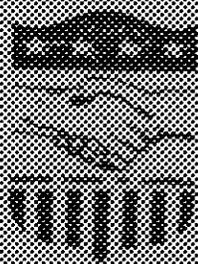


# Country Development Strategy Statement

FY 1985

GRENADA

1985 - 1990



OCTOBER, 1984

Agency for International Development  
Washington, D.C. 20523

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## LIST OF ACRONYMS AND ABBREVIATIONS

AID	Agency for International Development
BDD	British Development Division
BIMAP	Barbados Institute for Management and Public Administration
CAEP	Caribbean Agricultural Extension Project
CAIC	Caribbean Association of Industry and Commerce
CARDI	Caribbean Agricultural Research and Development Institute
CARICAD	Caribbean Institute for Development Administration
CARICOM	Caribbean Community
CARIFTA	Caribbean Free Trade Association
CBI	Caribbean Basin Initiative
CCCU	Caribbean Center for Credit Unions
C/CAA	Caribbean Central American Action
CDB	Caribbean Development Bank
CFSC	Caribbean Financial Services Corporation
CFTC	Commonwealth Fund for Technical Cooperation
CIDA	Canadian International Development Agency
CPDF	Caribbean Project Development Facility
CPE	Centre for Popular Education
CTRC	Caribbean Tourism Research and Development Centre
CXC	Caribbean Examinations Council
EC\$	Eastern Caribbean Dollar
ECCA	Eastern Caribbean Currency Authority
ECCB	Eastern Caribbean Central Bank
ECTA	Eastern Caribbean Tourism Association
EDF	European Development Fund
EEC	European Economic Community
EIB	European Investment Bank
ESF	Economic Support Fund
FAO	Food and Agriculture Organization
FDC	Forestry Development Corporation
FY	Fiscal Year
GBGA	Grenada Banana Growers Association
GDB	Grenada Development Bank
GDP	Gross Domestic Product
GOG	Government of Grenada
IARM	Inter-Agency Resident Mission
IBRD	World Bank
IDB	Inter-American Development Bank
IDRC	International Development Research Centre
IICA	Inter-American Institute for Cooperation in Agriculture

IMF	International Monetary Fund
LAAD	Latin American Agro-Industrial Development Corporation
NACDA	National Cooperatives Development Agency
NDF	National Development Foundation
NISTEP	National In-Service Teacher Education Programme
OAS	Organization of American States
OECS	Organization of Eastern Caribbean States
OPIC	Overseas Private Investment Corporation
PQLI	Physical Quality of Life Index
PRG	People's Revolutionary Government
PVO	Private Voluntary Organization
RDO/C	Regional Development Office for the Caribbean (AID)
SBM	School of Business and Management
SSE	Small Scale Enterprise
TUC	Trade Union Council
UNDP	United Nations Development Programme
UNESCO	United Nations Educational Scientific and Cultural Organization
UNICEF	United Nations International Children's Fund
US	United States
US\$	United States Dollar
USAID	United States Agency for International Development
UWI	University of the West Indies
WINBAN	Windward Islands Banana Association

CURRENCY EQUIVALENTS

Exchange Rate

US\$ 1 = EC\$ 2.7

EC\$ 1 = US\$ 0.37



## I. DEVELOPMENT SETTING AND PRINCIPAL CONSTRAINTS

### A. Political Setting and Trends

#### 1. Historical perspectives

The roots of Grenadian society lie deep within slave-based estate agriculture and British colonial rule. In the nineteenth century two major changes -- emancipation of the slaves in 1834 and a subsequent shift from sugar production to that of nutmegs, mace, and cocoa -- made possible the growth of a small farm sector which, however, remained dependent on wage labor for a significant portion of its livelihood. Grenadian society remained under the dominance of a white elite until after 1950 and upward mobility was severely limited for the majority of people. The introduction of "local self-government" through parochial boards in 1886 decentralized to the parish level a number of functions (such as town management, road maintenance, and the levying of jetty fees), but at this local level power still remained in the hands of the white elite. For the majority of people dependence on the decisions of others and the accompanying respect for authority was reinforced by all of Grenada's basic institutions.

The granting of voting rights to all adult Grenadians in 1951 permitted political power to pass from the small elite to the black, agriculturally-based majority. This action followed a growing populist movement and labor struggles led by Eric Gairy who returned to Grenada in 1949 and involved himself in the growing conflict on estates. Gairy's labour-based party, of the GULP, gained a majority in the Legislative Council in 1951, and effectively assumed the authority and responsibility for the well-being of the majority. Throughout the fifties Gairy was locked in a struggle with the British authorities and the elite. Over time, conflict with estate owners resulted in the expropriation of vast

acreage, much of which was claimed by Gairy himself. Gestures were made to some of his supporters, however, and many small holders are still today loyal to Gairy because he provided them with their first small plot of land. For nearly thirty years (1951 - 79), Gairy exercised political power, both in and out of public office, despite evidence of corruption, violence and brutality under his regime. Gairy's repressive one-man leadership, disregard of the legal structure and refusal to share power and responsibility eventually led to a schism within the black community.

The March 13, 1979, revolutionary overthrow of the Gairy regime by the New Jewel Movement under the leadership of Maurice Bishop initially enjoyed the overwhelming support of the majority of the Grenadian population. Opposition to Gairy had been widespread, especially among the educated middle class and among members of the landed class and commercial sector. Although many were uneasy over the coup, many adopted a wait-and-see attitude. Among youth, there was large support for the coup and the proclaimed aims and goals of the New Jewel Movement as it established the People's Revolutionary Government (PRG).

The Bishop regime (March 1979 to October 1983) established a number of programs in the countryside to integrate the agricultural base of the society with the Revolution. A youth program, Youth for Reconstruction, mobilized thousands of young people for voluntary community building projects and road work. The National Women's Organization mobilized rural women into community self-help projects and a number of agricultural cooperatives were begun. The regime also reorganized agricultural workers into the Agricultural and Workers Union, undercutting Gairy's union base. The regime continued to run the estates Gairy had expropriated and continued to expropriate additional lands.

During the Bishop years, attention was devoted not only to the mass mobilization and socialist indoctrination of the youth of the nation, but also to the restructuring of the society through the institutionalization of community development and education programs and projects and the encouragement of a cooperative sector in agriculture. The fostering of group activity and cooperativeness was a focal point of the revolution. By 1982, it was estimated that one out of every five Grenadians belonged to an organization established by the Revolution.

The "grass-roots democracy," however, failed to materialize. Under the PRG, "top-down" public meetings, mass rallies, and campaigns remained the principal mechanisms of political expression as did the politicalization of civil service posts, much as had occurred during the Gairy years. By 1983, there was considerable conflict within the PRG as different factions sought to gain control. On October 19, 1983, Bishop and a number of his followers were executed. Chaos ensued in the country and threatened the region. As a consequence, other Caribbean countries and the U.S. intervened on October 25 to restore order.

## 2. Current political setting and outlook

After the intervention, an interim government was set up to run the country until elections could be held. Elections are currently scheduled for late 1984. It is expected that Grenada will continue with a parliamentary form of government and that prior to the beginning of the planning period (FY 85) normal government operations on the Westminster pattern will be well underway.

Meanwhile, the people of Grenada are in a state of some confusion and uneasiness. There is a fear of increased divisiveness in Grenadian society and that the repression of both the Gairy and PRG regimes could easily return in the absence of a strong and impartial

security system. Likewise, there is a concern that if a moderate government is not elected in the fall of 1984 repression could become a problem again. Where the PRG's mass mobilization programs have been discontinued, few local-level activities have sprung up in their place. Problems created by the exodus of talent during the PRG years were increased by the exodus of PRG supporters following the events of October, 1983.

### 3. External relations

Grenada's international relationships have evolved from its British colonial past and its geographic location in the Caribbean. The concepts of independence and federation evolved together. Grenada was a member of the West Indies Federation which was formed in 1958 but lasted only until 1962. Grenada then assumed the status of an associated state of Britain with internal autonomy. The Caribbean Free Trade Association (CARIFTA) was a twelve member group formed in 1968 to which Grenada also adhered. It evolved into CARICOM whose political arm, the Caribbean Community consisting of English speaking Commonwealth members in the Caribbean region, seeks to coordinate policy and enhance regional cooperation through a series of regional institutions. Meanwhile, Grenada also became a member of the Eastern Caribbean Common Market which evolved into the Organization of Eastern Caribbean States. By the time of independence from Britain in 1974, Grenada had a network of regional relationships within the Caribbean and retained membership in the British Commonwealth, including particularly close relations with the U.K. and Canada.

The 1979 Coup which brought the Peoples Revolutionary Government to power moved Grenada into a set of relationships much closer to the planned economies of the Eastern bloc. Relationships with the

Caribbean bodies to which Grenada belonged were not severed until the last days of the PRG, following the execution of Maurice Bishop and other events of October 19, 1983. At that time Grenada was expelled from the OECS but its membership was reinstated following the rescue mission. Today Grenada is again collaborating with both its OECS and CARICOM neighbors, particularly Trinidad/Tobago, has a new close relationship with the U.S. and continues to enjoy good relations with its influential continental neighbor, Venezuela, and with the U.K., Canada and the European Community. Grenada is also a signatory of the Lome Convention providing for economic cooperation between developing countries of Africa, the Caribbean, the Pacific, and the European Economic Community (EEC).

B. Social Analysis

1. Introduction

Society in Grenada has been structured by its long history of slave-based estate agriculture (and the associated socio-economic and political structures) and by British colonial rule. While slavery was abolished in 1834 and limited local "self-government" was introduced in 1886, it was not until the mid-twentieth century that the black majority took effective political control of the island. Even then a dependent mentality prevailed and the majority of Grenadians defer to the leadership of strong authority figures. While not as poor as many other islands in the Caribbean, Grenada still faces many social problems including heavy emigration of talented citizens, high unemployment, a high proportion of female-headed households, and a high incidence of teenage pregnancy. The following paragraphs briefly analyze some of these social concerns.

2. Demographic profile<sup>1/</sup>

a. Overview.

The current population of Grenada is estimated to be about 90,000 people, less than that of 1970<sup>2/</sup>. About 40% of the population is under 15 years of age. Another 40% is in the economically active 15 - 40 years age bracket. A predominately Catholic country, Grenada has not adopted strong family planning policies though the crude birth rate estimated at 22.8 in 1982 is relatively low. Its high growth rate of two percent has historically been offset by the rate of outward migration, also about two percent. The population density is estimated to be 684 persons per square mile. There is no significant rural-urban split in the distribution of population due in part to the small size of the island and close socio-familial linkages. St. George's parish, however, which contains the capital, has the highest population density.

The PQLI for Grenada in 1983 was 92, far higher than most lower-middle income developing countries. This reflects Grenada's high basic literacy rate, low infant mortality rate (15.4), and long life expectancy (70). These figures compare favorably with more developed countries.

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<sup>1/</sup> The conclusions based on the data used in this and other sections of the CDSS are the Country Team's best estimate of the situation in Grenada. Often statistical data are unreliable, conflicting or outdated. Whenever possible, the composite judgement of the Country Team has been used to spare the reader the difficulty of tracing through statistical discrepancies and arguments as part of the presentation.

<sup>2/</sup> Data from the census completed in April, 1981, had been processed but not released at the time this CDSS was prepared. Data from the 1970 census were not generally used as they were out-of-date. There are several views about the actual population of Grenada, all different. The one used here has been endorsed by the Interim Government and is based on the latest census (1981).

Decreased opportunity to migrate, due to tighter immigration policies in the US, Canada and the U.K. will result in an increased population in Grenada, creating additional demands for education, training for employment and new jobs. High teenage pregnancy rates are another factor contributing to population growth.

b. The labor force and employment

In a 1980 survey, the potential labor force in Grenada was estimated to include about 31,000 persons, approximately 27.6 per cent (or 8500) of whom were unemployed. The labor force will continue to expand more rapidly in the future because of the broad base of the population pyramid. Of the roughly 22,500 employed in 1980, about 35 percent (almost 6000 persons) worked in either highly coveted public sector jobs ranging from messenger to Minister or for state-owned enterprises; approximately 23 percent worked full-time in agriculture though over 60 percent of Grenadian households undertake some agricultural production for their own consumption; another 43 percent were employed in the private (non-agriculture) sector as self-employed entrepreneurs or as employees in a variety of businesses including commerce, light manufacturing, tourism, fishing, transport and construction. Women dominate in several sectors, namely commerce (distribution of fresh fruit and vegetables), light manufacturing (garment industry) and the service sectors (tourism, clerical and domestic services). About 30 percent of those employed reported that their main job was occasional or seasonal.

High unemployment is the key economic, social and political problem in Grenada now and through the planning period. It must be substantially decreased if self-sustaining equitable economic growth is to occur. Estimates available for 1984, while

not very dependable, suggest that the unemployment rate is reaching about 30 percent and that the total labor force is between 30,000 to 32,000, resulting in roughly 8,500 to 9,500 people being unemployed. The majority of the unemployed are between the ages of 15 and 30, and comprises more females than males. In a 1982 study, the highest rates of unemployment were found in two parishes outside the capital, which indicates some serious unemployment in the countryside. Between 1985 and 1990, the labor force without any migration is expected to grow to 40,000. If a rate of migration one half the historical rate is assumed, the total labor force by 1990 will be 37,000. Based on an analysis of all factors, reduction of the unemployment rate from its present 30 percent to 15 percent by 1990 is the ambitious target that should be pursued. This will require the creation of an additional 10,000 jobs within 6 years primarily for young, poorly educated men and women who have never held jobs before. Most of these jobs will need to be created in the private sector. This is equivalent to creating roughly one new job for each two jobs currently in existence.

c. Emigration

Emigration has had a powerful influence on Grenadian society, keeping the population's annual growth rate down. Between 1946 and 1970, the population grew at an annual rate of slightly over one percent, while population actually decreased slightly between 1970 and 1980. Emigration to Trinidad has been significant though this is likely to diminish in the future. Until very recently, upward economic and social mobility for many people was only possible by leaving Grenada. Although ascribed social status is now less strictly adhered to within Grenada, the "migration mentality" is unlikely to diminish greatly until increased opportunities in Grenada for economic achievement are perceived by Grenadians.

Emigration has affected Grenada's population differentially. The greatest amount of emigration occurs within the most productive age group in the labor force, between 20 and 45 years old. Until recently, vastly more males than females emigrated, but now numbers are more nearly equal. Emigration also removes a greater proportion of skilled than unskilled laborers from Grenada.

