.0	5.0	4.0	3.0
Transport and communications	5.3	0.8	9.5	-2.2	2.0	3.0	3.0	3.0	3.0	3.0	2.0
Hotels and restaurants	-8.3	0.0	-4.1	4.2	23.5	37.7	15.0	15.0	15.0	15.0	15.0
Wholesale and retail trade	1.4	-2.1	6.3	-3.7	1.7	2.0	3.0	4.0	4.0	4.0	4.0
Finance and Housing	5.2	1.9	9.2	0.8	1.0	1.0	2.0	2.0	2.0	2.0	2.0
Government Services	1.4	1.1	0.8	0.0	6.3	1.0	0.0	.0	0.0	.0	0.0
Other Services	2.0	7.7	3.6	-1.1	0.0	.0	0.0	.0	.0	.0	.0

SOURCES: Ministry of Finance; and IMF Mission Estimates.

GRENADA: Table 2

Volumes of Agricultural Exports

(Millions of Kilograms)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Bananas	9.30	8.86	8.59	7.90	8.14	8.38	8.63	8.89	9.16	9.44
Nutmegs	2.04	2.61	2.89	3.29	2.55	2.66	2.76	2.87	2.99	3.11
Mace	0.33	0.31	0.15	0.22	0.26	0.27	0.28	0.29	0.31	0.32
Cocoa	2.10	2.23	1.86	2.18	2.23	2.33	2.42	2.52	2.62	2.72
Fruits & Vegetables	2.63	7.44	8.40	19.47	11.73	13.13	14.71	16.48	18.45	20.67

Table 3

Grenada Tourism: Index of Tourism Earnings

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Estimated foreign exchange receipts Index 1985 =100	72.83	62.11	72.78	100.0	...	...	...	...	...	198.00

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Grenada: Growth and Use of Total Resources

(in millions of EC dollars at 1980 prices)

	1982	1983	1984	1985	1986	1987	1988	1989	1990
GDP at market prices	180.9	177.2	178.3	183.6	190.0	197.6	205.5	214.7	224.6
Imports of goods & non-factor services	205.4	203.6	189.9	217.9	223.6	208.4	217.9	223.3	230.
Total Resources	386.3	380.8	368.2	401.5	413.6	406.0	423.4	438.0	455.
Public Investment	88.9	79.6	65.2	90.9	61.4	32.7	41.1	38.6	33.
Public Consumption	47.1	46.8	50.2	53.5	53.0	53.7	54.3	54.9	57.
Private Investment	12.2	6.1	8.5	13.0	35.8	47.8	46.7	40.4	41.
Private Consumption	134.4	142.8	127.6	138.1	139.9	142.8	147.2	153.0	159.
Total Domestic Expenditure	282.6	275.3	261.5	295.5	290.1	277.0	289.3	286.9	291.
Exports of goods & non-factor services	103.7	105.5	106.7	106.0	123.5	129.0	134.1	151.1	163.
Total use of Resources	386.3	380.8	368.2	401.5	413.6	406.0	423.4	438.0	455.
Investment									
Goods & Services Gap	101.4	98.1	83.2	111.9	100.1	79.4	83.8	72.2	67.
Domestic Savings	-0.6	-12.4	-9.5	-8.0	-2.9	1.1	4.0	6.8	7.

Source: The Statistical Department of the Ministry of Finance and IMF Staff Estimates. As noted in Table 7, losses of records here resulted in large gaps in the data which have to be reconstructed from alternate sources to those traditionally relied upon.

Consequently, the IMF, the World Bank and the EAS of the OECS Secretariat all have different magnitudes of national accounts. The Statistical Unit and the OECS Secretariat are now engaged in reconciling these differences to arrive at an agreed and common set of national accounts data.

TABLE 5

Grenada: Public Sector Savings

(in millions of E.C. dollars)

	1982	1983	1984	1985	1986	1987	1988	1989	1990
Central Government	2.8	-1.6	3.8	0.4	1.1	1.2	3.7	6.8	11.2
National Insurance Scheme	-	4.1	6.4	7.4	8.2	9.0	10.0	10.9	11.9
Public Enterprises	2.2	2.8	0.6	-0.1	1.9	2.9	2.0	1.0	-0.2
Total: Public Sector	5.0	5.8	10.8	7.7	11.2	13.1	15.7	18.7	22.9

TABLE 6
GRENADA
PUBLIC SECTOR INVESTMENT PROGRAMME

EC$ Millions

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
1. Agriculture		15.76	8.05	9.73	18.50	17.23	10.00	9.37	1.67	
External		(12.16)	(5.88)	(7.53)	(15.50)	(13.50)	(7.47)	(4.88)	-	
Local		(3.60)	(2.17)	(2.20)	(3.00)	(3.73)	(2.53)	(4.49)	(1.67)	
2. Industry		0.32	-	0.30	4.21	1.85	-	-	-	
External		-	-	(0.30)	(3.84)	(1.81)	-	-	-	
Local		(0.32)	-	(-)	(0.37)	(0.04)	-	-	-	
3. Energy		1.08	6.67	2.42	4.46	3.50	0.92	-	-	
External		(0.75)	(5.11)	(2.34)	(3.66)	(1.50)	(0.11)	-	-	
Local		(0.33)	(1.56)	(0.08)	(0.80)	(2.00)	(0.81)	-	-	
4. Water		1.50	2.02	1.35	4.40	3.90	10.87	10.79	7.80	
External		(1.47)	(1.65)	(1.26)	(1.46)	(1.80)	(5.10)	(5.50)	(5.00)	
Local		(0.03)	(0.37)	(0.09)	(2.94)	(2.10)	(5.77)	(5.29)	(2.80)	
5. Transport, Communications & Works		65.41	50.12	54.99	40.00	22.94	13.65	0.96	-	
External		(55.40)	(42.93)	(51.28)	(36.96)	(21.99)	(12.88)	(0.96)	-	
Local		(10.01)	(7.19)	(3.71)	(3.04)	(0.95)	(0.77)	-	-	
6. Public Transport Service		-	-	-	1.38	0.62	-	-	-	
External		-	-	-	-	-	-	-	-	
Local		-	-	-	(1.38)	(0.62)	-	-	-	
7. Tourism		1.33	-	0.44	2.55	3.26	9.00	6.30	-	
External		(0.90)	-	(0.44)	(1.53)	(2.66)	(8.50)	(6.29)	-	
Local		(0.43)	-	-	(1.02)	(0.60)	(0.50)	(0.01)	-	
8. Housing		1.35	0.11	0.93	2.78	5.25	4.65	4.05	3.55	
External		(0.03)	-	(0.75)	(1.23)	(1.60)	-	-	(-)	
Local		(1.32)	(0.11)	(0.18)	(1.55)	(3.65)	(4.65)	(4.05)	(3.55)	
9. Health		0.56	0.07	3.41	10.00	11.07	15.82	13.70	5.00	
External		(0.56)	-	(3.35)	(8.50)	(10.31)	(15.82)	(13.70)	(4.40)	
Local		(-)	(0.07)	(0.06)	(1.50)	(0.76)	(-)	(-)	(0.60)	
10. Education		1.31	0.44	1.45	6.72	9.23	7.28	5.30	5.00	
External		(0.93)	(0.39)	(1.38)	(3.60)	(2.92)	1.50	(1.00)	-	
Local		(0.38)	(0.05)	(0.07)	(3.12)	(6.31)	(5.78)	(4.30)	(5.00)	
11. Admins. & Public Safety		3.93	1.69	1.50	3.50	0.53	-	-		
External		(2.94)	(0.81)	(0.51)	(2.83)	(0.53)	-	-		
Local		(0.99)	0.88	(0.99)	(0.67)	(-)	-	-		
12. Financial Aquisitions		2.35	1.62							
External		(1.03)	(0.76)							
Local		(1.32)	(0.86)							
13. Anticipated Projects		-				5.62	7.81	24.53	46.98	
External		-				(3.75)	(0.73)	(13.30)	(29.48)	
Local		-				(1.87)	(7.08)	(11.23)	(17.50)	
14. Overall Total	108.54	94.90	70.79	76.52	98.50	85.00	80.00	75.00	70.00	60.00
External	(96.12)	(76.17)	(57.53)	(69.14)	(79.11)	(62.37)	(52.11)	(45.63)	(38.88)	(27.00)
Local	(12.42)	(18.73)	(13.26)	(7.38)	(19.39)	(22.63)	(27.89)	(29.37)	(31.12)	(33.00)

Source: Ministry of Finance and Planning

Note: Sectoral distribution of investment in 1982 is being prepared. Necessary infrastructure investment in Transport & Communications has assumed very large proportions.

TABLE 7

GRENADA: PUBLIC SECTOR FINANCING REQUIREMENTS
(US$ MILLIONS)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
TOTAL FINANCING REQUIREMENTS	43.7	38.6	33.3	37.6	45.7	40.5	38.4	35.5	33.0	29.3
1. Public Sector Capital Expenditure	40.2	35.1	26.2	28.3	36.5	31.5	29.6	27.8	25.9	22.2
2. Amortisation	0.6	0.6	4.2	6.4	6.3	6.1	5.9	4.8	4.2	4.2
3. Other Debt Obligations	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
FINANCING SOURCES										
Domestic	13.3	6.4	-3.6	4.8	4.2	4.9	5.8	6.9	8.5	9.2
4. Public Sector Saving	1.9	2.0	4.0	2.9	4.2	4.9	5.8	6.9	8.5	9.2
5. Other Domestic	11.4	4.4	-7.6	1.9	-	-	-	-	-	-
External Financing Requirements	30.4	32.2	36.9	32.8	41.5	35.6	32.6	28.6	24.5	20.1
6. Grants and Loans*	35.6	28.2	21.3	25.6	38.5	32.1	28.1	24.6	21.5	17.1
7. Statistical Discrepancy	-5.2	4.0	15.6	7.2	-	-	-	-	-	-
8. Financing Gap	-	-			3.0	3.5	4.5	4.0	3.0	3.0

* Includes loan rescheduling operations

SOURCES:
1. Ministry of Finance Provisional Estimates for Budget 1986
2. World Bank Report of the Policy Dialogue Mission, October 21-24, 1985
3. IMF Staff Estimates

NOTE: Data for the 1982-84 period have to be used with caution due to losses of records

BEST AVAILABLE

MONTSERRAT.

