PN ABB-246

ST. VINCENT AND THE GRENADINES
COUNTRY SUPPLEMENT
TO THE CARIBBEAN REGIONAL CDSS
1986 to 1990

	Page
I. AID STRATEGY	
A. Overview	1
B. Sectors	3
1. Agriculture	3
2. Manufacturing	5
3. Special Program Concerns	7
II. KEY DEVELOPMENT OPPORTUNITIES, CONSTRAINTS, AND POLICY ISSUES	
A. Development Opportunities	8
1. Agriculture	8
2. Manufacturing	8
B. Key Development Constraints	9
1. Land Use	9
2. High Costs of Production	9
3. Marketing Systems	10
4. Human Resource Limitations	10
5. Inadequate Credit	11
6. Government	11
C. Policy Dialogue Agenda	12
1. Parastatal Activities	12
2. Agricultural Diversification	12
3. Incentive System	12
4. Development Corporation	13
5. Public Administration	13
6. Tax Policies	13
7. Public Sector Savings	13
III. ATTACHMENTS	
A. Economic Analysis	
B. Private Sector Profile	
C. Political, Social, and Institutional Analyses	
D. Other Donor Assistance	
E. Map of Grenada	

I. AID STRATEGY

A. Overview

St. Vincent and the Grenadines, a chain of small islands located at the lower end of the Caribbean, is at a critical juncture in its development. One of the least developed OECS states, St. Vincent has the lowest per capita GDP, one of the highest unemployment rates, and the highest GDP growth rate for the period 1980-1984. Traditionally a monocrop economy based initially on sugar and later on bananas, the economy of St. Vincent has been undergoing major structural adjustments in recent years, with a declining agriculture sector, rapid development of offshore processing industries and an emerging tourism sector. Agriculture is still the predominant productive sector accounting for 16 percent of both GDP and employment, and over 25% of export earnings. Manufacturing accounts for 11 percent of GDP and employment, while tourism contributes only 3% percent to GDP despite a high grow rate (16%) over the 1977-1983 period.

In recent years the economy has exhibited signs of a slowdown with GDP growth averaging 3% between 1983-1985. The slowdown reflected weak performance in agriculture as a result of a drought in early 1982; decline in tourism resulting from the continuing world recession; and limited expansion of both enclave manufacturing and retail activities as a result of a shortage of factory facilities.

The resounding victory of James Mitchell's National Democratic Party in July, 1984 marks a new era in Vincentian politics since the opposition Labour Party headed by Milton Cato governed St. Vincent for most of the previous decade. The new Government is prepared to tackle critical policy issues in a speedy manner. In particular, it is committed to strengthening the finances of the public sector and to encouraging private sector participation in the development of the productive sectors of agriculture, manufacturing, and tourism in an effort to reduce the country's high rate of unemployment.

RDO/C's development goal for St. Vincent and the Grenadines is to enable the country to achieve an economic growth rate that will increase per capita income, reduce unemployment, increase foreign exchange earnings, and provide the basis for self-sustaining long-term growth. This goal will be achieved through a private sector based, export-oriented strategy focusing on increased production of select traditional crops, increased diversification in the agriculture sector, and expansion of the manufacturing sector. Achieving this objective will greatly expand the activity level and effectiveness of the private sector in St. Vincent's key economic sectors, while shifting the role of Government to one more strongly supportive of the private sector and less directly involved in productive sector activities.

The strategy focuses primarily on the agriculture and manufacturing sectors, since they have the greatest potential for sustained output, employment, and foreign exchange increases which can pull other sectors along. Agriculture, however, must be restructured

Table 1

ST. VINCENT AND THE GRENADINES
STRATEGY SUMMARY

Goal of the AID Strategy:
To increase economic growth, in order to reduce unemployment increase earnings and provide a sound basis for self-sustained long-term growth

Benchmarks:
4.6% annual growth in GDP
4.1% annual growth in employment
5.1% annual growth in exports
4.5% total decrease in unemployment

Sectoral Strategies

Agriculture

Objectives
Increase production and production of traditional and non-traditional export crops

Benchmarks
5.0% annual growth in exports
4.5% annual growth in employment
5.0% annual growth in agriculture