While aspirations for progress have been focussed on opportunities outside Grenada, the ability of Grenadians to emigrate abroad is likely to decrease during the plan period because of more restrictive immigration policies in the U.S. and other developed countries. Those who must remain will require jobs and training. An effort should also be made to attract trained Grenadians who have emigrated

3. Access to resources -- indicators of equity

a. Land

Land is Grenada's major natural resource, being the basis for agriculture and tourism and important also for manufacturing. It must be used productively by many, but its ecological and environmental aspects must be sustained at the same time. This will require that astute land policies be implemented.

The distribution of cultivated land in Grenada is very uneven. According to the 1981 agricultural census, 23 percent of the land is owned by less than one percent of the farmers, that is, by about 24 individuals in a population of 8,200 farming household heads. Half of these 8,200 commercial and semi-commercial farmers depend entirely on agriculture for their income. Of these 4,100 farmers, half

have farms of less than two acres. Sixty nine percent of the other 4,100 part-time farmers also operate farms of less than two acres. Nearly ten percent of Grenada's cultivated land is in state farms, most of which have been inherited from Gairy. In August 1984, a total of 5,284 acres were included in the Grenada Farms Corporation, which employed 691 people. Eight farms had been returned to private owners (totaling 2,887 acres), and two had been transferred to the Ministry of Agriculture (totaling 644 acres).

b. Credit

Access to credit for small farmers and entrepreneurs is limited. In a 1980 study by CARDI, two-thirds of the farmers interviewed felt that no credit source was available to them when needed.<sup>1/</sup> Those who obtained credit did so from commercial banks, co-operative credit unions, and the Agricultural Development Bank. Less frequently used sources were the commodity organizations, money-lenders, relatives, and friends. About 10 percent of the adult population of Grenada (over 5,700 persons) belong to one of 19 active credit unions, eleven of which are community-based. For most Grenadians, and particularly the self-employed micro business sector and small farmers, the credit unions provide the only channel for obtaining credit. Thus, entrepreneurs, and especially small farmers and small scale entrepreneurs, need to have access to more credit via expanded credit channels and volumes. This would encourage economic expansion and the creation of new jobs.

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<sup>1/</sup> CARDI, A Profile of Small Farming in Antigua, Montserrat, and Grenada. (Trinidad: CARDI, October, 1980), p. 59.

c. Market outlets

Markets are quite accessible to small producers of traditional export crops -- cocoa, nutmeg, and bananas. Market access for vegetables and fruits will be considerably improved through the current Agricultural Revitalization project. About 3,000 small artisans and crafts persons utilize Grencraft ( a government-established handicraft center) and a few private retail shops as tourist outlets for their wares. Access to markets for non-traditional products and marketing efficiency need to be improved to enable Grenadians to increase their output, exports and employment of surplus labor.

d. Education and skills

Though primary education has traditionally been accessible to all children, its quality is low and many do not take advantage of it. As a result functional illiteracy was estimated at 30% in 1980. About 40% of this group is comprised of young people 14-25 years. During the PRG, free secondary education was provided to all. During the 1982-83 school year, over 21,600 students were enrolled in 64 primary and all-age schools and four junior secondary schools, comprising over 90 percent of the estimated 5-16 year age group. Another 850 were studying at four specialized tertiary institutions or abroad. Vocational training, however, is not widely available and there is little linkage between the school curriculum and many of the technological skills and habits needed for productive work.

While access to education, except for vocational education, is adequate, the education Grenadians obtain generally does not prepare individuals for the world of work, both in terms of the kind and level of expertise required for a technologically-oriented workplace. The formal education system must be strengthened and non-formal training opportunities extended to provide improved capabilities to work in the manufacturing, construction, services, trade and even a more technically demanding agricultural sector.

e. Health and Population

The general level of health care and nutrition in Grenada is reasonable by LDC standards. The health system of the Ministry does provide primary health care through 33 outpatient clinics, while secondary and tertiary health care is handled through three public hospitals.

Statistics on the health status of population compare favourably with other LDC's. For example, ninety percent of all households in Grenada have access, through at least a public stand pipe or tank to clean, filtered water. The infant mortality rate is 15 per 1,000. While like other LDC's, gastroenteritis and respiratory illness are major causes of morbidity, the leading causes of mortality are cancer, hypertension and cardio vascular disease.

There are specific areas, however where health assistance in Grenada will need to be targeted. Perhaps the best known, is the reconstruction and equipping of the mental hospital, which was seriously damaged during the intervention. Also, replacement and/or furnishing of health personnel to replace Cuban and other health workers will continue, until Grenadians are trained to assume full responsibility for delivery of health services. Thirdly, on-going activities which are

addressing eye care services needs will continue into the planning period.

As in other LDC's in the Eastern Caribbean, there is need to improve the efficiency and effectiveness of health service management. This includes maximizing and re-allocating health sector resources, and health services financing. Activities that respond to this need will principally be handled through regional programs during the planning period.

Of even greater importance to the future development of Grenada, particularly as it concerns unemployment, is the need to reduce the fertility rate. Presently there is too little access to family planning services and family health education information, especially for teenagers. The rate of teenage pregnancies is alarmingly high, which not only exacerbates population growth, but also has an immediate impact on the teenage mothers whose educational and vocational horizons become severely limited. As this also is a region wide problem, regional approaches are the most logical in responding to population needs.

#### 4. Socio-cultural patterns

##### a. The role of youth

Many of the youth in Grenada today are cynical about the future, especially regarding their own prospects for good, meaningful employment on the island. While there was a concerted effort under the PRG to involve young men and women in the nation-building process, events of the last few years, particularly those of late 1983 left many youth disoriented and confused. There have been few opportunities for the acquisition of necessary work skills outside of agriculture. Moreover, as the economy has declined, fewer and fewer opportunities for

self-employment or industrial wage labor have been created though expectations have continued to rise.

The existing social support networks of extended families and the tradition of supporting the chronically underemployed, in conjunction with the subsistence basis of the household economy, sustain young people while they search for the means to a better life. The migration mentality, which causes many to feel their chances of self-improvement are far greater outside Grenada, creates a situation whereby young people prefer to wait and try to emigrate rather than take employment that pays little and carries low status. Nevertheless, it appears that most Grenadian youth are willing to be mobilized both to national reconstruction and to personal development provided they are convinced that a government working in their own interest is put into office. Small businesses and self-employment in the crafts (both handicraft arts and the mechanical arts) are preferred activities that carry status in the community and provide stability to the society. The keen interest displayed by the 140 young persons involved in the National Cooperatives Development Agency's (NACDA) 12 agricultural cooperatives also indicates that youth can be interested in certain kinds of agricultural pursuits. They are not, however, interested in becoming estate laborers or in pursuing commodity production on plots of non-viable acreage.

Youth in Grenada should be a central component of the target group of the employment strategy. They are the most heavily migratory in outlook and with less opportunity to migrate in the future they will constitute an increasingly large and frustrated group of unemployed. High youth unemployment also will increase the dependency ratio and strain the informal social security system upon which unemployed youth must depend.

In seeking to create jobs for these youths, three problems will have to be overcome: they do not want menial and low paying work; many of them are not well prepared in terms of the technical skills and functional literacy necessary to obtain and hold a job; and there is a perception on the part of some employers that female youth are better workers because they have better manual dexterity for some jobs and are less apt to agitate for change in the work place than male youth.

b. The role of women

Historically, women in Grenada have played an active role in all sectors of the society. They comprise 45 percent of the total labor force and have held positions of responsibility in trade unions, political parties and government. However, despite their widespread involvement, women's wages tend to be lower than men's. Nearly 50 percent of all households are headed by women and most of these are "grandmother households," comprised of a woman over 50, her female children and their offspring. In many of these households, the daughter(s) are the sole support of the compound, since child support from fathers is sporadic.

In addition, the high number of teenage pregnancies in Grenada (approximately 29 percent of all births) puts additional strain on the economic resources and social systems available. Although the National Women's Organization under the PRG was politicizing women's issues, it is evident that family life education, contraceptive information, and counselling were not priorities. Young women do not appear to be aware of the relationships between early childbirth, lack of skills, and poverty.

Thus, while women carry many responsibilities in Grenadian society, they do not have access to sufficient resources to

improve their own, or their families, situation. Women should be an important component of the employment strategy. Teenage girls are a special element of the target group because their early pregnancies tend to push them into a cycle of lack of training, lack of employment and poverty.

5. Summary of basic social constraints to development

Although Grenada's population did not increase between 1970 and the present, diminished opportunities for emigration are foreseen for the planning period. By 1990, population may well have increased from 91,000 to over 100,000 and the labor force will have increased from 31,000 to 37,000. This sharp increase of young, inexperienced workers, largely unskilled and largely ill-prepared for what jobs are available presents a serious constraint in the medium term. Although Grenada has a relatively high literacy rate, many have reached only minimum competency. Traditional systems of passing skills from old to young have broken down due to the massive emigration since the early 1900s, limited access to land, and the changing aspirations of youth. The informal systems of sharing basic necessities somewhat equitably are still functioning, but under increasing strain. Young men, especially, are able to maintain themselves without productive employment while waiting better opportunities that may or may not materialize. At the same time, female-headed households, especially those with young teenage mothers, are struggling increasingly to satisfy their dependents' basic needs.

The target group for this strategy (and for efforts to deal with these social constraints to development) include those untrained for productive work; the unemployed, underemployed and those to be employed during the 1985-90 period, especially youth and women; small

scale farmers; and small scale entrepreneurs. To create jobs for this target group, specific assistance is proposed later.

C. Macro-Economic Analysis

1. Overview: principal constraints to improving the structure and performance of the economy

Grenada is a small open economy in which production is dominated by agriculture, representing about 25 percent of GDP in 1982. The manufacturing sector is small (four percent of GDP) and relatively weak, while construction had grown to command a six percent share of GDP by 1982. Wholesale and retail trading activities are also important (20 percent of GDP). While tourism has considerable potential because of the island's beauty, it has been in relative decline since 1979. It represented only two percent of GDP, but it brought in one third of total foreign exchange earnings in 1981. Provision of government services accounts for the largest share of GDP, about 30 percent in 1982.

Between 1975-78, real GDP grew at an average annual rate of seven percent, but the rate of growth declined to an annual average of about three percent per year for 1981 and 1982 and actually was negative in 1983. The performance of the different sectors of the economy has varied considerably since 1979. Agriculture has declined since 1978 because of low productivity due to persistent structural problems, lack of credit, price policies, inefficient marketing and decreased revenues from the chief export crops--bananas, cocoa and nutmeg. Tourism has been declining over the past decade because of adverse publicity about the political environment, economic dislocation and the lack of night-time airport facilities. Nevertheless, tourist receipts accounted for about one-third of Grenada's foreign exchange earnings. In the manufacturing sector, the 6 percent average increase in output in 1981 and 1982 was

followed by a 9 percent drop in 1983. The major boom was in construction, which grew at an average annual rate of 13 percent between 1980 and 1983, mainly because of public sector investment in infrastructure such as the international airport, road development and building, and community projects. Private sector investment declined in the same period.

The core economic difficulty in Grenada is that the economic system is now performing well below its productive potential as evidenced by such symptoms as a very high rate of unemployment, low per capita income, and deteriorating economic and social infrastructure. While public sector investment in Grenada's weakened economy is now being made, major investment also must be undertaken by local and foreign investors if the benefits of these public sector efforts are to be fully realized. Significant constraints hinder the achievement of this objective. Some of these are policy constraints which are dealt with briefly here. Others include physical infrastructure, and institutional and human resource capacity and are dealt with later in this chapter.

For the most part, present policy obstacles to Grenada's desired pace of economic growth are grounded in the heavy public sector involvement in and control of, the country's economic activity. In part, the inadequate private sector response is also the result of Grenada's sharing in the colonial and traditional Eastern Caribbean proclivity toward dependency on national government and outside donors to solve problems--a proclivity which was strongly reinforced by the socialist policies of the PRG.

The old policy set promulgated by the PRG is in part still in place and has left Grenada without the resilience to deal with economic pressures via private sector and market forces, thus hindering progress toward self-sustaining equitable economic growth in the short and long-term. These same policies also substantially restrict or complicate the activities of foreign investors in Grenada.

New policies need to be established quickly that will shift resource allocation, investment and other decisions affecting productive economic activity more into the realm of the private sector. These new policies must take into account the limited capacity of the GOG and Grenada's indigenous private entrepreneurs, reward the efficient uses of resources, increase the volume of domestic and foreign investment, and help ensure a pace and structure of economic progress that is independent and self-supporting, thus helping to meet the specific objectives of the GOG and the Grenadian people for more jobs, more economic growth and more independence.

If successful, such policy changes would encourage shifts from traditional commodities such as spices, cocoa and bananas toward other agricultural products aimed at new export and indigenous tourist markets. They would also encourage increases in domestic and foreign investment in tourism and light manufacturing for export and result in a reduction of the role of the public sector in productive economic activities.

a. Agriculture, fisheries and forestry

Agriculture contributes 25 percent of GDP and 40 percent of Grenada's export earnings and employs -- at least part-time -- about half the country's labor force. Since 1978, however, the agricultural sector has been in decline because of physical output shortfalls and world price decreases for Grenada's traditional commodities, and the future does not look promising for these traditional commodities.

Thus, significant constraints must be overcome if agriculture, the largest sector in the Grenadian economy, is to contribute more to Grenada's economic growth. Traditional export crops are subject to world wide price fluctuations. Output and profitability for these and other crops is very low because of lack of use of appropriate technology and cultural techniques, small fragmented holdings, inadequate infrastructure and insufficient credit, idleness of much agricultural land, significant plant disease problems, rising input prices, export taxes, lack of marketing information and systems, and insufficient entrepreneurship and management capacity.

In fisheries, the principal constraint to major increases in output is lack of a proven stock of fish that would justify investment in other than artisanal fishing techniques. For the about 1000 artisanal fishermen now involved in fisheries activity, the major constraint is lack of use of available technologies and skills to improve their labor productivity.

Improved forestry output in Grenada is constrained by lack of reforestation so as to attain maximum long-term sustainable output and by inadequate forest management both for lumber output and soil conservation and watershed management.

b Tourism

Tourism has been in decline during the past decade and especially in the five years since the PRG came to power, mainly because of political turmoil, economic dislocation and the unfavorable publicity that accompanied both. Grenada's tourist receipts fell 50 percent in real terms between 1978 and 1982, and it lost ground compared to other CARICOM countries as well.