STRUCTURAL ADJUSTMENT PROGRAMME

OECS SPECIAL DEVELOPMENT FACILITY

1. National Economic and Social Goals and Objectives for the Planning Period.

The economy of Montserrat is the smallest of the OECS Member States whether measured geographically or by reference to population or market size. It has an area of 39.6 square miles or 25,344 acres, a population of 11,606 (1980 Census) and had a G.D.P. in constant 1977 prices of $38.732 mill (EC) in 1983. The economy epitomizes all the problems of small size, openness and dependence faced by small island economies worldwide, and in addition experience a degree of sensitivity to economic influences and a level of rigidity in the size of its absorptive capacity which far exceeds that of any other OECS member State, and seriously inhibits the scope for meaningful planning or attempts at structural adjustment. In these circumstances the Government of Montserrat feels that it is not feasible to establish import substitution or domestic self sufficiency as a viable long term option for the productive sectors of the economy, and the prospects for longrun diversification would continue to be severely constrained by the harsh realities of the problems of attaining viability in the peculiar circumstances of Montserrat.

Government's longrun development objectives is therefore to stimulate a carefully programmed inflow of foreign investment, particularly in tourism and manufacturing for the export market, at a level sufficient to absorb the limited numbers of unemployed in addition to the reduction in numbers in the agricultural population expected to occur concomitant with efforts to increase acreages and improve efficiency and viability of units in the sector. A subsidiary objective of Government is the expansion of the economic base so as to enhance the fiscal capacity of the Government enabling it to reduce its present total dependence on external aid for financing of all capital projects, and to finance greater share of the PSIP, and giving it greater control over the direction of economic development.

2. Macroeconomic Targets

(1) 5% annual growth of real Gross Domestic Product;

(2) Restriction of price level increases (all items index) to not more that 5% per annum and wage increases to a level not exceeding overall growth of productivity measured as per capita real GDP;

(3) Reduction of 71/2% level of open unemployment to 3-4% over the plan period and progress in eliminating underemployment in agriculture and the urban sector;

(4) Total Investment in economy targeted at annual rate of 25% of GDP;

(5) Public Sector Investment to be maintained at level of 40% of total annual domestic investment or 10% of GDP;

(6) Public Sector Savings to rise from 0% of GDP in 1985 to 2% of GDP in 1988 so as to be able to finance 20% of the PSIP.

3. Macroeconomic Constraints

Though the Montserrat economy is small and easily susceptible to stimulation as a result of investment, it is obvious that an economy of this size faces numerous constraints. Some of them are set out below:

(a) Economy: Economic base so small as to post threat to viability in nearly all areas of economic activity and those practicable are high cost;

self sustaining growth difficult to achieve since not based on internal dynamic;

the need to selectively promote and encourage capital intensive rather than labour intensive industries;

Agriculture: agriculture land too limited in extent to permit serious choice of export agriculture as an option since marketable outputs would be too small to interest shipping;

Labour Force: labour force 5,000 strong;

requires careful monitoring of labour force distribution when new investments are being proposed;

small size of labour force poses problems for the degree of specialization achievable and poses constraints on training strategy;

Infra-structure:	Costly per capita of population to build and operate;
	Relatively inefficient because only smallest units useable;
	heavy burden imposed on all sectors to repay debts generated to install assets;
Transport	Low potential volume of exports results few shipping calls and discourages investment in manufacturing which depends on ocean transport or in agriculture producing perishables for export;
	limited capability of the airport also sets limits to the possibilities for enclave enterprises.
	Using air transport or for development of tourism based on large hotels;
Private	small and limited in experience, hence its thrust towards development and economic diversifications handicapped;

requires more generous incentives and encouragement and more support from foreign investors than this sector elsewhere in order to diversify out of traditional areas such as trading;

Government — looms large in the total economy and this is inevitable since a minimum public sector establishment is necessary no matter what the size of the economy;

prudent management more critical to minimize costs and tax burdens than in larger states;

certain critical professional services not efficient to employ and must be supplied regionally or from donors;

donor assistance more essential and should continue for longer than in other OECS Member States;

though costs of government per capita are high taxes per capita must be low to compensate in part for other disadvantages suffered by the

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population, and the relatively high cost of living resulting from having to import all requirements.

4 Strategies for Achieving the National Goals and Objectives

(a) General Macroeconomic Strategy

(i) Stimulation of a higher level of local savings in the household and the business sectors as well as taking action to ensure a higher level of public sector savings both in the central government and in public sector enterprises.

(ii) Discouragement of current high levels of consumption of imports, particularly of food, and providing special stimulus to the production and consumption of more local food products;

(iii) Providing incentives and encouragement of greater domestic investment, in residential; and hotel accommodation and introducing concessions for financial institutions to invest in these areas;

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(iv) In recognition of the peculiar economic circumstances of Montserrat, undertaking a comprehensive review of the fiscal regime and incentives to investment in all sectors with a view to ensuring that fiscal as well as other areas of public policy in some way compensate for the cost logistic and other disadvantages of investing in this country;

(v) Making an all out effort to encourage foreign investment in tourism and small scale manufacturing with major emphasis during the current plan focussed on promotion of the Little Bay Tourism Development Project comprising marine, hotels, condominiums and shopping complex, in the financing of which Government intends to make a significant contribution;

(vi) Encouragement of the private sector to consider itself as the main source of investment and impetus to growth and development of the economy, and providing every assistance to it in playing that role.

(b) <u>Specific Structural Adjustment Issues</u>

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As a result of the peculiar economic circumstances identified in Section 1 of this memorandum, Montserrat was particularly affected by the inflation in energy costs in the 1970's and early 1980's, and the accompanying inflation in product prices was totally transmitted to the domestic economy with little possibility of cushioning its effects. At the same time the growth of the tourism and manufacturing sectors slowed down drastically and real GDP actually declined in 1983. Government also recognises that in addition to the disadvantages cited earlier, Montserrat possesses relatively high labour costs compared with other OECS economies, and that urgent action must be taken to ensure that our competitive position is not further eroded, and that economic decline is arrested. The direction of structural adjustment policy is therefore aimed at

(a) restraining further labour cost increases and improving labour efficiency so as not to endanger our position as a location for enclave enterprises;

(b) ensuring the profitability of investments in the tourist sector by supporting wage restraint in that sector;

(c) deriving maximum benefit from the growth of tourism by supplying as much of the food requirements as is feasible from domestic agriculture;

(d) associating with other Member States of the OECS and Caricom in taking decisions at the regional level which is calculated to stimulate exports and enhance the competitive position of the region internationally; and

(e) restraining the level of Government consumption expenditure and moving the level of total public sector savings from 0% of GDP in 1985 to not less than 2% of GDP in 1988 and 4% of GDP in 1990 so that Government can at that time finance not less than 20% to 25% of the PSIP.

1. The Public Sector

1. Objectives of the Sector

The major thrust of public sector policy during the plan period 1985/6 to 1988/9 would be to achieve the following:

(1) an increase in public sector savings from zero to not less than 2% of GDP in real terms so as to

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enable Government to finance at least 20% of the PSIP by 1988/9;

(ii) an improvement of the competitive position of Montserrat in the OECS and internationally from a point of view of labour costs in the key sectors such as tourism and manufacturing;

(iii) an increased willingness and capability of the private sector to accept the challenges of development and participate in the opportunities for private investment identified for promotion as part of the development strategy, and generally increasing domestic savings and investment;

(iv) maximizing the potential economic benefits of the tourist industry to the economy through reorganisation and improvement in the efficiency of the agriculture sector as well as small scale industry and handicraft.

2. <u>Targets For Achievement During The Planning Period</u>

(1) Increase of public sector savings to 2% of real GDP;

(ii) Restriction of price increases to an average of 5% per annum;

(iii) Limitation of increase in wages to the level of growth in per capita real GDP;

(iv) Annual average increase in tourist expenditure of the order of 15% to be achieved through more energetic marketing and promotion;

(v) 50% increase in hotel accommodation and 20% increase in other accommodation available to tourists together with an increase in occupancy rates from 47% to nearer 60% on the average;

(vi) Increase of acreage under arable farming and fruit crops from present 262 acres to 1300 acres to supply the local market and achievement of an overall growth for the agriculture sector equal to that of real GDP (i.e. 5% per annum);

(vii) Real GDP to grow at an annual average rate of 5%;

(viii) Output in manufacturing to increase at 5% per annum so that this sector can maintain its share of GDP and employment;

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(ix) Reduction of the share of total commercial bank financing going into consumer credit and increase of the respective shares going to finance the productive sectors and residential accommodation;

(x) Increasing domestic savings to abut 10% of GDP or to 40% of total investment as targeted above, and taking steps to encourage financial institutions and other foreign enterprises to retain and reinvest resources generated within the economy.