Program Interventions
- Test the viability of producing/marketing new crops, stregthen and focus research and extension
- Facilitate private sector links
- Identify and define export market opportunities
- Collect and disseminate market information
- Establish quality control and standards
- Provide training in marketing skills
- Establish offshore brokerage links
- Support programs to commercialize new exports
- Shift from public to private marketing
- Provide in-kind credit for high efficiency inputs
- Assist development of road maintenance capacity through regional activity

Policy Agenda
- Encourage closure of sugar industry
- Shift arrowroot industry to private sector
- Eliminate parastatal access to treasury
- Reduce marketing board to provider of information/service
- Encourage public sector savings

Constraints
- Underutilized estate lands
- High cost of inputs
- Low use of yield - increasing inputs
- Lack of specific high yielding crop varieties
- High cost of transport
- High per unit shipping charges
- Shortage of transport facilities and cargo space
- Lack of appropriate packing & storage facilities
- Lack of market information, access & capability
- Inadequate credit for inputs
- Poorly maintained roads

Manufacturing

Objective
Expand and diversify St. Vincent's export base through the attraction of new enclave manufacturers and the strengthening of indigenous entrepreneurs

Benchmarks
6.0% annual growth in exports
5.0% annual growth in employment
6.0% annual growth in manufacturing

Program Interventions
- Promote foreign investment in manufacturing
- Support the development of industrial estates and the construction of factory shells
- Strengthen investment promotion unit
- Provide pre-employment/skills training
- Train managers/entrepreneurs
- Support positive outreach program to transfer technology
- Supply market intelligence/information on key foreign markets
- Facilitate access to adequate credit
- Strengthen institutions providing support services to entrepreneurs and productive sector enterprises

Policy Agenda
- Revise incentive system
- Create new investment Code
- Reorganize Development Corporation
- Examine tax system

Constraints
- Lack of technical, managaerial and marketing skills
- Insufficient credit and equity capital
- Insufficient public sector capacity to support productive sector
- Inadequate factory
- Lack of developed support services
- High cost of transport
- Outdated technologies
- Biased incentive system
- Tax disincentives

because the sugar industry is financially unviable and must close down in the near future. Arrowroot production will also need to decline and land transferred into other agricultural crops in order for the industry to remain solvent. These will be offset by expanding the production and productivity of nontraditional crops, (ground provisions, fruits and vegetables especially for export to the CARICOM region and other markets), and bananas. New agricultural export commodities with hard currency markets will also have to be identified, produced and marketed cost-effectively. Increasing the productivity of these crops will be a critical element of this strategy since St. Vincent is a high cost agricultural producer. Unit costs of key export crops must be reduced in order for the Vincentians to compete effectively in hard currency markets. It is expected that the agriculture sector will grow at an annual rate of 5% between 1986-1990.

Manufacturing is expected to lead the growth of the economy by expanding at a rate of 6 percent per year during the planning period. In order to achieve this growth rate, continued emphasis will be placed on attracting enclave industries to St. Vincent since they usually have a short start-up time and can provide a relatively quick payoff in terms of employment. The attraction of these industries will also have the added benefit of providing off-shore markets, investment, technology and management. Likewise, diversification of both the enclave and indigenous manufacturing base is important in order to: reduce the risk of depending upon too narrow a range of manufactured exports, open up new areas of growth, and achieve an acceptable ownership balance in the sector. The strengthening of the local entrepreneurship is an important long-term goal of the manufacturing strategy. Many of St. Vincent's entrepreneurs need assistance to enter into or expand their manufacturing activities, to work with new products, to join forces with foreign partners and to graduate from the ownership of small to medium-sized firms. By the end of the strategy period, these local manufacturers should be able to identify and actively compete in both regional and extra-regional markets.

B. Sectors

1. Agriculture

The agricultural sector, while declining somewhat in recent years as a result of unfavorable weather and natural disaster, has managed to retain a position of crucial importance in the economy. It still accounts for about 17 percent of GDP, 17 percent of labor force, and 40% of the country's export earnings. Bananas (the prime commodity by a large margin), ground provisions, and arrowroot account for the major share of total output and exports. Sugar was reintroduced in 1980 with the intention of reducing, or replacing the need for imported sugar. Despite its importance, the sector has reached a watershed in its development: the sugar industry has proved to be financially and economically unviable and will most likely be closed down in the coming year; the market for arrowroot starch has almost totally collapsed; the depreciation of the pound sterling has resulted in falling returns from bananas; and difficulties with the marketing of ground provision vegetables, and other crops continue.