The constraints inhibiting Grenada's realization of its tourism potential include lack of hotel space and service support facilities, a deteriorated physical infrastructure -- roads, electricity, telephones, water and sewage -- and a poor record in providing service to visitors, partly because numerous tourist facilities are being managed as public sector enterprises, but principally because most tourist facility owners and managers neither know how to provide nor see the value of top flight service. Training of managers and staff to provide such service will be critical to Grenada's tourism success. Another important factor constraining Grenada's tourism development is an investment code and business environment that is inhospitable to foreign investors.

c. Industry

Manufacturing in Grenada is very small, contributing less than four percent of GDP. Most of its products to date have been aimed at the domestic market, although some garments are manufactured for export to CARICOM countries or hard currency markets. CARICOM trading problems, the overvalued EC dollar, and an inability to attract foreign investors with captive hard currency markets has reduced Grenada's manufacturing for export, while its depressed economy and lack of private sector strength following the political difficulties of recent years has reduced manufacturing activity for the domestic market.

To achieve a full measure of growth from manufacturing, as Grenada must if it is to provide the number of jobs needed between 1985 and 1990, will require the elimination of several constraints. These include lack of an appropriate investment code and investment environment now being addressed insufficient entrepreneurial and technical experience in manufacturing, generally high production costs caused by inadequate infrastructure (including lack of sufficient factory shells) and of a well defined industrial estate policy, inadequately trained labor and lack of well developed transport linkages to outside markets. Various other policy measures -- e.g. foreign exchange controls, price controls, import licensing, export duties -- also inhibit manufacturing activity in Grenada by both domestic and foreign investors.

2. Balance of payments constraints and financial disequilibrium

The current account BOP deficit widened rapidly from one percent of GDP in 1978 to 30 percent in 1982 when it stood at US\$32.7 million. The trade deficit increased from three percent of GDP in 1978 to 46 percent in 1982 because of stagnant export earnings, a modest increase in general imports and a large increase in capital imports associated with public sector investment expenditure. Since 1979, Grenada's terms of trade have deteriorated by 32 percent because of declining prices of cocoa and nutmeg and rising import prices. Net service receipts fell sharply because of the decline in tourism. However, this was somewhat offset by an increase in private transfers made up of migrant worker remittances and medical student transfers.

The current account deficits were financed mainly by public sector grants and concessionary loans, and in 1982, by public

commercial bank borrowing. The IMF helped mitigate the balance of payments difficulties through a compensatory financing facility and a standby agreement, and in 1983, by a 3-year extended financing facility agreement of \$14 million. This was abrogated after the governmental changes of late 1983.

As a result of Grenada's financing of current account BOP deficits by foreign grants and concessionary loans, the foreign debt in relation to GDP rose from 16.1 percent in 1978 to 29.7 percent in 1982 and leapt to 41.4 percent in 1983. Since most of the aid to Grenada was in the form of concessionary loans, its debt service burden was relatively low, amounting to 4.5 percent of total receipts from exports, services, and private transfers in 1982. However, the debt service ratio has been steadily rising chiefly because of heavy governmental infrastructure expenditures and the increase in nonconcessionary financing, which increased from 5 percent of GDP in 1979 to 9.4 percent in 1982 and 17.9 percent in 1983. The debt service is expected to rise to between 10-13 percent of export earnings by 1985.

To strengthen its BOP, Grenada must export more, actualize all economic import substitution possibilities, and/or reduce imports.

Grenada now depends heavily upon traditional agricultural exports--spices, cocoa and bananas--tourism and remittances to earn foreign exchange. Of these, in the near term tourism offers the best potential for large increases in export earnings. Light manufacturing and non-traditional agricultural exports also offer potential. Import substitution will be principally in food for tourism and other local consumption and some consumer goods--e.g. plastic bags.

Several constraints inhibit Grenada's attempts to achieve results in these areas to correct its BOP position. Its tourism and

exports, for example, are at a competitive disadvantage because of the over-valuation of its currency, the Eastern Caribbean Dollar. This also places producers of import substitutes at a disadvantage compared to importers. Since the value of the EC dollar is determined by the ECCB and not by Grenada alone, the problem cannot be solved unilaterally. However, it could be part of a policy dialogue agenda.

Other policies contributing to Grenada's BOP

disequilibrium include foreign exchange controls, import licensing, a public sector import monopoly (MNIB), and export duties on nutmeg, mace, cocoa and bananas.

The overall deficit in Grenada's budget widened from 7.5 percent of GDP in 1978 to 33.4 percent in 1982, reflecting a huge increase in capital expenditures from 5.2 percent of GDP in 1978 to 36.1 percent in 1982. There was a current account surplus of US\$2.48 million (2.3 percent of GDP) in 1982, but as a result of capital spending increasing at an average rate of 100 percent per year between 1978-82, the overall central government budget deficit rose from 7.1 percent of GDP in 1978 to 32.5 percent in 1982 and 35.5 percent in 1983. The deficit was covered by external grants and loans and by increased (10.3 percent of GDP in 1982) domestic borrowing from commercial banks, part of it from a major increase in the special deposit requirement (up to 20 percent). Capital investment was expected to decline in 1982 because of the unavailability of local funds. The current account budgetary deficit in 1984 is expected to be US\$2.5<sup>1/</sup>.

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<sup>1/</sup> Current expenditures as calculated here include only the interest payments on debt. Grenada's statistical conventions put all debt service elements--including principal--into the current account, and government data therefore show a significantly higher current deficit.

Tax receipts grew at a slower pace than GDP and the ratio of government revenue to GDP fell in 1980-81 as a result of declining export and tourist receipts and lower tax collections from the sale of cars. As a result of the growing public sector deficits, tax increases on income and imports were instituted in March 1982. In June 1983 tax increases were instituted on motor vehicles and on the use of the international airport facility.

Since the intervention public sector investment has emphasized the development of infrastructure, with a view to the long-term development of agriculture, agro-industries, and tourism. Consequently, public investment has been in the construction of a new international airport at Port Salines, in roads and feeder roads, and in electric power and telephones.

Service projects prior to the intervention included the building of schools and residential units and the provision of health services. In 1980, public investment amounted to US\$13.03 million, which rose to US\$30.2 million in 1982, 70 percent of the latter amount going into construction, primarily of the international airport.

As an inheritance principally from the PRG, non-profit enterprises have grown in importance. The GOG now owns over 40 enterprises employing 2600 people. Twenty-three new public enterprises have been created and existing ones have been expanded. These include ventures in agriculture, agro-industries, public utilities, construction, communications, and trade. In 1983, the GOG provided EC\$32.4 million to these enterprises from its capital budget; many received other subsidies--e.g. rent free facilities, freedom from income taxes. Some operated profitably but others required GOG financial transfers to cover losses.

Planned public investment is expected to amount to 30-33 percent of GDP in the near term. These expenditures will be financed almost exclusively by external sources.

To better balance the current account of its budget (thus reducing future borrowing requirements and enabling additional public sector investment where appropriate) the GOG must increase revenues, reduce expenditures, or both. Several major constraints inhibit effective action in both areas. Grenada's present tax structure is a conglomeration of uncoordinated and counterproductive laws. Its components act as a disincentive to both local and foreign entrepreneurs. Any serious effort to strengthen the economy must include a revision of the country's tax policy, to achieve both a better balanced budget and long-term economic growth.

Other GOG actions to increase revenue are needed too. The parastatal enterprises owned and operated by the GOG act as a drain on the budget and the GOG's limited administrative capacity. They make it more difficult for the GOG to balance both its current and capital budget accounts because they demand more resources than they replace and because most are not included in the GOG's tax base. Nearly all of these enterprises that are viable could be operated satisfactorily and probably more profitably by the private sector.

Another constraint hindering the achievement of a better balanced current budget account is the lack of a vigorous expenditure review in light of the new objectives of the government. Many of the programs and activities included in the 1984 budget, for example, have not been examined to determine whether they support the current aims of the Interim Government or whether they should be eliminated to achieve reduction in expenditure or reallocated to other areas.

3. Credit, prices and exchange rate constraints

There is no central bank in Grenada, but it is a member of the Eastern Caribbean Central Bank (ECCB). Commercial banking is conducted by two foreign banks, two state-owned banks, and a cooperative bank. A special deposit requirement of 5 percent of total deposit liabilities was instituted by the government in 1976. It was raised to 10 percent in 1978 and to 20 percent in 1982. In 1984 it was lowered 6 percent as part of a cash transfer agreement with the U.S. Commercial banks pay income taxes like other commercial enterprises.

The ECCB is the central monetary authority, the members sharing a common currency which has been pegged to the U.S. dollar since July 1976. This arrangement is beneficial to Grenada in that it helps ensure currency stability. On the other hand, monetary and exchange rate policy are hampered because changes require the consent of all members of the ECCB. And the appreciation of the U.S. dollar against European currencies puts Grenada at a disadvantage.

A liquidity squeeze began in late 1982 because of the GOG's resort to commercial bank borrowing to finance its extensive public sector activities. This crowded many private sector entities out of the credit market. Interest rates went to the usury limit of 12 1/2 percent. Although designed to ensure that weaker borrowers were afforded credit at reasonable prices, the usury limit actually worked to screen out such borrowers since scarce capital was allocated according to creditworthiness criteria they could not meet. The usury ceiling, because it necessitates limiting interest rates paid to savers, also reduced the incentive for the average Grenadian to save.

The rate of inflation, 20 percent per year in 1980-81, declined to 7.8 percent per year in 1982 and 5.5 percent per year in April 1983. In 1981 the decline was partly the result of declining oil prices. Prices in 1982 and 1983 resulted from decelerating food costs, the impact of overall GOG policies and the credit crunch on economic activity and employment. Import costs also have been declining, because of the appreciating Eastern Caribbean Dollar (which is tied to the U.S. dollar). Thus, while the PRG expected its infrastructure investment to stimulate private sector activity, the GOG's own financial needs crowded out local investment, and its political and economic policies were not conducive to foreign private investment.

Several constraints inhibit achieving adequate liquidity and credit for the productive activities of the private sector, both local and foreign. The first constraint was the 20 percent--special--deposit requirement, which was reduced. This requirement puts a substantial portion of commercial bank deposits at the disposal of the GOG and removes it from access by the private sector. Elimination of the

special deposit requirement would make additional credit available to the private sector.

The second constraint is the usury law. Its repeal would enable lenders to allocate credit on the basis of price so that riskier or smaller borrowers, while paying more, would be able to obtain credit. Repeal also would encourage savings, probably bringing funds out of "at home" locations into the banking system.

The third constraint is the ownership of two commercial banks by the GOG. The portfolio of these banks is heavily weighted in favor of public sector enterprises, indicating that their allocations of credit are made on the basis of other than economic efficiency criteria. Divestiture of these banks into the private sector would probably result in internal lending policies more supportive of economic efficiency and real economic growth in Grenada.

A fourth constraint is the weakness of the government owned Grenada Development Bank.

4. Economic potential and action needed to promote it

Medium-term growth prospects in Grenada depend upon the outlook for exports of goods and services, the terms of trade, and the amounts of foreign savings the country is able to attract from transfers, grants, loans and private investment.

The export problems of the past have included declining productivity, falling prices of Grenada's agricultural export products and competition from Indonesia in the nutmeg market. Therefore, stimulation of traditional commodity export earnings requires increases in productivity and export promotion because world prices are unlikely to increase significantly in the near future. Incentives to increased agricultural

productivity require eliminating export duties, and raising the local demand for non-traditional products through improved links with an expanding tourist sector and through expanded investment in processing units related to diversification in agriculture. Investment to promote tourism and investing in the development of manufacturing industries also are important elements of a program for export promotions.

Overall, economic action needed in the medium-term to increase personal incomes, savings, and national export earnings through increased agricultural productivity, expansion of tourism, export promotion, and investment in manufacturing industries. Since indigenous investment potential is limited it will be necessary to attract foreign investment from private and public sources.

To create jobs in the future, growth must be realized in sectors where they can be created, especially in tourism and manufacturing. The desired growth will require a more productive use of Grenada's land resource while also preserving the environment, especially for tourism and agriculture. The output of all these sectors must be competitive in export markets, and access to those markets must be realized. To achieve the growth needed in these and other sectors will require a complete renovation and some expansion of the infrastructure of Grenada -- airport, roads, electricity, water, sewage, and communications -- as soon as possible.

Grenada will need to finance its infrastructure improvements with external resources. Most of this will have to be on concessional terms because of the GOG's inability to repay. For this reason, the recurrent expenditures component of infrastructure and other new projects must remain small, be financed by donors as part of the proposed projects, or be paid from the revenues generated by the

project. Grenada's tax revenues as a proportion of GDP are high and its tax system is a disincentive to much of what must be done.

Grenada's absorptive capacity in terms of managerial, technical, institutional and physical capability is very small in contrast to the tasks needing to be done. For example, the GOG is ill equipped to draw upon and manage the many regional resources available to it, not only from USAID, but from many other sources as well. During the CDSS period, then, Grenada not only will depend upon these important and valuable regional resources to help remove some of the critical constraints hindering its growth, but it also is likely to require bilateral resources directed at helping organize and use these available regional instruments and at reducing specific constraints.

#### D. Institutional Framework

##### 1. Overview

The institutional framework of Grenada was restructured between 1979 and 1983 with a steady increase over the period in institutions under government control and the proportion of productive activities carried out by the State. Between 1978 and 1982 expenditure by the State for consumption and capital formation increased significantly from 26.5 to 40.0 percent of gross domestic expenditure. In 1978, private sector investment was twice as large as public investment but by 1982 investment by public bodies was 15 percent larger than that undertaken privately. Directly associated with the surge in public investment, the proportion of productive output (agriculture, manufacturing, hotels and restaurants) fell from 38 to 32 percent while "dependent" economic activity increased from 62 to 68 percent.

In a number of other spheres, government participation in the economy increased with the seizure of private estates (adding to those already taken over earlier by the Gairy regime), the nationalization of several hotels, assumption by government of control of the major commodity marketing associations and initiation of 18 or more state enterprises in a wide range of fields between 1979 and 1983. A five fold increase in capital outlays by state enterprises occurred over the same period of which 81 percent was supplied by government capital transfers.

In the immediate future, a major test of the effectiveness of government policy and programs is the speed with which state owned lands and enterprises can be successfully directed into private hands.

2. Private sector institutions

a. Productive (for profit) institutions

(1) Overview

The private business community in Grenada grew up as a largely expatriate group of import merchants who were gradually joined by a limited number of indigenous entrepreneurs in the same lines of business. In recent decades, additional indigenous people became merchants and more recently a number have moved into the hotel trade and a few into light manufacturing. However, the numbers who have significant resources for investment are still very limited. Similarly, the pool of experience in the technical and managerial skills outside of merchandizing is small.