3. <u>Constraints to the Achievement of the Public Sector Targets</u>

(i) Scarcity of competent and experienced professional personnel in the public sector to design development strategy, formulate policy and implement the public sector investment programme;

(ii) Scarcity of capital to implement the Public Sector Investment Programme;

(iii) Absence of institutional arrangements and capability for identification and evaluation of development projects and consequent lack of available investment opportunities for promotion among potential foreign investors;

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(iv) Serious weaknesses in the collection of information for planning and policy/policy formulation and the lack of proper data affects the quality of policy decisions;

(v) The small size of the economy sets severe limits to the fiscal capacity while at the same time causing the cost of central government administration and public sector services (including utilities) to be very high per capita, thus the potential for generating a sustained level of public sector savings is relatively limited;

(vi) The need to compensate for the various economic and other disadvantages peculiar to this economy make it necessary to provide special incentives by way of lower tax burdens on all sectors and this further limits fiscal capacity of the government;

(vii) The difficulties in the way of attaining viability in a large number of areas of activity essential to the survival of the economy make it imperative for government to be involved in the operation of enterprises which would normally be left to the private sector.

4. Strategy for Achievement of Public Sector Objectives

(i) The specific strategies for achieving the objectives of the productive sectors such as tourism, manufacturing and agriculture are discussed under those heads;

(ii) The strategy for achieving the macroeconomic objectives of the public sector will endeavour to introduce reforms in a wide range of policy areas affecting economic conditions;

rigidly limiting the scope of involvement in and ownership of business enterprise by government, but where this is found to be necessary, ensuring that a programme of efficient maintenance is carried out in order to extend productive life of assets to the maximum;

where government owns agricultural land distributing this in plots of acreage large enough to ensure economic viability of units and on tenures which preclude division of holdings or alienation from the designated use;

undertaking a thorough evaluation of the incentive for industry with particular emphasis on how they

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can be made more appropriate to the peculiar circumstances of Montserrat where the prospects for manufacturing exist largely in enclave type production for export and doing this within the framework of the regional study being undertaken by the Caricom Secretariat;

taking steps to restrict the rate of domestic price increases so as to reduce the pressure for wage increases and adoption of strict guidelines for granting wage and salary increases in the public sector, with the aim of maintaining or improving the competitive position of Montserrat which has wage rates some what higher in many other OECS Member States;

undertaking a comprehensive review of the structure of the tariff and other taxes on imports so as to make the system a more effective deterrent to the rapid growth of consumption of imports and held reduce the trade deficit;

carrying out a thorough study of the fiscal regime with a view to determination of an optimal fiscal regime for Montserrat, and implementing such reforms in tax policy and administration as would maximize efficiency and facilitate the reduction of overall tax burdens without compromising government's objectives of increased public sector savings;

improving the level of project planning and implementation and the quality of management of the public sector to enhance the levels of efficiency of government spending;

conscious of the need to maintain a very favourable cost structure in tourism and manufacturing, Montserrat is willing to consider the conclusions and policy recommendations emerging from the present series of studies being undertaken by the ECCB;

pending the outcome of those studies, taking such action as will enhance the regional balance of payments position and strengthen the position of the regional currency through wages and incomes policy, trade and tariff policy, fiscal policy and monetary and financial policies;

collaborating with other OECS Member States through the ECCB in the finalization of new legislation concerning the regulation of exchange control and banking and financial institutions;

with the assistance of the ECCB seeking to increase the share of commercial bank and other institutional financing going into productive sectors and reduce the share going to consumer credit;

carrying out organization and management studies of the major government ministries and public sector enterprises and adopting organisational structures and personnel practices which are more conducive to efficiency;

reexamination of the content of education at all levels and placing greater emphasis on the equipment of school-leavers to cope with the demands of modern technology;

raising the levels of entry requirements into the public service to ensure a greater capability to absorb in-service and other training, and introduction of such training at national or regional level for all areas of the public service.

5. Policy Agenda and Programme of Action for the Public Sector Public Ownership

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(i) Approach to UNDP and BDD to assist in upgrading the maintenance capability for equipment operated by Government Ministries of Works, Agriculture, Health etc.--scheduled for early 1986.

(ii) Improvement of the maintenance skills training capability at the Technical--Vocational School--addition to staff and increase of student intake--CIDA to be asked for technical assistance 1986.

(iii) Subdivision of 1000 acres of government owned farmland into 5 acre plots for vegetable production and tree crops, and strengthening the extension services capability in servicing these units by 1987.

Investment Facilitation (Including Incentives)

(i) Associating Montserrat with the OECS proposed study and Caricom study actually begun in 1985 to look at the regional incentive regime to give greater encouragement to exports in production;

(ii) Establishing by 1987 of a facility to assist in the provision of finance for domestic investors in the tourist industry services, accommodation,

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transport, entertainment, catering and handicraft production and marketing;

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(iii) Making all out effort to secure new industrial ventures to occupy the presently unused factory shell space and drawing down funds available from CDB for construction of additional factory shells for rental--two additional shells of 8000 square feet each in 1987;

(iv) Participating in the recently established Export Development Agency for the OECS.

Pricing and Market Policies

(1) Presenting a set of guidelines for approval of Executive Council prior to negotiation of salaries with public servants due in 1986 such guidelines to include limitation of increase in real wage to estimated increase in real GDP per capita;

(ii) Maintenance of price controls on all essential items and institution of guidelines for distributors and retailers markup on others after tripartite discussions between Government, labour and the business community to be organized in late 1986.

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Trade and Tariff Policy

(i) The rate structure of Montserrat Tariff which is for the time being rationally determined, will be comprehensively reviewed together with the associated customs service charge and consumption tax, examining aggregate effective rates of tax on all imports, with the aim of implementing a rate structure which is supportive of Government's consumption policy, agriculture objectives and the need to protect the balance of payments. This exercise is to be completed in time for Budget 1986.

(ii) As a member of the OECS and Caricom trading arrangements Government intends to move in 1986 towards adoption of the CCCN System of Trade Classification so as to facilitate customs administration of taxes on international trade.

(iii) The review of the rate structure of the tariff and other indirect taxes will aim at replacing the use of licensing and other quantitative restrictions on trade with dependence on the market mechanism of prices in determining trade patterns.

Fiscal Reform

(i) The first steps towards complete reform of the income tax are being taken in the 1986 Budget. These include reform of the rate structure to more appropriately reflect current levels of earnings in the community, rationalization of certain allowances and introduction of incentive to households to invest in residential construction, reducing the limits on deductions not considered to create direct benefits in the domestic economy, and generally improving the administrative provisions of the law. It is intended by the 1987 Budget to introduce a new Income Tax Reform and Consolidation Act which incorporates all these changes as well as additional measures to improve the efficiency of administration of the tax particularly as it affects non-residents, and consolidates the various amendments to the original legislation.

(ii) Action is to be taken in 1986 to terminate the application of certain double-taxation treaties which are disadvantageous to the revenue and inconsistent with the fiscal aims of the reformed legislation, and to initiate steps to renegotiate these treaties jointly with other OECS Member States.

(iii) Action has already begun since July 1985 to initiate, under the auspices of the OECS Economic Affairs Secretariat, a programme of training in Customs Administration, Income Tax Administration and financial management at all levels in these areas of the public sector, and it is intended that Montserrat will continue to participate in and seek to expand the scope of these training activities in 1986 and beyond.

(iv) During the 1986 it is intended to seek technical assistance to assist in efforts to initiate a series of organisation and management studies of all Revenue Departments, and to take prompt action in implementation of acceptable recommendations for restructuring.

Foreign Exchange Policy Issues

(i) The results of the study undertaken by the ECCB on the effective changes in the parity of the East Caribbean dollar are being carefully studied by Montserrat. Government is aware that the recent devaluation of the Trinidad and Tobago dollar and gradual appreciation in value of the EC$ in recent years has eroded slightly the competitive position of Montserrat in certain sectors and also may have

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undermined somewhat the confidence in the ability of the OECS to maintain the current parity of its currency. At the same time any decision on a change in parity can only emerge from a unanimous decision of the Monetary Council, and Montserrat will support such a decision only if it is clearly in Montserrat's longrun interest to do so. In the meantime government is prepared to take certain stringent policy alternatives which will effectively help to maintain the competitive position of Montserrat in the international economy. The fiscal and other measures proposed in the 1986 Budget constitute a part of this strategy.

<u>Monetary and Financial Policies</u>

(i) Montserrat intends to take action in 1986 on the passage into law of a common OECS Banking and Financial Institutions Act.

(ii) This government will also take action to improve the administration of exchange control consistent with the general needs of the OECS Monetary Union, and initiate study in 1986 of draft common (OECS) exchange control legislation with a view to enactment in 1987.

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(iii) Under the provisions of the Banking Act cooperate with the Central Bank (ECCB) in the implementation of credit controls aimed at curtailing consumer credit and expanding accommodation to the productive sectors.

(iv) Reduce the effective subsidies provided through income tax deductions for life insurance premiums where it cannot be demonstrated that the companies involved have reinvested a certain proportion of their net premiums collected within the domestic economy--to be proposed for 1986 Budget.

(v) Encourage the ECCB to establish for the commercial banks under its control a higher threshold for interest rate on Savings accounts, and give further encouragement to domestic savings by the issue of tax exempt government bonds.

(iv) Provide special income tax incentives for investment in the productive sectors by banks and other financial institutions, and encourage owner-occupied residential investment through the introduction of deductibility of mortgage interest for income tax purposes. This is to be proposed for the 1987 Budget.