The objective of AID's assistance to St. Vincent's agricultural sector will be to increase the production and productivity of traditional and nontraditional agricultural export commodities which are both financially and economically viable. This objective will be achieved by restructuring agricultural output (i.e. replace sugar, reduce arrowroot, and increase banana production), by diversifying into other nontraditional crops, and by increasing efficiency in the production and marketing of both traditional and nontraditional agricultural products. Optimal land use will be central to the necessary restructuring, diversification and efficiency improvements needed in the sector. The Government is cognizant of the current suboptimal use of agricultural land and is interested in promoting land reform.

In anticipation of a complete halt in sugar production in 1985 and a major decline in arrowroot production during the planning period, RDO/C proposes to address these major dislocations by assisting farmers who are currently producing sugar and arrowroot to move into other crops, especially nontraditional export commodities. RDO/C will consider providing non-project assistance to the Government to reduce the financial burden associated with the restructuring of the sugar and arrowroot subsectors. The expansion of nontraditional agricultural output is expected to be sufficient to enable the sector to expand during the 1986-1990 period, both in terms of output and employment, despite the loss of the substantial contributions now being made by the sugar and arrowroot subsectors.

The various components of the strategy include the attraction of private foreign entrepreneurs, the improvement of marketing systems, broader credit programs for farmers producing for the export market, the strengthening and expansion of agricultural research and extension programs, and infrastructural support in the form of road improvement and maintenance as well as packing and storage facilities.

RDO/C will encourage private foreign entrepreneurship (investment, management, technology or foreign markets) to assist St. Vincent's producers in the innovative production and marketing of crops and products. Particular efforts will be made to introduce private foreign entrepreneurs early on into the process of identifying and commercializing nontraditional export commodities.

In the area of marketing, RDO/C will seek to improve marketing efficiency by encouraging the transfer of parastatal operations to private hands, where appropriate, and by encouraging and supporting a shift of emphasis by public and parastatal agencies to provision of those services needed by private producers and traders to reduce marketing costs and risks and to rapidly deliver high quality goods to export markets. As part of its strategy to encourage the production of nontraditional export crops, RDO/C will support export promotion efforts encompassing market identification, commodity promotion, and provision of specific market information and marketing assistance for exporters of nontraditional agricultural exports. Finally, to create a bridge between research and extension efforts and the actual export of nontraditional crops, RDO/C may assist in the commercialization of new nontraditional agricultural export products.

To address the credit constraint, RDO/C will support broader credit programs for farmers producing for export by assisting in the provision of in-kind credit for selected high efficiency inputs. The Organization for Rural Development (ORD) will continue to be used as a mechanism for providing credit to small farmers producing for export.

As part of its strategy to increase the production of nontraditional export crops, RDO/C will assist in expanding and strengthening agricultural research and technology transfer efforts in St. Vincent. These activities will concentrate on: the selection and introduction of improved varieties of nontraditional crops currently being grown in St. Vincent; the identification, testing and introduction of new marketable export crops or products in which St. Vincent would enjoy a competitive advantage; the preparation of technical packages designed to lower cost per unit output for new and existing export crops; the identification of pest management and post harvest technology essential to diversified and expanded export crop development; and the training of farmers in the effective use of new technical packages focused on nontraditional export products.

This export-oriented agricultural strategy is predicated on adequate infrastructural support. RDO/C will provide support for road rehabilitation and maintenance activities and for packing and storage facilities and will collaborate with the Government and other donors to ensure that other infrastructure required to support agriculture is available.

2. Manufacturing

The manufacturing sector in St. Vincent is still at an early stage of development, contributing approximately 11 percent to GDP and employing approximately 11 percent of the labor force in 1983. Yet the range of commodities produced is extensive. They include the production of garments, metal products, sporting goods, electronic components, building materials, furniture, packaging, and sugar, arrowroot, flour and food processing. External enclave manufacturing activities are responsible for much of this production as the potential for the development of domestic-oriented manufacturing activities is constrained by the small size of the domestic market. Despite this promising expansion, St. Vincent has experienced a slowdown in industrial growth over the past 2-3 years and has failed to secure any significant new foreign industrial investment over the past 18 months. This is due in part to the shortage of industrial floorspace which has been possibly the most critical constraint on industrial development in St. Vincent over the past 18 months.