The farm sector is largely private, made up of men and women operating small plots of 5 acres and less for the most part but with some larger farms and a few private estates. Many small farmers are also engaged in other pursuits as workers, farm laborers or traders.

(2) Principal institutions

During the period of the PRG from 1979-83, the private sector in Grenada maintained only with difficulty the institutional structure which represents and supports its interests. The most important of these institutions is the Chamber of Commerce, which represents enterprises in a range of fields from importers and merchants to manufacturers and services. The Hotel Association is another major factor in the organization of the private community. Its members are owners of the facilities that mainly serve the most significant component of the tourist trade - the stay-over visitors. They are largely indigenous entrepreneurs strongly interested in the preservation of a sound tourist industry for the island. They have generally favored small and medium sized hotels (20 to 50 rooms) as the basis for development of tourism, but a broader view may be evolving which will allow for support to larger units as well.

There are also several commodity associations to which most farmers belong. These are the Cocoa Marketing Association, the Banana Growers Association, the Nutmeg Association and the Minor Spice Association. All of these had been brought under government control during the PRG regime but are in process of being returned to the control of association members with limited government participation so that they may again be considered part of the private sector.

(3) Performance and constraints

The private businesses, hotels, and farm operators in Grenada have only recently emerged from nearly a decade of repression—first under the Gairy regime and then under the PRG—that undermined business confidence, and reduced the willingness of entrepreneurs to invest in slowed economic growth. During this time businessmen and independent farmers could do little but retrench with a concomittant loss of capital, productive city and economic efficiency. However since the intervention, business optimism has revived. Individual local entrepreneurs are developing plans for new projects and preparing to invest. Joint ventures are under consideration in light manufacturing and tourism. Foreign investors have submitted a variety of proposals and approvals are being given by the Interim Government. It is expected that private interests will take up a number of enterprises that the government wishes to divest. Businesses and farmers, nevertneless, face a variety of constraints which may persist beyond the transition period.

The Chamber of Commerce currently has a very small staff and no senior professional personnel. Its programs have been very limited and have provided little support to develop its members or its staff. During the period of the Gairy and PRG regimes the opportunity for dialogue with government was slight. Nevertheless once the opportunity developed to present its views following the

intervention, the Chamber showed a vigorous interest and capacity for projecting its needs and plans in the period immediately following the intervention. It has since developed specific programs for training of executives and staff in management and technical topics, and it has received a grant to strengthen its capacity. The Chamber plans to hire a Senior Executive Director, become an active initiator of community programs, increase its dues and membership, and hence become self sustaining within two years. The new President of the Chamber elected in 1984, like his predecessor, is a vigorous leader. He believes strongly in private initiative and in the importance of modifying the structure of the economic system to give a much larger role and greater opportunity to the private sector in achieving economic growth.

With a small core of strong and imaginative business leaders available, with outside funds from AID and with technical and advisory services from regional entities such as the CAIC, there seems little doubt that the Chamber of Commerce will be able to exert considerable influence in support of healthy growth and development and to assist its own private enterprise members to participate more effectively in that process. The key leaders are optimistic and anxious to move to new accomplishments.

The Hotel Association is dominated by small hotel operators whose interests, it was once felt, had been best served by preservation of the status quo, i.e. retention of a predominantly small hotel industry. They have, however, recognized that some shift toward larger scale tourism is required. The ability of the Association to mobilize resources to publicize and promote tourism in the upcoming 1985 season is limited by funding constraints due to poor returns in recent

years. Hotel owners also need easier access to capital to improve the condition of their respective properties if visitors are to find Grenada a satisfactory tourist experience.

The commodity marketing associations are the major means of access to markets for both the small and medium sized as well as larger farmers. In the case of bananas, the association is also a channel for credit and the major means of delivering inputs (fertilizer, pesticides, etc). Among the leading commodities marketed by the association, cocoa has performed moderately well and mace has enjoyed a steady market. The financial condition of the banana and nutmeg association is currently very weak due to low prices received for bananas and the extremely large stocks of nutmeg which have accumulated. Earlier efforts to support the prices paid to farmers severely depleted the reserves of both the banana and nutmeg associations and had to be abandoned.

#### (4) Linkages

The private sector has begun to form a good linkage with institutions (in and outside the region) which can be very beneficial to strengthening local private institutions and enterprises. The key institution in the region is the Caribbean Association of Industry and Commerce (CAIC). The Grenada Chamber has developed close links with CAIC since the intervention and its programmatic and membership targets for future development reflect the stimulus and promise of support which CAIC has given. Caribbean Central American Action (C/CAA) is also a source of technical advice and investor contact where a linkage has been made). Further useful communication may develop through a "twinning" arrangement with a Chamber of Commerce in a U.S.

city with significant interests in the Caribbean region though this has not yet been arranged.

The Chamber is also in touch with, and aware of, the Services of OPIC as a result of the trade and investment mission which visited Grenada in January, 1984. Understandably perhaps there is as yet less familiarity with the efforts and services of the Caribbean Project Development Facility, and USDOC Caribbean Basin Business Information Center, all of which are dedicated to making U.S. investor links on specific projects. As the situation becomes more conducive to definitive U.S. investor decisions and potential Grenada joint venture partners are in a position to make commitments, development of closer links in these areas would be most useful and should be actively supported in the field by more vigorous contacts by U.S. officials to foster the Chamber's awareness of these sources of help.

b. Non-profit private institutions

(1) Principal Institutions

There are a number of private, non-profit organizations in Grenada. These include the following: externally-sponsored groups such as Grensave ("Grenada's Save the Children Fund"), the Grenada Planned Parenthood Association, church based groups, including local churches and the Grenada Conference of Churches, and the recently begun New Life Organization (which draws on private sector support as well); 19 credit unions, of which 11 are community-based; the reactivated Trade Union Council and its affiliated Unions; and, the Grenada Museum. Many activities, which in neighboring countries have been carried out by private non-profit groups were government sponsored during the PRG years. These include the

Grencraft ("a handicraft center"), numerous cooperative associations and the discontinued Center for Popular Education ("CPE") formerly responsible to the National Advisory Committee (NAC), which is still in place and includes representation from churches, the private sector and trade unions.

(2) Performance and constraints

These private, non-profit organizations are involved in numerous activities supportive of Grenada's economic development. The most important of these are formal and non-formal employment generation, readiness preparation, job skills training, and small scale income-generating enterprises. There is considerable need for expanding these activities due to increasing demand, weaknesses in public sector education, and gaps left when PRG supported activities ceased. There is currently a national development foundation being established to support small scale enterprise. A key constraint to expanding private non-profit groups is the death of effective community groups and local leaders. The politicization and "top-down" nature of leadership roles in PRG programs inhibited the development of community level institutions to draw fully on local potential.

(3) Linkages

During the PRG years linkages with many external institutions were weakened although some still provided assistance, including some U.S. organizations such as the Inter-American Foundation (IAF). CADEC/GRENADA remained active, with a US \$23,000 budget in 1982. Increased linkages will be necessary now to expand the activities of private, non-profit organizations. To avoid overlap and unproductive competition, a coordinating group will be useful. Technical assistance volunteers (e.g. Peace Corps or International Voluntary Services, could be particularly valuable.

c. Labor Unions

(1) Principal Institutions

Labor Unions have traditionally exerted influence on Grenada's politics and economy. Approximately 30 percent of the labor force is currently unionized. Trade Union membership covers all sectors of the society but is especially high in the commercial and industrial sectors. The primary trade unions are as follows:

- Agricultural and General Workers Union
- Bank and General Workers Union
- Commercial and Industrial Workers Union
- Grenada Union of Teachers
- Public Workers Union
- Seamen and Waterfront Workers Union
- Technical and Allied Workers Union

(2) Performance and constraints

Currently many workers are not actively involved in union activities because of their growing dissatisfaction with the unions. Since the U.S. intervention in fall 1983, however, several trade unions (Public Workers Union, Grenada Union of Teachers and the Seamen and Waterfront Workers Union) have returned executives to power who had opposed attempts by the PRG to incorporate trade union activities into the PRG. The Trade Union Council also has been reactivated.

Several other unions (the Technical and Allied Workers Union, the Bank and General Workers Union, the Commercial and Industrial Workers Union and the Agricultural and General Workers Union) have been deeply polarized by events and their leadership decimated. The Agricultural and General Workers Union has virtually collapsed, though

some Gairy supporters are attempting to recapture the former Prime Minister's mass base by reorganizing agricultural workers.

Reactivation of the trade union movement is considered by labor leaders and advisors to be of great importance to Grenada's economic growth. While there are serious ideological spits within many of the unions, many in leadership positions indicate that they and their union members want to return to an independent trade union movement. However, while there is a willingness to return to more conservative leadership, workers' interests vis-a-vis employers will continue to be paramount and perhaps, even militant in expression as workers seek to retain the benefits and seek salary increases for their membership. In short, the labor unions are likely to play an central role in the economic recovery of Grenada. Whether they are helpful (as in training the unemployed for new jobs) or harmful (as in demanding wage increases and other concessions that debts investors) remains to be seen. It is clear however, that harmonious industrial relations are crucial to Grenada's economic growth and job creation objectives.

3. Public sector institutions

a. Government ministries

(1) Principal institutions

Although the Interim Government of Grenada is composed of an appointed Advisory Council (advisory to the Governor General), the normal pattern of Government under a Westminster style parliamentary system is expected to be re-instituted following elections in the fall of 1984. It is assumed that the former system will be re-instituted with the Prime Minister as head of government performing functions now exercised by the Chairman of the Advisory Council.

At present, the Ministry of Finance, Trade and Planning is the nerve center of development policy in the Government of Grenada with responsibility for decisions affecting the budget, public investment, taxation, fiscal policy, long range planning, project design and monitoring. The Ministry of Agriculture, Natural Resources is responsible for programs in extension, research, animal husbandry and veterinary services for private farmers, and for oversight of forestry and fishing resources conservation and exploitation. It also is in charge of managing the investment incentives program under the investment code, and recommending action on investor proposals for decision by the cabinet.

The Ministry of Health and Telecommunications is in charge of health, nutrition and family planning service delivery while the Ministry of Education, Labor and Civil Aviation administrates primary and secondary education, specialized post secondary vocation/technical education and programs of social welfare. It also handles the collection of labor statistics (wages, unemployment, etc.) and is responsible for labor-management relations. The Ministry of Construction, Environmental Matters and Science and Technology is the government's arm for design, construction and maintenance of public works and buildings, and control of the environment and development of science and technology programs. The Ministry of Social Affairs and Women's Affairs deals with youth, culture, community development, public assistance, social welfare, cooperatives and sports. Tourism is overseen by the Office of the

Chairman of the Government. It has charge of planning, promotion and coordination between the public and private organizations which work in the tourism field.

(2) Performance and constraints

The Ministries of the Grenada Government are faced with serious limitations in meeting the broad range of demands placed on them in this transition period. Among the most serious is the shortage of trained personnel. Since one of the most pressing tasks is to re-orient the government and other institutions from a centrally planned orientation, to a free market orientation, the limited macro and sectoral policy formulation, planning and administrative capacity is one of the most significant constraints. In all of these, the GOG faces serious shortages of qualified people. Management personnel are in short supply, and technical staff are similarly lacking in such fields as architecture, engineering, equipment maintenance, etc. This situation was complicated by the flight of people following the intervention who had gone to Grenada during the PRG period. Few Grenadians were available to replace them either from inside or outside of government. Some potential may exist to encourage Grenadians with the needed skills to return from abroad. Despite efforts in this direction little has yet been accomplished to fill the void. This personnel constraint will undoubtedly persist throughout the planning period.

Financial limitations are also a severe problem in achieving desired development goals. While tax rates are high in some areas and the proportion of GDP absorbed by the public sector is large (at about 26 percent), inefficiency in the use of funds has left inadequate budget resources available to initiate needed new programs to

support the productive sectors. Only if greater growth in the economy can be realized will it be feasible to improve the financial performance and achieve a more adequate level of current and capital funds for development.

The Government's inability to deliver services such as agricultural extension, primary and secondary education, technical and job readiness training, adult education, social welfare and community development, has resulted in a failure to meet the development needs of the society. Both the personnel limitations (especially in policy and planning) and financial constraints cited above have limited the performance in these fields. Despite significant donor assistance, limited physical facilities and equipment which are a function of the financial problems are also constraining factors.

In the health field, a decentralized primary health care system has evolved. However, inadequate facilities and shortages of specialist medical personnel, pose problems in meeting the basic health needs of the nation. In education, improved planning, better curriculum, more adequately trained teaching staff, and better facilities are needed to improve Grenada's capacity to adapt to a modern setting and increase employment.

During the planning period the role of the public sector will be to create the conditions for setting goals, making plans and policy, and providing social services and support for the productive sector, and not to serve in an operational role as in the past. While some of the circumstances that constrain the public sector are expected to be addressed before FY 85, many of the constraints will persist beyond the transition period. In the future, the GOG must ensure that adequate numbers of trained personnel are available, that the

management of public sector institutions is strengthened and that policies are sharply focused on creating positive incentives for private investment.

(3) Linkages

Despite the differences and tensions between Grenada and some of its neighbours during the period when the PRG was in power the major regional institutions maintained normal linkages in most fields with Grenada. The links which the PRG developed with Cuba and Eastern Bloc nations were summarily severed at the time of the intervention. These had particular implications, for health (substantial, and probably excessive numbers of Cuban doctors and paramedical personnel were present) and for communications (where East German telephone systems were in the process of being installed to replace old and badly deteriorated facilities). Relations with CARICOM and OECS with respect to technical and financial assistance continued normally during the PRG period. Despite the temporary break when Prime Minister Bishop was assassinated, relations were re-established quickly after the intervention and most contacts have proceeded normally as in the case of CARDI. Nevertheless better support from, and linkages with these institutions are needed to help overcome existing policy formulation and planning constraints and to provide assistance on management issues and for training of personnel. In particular, the potential of the IARM to assist on policy analysis and policy formulation could be drawn on more heavily to support the GOG in this sensitive area so critical to improved economic performance.

b. Parastatals

(1) Principal institutions

Grenada has a substantial number (approaching 40) of state enterprises and parastatal organizations, which were established primarily under the PRG. These fell into several categories including estates, banks, agroindustrial and other enterprises, utilities and authorities. It is expected that the GOG will divest or permanently close down the majority of these entities (especially those enterprises in the productive sectors) leaving only those most appropriate for government management to be operated by the state in the future.