Public Administrative Reform

(i) An O & M study of the Civil Service was carried out in 1985 and the results will be used as a basis for restructuring the public service to achieve higher levels of efficiency and planning and implementation capability by 1990.

(ii) Steps will be taken in 1987 to amend the provisions of the Public Service Commission regulations to place greater emphasis on the use of academic qualifications and merit as bases for promotion within the public service.

Human Resource Development Including Employment Policy Issues

(i) Government will continue its ongoing programmes of in-service training in management being conducted in cooperation with the OECS Training Unit and the Caribbean Center for Development Administration.

(ii) A programme of scholarships tenable at overseas institutions and leading to degrees and diplomas in a wide variety of academic areas is in process of implementation to help upgrade public service personnel.

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(iii) Establishment of a mini hotel training school is proposed for implementation in 1987.

(iv) Efforts are in train to provide a facilities which will permit offering full secondary education to all children in the relevant age group.

(v) A programme for revision of the education curriculum is ongoing and aimed at reflecting the goals of national development and equipping the graduates from the system to be able to cope with modern technology--mechanical skills, electronics, space, the computer etc.

II The Agriculture Sector

1. Objectives and goals of the Sector

To expend total production on public and private land to the level of self sufficiency in a wide variety of meat, fruit and vegetable production totally replacing imports of these products;

To sustain the highest level of employment in the sector that is consistent with improved farming techniques and a level of productive efficiency and profitability of farming units which will

- guarantee higher living standards to the farming community;

To increase the potential market for local farm products by catering to the tourist industry and establishment of processing facilities which reduce fluctuations in seasonal availability.

2. Sectoral Targets

Increase the acreage under vegetables from present 206 acres to 300 acres over a five-year period, an annual increase of 14%.

Achieve 50% self sufficiency in production of white potatoes now being imported.

Increase beef production and improve quality to increase supply from 89% of total demand at present to 90% in 5 years.

Improve breed of sheep and goats and reduce importation from 11% to 3% of total consumption.

Reduce pork products imported by 50% to be replaced by increased local output--10% reduction on average over 5 years.

Increase acreage under orchard crops by 100 acres in year one and 200 acres over the next two years.

No increase in farmer population envisaged during plan period.

Increase fish landed by 15% per annum over plan period.

3. Sectoral Constraints

Low potential export volumes fails to interest shipping calls and poses problems for export of perishables thus limiting scope for expansion of production for export.

Small size of domestic market and lack of refrigerated storage also limits the potential for production for the local market.

Relatively high labour costs and dependence on labour intensive techniques endargers viability of conventional size farms and average income of farmers insufficient to encourage farmers to stay in the industry.

Small size of farms makes ownership to machinery uneconomical but stony nature of land makes machinery necessary in land preparation.

4. Strategy for Development of the Sector

Because of the constraints on production for export, the emphasis will be on import substitution particularly in production of meat and fish, orchard crops, vegetables and ground provisions, introducing new crops such as white potatoes where they can be grown locally.

Refrigerated storage and processing will be used as means of expanding the market for seasonally available produce beyond the period of glut into the period of scarcity.

Government intends in the case of agriculture to continue a policy of administrative controls on imports so as to reserve the small local market to local farmers during the seasons for availability.

An intensive programme of training of local farmers to employ more efficient production techniques which will improve their earnings

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capability has already begun and will be continued.

Dialogues are being held with farmers in all sectors in the effort to evolve a policy for agriculture which will receive the wholehearted support of producers in the sector.

Efforts are to be made to secure technical assistance to improve the quality of meat production so that local production can cater to the upper income and of the domestic market.

5. Policy Agenda and Programme of Action for Agriculture

Strict application of the new Law intended to protect farmers against the menace of stray animals has begun begun bringing added security to farmers producing vegetables and ground provisions.

In order to extend the production period into the dry season a series of irrigation works are scheduled for construction or redevelopment in Lees, Trants, Brodericks, Gages, and elsewhere and technical advice on the use of drip irrigation and

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sprinkler systems will also be provided in 1986-87.

The Government food processing unit will be upgraded to undertake more commercialised production utilising surpluses of fruit and vegetables, and the DFMC marketing capability is to be improved to enable it to market some of the processed output abroad.

Improved credit facilities for farmers and concentration of the attention of the extension services on the more progressive farmers are proposed for implementation in 986: DFMC to be reorganised to provide credit.

Some 2,000 acres designated for livestock farming are to be developed into improved pasture through clearing of stones and trees, fencing and planting of new strains of grass and forage and installing water.

In addition to on farm and short residential training courses for farmers, selected farmers will be offered short training attachments overseas to observe improved methods.

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Additional extension officers are to be recruited in 986 to bring the Division up to full strength, and facilities for transport, information transfer and demonstration will be provided.

Resources are sought to reequip the central machinery pool providing contract tillage to farmers, so as to improve the efficiency of service and reduce the high maintenance costs of present aging stock of equipment.

III The Manufacturing Sector

1. Objectives and Goals in the Manufacturing Sector

Because of the small size of the domestic market, the emphasis will be on manufacturing for export; and while it is not expected that there will be any dramatic growth in this sector, Government hopes that it can with successful promotion stimulate additional investment which would lead to stabilization and a moderate increase in the contribution of this sector to GDP and employment.

2. Sectoral Targets

Increase of contribution of the manufacturing sector to GDP from 10% in 1984 to about 12% by 1989-90.

Increase of the percentage of the labour force employed in manufacturing from just 10% in 1984 to about 12% by 1989-90

Full occupation of existing factory shell space within the next one or two years by new manufacturing enterprises and utilization of funds at present available from the CDB to construct 48,000 additional square feet of factory shells by 1990.

Restructuring of the Development Finance and Marketing Corporation by end of 1986.

Undertaking a market study for leather goods which can be produced by the Tannery and re-equipment of the enterprise to achieve improved quality of the products using local and regional raw materials.

3. Sectoral Constraints

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Minuscule size of the domestic market and inability to provide a basis for viable operation of any manufacturing enterprise.

Poor shipping connections resulting from lack of interest in direct calls because of low volumes of exports in agriculture and industry, and inability of airport to take large air cargo carriers.

Relatively high labour costs in Montserrat compared with the other OECS Member States.

4. Strategy of Approach to Development of the Sector

Review of the system of incentives for promotion of industry by participating in the OECS and Caricom studies but also undertaking a more specific study of the peculiar problems of promoting industry in Montserrat.

Making strenuous efforts to restrain the increase of prices and wages so as not to undermine the competitive position of Montserrat vis-a-vis other OECS Member States for foreign investment.

Establishment of facilities for industrial credit through the restructured Development Finance and

Marketing Corporation using funds available from the CDB.

Undertaking market studies for present and potential products of the manufacturing sector in cooperation with the recently established export promotion agency.

5. <u>Policy Agenda and Programme of Action for Manufacturing</u>

Initiate dialogue with the private sector and labour before end of 1986 to establish improved climate for private investment.

Stand ready to enter joint ventures with local and foreign investors to improve likelihood of establishment of any industry which appears potentially viable, or to invest in such industries alone and divest to the private sector when viability is assured.

Special efforts to upgrade the status of the agro-lab to do processing of agriculture surpluses is to be achieved by 987 so as to prevent continued wastage of agricultural production.

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- Mobilize technical assistance to undertake detailed market studies for the Montserrat Sea Island Cotton Company and the Tannery in 1986 and to introduce new machinery to enable both enterprises to cater to the markets identified.

IV <u>The Tourism Sector</u>

1. <u>Objectives and Goals of the Tourism Sector</u>

The Government of Montserrat regards the tourism sector as the leading sector of the economy and expects that the growth of this sector will be the driving force in the economy both in terms of its contribution to GDP and employment, as well as in the extent to which it stimulates growth and employment in other sectors such as agriculture, trade, services and handicrafts.

2. <u>Sectoral Targets</u>

Expand the number of tourist rooms available in hotels as well as condominiums and private residences by some 20% and to increase occupancy rates from under 50% to about 60% during the planning period.

Increase the estimated contribution of the sector to GDP from about an estimated present level of about 15% to about 20% in 1989-90.

. Increase the proportion of the labour force employed in the sector from about 13% at present to about 20% by 1989-90.

Increase potential for successful promotion of investor interest in the Little Bay Tourism Complex by initiation of the investment in the associated infrastructure with public sector funding.

15% annual growth of aggregate tourist expenditure, an increase of 2.2% over the 12.8% achieved over the last 5 years.

With the aid of technical assistance preparing early in 1986 a tourism strategy and action plan for Montserrat.

Identification of tourist attractions and potential activities and investing in their development to improve the quality and variety of the total product offered by Montserrat.

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3. Sectoral Constraints

Absence of a deep water harbour makes cruise ships reluctant to call and sets limits to the potential for attraction of the cruise ship passenger business.

Small hotels with total accommodation of less than 200 rooms and not more than 300 additional rooms in condominiums, guest houses, villas and apartment makes a mass visitor strategy infeasible and forces the country to limit itself to the high-priced end of the market appealing to wealthy individuals and small groups.

Scarcity of conventional white sand or golden-brown beaches limits potential marketability of a sun-sea-sand strategy, and limits strategy to one promoting the natural beauty and peace and tranquility of the island.

4. Strategy for Development of the Sector

Promotion to be beamed at upper end of the market at persons in receipt of steady retirement income who can come and spend prolonged periods and are not easily affected by fluctuations in the level of economic activity.