The objective of AID's strategy in the manufacturing sector is to expand and diversify St. Vincent's export base with the primary focus being job creation. The program interventions designed to achieve this objective include investment promotion, institutional strengthening of relevant public and private sector bodies,

infrastructural support, and technology transfer. These individual elements vary in the extent to which they directly serve this objective. Investment promotion, for example, is intended to provide a relatively rapid pay off in terms of employment. Assistance with the reorganization of the Development Corporation (DEVCO) and the strengthening of the local private sector, on the other hand, are likely to provide longer term pay offs. The strategy also reflects the constraints that are likely to condition development in St. Vincent and, where possible, incorporates measures designed to relieve or relax particularly criticial constraints.

As part of its manufacturing strategy, RDO/C will continue to support investment promotion activities designed to bring foreign entrepreneurs and capital to St. Vincent. The level and intensity of exploration needed to initiate the number of new enclave industries desired in St. Vincent will result only from strong investment promotion by both RDO/C's Investment Promotion and Export Development (IPED) adviser and the Government. The provision of pre-employment training through the Regional Non-Formal Skills Training Project will act as an added incentive for attracting investors by offering an employable labor force.

RDO/C will also encourage the development and strengthening of public and private institutions supportive of private sector growth. Public sector institution building will focus primarily on the creation of an efficient and effective investment promotion unit, which understands and can respond to investor requirements and which is capable of implementing Government policy regarding industrial development. This support will be provided through the IPED project. Other areas of support for public sector institutions will include training through various regional programs and policy and management advice via RDO/C's Public Management and Policy Planning project. Private institutions receiving support during the planning period include the St. Vincent Chamber of Industry and Commerce and the National Development Foundation which will be assisted through the Caribbean/Central American Association, the Caribbean Association of Industry and Commerce (CAIC), IPED and the Small Enterprise Assistance Project.

If investors are to initiate manufacturing enterprises, experience has shown that adequate infrastructure must be in place. RDO/C will continue to provide funding for the development of industrial estates and construction of factory shells by the private sector and for Government rehabilitation of existing facilities and expansion of electric generation capacity through the Cumberland Hydroelectric Project. If the other infrastructure needs are not adequately met by other donors, assistance may also be provided for road improvements to permit expansion of manufacturing capacity and for limited improvements to airport and port facilities as required to provide essential access for both passengers and freight.

Technology must be brought to St. Vincent if its manufacturing sector is to succeed and expand since few local entrepreneurs and managers have manufacturing experience. The RDO/C programs which will address the constraint of limited technology are as follows: investment promotion resulting in outside firms importing

technology for production which is closely geared to available external markets and for which in-plant training will be provided; provision of technical assistance to local entrepreneurs in identifying sources of technology and making plans, designs, layouts, etc. for local or export-oriented production; and provision of pre-employment and initial post-employment skills training for labor and first-line supervisory personnel.

In order to promote and sustain the growth of indigenous manufacturing operations, RDO/C will direct significant resources to indigenous entrepreneurs throughout the planning period. Assistance will be provided to these enterpreneurs to enhance their understanding of manufacturing processes and export marketing. Program interventions will include training for local personnel in managerial, technical and marketing staffs through regional programs such as the Regional Development II, the Caribbean Association of Industry and Commerce, and the Small Enterprise Assistance Project; and loans will be provided to local entrepreneurs to facilitate the development of manufacturing enterprises through Caribbean Financial Services Corporation Project (CFSC), the Latin American Agribusiness Development (LAAD) Project, and the Small Enterprise Assistance Project.

3. Special Program Concerns

St. Vincent's birth rate is the highest in the OECS and is viewed by both the Government and AID as too high in relation to the limited resources and job opportunities available on the island. Therefore, a special program concern for RDO/C during the planning period will be to reduce population pressures in St. Vincent. Improved policy and family planning delivery systems will be achieved through targeted activities of regional programs.

II. KEY DEVELOPMENT OPPORTUNITIES, CONSTRAINTS AND POLICY ISSUES

St. Vincent's physical attributes place certain limitations on its development options. The country's rugged terrain makes internal road transport costly and load size so limited as to restrict certain types of manufacturing since 20 foot containers cannot be moved to some sites from the port. Its airport, built in one of the few feasible sites available, will not accommodate commercial jet aircraft making access to St. Vincent, for both passengers and freight, difficult. Its tourism potential is limited by a severe scarcity of water in the Grenadines, not to mention inadequate air links, and by a lack of white sand beaches on the main island of St. Vincent. Finally, the options available to St. Vincent for increasing its share of value added in manufacturing activities is constrained by its limited resource base.