The public utilities deserve special mention because they are responsible for the provision of vital infrastructure services, namely: electricity, water and sewerage and telephone. The Grenada Electricity Authority (GRENLEC) operates diesel generating facilities along with a few small hydro generators and distributes power to residential, commercial and residential customers in most towns and villages (except the extreme north). GRENLEC had been owned by the Commonwealth Development Corporation (CDC) until 1981. The Central Water Authority (CWA) is responsible for water services in urban and rural areas, with about 90 percent of the populace having access to piped water. The Ministry of Health is also responsible for sewerage in St. George's. The Grenada Telephone Company (GTC) provides local telephone service. It was once in private hands until it was assumed by the state a few years ago. The system was badly outmoded and over-aged when the new government assumed control.

A rehabilitation program, which was under way with East German support and equipment, was halted at the time of the intervention. The Grenada Port Authority managed the Deep Water Harbor in St. George's, with a capacity to handle two freighters simultaneously and to discharge light cargo efficiently.

The commodity marketing associations play very important roles in Grenada. They are: the Cocoa Association, the Cooperative Nutmeg Association (handling both nutmeg and mace) and the Grenada Banana Cooperative Association. Earlier, the Associations had been private bodies in which the government had a minority role, but during the PRG regime, the state assumed full control so that the associations became parastatal organizations. They are currently in the process of again becoming membership-based, basically private bodies so that they are considered to again be in the private sector. (See discussion under "Private Sector").

The Grenada Marketing and National Importing Board is similar to parastatal bodies in other Eastern Caribbean countries. It has had sole authority to import fertilizer, cement and certain foodstuffs, authority to buy, sell and export fresh fruits and vegetables in competition with private traders, and held a monopoly on the export of products (sauces, jams, jellies and nectars) from the state controlled Grenada Agro-industries Corporation. The Grenada Farms Corporation was established in 1980 to administer 26 state farms.

And additional farms which were taken over later by the PRG. Since the Interim Government came to power, most land taken over in recent years has been returned to the original owners under "quit claim" agreements, but the disposition of other state lands is still under deliberation. The PRG established a substantial number of other productive enterprises, took control of one foreign commercial bank and three hotels, and established a restaurant. Divestiture or closure arrangements are now in process for most of these.

(2) Performance and constraints

The state enterprises established by the PRG in the productive and trading sectors, generally have a poor record of financial performance and failed to achieve their objectives of raising output or employment significantly. The Agro-industries Corporation closed in 1983 due both to financial problems and poor quality products. The Interim Government expects to sell enterprises with prospects for profitability to private operators. Others will be closed. Consideration is being given to changing the functions of the Marketing and National Import Board, since it is clear that private traders can more efficiently handle many of its activities.

Divestiture or closure will result in terminating the functions of most of the other poorly performing manufacturing, trading, and other commercial banking entities which generally suffered from inadequate management and shortage of trained technical staff. The more important group of parastatal bodies are the utilities which manage the structure facilities and services.

The Central Water Commission (CWC) has effective management of its facilities, but is overstaffed at the work gang level. In addition, both the water and sewer systems suffer from old facilities and a long period of deferred maintenance resulting in serious operational problems. The sewage treatment capacity for the city of St. George's is inadequate resulting in pollution and danger to the Grand Anse beach, the country's premier seaside tourist attraction. Water storage, pumping, treatment and delivery capacity has not met current demand in the city of St. George's nor in many rural areas and towns until recently. Due to USAID's infrastructure revitalization efforts, water supply and demand are now about in balance in the greater St. George's area. However, of particular importance to tourism and manufacturing development is the ability of the CWC to provide adequate and regular supplies of water in the southwest peninsula in the longer term. This area includes most of the existing tourist hotels and the greatest potential for future tourism and manufacturing development. The proposed Concord water project which has both water and hydro-power components may be a viable longer term solution to the water needs of the city and the southwest peninsula. A feasibility analysis has been prepared. The cost of the Concord project is estimated at US\$7.5 million. Given the weak financial position of the CWA and the country, the bulk of this cost must be covered by external financing. The water and sewerage problems are among the most critical constraints to the development of tourism and manufacturing and the creation of jobs which its expansion is capable of providing.

The Grenada Electricity Authority suffers from the legacy of its past ownership by CDC and a period of inadequate maintenance and replacement of its diesel generating capacity and its transmission and distribution system. New generating capacity has been installed since October 1983 with U.K. financing. However, other diesel generator sets will require repairs and/or replacements so that continued load shedding will be necessary until early 1985. Power shortages can be a severe constraint to tourism and manufacturing. By mid 1987 continued load growth and the need to retire the oldest of the existing equipment will necessitate installation of an additional three to four megawatts of new capacity. Line losses (including illegal line tapping) must also be reduced. Such efforts, if effective, would show significant savings fairly quickly. More comprehensive metering, more effective collection and elimination of arrears (especially from the Central Government) and further rate revisions also are essential to redress the Authority's financial position. It also needs more and better trained managerial and technical staff and a continuous in-house staff training program overcome its operational problems.

The Grenada Telephone Company (GTC) provides local telephone service which is inadequate for the needs of the country at present. The existing system also is incapable of meeting the requirements of a future growth economy, unless it is rehabilitated. The cross bar exchanges, which were being installed by East Germany at the time of the intervention, are difficult or impossible to maintain. It is essential that a modern internal telephone system is installed in the near future. One appropriate solution would be the privatisation of the GTC and the establishment of a rate structure which would make the investment attractive.

The Grenada Port Authority is in charge of the deep water harbor at St. Georges which has an 800 foot pier, capable of handling two medium sized freighters or a freighter and a cruise ship alongside the pier. While at times there are some inconveniences, the harbor and facilities generally are adequate to handle current traffic (despite the absence of shorebased cranes to handle heavy cargo). Management of the docks, cargo and warehouses is adequate, while records management and maintenance standards are being up-graded with assistance from CIDA. At some point in the future the capacity to handle containers and heavier cargo may need to be improved and the pier lengthened if the level of activity in the port increases significantly.

(3) Linkages

The parastatal bodies in Grenada have generally well-established links with the regional bodies such as CDB, (which has funded some past needs), OECS and CARICAD which have provided training and policy advice and with donors providing technical and financial assistance. GRENLEC currently has a resident Chief Engineer from Ireland provided by the EDF and has received periodic system planning advice from the same source.

The community marketing associations are linked to various entities in their respective fields. The Banana Cooperative Society is linked to WINBAN in its marketing and research requirements which generally are suitable. There is a need to keep CARDI and WINBAN in closer touch to insure effective attention to the farming systems problems of small operators on steep slopes so that consistent and fully relevant advice is given from both parties. The Nutmeg

Association has not forged strong and effective independent marketing links capable of dealing with the accumulated stockpile of one-and-one-half years production. It is essential that such marketing capacity and links be forged to improve Grenada's nutmeg marketing position. Grenada has not experienced serious problems disposing of its cocoa products on the world market.

E. Development Assistance

1. U.S. Agency for International Development

Prior to October 1983, the U.S. was the source of a moderate amount of assistance to Grenada under regional programs and institutions such as CARICOM, CCCU and CFPA. Following the intervention, AID initiated a \$2.2 million emergency assistance effort to stabilize the economy, rehabilitate infrastructure, and help maintain essential services and initiate activities urgently needed to lay the groundwork for future high priority development. AID budgeted an additional \$55 million for these and other purposes for the period FY 84/85 under bilateral arrangements. Because these funds provide for completion of the airport and other infrastructure rehabilitation, the program creates a partial basis for future growth of tourism, agriculture and manufacturing. It is AID's intent to make this extraordinary effort through FY 85 with a resident USAID Mission in place to manage its implementation. Beyond FY 85 RDO/C contemplates resumption of program activities in Grenada in a mode comparable to that for other Eastern Caribbean countries. The RDO/C program contemplated for the period FY 86-90 in Grenada will include bilateral (primarily ESF funded) elements and will address many of the development needs of the country through regional (primarily DA-funded) programs.

2. Other donors

Up to the time of the intervention, Grenada had become increasingly dependent on the Eastern Bloc (especially Cuba) for assistance, primarily for the construction of the Point Salines airport. Total grant assistance received by Grenada from 1979 to 1982 amounted to US\$48.7 million. Cuba alone supplied the equivalent of US\$28.2 million or nearly 58 percent of total grant assistance provided to Grenada in that period. More than 80 percent of the assistance provided by Cuba was for the airport, but a number of other donors also contributed towards the project. Other countries providing grant assistance for projects in Grenada included the USSR, East Germany, Iraq, Libya, Syria, and Algeria who together, over this period, supplied about half as much grant assistance as Cuba. Other sources of grant assistance included the EDF, CIDA, the British, OAS, UNDP, UNICEF, FAO and Venezuela.

Net loan drawings from all sources in the years 1979-82 totalled US\$18.3 million or only 38 percent as much as was provided to Grenada on grant terms. More than one-third of combined grant and loan receipts during the four years was used for the airport. This is a measure of the degree to which both outside and local resources available to Grenada were concentrated on that one single priority project.

Continued heavy dependence on outside sources to cover a wide range of development assistance needs - particularly in capital expenditures - is expected to continue through the planning period. How these needs will be met is a fundamental issue. Since the intervention, AID has been the predominant donor, with provision of some \$47 million in bilateral assistance alone. Although commitments by other donors, are also significant (many of which predated the intervention) current aid flows lag prior expectations (see Other Donor table). However, as the table indicates, other donors have expressed an interest in contributing

substantial additional assistance. Most of them are waiting until the outcome of the Grenadian Elections (scheduled for December, 1984) before making firm commitments. Since the USG currently has the leading role in development assistance to Grenada, other donors are also waiting to see what our next move is.

Decisions made by the USG in the near future in determining both the amount of and approach to development assistance will play a major role in the future economic development of Grenada. For example, continued bilateral assistance to Grenada of anything approaching at current levels, would most likely result in a "client state" relationship with the United States - which is neither in the best interest of Grenada nor the USG. Thus the policy of the USG should be to continue to both encourage Grenada to seek other donors, and encourage other donors to provide assistance to Grenada in order to minimize the degree of dependency on the USG. Ideally, the World Bank would pull together a spacial Grenada-specific subgroup of the CGECD, shortly after the Grenada elections to discuss and determine the role each donor will play in the near term in providing development assistance. Secondly, the IMF should be encouraged to move forward with the proposed Standby Agreement, providing both budgetary and balance of payments support. Both the CGECD and the IMF, however, will need to act in the context of policy dialogue, tailored to encourage continued and effective implementation of the policies already negotiated.

Other Donor Assistance to Grenada

		(Amount \$US 000) **		
		1984	1985-89	
	<u>Activity</u>	<u>Aid Flows</u>	<u>Proposed</u>	
British Development Division (BDD)	Banana Development .....	\$300	-	
	Electricity Generation .....	500	-	
	Housing .....	100	-	
	Police assistance .....	600	-	
	(training, equipment and contractors)			
	Community Development Division ..	200	-	
	(institution building)			
	Infrastrucure Equipment .....	600	-	
	and Spare Parts			
	Other .....	-	6,300	
(including water, bananas, and police assistance)				
<u>Subtotal BDD</u>		<u>2,300</u>	<u>6,200</u>	
Canadian International Development Agency (CIDA)	Airport Construction and ....	400	4,600	
	Technical Assistance			
	Central Garage Unit .....	600	-	
	Cocoa Rehabilitation .....	800	-	
	Public Sector .....	-	600	
	Management/Training .....			
	Police (Radio Communications)	-	600	
	Program Assistance .....	-	1,200	
	Training and Scholarships ...	-	600	
Other (Infrastructure) .....	-	8,600*		
<u>Subtotal CIDA</u>		<u>\$1,800</u>	<u>16,200</u>	
Caribbean Development Bank (CDB)	Feeder Roads .....	300	3,400	
	Grenada Farmers Corp .....	200	-	
	Water System Development/Rehab	400	-	
	St. George's Port Improvement	700	-	
	Agricultural and Regional	-	300	
	Banana Project			
	Industrial Credit .....	-	6,800*	
	Telephone System Development .	-	5,200*	
	Cocoa Development .....	-	900	
	Agro Industry .....	-	200	
	Industrial Estates .....	-	2,700	
	Hotel Reconstruction .....	-	2,600	
	(Grenada Beach Hotel)			
	Quarry Development .....	-	1,300	
	Carriacou Infrastructure Dev.	-	2,500*	
West Coast Road .....	-	<u>2,500</u>		
<u>Subtotal CDB</u>		<u>1,600</u>	<u>28,400</u>	

\* Represents maximum proposed

\*\* Current unofficial estimates, rounded to the nearest \$100,000

European Economic Community (EEC and EDF)	Eastern Main Road	700	1,400
	Library Renovation	-	300
	IEF Expansion	-	300
	Program Support (Export Stabilization:STABEX)	1,100	1,100

<u>Subtotal EEC</u>		<u>1,852</u>	<u>3,029</u>
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\* Represents maximum proposed

United Nations System

(UNDP)	Agriculture human Resources Department	300	-
	Other	-	1,500
(UNFPA)	Family Life Education	-	100
(UNESCO)	Multipurpose Skill Centers	-	1,300
(WFP)	School Feeding Program	-	300

<u>Subtotal UN</u>		<u>300</u>	<u>3,200</u>
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International Bank for Reconstruction and Development	Agricultural Rehabilitation and Diversification (roads, extension, marketing, credit)	-	4,200
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Organization of American States (OAS)	Secondary School Science Labs	-	200
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TOTAL		7,800	61,500
		=====	=====

### 3. Regional Sources

During the period from 1985-90, Grenada is expected to share with other countries of the Eastern Caribbean a continuing need to make efforts to overcome structural problems and to achieve a better balance between consumption and savings and between the public and private sectors. Economic Support Funds (ESF) will be used by the RDO/C in Grenada under regional administration to assist and encourage these reforms through policy dialogue and by supporting private development and public infrastructure investment important to improved productive sector performance. Similarly, a wide variety of regional programs funded and administered by RDO/C will be used to assist Grenada through advisory services, participant training within and outside the region, and training seminars organized in Grenada. These will draw on projects in a number of fields but will concentrate particularly on support of private sector institutions whose policies, programs and services play an important role in facilitating private productivity and viability. This will impact on agricultural, agro-industrial, tourist, manufacturing and private voluntary organizations.