Aim to continue development of a strong component of the industry as residential tourism with potential visitors investing in residential construction which will guarantee repeated future visits and increase construction activity.

Diversification of the market so that it is not heavily dependent on the economic situation in any one area--additional promoting agencies to be established in Canada and Europe in additional to one now employed in New York.

Government will initiate substantial investment in the Little Bay Tourism Complex so as to inspire the confidence of potential investors in that project, and make that project the focus of promotional efforts.

5. <u>Policy Agenda and Programme of Action for Tourism</u>

Limitation of imports by hotels which can be supplied through domestic agricultural activity--fish, meat, fruit and vegetables--as domestic agriculture is developed to supply that demand.

Carrying out in 1986 a survey of the number and quality of rooms actually available to tourists and classifying them for purposes of standardization of pricing etc.

With assistance of the EEC and CTRC preparing in early 1986 a tourism strategy and an action plan to implement that strategy, securing Government endorsement of the strategy and action plan by mid-1986.

Securing technical assistance to undertake a study of the Montserrat environment and landscape and identify areas which can be effectively developed to improve the tourist product.

Allocation of at least $0.5 million EC from the 1986 Budget to commence work on the infrastructure for development of the Little Bay Tourist Complex as an index of Government's serious interest in the project.

Initiating a dialogue with the private sector in Montserrat to stimulate interest in local investment in some aspect of the Little Bay Project as a demonstration of total domestic commitment to it.

Design of a package of incentives and other measures which would be effective in attracting both domestic and foreign investment in the Little Bay Project.

MONTSERRAT: PUBLIC SECTOR FINANCING REQUIREMENTS
(1980-1991) EC$ MILLION

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
I TOTAL FINANCING REQUIREMENTS	2,596	3,709	2,744	2,354	2,962	4,462	4,361	4,194	4,918	5,962	6,643	7,20
1. Public Sector Capital	2,523	3,630	2,606	2,176	2,787	4,215	4,089	3,895	4,590	5,611	6,172	6,79
2. Amortization	,023	,019	..042	,071	,078	,086	,095	,104	,114	,126	,135	0,14
3. Other Debt Obligations	,050	,060	,096	,107	,097	,161	,177	,195	,214	,225	,236	0,24
II FINANCING SOURCES												
1. DOMESTIC												
(a) Public Sector Savings	,485	,326	,444	,296	0,296	0,185	,422	,927	1,020	1,122	1,234	1,50
(b) Domestic Borrowing and other	-,333	,407	-,185	,074	,150	,200	,211	,278	,408	,505	,617	0,70
2. EXTERNAL												
(a) Grants and Loans	2,149	3,511	2,639	1,371	1,280	1,296	1,407	1,481	1,556	1,667	1,780	1,80
(b) Financing Gap	(-,371)	(-,535)	(-,154)	,613	1,236	2,781	2,321	1,508	1,934	2,668	2,911	3,20

Aggregate Financing Requirements in period 1986-1991 = US$14,54 million

MONTSERRAT: SELECTED ECONOMIC INDICATORS 1980-1990

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
NATIONAL ACCOUNTS											
Real GDP growth (%)	9.31	3.70	3.65	-4.74	5.72	5.0	5.0	5.0	5.0	5.0	5.0
Gross Investment as % of GDP	41.0	45.9	39.6	31.7	23.6	35.0	33.0	34.2	35.0	35.0	35.0
Public Sector Investment as % of GDP	10.5	14.3	7.8	6.9	8.0	11.0	9.7	8.4	9.0	10.0	10.0
Private Sector Investment as % of GDP	31.7	34.8	31.8	24.8	15.6	24.0	23.3	25.8	26.0	25.0	25.0
Domestic Savings as % of GDP	n.a	n.a	9.3	21.2	14.4	14.4	15.1	16.6	18.0	19.0	20.0
PUBLIC FINANCE											
Central Gov't Current Expend as % of GDP	23.5	25.1	25.0	25.0	23.8	23.8	24.0	23.0	22.5	24.5	22.0
Expenditure on Public Order and Safety as % of GDP											
Current A/C Surplus/Deficit as % of GDP*	2.0	1.2	0.8	0.3	0.1	0.0	1.0	2.0	2.0	2.0	2.0
Overall Deficit as % of GDP	0.6	3.3	(0.2)	0.4	0.4	1.6	1.7	2.3	2.5	3.0	3.1
External Public Debt as % of GDP	2.2	6.9	5.6	4.6	3.5						
Debt Service Ratio to GDP	0.3	0.5	0.7	0.8	0.6						
Public External Debt Service as % of Government Expenditure	1.3	2.0	2.8	3.2	2.5						

*Deficit after taking account of Capital grants.

Source: World Bank Economic Memorandum for Montserrat 1985 and OECS estimates.

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ST.KITTS AND NEVIS
COUNTRY PROGRAMME

OVERALL GROWTH OBJECTIVES

During the five-year period to 1991 further structural adjustment will be undertaken in the economy with special emphasis on the agriculture, tourism and manufacturing sectors. The Government is at present designing programmes for achieving this adjustment with growth and is considering a number of alternative approaches for achieving the transformation. One such scenario projects growth at between 4.5 and 5 percent annually during the period. However, given the small size of the economy, large infrastructure projects can make a substantial difference to these estimates. For example, implementation of such projects as the airport extension and the development of infrastructure for the peninsular will result in much higher GDP growth rates. The employment consequences will also be more favourably affected.

The gross external debt is low and there are no outstanding arrears on this debt. However, the level of public savings is low and measures are being taken to generate improvement.

Traditional agriculture which has been affected by low productivity and inefficiency will be revived. In particular, St. Kitts has been affected by the declining price of sugar on the world market and the weakness of the pound sterling are further reasons for diversifying this sector.

An increase in food production is planned to satisfy domestic demand and in effect reduce the food import bill while providing some surplus for export. The improvement of onshore facilities for the fishing industry is geared towards the economy eventually becoming self sufficient in this area.

The tourism sector has been identified to play a major role in the growth of the economy if it becomes possible to put in the necessary infrastructure in the south-east peninsular. It is hoped that hotel construction would be encouraged in that area.

The other focus of this programme is the continuing development of light industry which will be encouraged by the establishment of industrial estates at various locations on the islands.

POLICY ISSUES & CONSTRAINTS

Issues

Agricultural policy centres around the transition out of land currently under cultivation of sugar cane and the release of such land for other uses.

Land-use policy to determine areas which will remain under sugar cane cultivation and that which will be made available for cultivation of other crops in which the private sector would be involved.

Chief perspective of industrial policy is the use of natural resources. In manufacturing the focus is on those industries which have linkages with agriculture and create employment opportunities. In tourism, it is a case of physical endowment; the opening up of the largely inaccessible South-East Peninsular through the construction of a new road will enhance tourism potential.

The newly established National Development Foundation is to play a key role in providing technical and financial assistance to entrepreneurs not served by existing financial institutions.

Export promotion to be undertaken by the proposed Eastern Caribbean States Export Development Agency (ECSEDA).

Constraints

Lack of small farm tradition may lead to slower rate of private sector involvement in agriculture than desirable.

Entrepreneurial talent and management skills need to be developed.

Small size of domestic market is a constraint to economies of scale.

Inadequacy of savings - private, public and foreign - for long term investment.

Current inaccessibility by road to best beaches.

Inadequate market knowledge and promotional skills.

SECTORAL OBJECTIVES AND TARGETS

Agriculture

The main emphasis is on diversification from a monocrop economy to production of a wider range of agricultural commodities for domestic consumption and export. Current acreage under sugar to be reduced but existing levels of production to be maintained through higher yields resulting from irrigation and improved husbandry. Much of the new activity is slated for private sector investment and, in this regard, agricultural land is to be made available and appropriate incentives granted.

The crops will include

(a) Dry-land rice for domestic consumption.

(b) Pumpkins, cabbages, cucumbers, watermelons, pineapples as part of winter vegetables project for export.

(c) Tomatoes, cabbages, carrots, onions, white potatoes for local consumption including an expanded tourist market.

(d) Other crops currently being researched.

Targets -

3% annual growth in employment in non-traditional agriculture.

2% annual growth in agricultural production.

Industry

The essential objective is to broaden the agro-industrial sector by providing opportunities for backward and forward linkages; to attract new encalve industries and stimulate development of small scale enterprises for local and regional markets; to strengthen institutional capability of agencies engaged in investment promotion and industrial policy and planning.

Agro based industries already identified include:

(a) Dairy processing - pasterised milk, yogurt hamburger meat, hotdog sausages.

(b) Peanut products - salted nuts, peanut butter.

Targets -

6% annual growth in manufacturing
5% annual growth in employment
4% annual growth in manufacturing exports
4% annual increase in net foreign exchange

Tourism

Government's role in this developing sector is largely facilitative. The objective being to provide essential infrastructure so as to attract private investment in hotel construction and ancilliary services and thereby enhance the attractiveness of the islands as a tourist destination.

Specific measures include -

(a) Construction of South East Peninsular road to provide access to best beaches.

(b) Provision of small business credit and technical assistance

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(c) Development of basic training programme within Technical College for training of hotel staff and tour guides.

(d) Review of Tax legislation

(e) Increase in electricity generating capacity

(f) Enhanced water supply.

Targets

8% annual growth in tourism
10% annual increase in employment in tourist sector
5% annual growth in net foreign exchange

DEVELOPMENT STRATEGY

Recognizing the need to harness all the available skills and energies within the economy into a concerted effort to further the development process, the government perceives its roles as largely catalytic: The upgrading of social infrastructure, support of facilities for management training, assistance with identifying sources of technology and venture capital, as well as providing the necessary investment incentives with access to commercial and financial services that are essential for business development.