Despite these limitations, key development opportunities exist in St. Vincent. RDO/C has chosen the selected strategy in order to take advantage of these opportunities during the planning period.

A. Development Opportunities

1. Agriculture

In agriculture, an opportunity exists to substantially reduce the current drain on public sector resources. The principal development opportunity is the Government's readiness to eliminate its sugar production activities, carefully examine its role in the arrowroot industry with a view to reducing output and encourage diversification into nontraditional crops for export. This opportunity opens a larger prospect consonant with one of St. Vincent's greatest needs -- that of rationalizing its agricultural sector via major restructuring. There is a strong coincidence of views between RDO/C and the Government on the needs of the agricultural sector.

St. Vincent has potential as an exporter of nontraditional agricultural exports. Realizing this potential, however, will require major changes and improvements in several areas important to improved agricultural performance -- marketing, research, extension, credit and land use. The Government realizes St. Vincent has little potential in sugar, even for domestic consumption, and that its international prominence in arrowroot has markedly diminished and is likely to decline further for reasons largely beyond its control. RDO/C's strategy takes advantage of this opportunity and is structured to help diversify agriculture, move St. Vincent out of sugar production, and sharply reduce its dependence on arrowroot.

2. Manufacturing

In the manufacturing sector two principal development opportunities exist -- to expand enclave industries and to increase the number of local entrepreneurs in manufacturing. These two opportunities also suggest a larger prospect -- the emergence of more small-scale entrepreneurs as middle class business persons.

The Government's strategy is to support enclave industrial development in the short-term and additional growth from indigenous business persons in the long-term. This policy set is consonant with RDO/C and builds upon St. Vincent's successful experience as well. St. Vincent has proven it can attract enclave industries and since the election of a new Government in 1984 its private and public sectors are both actively seeking to attract more. Its enclave industries are well diversified in terms of products. Likewise, some local entrepreneurs are expanding and some are manufacturing for export, alone or together with foreign partners. Some small-scale entrepreneurs have grown as well, suggesting the existence of an opportunity to help them emerge from their small business status. AID's program interventions seek to attract enclave businesses and develop a local manufacturing capability during the planning period.

B. Key Development Constraints

The main constraints to the achievement of St. Vincent's economic potential are discussed briefly below.

1. Land Use

One third of the total land area in St. Vincent and the Grenadines is classified agricultural land of which 22 percent is cultivated. Most of the farms in St. Vincent (78%) are under five acres in size. The remaining 22 percent, however, account for around three-fourths of the arable land. In other words, the majority of the farmers in St. Vincent are smallholders, but the majority of agricultural land is relatively concentrated in private or Government estates. In addition, the large private and Government estates are located on the coastal, more gently sloping areas while smaller holdings are most frequently located in the mountainous interior or on the rugged boundaries of the estates. These small farm holdings fragmented in various parcels complicate both the planning and financing of agricultural development and reduce farm viability. As part of its strategy to promote agricultural production and productivity, RDO/C should encourage the Government to divest itself of the vast tracts of largely unutilized arable land.

2. High Costs of Production

St. Vincent's costs of production for sugar, bananas and arrowroot -- its principal crops -- as well as other significant crops -- are comparatively high which, in turn, makes St. Vincent uncompetitive in world markets. Evidence of this problem can be found in the following situation: (1) banana exports to the U.K. not being competitive without preferential treatment; arrowroot export markets being threatened with cheaper starches including arrowroot starches from other countries; sweet potato and carrot exports being unfilled due probably to an established price that does not induce farmers to produce additional quantities needed; and labor being reportedly unavailable at wages farmers can pay.

The basic reason for high per unit production and distribution costs are relatively low yields, difficult terrain for movement of products, small market quantities for handling and assembly efficiencies, and high per unit shipping charges to export markets. The low use of yield-increasing inputs such as appropriate fertilizer, the lack of specific high-yielding crop varieties adapted to St. Vincent, and high labor costs would also imply high per unit production costs. Numerous but small collection points, poorly maintained roads, high gas prices and poorly equipped shipping vessels imply high per unit distribution costs.