Regional activities expected to be of special importance to Grenada include those that:

- o Support enhanced policy development;
- o Improve management and administration (especially relating to better inter-institutional linkages and interactions among the sectors);
- o Improve efficiency and diversification of the agricultural sector (especially CARDI, and CAEP);
- o Support small-scale enterprise and community action and initiative (such as funding for PVU's, credit unions, etc.);

- o Assist the development of job skills through non-formal education; and
- o Provide for surveying the labor force to identify the nature and extent of the unemployment problem.

In addition, it is expected that the full range of regional institutions supported by AID will continue to assist Grenada's development. Foremost among these is the CDB whose loans and policy advisory assistance are critical both to the private productive sector's development and to construction of infrastructure needed to support that sector. The OECS Economic Affairs Secretariat and the IARM are also expected to make important input to policy and administrative reforms, though their leverage is somewhat limited.

Regional institutions that will support private development include mainly CAIC, CFSC, LAAD, BIMAP, CDB, CCL, CCCU, and ECCB. Through these institutions the local private sector organizations and enterprises can be supported and stimulated in very significant ways to enhance their role and accelerate the pace of development. In this sense their input is absolutely vital to the success of the strategy. By bringing these institutions effectively into the process in Grenada, the private sector will be enabled to take full advantage of the opportunities presented by the CBI. Since the expansion of exports to the U.S. market is central to private sector growth, enhanced employment, and increased foreign exchange earnings, this interrelationship can be seen as critically important to success in the development of Grenada.

## II. AID STRATEGY

### A. Introduction

The strategy in this chapter outlines the policy and program steps necessary to achieve essential economic development results in Grenada during the planning period. It is designed to address the constraints and opportunities in Grenada's development in a targeted manner. It joins the private and public sectors to foster exports and job creation needed to bring down unemployment, the nation's number one political and economic concern. The strategy takes into account FY 84 rehabilitation and reconstruction decisions. It leads into actions needed in FY 85 thru FY 90. It requires coordination with the Government of Grenada and other donors -- bilateral and regional.

Grenada's potential gives reason for optimism, but it would be naive not to recognize the difficult context for achieving the CDSS objective: the U.S. does not have recent in-depth experience working in Grenada, and much is still to be learned; we are working in a transition situation between an interim and permanent government; the economy was close to collapsing when the U.S. came upon the scene and will be undergoing restructuring during the planning period; the society is not yet confident and self reliant. The strategy takes this context into account.

### B. U.S. Interests and Objectives in Grenada

#### 1. Security

Grenada's close proximity to the U.S. and its completion of an axis from Cuba that cut U.S. shipping and military sea lanes gave Grenada a strategic position that heightened the threat posed by its hostile political leadership to U.S. interests.

Since the intervention by U.S. and other Caribbean forces, our objectives in Grenada are to:

- See that public safety is provided for, and to withdraw U.S. Peace-keeping Forces as soon as possible once the Granada police are trained;
- Ensure that the trials of PRG officials to be held are either completed or in no way contain a latent threat to Grenada's stability;
- Deny access by hostile elements to Grenada;
- Help arrange Grenada's involvement in a western-backed regional security system for its longer term self-protection.

Strong economic growth is needed to generate revenues for Grenada's defense and development, both supported earlier by the Eastern Bloc.

## 2. Political

The disastrous effects of Grenadian political policies and leadership opposed to free institutions has been demonstrated on the island, in the region and around the world. U.S. interests are in helping to rebuild those free institutions needed in a strong democracy.

Our political objectives are for Grenada to:

- Rebuild participatory community action to provide creative participation, enable dissent and underpin free institutions;
- Return to a democratically elected government where responsible leadership is accepted by the majority;
- Rejoin and play a responsible role in western oriented regional (CARICOM/OECS) and international political bodies.

A democratic environment is inter-twined with free market development. In the short run, high unemployment (especially among youth and women, who are the mainstay of the social welfare system) could result in political pressures that are destabilizing and which would undermine both democratic values and free market development.

The rejoining of regional institutions, will serve to reduce the level of direct dependence on the USG, and at the same time accelerate the process of moving towards a more balanced approach to economic development in the Caribbean region.

### 3. Economic

Our economic interests in Grenada are to help create the climate, infrastructure, and institutions and provide the resources for rapid enough economic growth to match national and personal aspirations and to ensure political stability. The most pressing development problem inhibiting the realization of our interests is high unemployment.

U.S. economic objectives not only reinforce our security and political objectives, but they are critical to Grenada's rapid economic growth.

Our economic objectives are for Grenada to:

- Return to free-market policies;
- Attract more private investment and expand local business as a means to achieve and sustain economic expansion;
- Facilitate economic development, thereby improving personal opportunities and sustaining government services.

C. CDSS Objective

AID's development strategy for Grenada derives from the above U.S. interests in the country and the region. It is consistent with the overall objectives of the Eastern Caribbean Development Strategy and the Caribbean Basin Initiative (CBI).

The principal objective of the Grenada CDSS is: to develop the economic base necessary for stable democratic development with a strong market orientated foundation and re-integration into regional and subregional economic structures. Ideally, there would be sufficient economic growth by the end of the planning period to create 10,000 jobs - a number sufficient to reduce the unemployment state from its current 30 percent to 15 percent. This growth would be led by light manufacturing, agriculture and tourism, and would depend heavily on exports. Similarly, the creation of increased opportunities for wider participation in social, economic, and grass roots democratic processes is essential if Grenada's political stance is to be firmly rooted in a population positively oriented toward democratic values, institutions and traditions. The principal elements that could undermine U.S. interests in Grenada are the internal political pressures that could result if expanded economic and social opportunities for the majority of the population do not materialize early-on in the planning period. The CDSS strategy is developed to reduce these pressures by creating more on-island economic and social opportunities both in the near term and over the entire planning period.

Achieving this objective will require strengthening both the public and private sectors. Re-orienting the public sector to be supportive of private sector initiative and growth is especially important in light of the role of the public sector in the recent past.

The process of reorientation of the public sector will consist of activities in institution building, coupled with policy dialogue.

In moving towards the program objective, the program should be designed in the context of current AID policy, which emphasizes maximizing the reintegration of Grenada into the regional framework, which would thereby decrease its level of direct dependence on the USG.) To accomplish this , and still maintain an effective level of policy dialogue will require significant coordination with other donors (see Section IE2 above). For example, the Caribbean Group for Cooperation in Economic Development which consists of major donors operating in the region, has long served as an effective forum for both policy dialogue and donor coordination. The IMF can assist in encouraging fiscal management reforms, while providing short-term budgetary assistance, and should be encouraged to do so by AID/Washington. In the field, policy dialogue can be most effective if carried out through a combined effort of economic assistance and diplomacy.

D. Country Development Strategy

1. Overview

This CDSS for Grenada is designed to achieve the objective stated above via three main strategy elements:

- o Expand, make more efficient and diversify production of exports;
- o Attract/promote foreign/domestic private investment;
- o Expand small scale enterprise.

The strategies will be implemented through nine basic program elements described in the following section. It is expected that AID's four priority themes or cornerstones -- private sector development, policy dialogue, institutional development and technology transfer -- will play an important role in attaining the objectives of the proposed strategy. Policy dialogue will focus on establishing the policy framework necessary for the growth of a market-led economy in the context of a free democratic society. Institution building will concentrate on establishing an institutional framework capable of efficiently and effectively providing support to private sector growth, and social services to the general public. Establishment of both an appropriate policy framework and a more efficient institutional framework is essential if private investment and external donor support are to be optimally utilized.

Implementation of the strategy is based on the current AID policy which intends to minimize Grenada's continuing dependence on the United States Government as a major source of funding, and to maximize the re-integration of Grenada into the Caribbean regional community. This approach, as identified in the FY 1986 ABS and Regional

Development Strategy Statement, includes phasing down the Grenada Mission and incorporating the program funding and personnel into the Regional Development Office for the Caribbean, beginning in FY 1986.

Strategy elements

2. a. Expand, make more efficient and diversify production of exports and increase tourism

To successfully achieve economic growth sufficient to create an additional 10,000 jobs by 1990, Grenada must expand and diversify its exports, reduce its costs of production and increase tourism. An increase in Grenada's export earnings can be achieved by expanding the range and quality of goods produced for export (particularly in manufacturing, but also in agriculture), by increasing the value added to exports in Grenada, and by improving efficiency, especially in agriculture and manufacturing. Exports to hard currency markets should be expanded to encompass manufactures in electronics, medical products and information services and agricultural products such as mangoes, honey and ornamental plant rootings.

Increased productivity and competitiveness in world markets will depend on the very efficient and well-integrated use of Grenada's limited resources. This, in turn, will depend both on improved management and technical efficiency within sectors and on coordinated inter-sectoral policies and systems. Increased efficiency in agriculture will be especially crucial because local production and marketing costs for many non-traditional export products in this sector are higher than the price that importing countries are willing to pay for them.

Diversification of agricultural exports will help avoid the difficulties caused by heavy dependence on a few traditional exports and will broaden and reinforce Grenada's fragile resource base.

However, to provide the desired economic growth and jobs, Grenada must be able to sell what it produces for export, especially but not exclusively, in hard currency markets. Thus, it must develop effective links with external markets large enough to absorb its expanded exports and able to pay remunerative prices for them.

Tourism, expanded in consonance with Grenada's small size and limited resource base, must play a larger role in its future development.

b. Attract/promote foreign and domestic private investment

The development of new activities in the productive sectors, particularly tourism and manufacturing, will require investment levels beyond Grenada's present capacity. Effective public sector policies will aid in attracting outside investment while protecting Grenada's long term social and economic development interests. Increased access to credit and/or equity will help ensure that local entrepreneurs can participate fully. Small-scale entrepreneurs must also be assured access to credit and/or venture capital if the benefits of private sector development are to spread beyond a small commercial elite.

c. Expand small scale enterprises

Grenada's economy and business community is not large and nearly all the private sector activity carried out is undertaken on a small scale -- farmers with small landholdings, manufacturers with very few employees, tradesmen with small annual turnovers. To create economic growth and many new jobs, these small scale enterprises must be helped to produce more and to do so efficiently. Such growth is very important in Grenada because it will: involve most of the persons in agriculture and

other businesses in the growth process; distribute the benefits of new growth and employment widely and more equitably in Grenada; enable exploitation of smaller resource or opportunity niches that would otherwise not be pursued; enable more entrepreneurs to gain management experience that can be used to sustain growth over time; increase the competitiveness of Grenada products internally and in regional and extra-regional markets; and promote community level productive activities.

3. CDSS program elements

Nine program elements have been identified as necessary to carry out the strategies outlined above. The following paragraphs describe the program elements and specific program actions to be undertaken for each.

a. Policy and planning assistance

(1) Program element

The long period of political uncertainty and change culminating in the ouster of the PRG has created a need for the reformulation of development policy. In this regard, implementation of economic reform is an acknowledged prerequisite for revitalization of the economy and a key element of such reform will be enhancement and promotion of private productive sector activity. AID is promoting economic reform through the delivery of Economic Stabilization Grants (ESG) that encourage implementation of reforms. The implementation of economic reforms already has received significant encouragement from the initial \$5 million Economic Support Grant (ESG). Under the initial ESG, the Interim Administration is required to undertake the following economic reforms, including (a) reform of the agricultural growers'

associations, (b) an evaluation of the parastatal enterprises, (c) rationalization of the public sector investment program (PSIP), (d) definition of a strategy to bring the budget into balance, and (e) a review of constraints to productive private sector investment. As an outgrowth of AID Administrator McPherson's visit to the island earlier this year, the Grenada Policy Review Team was established to facilitate economic policy dialogue. In collaboration with the GOG, the team worked to consolidate policy reforms begun under the first ESG, and successfully developed a second ESG and associated policy package.

Achievements to date include:

- The GOG has revised the investment code in ways which should encourage investment. A key element of the code is its delineation of a fixed time limit for consideration of new investment proposal (delays in consideration of proposals have been affecting investment negatively).
- The GOG has demonstrated a commitment to fiscal reform through the (a) acceptance of the services of AID-funded fiscal adviser and (b) assignment of appropriate counterpart. Reforms are now being specified and a plan for implementation of these reforms is being drawn up.
- The GOG already has announced intentions to divest seven (7) enterprises, including: Granada Dairies Limited, Grenada Coffee Processing Plant, National Fisheries, West Indian Publishing Company, and the Grenada Resorts Corporation. The GOG also will also be selling off a portion of its interests in the Grenada Sugar Factory, Grenada Bank of Commerce, National Commercial Bank and the electricity and telephone companies.

- The GOG is returning lands to private interests. In this regard, thirteen farms have been returned to their owners/agents and agreement has been reached to compensate owners/agents of five properties totalling some 197 acres. The GOG has submitted a plan to USAID for divestment of the remaining state-owned lands. The GOG also plans to phase out the operations of the state-owned Grenada Farms Corporation (GFC) which owns 25 properties.
- The GOG has amended the usury law. The Interim Council has increased the interest rate limit to 16 percent a level that is nearly non-binding.
- The GOG is easing foreign exchange controls. It has removed the requirements for foreign exchange approval on (a) remittances for documented imports from CARICOM countries and (b) remittances for study, medical, educational, gift and maintenance purposes. The GOG Director General of Finance also has prepared a program for additional reform in this area.
- The GOG will be eliminating important monopolies on a step-by-step basis.

A need also exists for the strengthening of policy development capacity in many areas. A program is needed to assist institutions to reformulate current policy and to strengthen the capacity of those institutions making public policy and plans for Grenada's future development. Institutions whose responsibility covers areas of strategic importance for achieving sustained economic growth, export development, employment creation and broader participation in development will be critical in this process. Institutions where policy is formulated in the following areas would be the focus of policy and planning assistance:

- Export development and promotion;
- Tourism strategy formulation, planning and coordination with other sectors;
- Investment policy and incentives;

- Agricultural policy and development and diversification planning;
- Fiscal and monetary policy analysis, planning and implementation;
- Economic policy and planning for structural adjustment, linkage and efficiency; and
- Employment generation.

Such assistance will take a variety of forms.

Principally, policy management funding will be conducted through the RDO/C Public Policy and Management project scheduled to begin in FY 1985, and carried over into the planning period. If required this can be supplemented through bilateral mechanisms. The assistance will take the form of long and short term advisors, consultations through resident or visiting representatives of regional programs, regional seminars, training courses or attachment to similar institutions in the region, or an occasional assignment to programs of formal training or institutional attachments outside the region.

(2) Program actions

- o Target: support public and private institutions<sup>1/</sup> in the formulation and execution of plans and policies essential to achievement of improved fiscal performance, investment promotion, employment generation, export and tourism expansion, and improved efficiency within, and linkage among, the productive sectors.