In the process of diversifying the economy from a monocrop (sugar cane) to non traditional agriculture and industry, substantial portions of land currently under public ownership will be made available to the private sector who will be encouraged to get involved in activity which has been identified for development. The thrust of the adjustment policies will be to increase the share of exports and investment in the aggregate demand for goods and services and to expand the contribution of domestic production relative to imports in aggregate supply.

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Given the focus on promoting faster industrial, particularly agro-industrial growth, the launching of a major export drive will be given top priority both with respect to traditional and non-traditional items. In this regard the government sees the imminent establishment of the Eastern Caribbean States Export Development AGency (ECSEDA) as facilitating its export development strategy.

During the first two years of the programme emphasis will be placed on human resource development and organizational and management capability. This should lay the foundation for the development of small scale enterprises and the fostering of a new entrepreneurial spirit. While encouragement will continue to be given to the establishment of new enclave industries, it is hoped that the emphasis on human resource development will reduce the current dependence on the enclave sector as well as on local commercial and trading activities.

FOREIGN EXCHANGE POLICY

The objective of government's foreign exchange policy is twofold

(i) to contribute to growth of the common pool of foreign exchange reserves of the area;

(ii) to institute measures which will ensure efficient use of the available resources.

In an effort to harmonise existing exchange control practices in the OECS area steps are being taken in collaboration with the Central Bank to draft a common exchange control act for enactment by countries which are members of the Bank.

MONETARY AND FINANCIAL POLICIES

The monetary policy objectives are as follows:

(i) to develop in consultation with the Central Bank monetary and financial instruments for the achievement of balanced growth and development.

(ii) to implement an interest rate policy which will achieve efficient mobilization of resources to be channelled into productive investment.

(iii) to institute a credit policy which will ensure that the priority sectors of Agriculture, Agobased industries and tourism are provided with adequate resources.

Measures

(i) Proceed with enactment of a common banking act now under consideration before the end of 1986.

(ii) Support participation of commercial banks in the inter-bank market shortly to be established by the Central Bank, thereby facilitating the use of idle funds and contributing to the development of a money market.

(iii) In fulfillment of the objective to achieve further diversification of the economy to use the exchange rate in conjunction with other policy measures to encourage growth and export activity. In view of the current exchange rate arrangements within the currency union to given active consideration to all possible exchange rate options including the pegging of the rate to a basket of currencies.

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FISCAL REFORM

The Government will be actively pursuing fiscal reform measures over the programme period with a view to minimizing the dependence on donor and other external sources of finance. It is envisaged that an improvement in economic management will lead to a more efficient use of the financial resources which the Government has at its disposal.

The overall objective of fiscal reform is to increase efficiency in the allocation of public resources and in the process generate additional savings for development.

Measures to improve economic management include:

(i) Improved method of budget preparation and estimation of resource requirements.

(ii) Review of administration of fiscal incentives in effort to minimize revenue costs.

(iii) Review of tax laws and procedures to expand tax base and eliminate loopholes.

(iv) In-house training in all aspects of taxation and improvement in the capability to formulate fiscal policy.

(v) Elimination of hidden subsidies and the charging for transactions.

PUBLIC SECTOR INVESTMENT PROGRAMME

The public sector investment programme is aimed at removing constraints on production by restructuring the agricultural sector to reduce the dependence on sugar and to improve the infrastructure with a view towards the expansion of tourism and light manufacturing.

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During the period 1987 to 1991 EC$160m has been projected for the public sector investment programme. The decline in investment during recent years came about mainly as a result of the completion of major projects such as the deepwater port, extension of the airport terminal and the sugar cane replanting programme and delays in the implementation of new projects. Recent development has been directed at housing, feeder roads, port and airport construction and equipment and refurbishing of schools. Public finances have also been weak in recent years and this has had a constraining effect on projects with a local funding component.

The public sector investment programme concentrates mainly on agriculture, tourism and manufacturing. The restructuring of the agricultural sector is aimed at the diversification of this sector with a consequent reduction on sugar cane cultivation. This requires the construction of an irrigation system to facilitate crop diversification and increased output.

Investment in the tourism sector would consist mainly of infrastructural development of the south eastern peninsular which is earmarked to be the focus of that sector and active promotion efforts abroad. The increased demand for electricity and water in this area would call for an increase in electricity generation and an expansion of water services.

As a result of the level of activity at the port, and the fact that there is just one berth, consideration is being given to the expansion of this facility. A plan for the extension of the airport runway to accommodate larger aircraft is also being considered to facilitate the expansion of the tourism sector. The increase in traffic on the direct air links to New York and Miami are among the factors which suggest that the airport be extended to accommodate larger aircraft.

In the manufacturing sector the number of factory shells will be increased and there are plans for the establishment of three industrial estates at different locations in the rural sector.

The implementation of this programme is dependent on the availability of financing from external grants and concessionary loans. Over the period domestic financing is estimated at EC$40.5m but given the past weakness of public finances this estimate may be some what optimistic. Nevertheless in view of the on-going efforts to strengthen government finance this projection may not be unrealistic.

The remaining EC$146m would have to be obtained from external sources, and it is anticipated that EC$106m of this would be project related, giving a financing gap of EC$40m.

ST. CHRISTOPHER-NEVIS

PUBLIC SECTOR FINANCING REQUIREMENTS
US$ MILLION

	1984/85	1986/87	1987/88	1988/89	1989/90	1990/91	1986-90
1. Public Sector Capital Expenditure	11.15	13.26	12.59	12.67	12.88	13.11	64.51
2. Amortization	0.7	0.89	0.89	0.89	0.96	0.96	4.59
3. Other Debt Obligations	-	-	-	-	-	-	-
Total Financing Requirements	11.85	14.15	13.48	13.6	13.9	14.1	69.23
FINANCING							
4. Domestic	1.5	1.9	2.71	3.63	3.49	3.36	15.09
5. Public Sector Savings	0.4	0.4	0.56	0.67	0.93	1.26	3.82
6. Other Domestic	1.1	1.5	2.15	2.96	2.56	2.1	11.27
7. External	10.35	12.25	10.77	9.97	10.41	10.74	54.14
8. Loans and Grants	7.6	9.7	8.56	6.96	6.74	7.33	39.29
9. Financing Gap	2.75	2.55	2.21	3.01	3.67	3.41	14.85

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SELECTED ECONOMIC INDICATORS

	GDP at Current Prices	GDP Constant Prices	GDP Deflator	CPI
1977	69.20	69.20	100.00	100.00
1978	76.29	71.24	107.10	112.20
1979	87.53	76.99	113.7	124.20
1980	103.11	80.09	128.70	145.40
1981	120.54	84.10	145.30	161.60
1982	137.76	89.41	154.10	171.10
1983	132.09	85.01	155.20	176.10
1984	140.49	88.47	158.80	179.80
1985	148.60	90.93	163.40	186.60
1986	154.50	94.10	164.20	193.10
1987	168.00	98.30	170.80	198.90
1988	180.50	103.20	174.90	205.30
1989	193.20	108.90	177.40	211.50
1990	208.40	115.40	180.60	216.80
1991	225.30	121.17	185.90	221.10

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ST. LUCIA

SUMMARY OF PROPOSED PROGRAMME 1986-1991

The main purpose of this exercise is to present a Structural Adjustment Programme in broad outline for the period 1986-1991.

The expected result of the programme, other things being equal, will be:

(a) The attainment of a level of credit-worthiness which allows the country to access I.B.R.D. funds and commercial bank credits;

(b) The economy should be at the beginning of a process of self-sustaining growth.

There are two major elements to the programme as it is envisaged:

(1) Broad supply side policies at the sectoral level and institutional reform to allow for medium to long-term growth and development.

(2) Annual financial programmes to create the financial stability for successful structural adjustment.

As a general overall strategy three distinct but inter-related approaches are necessary:

(1) The strengthening and acceleration on infrastructural projects to establish a foundation for growth and development.

(2) A special development facility to complement the structural adjustment effort.

(3) The encouragement of direct private investment flows to diversify and strengthen the productive base of the economy.

<u>Macro Economic Objectives</u>

(i) Given past economic performance and the availability of resources, the authorities have set as a target an average rate of growth of 5 per cent per annum.

(ii) The reduction of arrears completely by 1991.

(iii) The increase in public sector savings to a level of 5 per cent of GDP by 1991.

(iv) The unemployment rate will be addressed through a well conceived public sector investment programme and the encouragement of increased investment from foreign and local sources.

(v) The maintenance of a sustainable public dept servicing capacity.

<u>General Objectives for the three Sectors are:</u>

1. Agriculture to effect growth, employment, foreign exchange earnings at import substitution.

2. Manufacturing for growth, employment, and foreign exchange earnings.

3. Tourism to generate foreign exchange earnings, increase employment and stimulate growth.

4. The stimulation of the private sector to participate in the development of the three sectors.

Specific Sectoral Targets in the three Sectors

Agriculture

(i) Growth - an average of 5 per cent per annum.

(ii) Volume increase in production of major crops, particularly bananas of at least 5 per cent.

(iii) Direct job creation of at least 150 per annum.

Manufacturing

(i) Growth of 6 per cent per annum.

(ii) Export sales increase of at least 10 per cent per annum.

(iii) Job creation of 500 per annum.

Tourism

(i) Growth of 7 per cent per annum.