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<sup>1/</sup> In the public sector: Ministries of Finance, Planning, Industry, Trade, Agriculture and Tourism and parastatals such as GDB, GRENLEC, CWC and the Tourist Board. In the private sector: the COC, Employers Federation, Hotel Association and the Cooperative Marketing Associations.

- o Key program actions
  - Conduct vigorous policy dialogue to achieve short and long-term progress in the following areas:
    - Investment code and approval of new investments
    - Fiscal reform to increase revenues
    - Expenditure control
    - Divestiture of state enterprises and state owned or controlled land
    - Price Controls
    - Existing Import Controls (licensing)
    - Existing Import and Export monopolies
    - Usury Law
    - Foreign exchange controls
  - Draw on the resources of regional institutions including:
    - CDB                      -- CARICOM
    - IARM                     -- CARDI
    - ECCB
    - OECS Secretariat
  - Utilize resources of regional AID projects including:
    - Public Management and Policy Planning
    - Regional School of Business and Management
    - Investment Promotion and Export Development
    - Infrastructure for Productive Investment
  - Use AID regional assistance to:
    - Reform fiscal policy and structures
    - Sustain policy analysis and planning efforts
- o Principal constraint addressed -- Inappropriate public policy framework.

b. Institutional support and advisory services

(1) Program element

Grenada's institutions in a variety of fields require advice and assistance in policy, management and administration, and staff training in technical fields relevant to their respective functions. Also, the unique recent history of Grenada involving institutional upheavals and personnel turnover associated with governmental changes has created greater needs in this area than in other OECS countries. For these reasons there is need to mobilize available resources to improve the capacities of, and linkages among, Grenada's public and private sector institutions, especially those serving the private productive sectors. This includes the utilities, credit institutions, marketing organizations, bodies managing infrastructure construction, maintenance and operations (e.g. roads, ports, airports) and those concerned with natural resource management such as forestry, fisheries and environment. To maximize their support of and contribution to the CDSS objective, they will need continuing access to advisory services in program development, administration, financial management and staff training as their needs change and grow.

(2) Program actions

- o Target: Strengthen the management and administrative capacity of key public entities including ministries and parastatals (e.g. GRENLEC, CWC, Port Authority, etc.) and private sector institutions such as the Hotel Association, Chamber of Commerce, Crop Marketing Associations, etc. which serve and/or support the productive sectors and critical social services.

- o Key program actions
  - Use services provided by AID regional projects including:
    - Public Management and Policy Planning
    - Regional School of Business and Management
    - Regional Development Training II
    - Investment Promotion and Export Development
  - Draw on advice and training provided by regional institutions including:
    - OECS Secretariat
    - IARM
    - CAIC
    - CCCU
    - CDB
    - BIMAP
- o Principal constraints addressed
  - Inadequate managerial and administrative capacity
  - Inadequate marketing capability and services

c. Infrastructure development assistance

(1) Program element

A long period of deferred maintenance and inadequate investment for replacement in the most important components of Grenada's infrastructure produced a severe crisis in the economy by the early mid-eighties. Efforts were under way even before then to deal with some aspects of the problem regarding roads, power, water and telephones, but none had yet been resolved by late 1983. Once the Interim Government assessed the situation it sought to deal with some of the most urgent needs. Assistance was obtained from various sources and earlier arrangements were re-validated for the most urgently needed roads (USAID, EIB, CDB). Resources to meet critical short and medium term electric power requirements were either committed or under active review (EIB, U.K., BDD). For the most urgent requirements of sewage treatment capacity USAID supplied funding soon after the intervention. Telephones are in a

very unsatisfactory state despite emergency repairs and temporary replacement of equipment damaged or destroyed. Continuing with the installation of obsolete cross bar switch gear was ruled out, and the problem should be dealt with by transferring the system to private operations and funding the investment for restoration of service through private capital.

One urgent requirement for support of private tourism development and export-oriented manufacturing development is the assurance of a reliable year round supply of water for St. George's and the southwest triangle. Another requirement is for additional electricity generating capacity which will need to be in service by 1987 to provide needed capacity and reduce fuel consumption/KWH of energy produced.

While Grenada's infrastructural needs are many, and are in many cases fundamental to the development process, for a variety of reasons, including the high cost of infrastructure, would preclude meeting many of these needs through USAID funding alone. However, as indicated in the Other Donor table in the analysis section, other donors have already expressed an interest in funding many of the projects, and should be encouraged to do so.

(2) Program actions

- o Target: in conjunction with other donor support, help develop elements of infrastructure which are essential to employment creation in the productive sectors.

o Key program actions

In chapter III, AID has identified \$22.5 million to be used in conjunction with other donor contributions to meet some of the infrastructural needs of Grenada. Among the areas requiring assistance are:

- Water: A review of the feasibility study of the Concord project water collection and hydroelectric installation options plus filtration plant and mains for delivery should take place soon. The estimated cost for the project not including hydroelectric facilities is \$7.5 million. Other water improvement efforts are scheduled throughout the planning period.
- Electric power: When the additions to capacity and rehabilitation of older generators now out of action are completed on or about January 1, 1985 a modest reserve of power capacity above peak demand will exist. By 1987, however, a further addition to capacity of three to four MW will be required to cover load growth and to replace the oldest of the thermal-generator sets still in use. Given the past investment, RDO/C will look to the UK and/or CDB to assist in this area.
- Telephones: A program to refurbish and privatize the telephone system is required, in part because of the damage caused to the telephone system during the intervention, but also to support growth in tourism and manufacturing. As indicated in the Other Donor Table above, CDB has expressed an interest in this.
- Roads: A road improvement program, already begun on a small-scale by the U.S. and other donors, must be expanded during the planning period. A road rehabilitation and rural feeder road Program is planned for FY 86, and will be expanded to include major road improvements necessary to meet the transport needs of an expanding economy later in the planning period.
- Sewers: Future study, rehabilitation and expansion of Grenada's sewer system is an important supporting element of economic growth in tourism and manufacturing and improved quality of life for Grenadians.

o Principal constraint addressed

- Inadequate physical infrastructure to support productive sector development

d. Training for employment

(1) Program element

Grenada faces a great challenge of orienting and training its people to participate in a changing economic environment. Many young persons are ill-prepared to exercise initiative, enter into productive employment or receive technical training on-the-job. Programs are needed to upgrade the formal educational system so it will better prepare youth for work, provide for adult literacy and continuing basic education and expand technical training to meet the needs of growing tourism, manufacturing and service sectors, including the requirement for more persons prepared to initiate small scale enterprises.

The conduct of an employment assessment to define the nature and extent of current and future needs is required to shape some aspects of future efforts in this area. It is already clear that extension to Grenada of the USAID/OAS Regional Non-Formal Skills Training program is urgently needed. Support for locally-sponsored basic community education also will be initiated with PVO and regional resources.

The most fundamental long-term need is the reform and upgrading of the educational system to provide youth with a set of basic job-oriented skills and an improved motivation to participate in the work force. This will require programs to modify the present curriculum for primary and middle schools, reorient and upgrade the teaching staff to

enable it to be more effective in motivating and stimulating youth and recruiting persons from the community to provide job-readiness technical skills.

Some resources are already available for such a program. The Dominica Junior Secondary Skills Development Program and a program with support from CXC have been initiated on a regional basis.

(2) Program actions

- o Target: strengthen the capacity of the formal education system and non-formal training programs to train and motivate youth and adults for productive work.
- Strengthen the curriculum syllabus, teaching staff and facilities of the school system to provide pre-vocational training, through an RDOC regional program scheduled to begin in FY 86.
- Draw on the capacities of the USAID/OAS regional project to strengthen non-formal vocational training and on the resources of UNESCO to supplement the AID project's inputs to the formal education system; also utilize Regional Development Training I and II.
- Utilize, where appropriate, resources available from CBI on the job training efforts.
- o Principal constraints addressed
  - Limited institutional capacity to prepare individuals for productive work.
  - Limited individual initiative.
  - Off-island focus of personal economic and social aspirations.

e. Agricultural expansion and diversification

(1) Program element

Agriculture will continue to play a large role in the Grenadian economy as it is one of the major means to draw on the

country's important soil and climate resources and to generate income and employment. Substantial efforts to develop policy, plan more effectively and create additional institutional capacity will be necessary to fully develop the agricultural sector. Also, to provide a more stable agricultural base, the range of products should be broadened and their production and marketing made as efficient as possible. The principal opportunities are in fruits and vegetables both for the local market and for export, and in cut flowers and ornamental plants for export. There are also limited opportunities in providing raw products for processing into nectars, sauces, jams, and jellies for the local and regional markets.

A program is being undertaken to strengthen the capacity of the established cooperative marketing associations and to develop better marketing capabilities for alternative export crops such as fruits and vegetables. In addition, the program will assist the Ministry of Agriculture with its planning efforts, market analysis and information dissemination. This project is being initiated in FY 85 as part of the interim planning/marketing project being carried out with FY 84 funds. This will provide two long-term advisors in planning, marketing, economic data collection and analysis and information programs. A contract agricultural development specialist also will be added to Mission staff to manage this effort. Short-term advisors, training and equipment to support planning and marketing operations also are being provided.

It is in support of this project that the planned feeder road program will be undertaken. Feeder roads are needed by farmers to improve their access to markets and to reduce costs of delivering products and inputs.

Follow-on agricultural production projects are scheduled to begin in FY 86 and FY 89.

(2) Program actions

- o Target: To expand the output and range and improve the efficiency of agricultural production, to enhance linkages between agriculture and tourism and to strengthen the capacity of public and private sector planning and marketing efforts and institutions to achieve higher output, greater returns to farmers, more employment and increased exports.
- o Key program actions
  - Continue the ongoing agricultural projects in FY 85 with activities targeted to further strengthen the cooperative marketing associations and the Ministry of Agriculture's planning and market information and dissemination capacity.
  - Launch follow-on agricultural production projects in FY 86 and FY 89.
  - Draw on regional projects to improve agricultural policy administration, planning, research, extension and training through the following activities:
    - Research (CARDI and WINBAN).
    - Planning (CARDI and Regional Management and Policy Planning Project).
    - Extension (CAEP).
    - Credit (CDB, World Bank GDB)
- o Principal constraints addressed
  - Small island syndrome (high cost).
  - Inadequate marketing capability and services.
  - Inadequate managerial and administrative capacity.
  - Inadequate access to credit.

f. Financial support for private enterprise development

(1) Program element

If Grenada's private sector is to be expanded in the agriculture, agro-industry, tourism and manufacturing fields, capital must be more readily available. These sectors are able to contribute to significant employment creation and export development as they respond to incentives, policies and opportunities created by the CBI and supported by appropriate development of the country's infrastructure. Funds will be needed through such institutions as LAAD and the CFSC in the form of fixed term lending to complement the limited private equity funds which can be raised locally. The joining of local and external capital will enable smaller enterprises to be formed locally and somewhat larger undertakings to be formed as joint ventures or foreign investor-owned enterprises. Funding for privately owned factory space also will be available from the FY 1984 Infrastructure for Productive Investment Project with the ECCB.

Other donor contributions will be necessary to fully meet needs in agriculture, industry and hotel repair. USAID funding provided to CFSC and other funds potentially available from PRE or other sources would be mobilized to partially meet private financial requirements in agriculture, manufacturing and tourism. Coordination of all donor efforts in these areas will be important.

(2) Program actions

- o Target: Provide capital to assist local and foreign entrepreneurs and investors to respond to incentives and opportunities for expansion of tourism and manufacturing and agribusiness, especially for export.

o Key program actions

- Provide financing from regional moneys for agribusiness and for manufacturing and tourism (through CFSC and ECCB) to firms and small scale enterprises (SSE's) able to expand exports and tourism. Utilize the resources provided through OPIC and PRE.
- Utilize donor coordination efforts to ensure that funds already committed through regional programs and institutions such as the CDB, ECCB and CFSC are forthcoming and productively used.

o Principal constraints addressed

- Inadequate local equity capital and access to credit.
- Inadequate marketing capability and services.
- Off-island focus of personal, economic and social expectations.

g. Small scale enterprise development

(1) Program element

In order to foster dispersed productive and service activities in the private sector it is desirable that small scale enterprises be initiated and expanded. To accomplish this, AID will assist the Grenada Chamber of Commerce and/or an outside private voluntary organization to establish a National Development Foundation (NDF) in Grenada to provide managerial, technical and financial assistance to small entrepreneurs. Such support will be provided in part by NDF staff and by entrepreneurs in Grenada who are prepared to volunteer their time to provide technical assistance during the planning, start-up and operational phases of enterprise development.

Regional programs will support the development of the Grenada Credit Union and local private voluntary organizations. These

organizations will be expected to initiate and nurture SSEs as producers of goods for use in the tourist industry, construction, etc., and to provide services to these and other sectors. These local efforts will help provide desirable inter-sectoral linkages and expand employment opportunities for rural and other disadvantaged groups.

(2) Program actions

- o Target: Stimulate and support the initiation and expansion of small scale enterprises capable of providing employment and/or exports, improving inter-sectoral linkages and involving the disadvantaged elements of the society in the growth of the economy.
- o Key program actions
  - Support the formation and development of the recently initiated National Development Foundation through a local organization such as the Grenada Chamber of Commerce and/or an off-shore PVO to provide technical, financial and managerial support to SSE's (drawing on funds provided under ESF).
  - Continue to utilize the Caribbean Federation of Credit Unions (CCCU) and mobilize local PVOs in Grenada to foster and support development of SSEs and community-based productive, employment creating ventures.
- o Principal constraints addressed
  - Inadequate local equity capital and access to credit.
  - Inadequate managerial and administrative capacity.
  - Limited individual initiative.
  - Off-island focus of personal, economic and social aspirations.

n. Health and Population

(1) Program element

Specific social constraints exist in Grenada which not only diminish the effectiveness of the strategy selected to spur Grenada's economic development, but which also detrimentally affect the quality of life and availability of opportunities for many Grenadians. Teenage pregnancies, the first step in what often becomes a cycle of poverty, and functional illiteracy, a serious impediment to economic progress, are two such constraints. Particular efforts are needed to cope with these and similar problems if the most disadvantaged Grenadians are not to be left behind as economic progress is realized by others.

Teenage pregnancies should be reduced by making family planning services and family life education available directly to youth who are at the age when they may become sexually active. The pressing need for improved mental health facilities and activities, which was seriously exacerbated by damage inadvertantly done to the mental hospital during the intervention will require a specific bilateral USAID effort. AID regionally funded programs, as well as funds to be supplied by other donors, should be adequate to meet other health and family planning needs.