(ii) Increase average length of stay from 8.7 to 10 days.

(iii) Average 5 per cent increase in visitor expenditure

(iv) Annual direct job creation of 100 new jobs.

Key Issues and Constraints

General

(i) Small size and limitations of the private sector.

(ii) The problems associated with small island economies. - diseconomies of scale, vulnerability, resource constraints.

(iii) An underdeveloped private sector.

(iv) Lack of managerial skills in the public sector.

(v) Insufficiency of the infrastructural base.

(vi) High levels of structural unemployment and under-employment.

(vii) Fragile social systems.

(viii) Small and fragmented markets.

Social Strategies

Agriculture:

(i) The strategy in agriculture will be to continue to increase productivity in the Banana Industry by increasing output per acre. The national average is now between 5 and 8 tons per acre but an average of 15 to 20 tons per acre have been achieved on the model farms project. Attempts will be made to raise the national average to at least 10 tons per acre by 1991.

Similar efforts to increase productivity will be made in the case of the cocoa and coconut crops.

(ii) Diversification will be encouraged into tree crops and other exotic crops.

(iii) An attempt will be made to increase the level of import substitution in food production.

(iv) There is an ongoing effort to increase security of tenure for landowners through the Land Titling and Registration Project.

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(v) Attention is being paid to the provision of agricultural inputs through the establishment of depots in the rural areas.

(vi) Increased emphasis is being placed on extension work through the reorganisation of the Agricultural Extension services.

(vii) The feeder road programme is being rigourously pushed by the government.

(viii) Increased emphasis is being placed on agricultural marketing.

Tourism

(a) Full utilisation and refurbishing of existing major hotels in the north and south of the country (this is already in train).

(b) The expansion of total number of rooms to 5000 by 1991.

(c) Revision of Hotel Aids Ordinance to encourage further investment in the industry.

(d) Increased promotional efforts in new and existing tourist markets in North America and Europe.

(e) Increased levels of local participation through private sector involvement and accelerated training for senior management positions in the industry.

(f) Provision of new and modern facilities at the airports and seaports.

(g) Provision of tourist attractions of a cultural and historical nature.

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(h) Provision of modern duty free shopping facilities for example, Pointe Seraphine.

Manufacturing

(i) Accelerated industrial promotion by the national Development Corporation targetted at specific industries, for example, electronics, textiles.

(ii) Review of Fiscal Incentives Act and procedures for processing applications to ensure quick establishment of industries.

(iii) Expansion of labour intensive enclave industries.

(iv) Development of industries with backward and forward linkages.

(v) Exploration of joint venture possibilities with regional and international entrepreneures.

(vi) Continued development of Industrial Estates particularly the Vieux Fort Industrial Free Zone.

(vii) The continued development of public utility infrastructure to encourage industrial development.

(viii) The encouragement of industrial and technical vocational skills to up grade the skills and productivity of the labour force.

(ix) The creation of a stable industrial relations climate.

(x) The establishment of a Bureau of Standards.

(xi) The establishment of an Export Promotion Unit.

(xii) The negotiation of Bilateral Investment Treaties and Double Taxation Agreements with selected industrial countries.

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(xiii) Membership of the IFC, ICSID, and MIGA.

Public Policy

Fiscal Reform

(i) Continued reform and restructuring of financial bureaucracy that is, Ministry of Finance, Planning and Statistics, Accountant General Department, Revenue Department, Audit Department, and Accounting Section of Ministries.

(ii) New Financial Legislation, Finance Act, Audit Act.

(iii) Computerization of all financial systems.

(iv) Generation of Public Sector savings.

(v) Reduction of Arrears.

With respect to arreas these have been calculated at EC$28.0m as at the end of calender year 1985. It is the intention of the government to reduce this to zero by 1991. The rate of reduction has been set at EC$5.0m in the first two years followed by EC$6.0m in the three subsequent years. The programme with respect to this phased reduction would involve:

(a) The proper aging of the arrears

(b) Negotiated reschedulings in keeping with the five year time profile

(c) Appropriate expenditure control and revenue enhancement measures

To achieve the target, revenue is projected to grow between 5 and 7 per cent per annum while the growth of expenditure should not exceed 3-4 per cent per annum.

These revenue and expenditure targets are premised on:

1. The reform of the tax administration systems.
2. The systematic collection of outstanding arrears.
3. The reform of the entire tax system.
4. The tightening of expenditure controls through the introduction of new systems and computerisation.
5. Rigid controls on wage increases.
6. Increased efficiency in the Public Sector.

Monetary and Financial Policies

(i) To develop in consultation with the Central Bank monetary and financial instruments for the achievement of balanced growth and development.

(ii) To implement an interest rate policy which will achieve efficient mobilisation of resources to be channelled into productive enterprises.

(iii) To institute a credit policy which will ensure that the priority sectors of Agriculture, Industry and Tourism are provided with adequate resources.

(iv) The development of financial intermediaries and practices of financial intermediation which will be conducive to economic growth and development.

Wages Policy

The government is committed to keep a tight rein on the growth of public sector wages and salaries. Wages and salary levels in the public sector have grown faster than in the other OECS countries as well as in the domestic private sector. In order for the adjustment process to have any impact there will have to be restraint with any increases not exceeding between 10 and 15 per cent over the entire five year period.

The approach to this problem will involve:

(i) The re-establishment of the Tripartite Committee to work out a social contract between the Governments, the Private Sector, and the Trade Unions.

The major variables which the Committee will review and set guidelines on are:

(a) Wages
(b) Prices
(c) Employment, and
(d) Productivity

(ii) The establishment of proper negotiating mechanisms in the Public Sector. A negotiating Division has been set up in the Prime Ministers Office to research and service a negotiating team appointed by Cabinet.

(iii) A wages fund will be established to finance wage settlements over the period. The size of the fund will have to be contained within the target levels of expenditure growth over the period, that is, 3 per cent per annum.

(iv) Labour Legislation will be strengthened to foster a stable industrial relations climate.

(v) The Labour Department will be strengthened to monitor and facilitate labour relations in both the public and private sectors.

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(vi) An effort will be made to rationalize and synchronize the timing of negotiations for new wage and salary contracts.

Public Administrative Reform

The government is in the process of restructuring and reforming the public service by:

(i) Establishing appropriate organisational forms in each ministry to fit the functions of this entity.

(ii) Defining the functions of each personnel category.

(iii) The provision of staff orders to govern the Public Service.

(iv) Setting performance criteria and assessment mechanisms for public offices.

(v) The provision of training at all levels in the Public Service.

Human Resource Development

The government of St. Lucia firmly believing that the development of the country is only possible through the total development of its human capital has embarked on the following:

(i) Development of the Educational System to reflect the economic and social priorities.

(ii) In particular the development of relevant curricular.

(iii) The emphasis on Technical-Vocational Training.

(iv) The development of skills training schemes.

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(v) Programmes of Audit Literacy.

(vi) Management Training Schemes

(vii) The development of widespread Primary Health Programmes.

(viii) The establishment of programmes in the spheres of Culture, Sport and Community Development.

PSIP Financing Gap

The PSIP is based on macro-economic projections contained in the latest World Bank economic memoranda on St. Lucia entitled St. Lucia: Economic Performance and Prospects.

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ST. LUCIA

PUBLIC SECTOR FINANCING REQUIREMENTS

US$ MILLION

	1985	1986	1987	1988	1989	1990	1991
1. Capital Expenditure	46.9	48.8	50.8	52.8	54.9	57.1	59.9
2. Amortization	1.9	2.9	3.9	4.8	6.1	7.8	9.7
3. Other Debt Obligations	-	1.0	1.5	1.5	-	-	-
Total Financing Requirement	48.8	52.7	56.2	59.1	61.0	64.9	69.6
FINANCING							
Domestic							
4. Public Sector Savings	9.3	8.6	8.6	12.6	16.9	21.8	27.0
5. Other Domestic	-	4.0	4.0	3.0	3.0	3.0	3.0
External							
6. Loans Grants	18.5	23.6	27.0	30.4	32.5	33.7	34.6
7. Statistical Discrepancy	21.0	-	-	-	-	-	-
8. Financing Gap	-	8.0	6.0	5.0	4.0	3.0	2.0

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ST. VINCENT AND THE GRENADINES
SUMMARY OF PROPOSED COUNTRY PROGRAMME FOR 1986-91

I. Macro-economic Objectives

i. An average growth rate of 5% per annum;

ii. an increase in public sector savings from 1.5% of GDP in 1984 to 5.0% of GDP by 1990 in gradual increments but with a reduction in central government revenue as a % of GDP from 33.2% in 1984 to 30.1% by 1991;

iii. an annual reduction of 1% in the unemployment rate so as to reduce the unemployment rate from the estimated 35% in 1984 to about 30% by 1991. This means an annual creation of 1,750 new jobs;

iv. elimination of all arrears;

v. attainment of creditworthiness for ordinary resources to finance 35% of the PSIP and to maintain:

   a) a debt service ratio of under 5%; and

   b) a debt service/government expenditure ratio of under 8%.

II. Sectoral Objectives/Targets

The overall sectoral objectives are to expand the productive private sectors with the emphasis on the exports of goods and services to regional and extra-regional markets. The relative objective emphasis will be on:

i. agriculture for growth, foreign exchange earnings and employment;

ii. manufacturing for growth, employment and foreign exchange but enclave manufacturing for employment;

iii. tourism to diversify the economy and as a sector to be developed for long-term growth; and

iv. reduced direct government involvement in productive activity but with government providing facilities and incentives to induce private sector initiative and investment activity.

The specific targets for the sector are:

Agriculture

i. growth (value added) of 8% per annum;

ii. volume increase in exports of 10% per annum;

iii. new job creation of 400 per annum.

Manufacturing

i. growth value added of 4% per annum;

ii. export sales increase of 10% per annum;

iii. new job creation of 250 per annum.

Tourism

i. 10% per annum increase in visitor arrivals;

ii. increase in average length of stay from 7.6 days to 10 days;

iii. 7% increase per annum in average daily visitor expenditure; and

iv. annual direct job creation of 150 new jobs.

III. Key Issues and Constraints

General

i. Small island diseconomies;

ii. weak and over extended public sector institutions;

iii. critical shortage of management personnel;

iv. very limited entrepreneurial class and very low levels of private investment;

v. a possible over valuation of the EC$ but which cannot be corrected by exchange rate changes as wages and salaries are already low in an open economy with a militant labour force and where skills are scarce and can easily migrate;

vi. largely as a result of inappropriateness of educational system abundance of unemployed and underemployed labour particularly in the young age groups and the difficulty of absorbing school leavers in the employment market;

vii. high production and transportation costs and limited efficient support infrastructural and institutional facilities;

viii. limited farmer and manufacturers access to availability of venture capital;

ix. limited market knowledge and marketing expertise; and

x. weak commodity markets.

IV. Sectoral Strategies

i. Diversification into (a) import substitution agricultural commodities which can be grown economically in the medium term; (b) new high valued crops which have export potential;

ii. intensification of efforts to improve production and productivity of traditional crops;

iii. improvement of marketing facilities expanding market opportunities, and reducing costs of market access;

iv. land reform.

Manufacturing

i. Development of industries with linkages to the rest of the economy; both import substitution and export;

ii. expansion of labour-intensive enclave industries;

iii. encouragement of greater private sector ownership of factory shells;

iv. exploration of joint venture possibilities with regional and extra-regional entrepreneurs;

v. maximisation of benefits to be earned from enclave industries by charging economic rents but paying due regard to what the competition offers.

Tourism

i. Development of up-market tourism;

ii. increased promotion in Western Europe to diversify market and increase length of stay.

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Public Policy

i. Improvement in the function of Financial Management and Planning capability of the public sector;

ii. divestment of state enterprises;

iii. improvement of financial management in public sector managed utilities to provide cost-effective services without dependence on central government subventions;

iv. imposition of economic charges for government-provided economic services either on an economic cost basis and/or at levels to minimise consumer waste;

v. reductions in government revenue as a proportion of GDP so as to increase incentives for private sector initiative and to improve the efficiency with which government services are provided;

vi. exploration of possibilities for regional common services so as to gain economies in administration and to extend the career path for the region's top-level professionals and management;

vii. systematic elimination of distortions in factor and commodity markets to allow for freer functioning markets without unduly high administrative costs;

viii reorientation of consumption patterns and greater consumption of domestic and regionally produced goods;

ix. increase in the level of private savings;

x. ensuring a greater allocation of commercial bank funding through enlightened interest rate policies aimed at productive sector activities e.g. agriculture, housing, manufacturing as opposed to distribution and real estate.

V. Specific Programme/Policy Interventions and Dates for Implementation

Agriculture

Policies

i. Examination of export taxes on bananas and coconuts;

ii. removal of price controls on locally grown foods;

iii. imposition of tariffs on imported substitutes but reducing these over a phase basis to stimulate the international competitiveness on local production;

iv. preparation of a land use map and enforcement of its provisions.

Programmes

i. Development of the Orange Hill Estate into a - Model Farm equipped with social and economic infrastructure extension services and institutional support. CDB, and other aid agencies are to finance the programme. Work has commenced and the programme is expected to be completed by 1988.

ii. implementation of a Gdn$8m fisheries development programme, geared to tap the islands fisheries potential. The programme to be financed by CIDA is to be completed in 6 years and has already commenced;

iii. development of institutional support for the agricultural sector:

(a) Establishment of a quality control system with assistance from IICA, schedule completion is 1987;

(b) program which will enable 100% of the country's banana exports to be field packed, due to be completed in 1986;

(c) reorganisation of the Marketing Board to improve its management and its cost-effective responsiveness to the country's agricultural marketing needs improved marketing system. This will involve developing market intelligence and research is helping with the exercise;

iii. commencement of a programme to provide industrial extension officers to assist small business. UNIDO will be approached to provide the required technical assistance - begins 1987-90;

iv. continuation of industrial promotion programme;

v. streamlining and strengthening the lending and industrial promotion and training functions of the Development Corporation. 1986 - 1989.

Tourism

Programme

i. Promotion of St. Vincent and the Grenadines as a special destination with concentration on the upper end of the extra-regional market. This will be done by means of:

a) Establishment of a tourism promotion desk/office in London for promotion in European market;

b) Sales promotion activity in the U.S. through American firms by way of trade shows, trade fairs etc;

c) The promotion of multidestination packages through travel agents in North American and Europe. CTRC, CTA services will also be utilised.

ii. Improvement in access to St. Vincent and the Grenadines by:

a) Development of Bequia Airstrip;

b) Organisation of charter operations from Miami, Caracas and San Juan;

c) Extension of the Arnos Vale Airport.

iii Development of the Hotel Industry by way of new facilities e.g. Canouan Hotel Development and a 100 room hotel facility in St. Vincent as well as refurbishment of existing plant. The latter could be facilitiated by the establishment of a line of credit through DEVCO and or short-term financing from the NCB.

iv. Development of health resort facilities in St. Vincent and the Grenadines as well as the upgrading of historical sites.

v. Reorganisation of the local tourism organisation both within the Tourism Department and the Local Tourist Board.

vi. Training of personnel within the hotel industry as well as improving the skills within the Tourism sector itself. This will be accomplished by way of workshops, training programmes etc.

vii. Fostering closer dialogue with the private sector in order to induce them to become more conscious with regard to the importance of the tourism sector to the eocnomy as a whole and as a consequence improving the quality and attractiveness of their merchandise.

Programme

Public Policy

i. Introduction of Programme Budgeting (July 1986);

ii. review of measures aimed at widening the tax base (in progress);

iii. refinement of allotment and monitory systems for financial management (in progress);

iv. restriction of the use of discretionary powers for the granting of exemption (1987);

v. review of the tax laws aimed at eliminating loopholes and strenghtening the powers of tax administrations (in progress);

vi. training in tax administration (in progress);

vii. review of Double Taxation Agreement - 1986/87;

viii. review of more appropriate valuation procedures in order to minimise under valuation of invoices - 1986;

xi. revising and ensuring the availability of financial regulations and stores rules - 1986;

x. further development of our house capability for the preparation of the PSIP, the Budget for Domestic Resource Requirement of the PSIP and for the impact of the PSIP on the recurrent budget;

ix. completion of the 3 year Polling planning (1986-89).

Public Administrative Reform

The rapid expansion of the public sector highlighted the need for reorganisation to enable it to transform from a colonial type institution to a development orientated administration. The main weaknesses are as follows:

i. the need to clarify the functions of various administrative units to avoid duplication and misallocation of resources;

ii. substantial shortages of technical/professional and senior personnel compounded by a large number of low level non-technical personnel requiring detailed supervision;

iii. lack of co-ordination between various Ministries and non compliance and irregularities in operational procedures.

The government is committed to the reorganisation of the public services and this process has already commenced with the reorganisation of the Ministry of Finance and Planning.

- Technical assistance is now being sought to continue this process and extend it to all Ministries. This is expected to be completed by 1988.

Human Resource Development

The Government recognises that all its efforts for the economic development of the country must be accompanied by a continuing enhancement of managerial, technical and personal skills of its people. The government has obtained technical assistance to help develop a manpower planning system. This is in the final stages of development. The manpower planning function has a vital role to perform within any human resource development strategy.

The capabilities of OECS, IARM, UWI, CARICAD and other regional bodies would be used to advice and train manpower as well as provide organisation development and administrative reforms.

All means necessary will be used to attract and retain qualified persons within St. Vincent and the Grenadines. Career guidance will be provided in secondary schools in order to direct school leavers into various sectors of the economy.

Education and training will be given highest priority in the socio-economic development thrust of the Government.

An expert has been contracted to review the current junior secondary school and technical college curriculums with the view to designing one more appropriate for the developmental needs of St. Vincent and the Grenadines.

VI. PSIP Financing Gap

The PSIP is based on macro-economic projections contained in the latest World Bank economic memorandum on St. Vincent and the Grenadines entitled"St. Vincent and the Grenadines Economic Situation -

Selected Development Issues".

ST. VINCENT AND THE GRENADINES

PUBLIC SECTOR FINANCING REQUIREMENTS

1986-91

EC$

	1986	1987	1988	1989	1990	1991
Total Financing Requirements	21.3	25.0	26.0	25.6	26.0	28.5
1. Public sector capital expenditure	19.7	23.3	24.1	23.7	24.1	26.7
2. Amortization	1.6	1.7	1.9	1.8	1.9	1.8
3. Other Debt Obligations	-	-	-	-	-	-
Financing Sources						
Domestic	4.6	5.4	6.2	7.7	9.2	10.9
4. Public sector savings	3.1	4.1	5.1	6.8	8.5	10.3
5. Other Domestic	1.5	1.3	1.1	0.9	0.7	0.6
External						
6. Project related	13.6	16.1	16.0	14.2	13.0	14.0
7. Financing Gap	3.1	3.4	3.8	3.6	3.8	3.6