Program actions

- o Target: provide social services to individuals to expand their opportunities to participate productively in economic activities.
- o Key Program Actions
  - Deliver family planning services and family life education through support from AID funded regional institutions including the Grenada Family Planning Association, and the Caribbean Family Planning Association.

- Support non-formal education and community action programs to deliver needed services at the local level through regional funding of PVOs.
- Support and assist the development of health financing mechanisms and other public and private health delivery systems through AID regional funds.
- Upgrade mental health care for the Grenadian population via replacement of the mental health care hospital facility.
- o Principal constraints addressed
  - Small island syndrome.
  - Off-shore focus of personal economic and social aspirations.

i. Private voluntary and community action support

(1) Program element

Regional programs will be drawn upon to support community initiative and PVO action programs. These will seek to develop local community leadership and participation in income-generating and employment-creating activities including the construction and maintenance of local infrastructure, apparel, furniture and handicraft production and similar activities. Local social and community development support programs related to health, education and job training can also be undertaken by private and voluntary organizations that exist in the region.

Particular emphasis will be given to encouraging individual participation in grass roots democratic activities and organizations as a means of deepening Grenada's democratic orientation and providing broader experience throughout Grenada with democratic processes. Institutions such as the marketing associations are an important element of this program, having just been returned to

membership control under democratic practices. Another element of this program will be to encourage the spread of membership controlled community associations dedicated to social and productive purposes, as well as to leadership development.

(2) Program actions

- o. Target: To expand and deepen individual initiative and private community level activities aimed at solving local problems, creating productive enterprise on a local level, and deepening grass roots democratic traditions and experience.
- o. Key program actions
  - Support development of individual initiative and private community activities via AID regional programs such as PVO grants to Grensave, the New Life Organization, and similar local organizations.
  - Encourage involvement by off-shore organizations such as IVS, Peace Corps, Inter-American Foundation and PADF.
  - Encourage the GOG to provide opportunities for local initiative in developing community education, literacy and other self-help programs.
- o. Principal constraints addressed
  - Limited individual initiative
  - Lack of community-based institutions to meet development needs in productive and social sectors
  - Political and economic legacy/image of the recent past.

E. Sectoral Strategies

The strategies and programs described above are designed to increase economic growth and employment in Grenada during the FY 85 through FY 90 period. The current situation in each of the sectors included in this CDSS has been described and analyzed in Chapter I.

From the analysis in Chapter I it was apparent that identical or similar constraints affected development in many of the sectors. However, given the small size of Grenada's various sectors, it is not always appropriate or possible to address identical constraints in different sectors (e.g., inadequate planning, administrative and technical capacity of public institutions in manufacturing, agriculture and tourism) by developing individual interventions for each sector. By careful review of activities, potentials and constraints of each sector in relation to all other sectors, however, it was possible to identify key constraints common to many sectors which had to be addressed effectively by the overall strategy and its supporting program elements if the CDSS objective was to be achieved.

By addressing these multi-sectoral constraints, the strategy also addresses the critical sectoral constraints. Thus, the strategy and program elements cited above are directly responsive to sectoral potentials and needs. The links between the strategy and its supporting programs also are reflected in the program actions described briefly above; they appear again in the narrative regarding AID's proposed assistance planning levels in Chapter III.

Alternative Strategy Considerations

1. Introduction

The strategy proposed in the previous section gives RDO/C's best current estimates of the volume and mix of resources necessary to support achievement of major U.S. policy objectives in Grenada within the context of current policy directives. This judgement, however, is necessarily tentative for, inter alia, the following reasons:

- The political situation is currently fluid, and the direction, decisiveness of political will, and political/economic competence of the future government(s) are unknown factors.
- The level of resources which may be expected from other donors is uncertain, as is the degree to which those donors will be willing to apply such resources in ways consistent with major U.S. policy objectives, including the economic policy dialogue.
- Following the fall of the NJM the economy was in a state of near collapse and the society was seriously disoriented. As socio-economic restructuring continues, we may anticipate that problems and bottlenecks will develop which cannot now be foreseen.

While current policy and best judgement based upon it argue for planning and project development to proceed along the lines outlined in the strategy section, the factors noted above argue for preservation of an unusually high degree of flexibility to alter that strategy as the situation develops. It also dictates that an up-dated strategy be submitted for the FY 87-91 period in the third or fourth quarter of FY 85.

2. Strategy Considerations

a. In addition to traditional developmental and humanitarian concerns, the Eastern Caribbean merits particular attention due to its political importance to the United States. Within that context, the successful return of Grenada to the Western path of political and socio economic development is of special importance, given its high international visibility and symbolism due to the combined OECS and U.S. forces military rescue mission in October, 1983 and substantial U.S. involvement subsequently.

-- What is required in Grenada is development of a model of progress which successfully consolidates the return of Grenada to a democratically-based free enterprise-orientated nation, and does so without Grenada being so disproportionately economically favoured vis-a-vis the rest of the Eastern Caribbean as to generate unmeetable demands and expectations on U.S. resources on the part of the other OECS states, which, if unmet, could give rise there to the very sort of problems which we seek to avoid in general.

-- The key question is whether the level and mix of resources proposed in the AID strategy will prove adequate to achieve USG policy objectives in Grenada, both political and economic/developmental, taking into consideration overall interests in the Eastern Caribbean.<sup>1/</sup>

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<sup>1/</sup> This assumes election of a government with which the USG can work. Any other assumption would require a far broader recasting of U.S. policy and strategy

b. The Strategy as currently conceived calls for an exceptional commitment of resources in FY 1984/85 to facilitate the transition from the chaos of the previous regime to a pattern of development more typical of the rest of the Eastern Caribbean over the subsequent five years. Given the unique situation of Grenada, the FY 84/85 assistance is predominantly bilateral. Given the desire to return it to a more balanced situation relative to the rest of the OECS, future projected assistance is a mix of bilateral and regional more consistent with that provided the other states, albeit at a somewhat higher level than would otherwise be the case, due to Grenada's special problems and U.S. interest. Assumptions underlying this strategy are:

- That the resources provided will give us sufficient leverage to produce a fruitful policy dialogue with the GOG, but will not be so large as to pose a disincentive to other donor contributions
- That resources to be provided will be appropriate in composition and sufficient in volume to overcome key development constraints, in combination with the contribution of the donors and self-help measures of the GOG itself

c. Both of these assumptions are partially within our control. The degree to which our resources are effective in encouraging the levers on GOG policy depends, to a significant extent, on how skillfully we interact with Grenada's public and private sector leaders, and the same is true regarding the effective combination of our resources with those of the donors. However, even with our best efforts,

events beyond our control, such as world prices for Grenada exports, internal pressures on the GOG, and other donor policies and assistance levels, could cause these assumptions to fail, and require adaptation of a strategy providing more bilateral and larger aggregate resource inputs.

Below are four areas of vulnerability, where more direct and larger inputs of resources might be required to achieve major U.S. policy objectives. Any element or combination of these would call for an alternative strategy which would include higher aggregate levels of funding and a higher ratio of bilateral to regional assistance.

-- Structural Adjustment Program Assistance.

The newly-elected GOG will face a fiscal deficit at least in the order of \$6 million. To provide some immediate relief to close this resource shortfall, to support the economic policy dialogue begun during the interim government, and to bridge the gap between the establishment of new government and completion of its negotiations of an agreement with the IMF, additional US program assistance may be required.

-- Key infrastructure constraints. There are major infrastructure constraints described in the body of this document which must be resolved to make optimum use of other resources, particularly those intended to stimulate private sector growth. Given AID policy, and funding limitations, we must rely on other donors to address many of these. If they do not fully do so, we must decide between acceptance of partial fulfillment of objectives and infusion of additional funds.

-- Other sectoral concerns. While our current judgement, within the limits of established policy, is that these concerns are adequately addressed by the AID Strategy proposed, it may well be that unforeseen difficulties will arise, or that problems now identified will prove more costly and difficult in their resolution, requiring additional resources.

-- Absorbptive Capacity. In light of the relatively large pipeline of external assistance already provided to Grenada, coupled with large amounts of potential assistance, there is a growing concern about Grenada's absorbptive capacity for these continued inflows of funding. Thus, when designing programs intended to be implemented in the near term, special attention will need to be given to the inclusion of sufficient and appropriate resources--both funding and technical assistance--to provide the necessary advisory as well as operations capacity required for effective implementation. These resources may well need to fund functions which normally would be considered host country contributions and responsibilities.

d. There are internal tensions between our desire to influence the direction economic development in Grenada, and our need to involve other donors in its funding; between our desire to provide adequate resources and our need to avoid deepening Grenadian dependency on the United States; between the imperative for stimulating growth in Grenada and our need for a successful regional development policy in the Eastern Caribbean. None of these will prove easy to resolve, but all must be carefully evaluated as we weigh strategy options. As important as Grenada is, it cannot be viewed in isolation from our broader regional objectives.

3. Aid Operational Considerations

Virtually any strategy alternative would involve more resources and be more weighted towards bilateral assistance. exact sums have not been affixed because the range of possibilities is wide. However, any significant addition of financial resources would have staffing implications. The staff now in place has been sorely overstressed; additional bilateral programing would require additional staff. Depending on the levels involved, this could range from as few as two or three additional officers to the establishment of a fully staffed and delegated Mission. Consideration of establishment of a full Mission should take into account the reaction of the other OECS members and what our strategy to respond to that reaction would be.

### III. ASSISTANCE PLANNING LEVELS

The planning levels are the same as those identified in the FY 1986 Regional Development Strategy Statement.

The Development Assistance funding will principally be used for regional programs. The levels shown are intended to indicate Grenada's share of those programs, which is approximately equivalent to that which other Eastern Caribbean countries will receive during the planning period. Bilateral PVO projects have been provided for in agriculture and education.

The share of Regional Economic Support Funds over the planning period is some \$10 million higher than that of other Eastern Caribbean LDC's. This provides for a transition period in FY 1986 - 87, in which the Grenada program is phased over to the regional program, and a scaling down of levels beginning in FY 1988, to achieve a level approximately equivalent to that of the LDC's in the Eastern Caribbean.

ESF will be used principally to meet some of the infrastructural needs (energy, roads, sewer and water) which could not be appropriately met through regional resources, but nonetheless will be required for effective implementation of development programs. Another area of emphasis is agriculture, which remains the major employer and source of income in the country. ESF will also be used for continued regional private sector development, and the amount shown is Grenada's share of this.

PROPOSED ASSISTANCE PLANNING LEVELS BY FUNCTIONAL ACCOUNT

GRENADA

(Thousands of U.S. Dollars)

	1984	1985	1986	1987	1988	1989	1990	TOTAL	
<u>ECONOMIC SUPPORT FUNDS</u>									
(Grenada Bilateral: Grant)									
<u>AGRICULTURE</u>	1,964	-	-	-	-	-	-	1,964	
<u>HEALTH</u>	1,530	500	-	-	-	-	-	2,030	
<u>EDUCATION</u>	500	1,000	-	-	-	-	-	1,500	
<u>PRIVATE SECTOR DEV.</u>	1,024	-	-	-	-	-	-	1,024	
<u>INFRASTRUCTURE</u>	25,500	-	-	-	-	-	-	25,500	
<u>ECONOMIC RECOVERY</u>	10,000	-	-	-	-	-	-	10,000	
<u>RECONSTRUCTION</u>	5,000	4,000	-	-	-	-	-	9,000	
<u>OTHER</u>	1,246	2,700	-	-	-	-	-	3,946	
=====									
SUB-TOTAL ESF	46,764	8,200						54,964	
=====									
<u>DEVELOPMENT ASSISTANCE (RDO/C)</u>									
<u>AGRICULTURE AND RURAL DEVELOPMENT</u>	<u>TOTAL</u>	210	250	817	800	500	700	700	3,977
	<u>GRANT</u>	210	250	817	380	500	700	700	3,557
	<u>LOAN</u>	-	-	-	420	-	-	-	420
<u>POPULATION (GRANT)</u>	<u>TOTAL</u>	125	154	150	85	85	100	100	799
<u>HEALTH (GRANT)</u>	<u>TOTAL</u>	425	330	150	65	65	50	50	1,125
<u>EDUCATION &amp; HUMAN RES. DEV.</u>	<u>TOTAL</u>	195	685	1,165	550	550	550	1,050	4,745
	<u>GRANT</u>	195	685	1,040	550	550	550	1,050	4,600
	<u>LOAN</u>	-	-	125	-	-	-	-	125
<u>SPECIAL DEVELOPMENT ACTIVITIES</u>	<u>TOTAL</u>	2,617	1,265	2,030	1,300	1,650	1,750	1,750	12,000
	<u>GRANT</u>	617	1,265	780	400	400	650	650	2,762
	<u>LOAN</u>	2,000	-	1,250	900	1,250	1,100	1,100	9,238
=====									
SUB-TOTAL DA	<u>TOTAL</u>	3,572	2,684	4,312	2,800	2,850	3,150	3,650	21,200
	<u>GRANT</u>	1,572	2,684	2,937	1,480	1,600	2,050	2,550	11,873
	<u>LOAN</u>	2,000	-	1,375	1,320	1,250	1,100	1,100	9,327
=====									
<u>ECONOMIC SUPPORT FUNDS (RDO/C: GRANT)</u>									
<u>AGRICULTURE</u>		-	-	3,000	-	-	2,000	-	5,000
<u>INFRASTRUCTURE</u>		-	-	7,000	8,500	5,000	1,000	3,000	24,500
<u>PRIVATE SECTOR DEV.</u>		-	-	-	500	500	500	500	2,000
<u>OTHER</u>		1,671	100	100	-	-	-	-	1,871
=====									
SUB-TOTAL RDO/C ESF		1,671	100	10,100	9,000	5,500	3,500	3,500	33,271
=====									
TOTAL DA & ESF	<u>TOTAL</u>	52,007	10,984	14,412	11,800	8,350	6,650	7,150	100,353
	<u>GRANT</u>	50,007	10,984	13,037	10,480	7,100	5,550	6,050	93,208
	<u>LOAN</u>	2,000	-	1,375	1,320	1,250	1,100	1,100	7,145
=====									
<u>DISASTER RELIEF (GRANT)</u>		2,200	-	-	-	-	-	-	2,200
<u>TOTAL AID ASSISTANCE</u>		54,207	10,984	14,412	11,800	8,350	6,650	7,150	102,553