3. Marketing Systems

Marketing is the most important constraint to production and export of nontraditional crops. The marketing of these export crops is handled by the St. Vincent Marketing Corporation (SVMC) whose services cover collecting, packaging, shipment and payment. The remainder of the trade is handled by the private traders who provide services from the farmgate onward. St. Vincent's marketing system is deficient at several levels. There is a serious shortage of both inter-island transport facilities and adequate cargo space on regular services to countries other than the U.K.. There is also a lack of appropriate packing and storage facilities for the SVMC and private traders. Apart from the transport and storage problems, there is also a lack of market information and the consequent lack of contracts in prospective importing countries. Compounding this is a lack of knowledge of required qualities and presentation. This is especially true in the case of the individual operators whose services tend to be inadequate in the area of grading and packaging. Finally, recent licensing policies by Trinidad and Tobago, the principal market, have affected the volume of trade by private operators.

4. Human Resource Limitations

The limitations of the human resource base in St. Vincent constrain both the growth of enclave industry and the development of the indigenous manufacturing sector. St. Vincent's labor force provides ample numbers of people capable of training for low skilled positions. However, there is a shortage of local technical and managerial talent, which inhibits the scope for joint venture activities with foreign investment. Furthermore, while foreign investors find the quality of labor relatively good, they are obliged to undertake considerable in-service training with its attendant high overhead costs because of the relatively high migration of qualified personnel.

The development of the local private sector is inhibited not only by this shortage of technical and managerial talent, but also by its unfamiliarity with the requirements of extra-regional export markets. Local entrepreneurs have largely been engaged in import trade and retail distribution. Where locally owned manufacturing enterprises have been established, this has usually been behind some form of protective barrier - high tariffs or outright restriction of imports. Thus there is a need to increase the local private sector's awareness of marketing realities and opportunities, particularly in the U.S. market and to assist them in exploiting these opportunities.

5. Inadequate Credit

Inadequate credit is an important constraint to the development of the agriculture, manufacturing and tourism sectors. While net domestic credit of the commercial banks grew by about 19% in the 12 month period ending March 1984, this was not matched by a corresponding increase in the banks' liabilities to the private sector. Instead the strong increase reflected a sharp rise in public sector borrowing. This pattern of credit allocation has serious implications for the growth of the productive sectors. In the agriculture sector, Vincentian farmers find that the commercial banks insist on guarantees and collateral that they cannot provide. While the same conditions apply to the manufacturing sector, the growth of local entrepreneurial activity has been further limited by the poor performance of the Development Corporation (DEVCO), which is the principal source of finance for local entrepreneurs seeking to establish new manufacturing undertakings. Consequently, few entrepreneurs have had the capital to either expand current operations or start new manufacturing enterprises.

6. Government

In the past, the public sector in St. Vincent played a limited, largely supportive role vis-a-vis the private sector which was viewed as the principal engine of growth. In recent years, however, the rapid expansion of the public sector has resulted in significant Government involvement in virtually all productive sectors. Administrative, fiscal, and financial reforms have not kept pace with this expansion. Constraining factors to an efficient public sector administration include: a lack of clarity in the definition of job function compounded by a shortage of technical and managerial personnel; a large number of low-level non-technical personnel requiring extensive supervision; and a lack of coordination between various Ministries resulting in operational irregularities.

The Government's ability to promote economic growth is further constrained by the strength of its own finances and its ability to raise grants and concessionary loans to finance the capital program. The latter continues to be funded largely from external sources. In contrast, current expenditure is funded primarily through the local tax base. While Central Government's current account has been in surplus in recent years, most statutory bodies have been running net deficits. Possibly the most severe problems are posed by the respective performances of the sugar and arrowroot industries. Their combined deficits which are in excess of EC$5 million per annum have not only seriously undermined the Government's finances but have also weakened the position of the Government's commercial banking arm, the National Commercial Bank. In summary, the public sector, as a result of its administrative, fiscal and financial shortcomings, has tended to impede rather than facilitate the growth of the productive sectors.

C. Policy Dialogue Agenda

In support of the strategy above, specific policy issues will be discussed by RDO/C with the Government during the planning period. The agenda for this dialogue includes, but is not limited to elimination of the sugar industry, reduction of arrowroot output, decreasing export taxes on agricultural commodities, increasing public sector savings, elimination of parastatal activities better left to the private sector and development of a comprehensive investment code.

1. Parastatal Activities

St. Vincent's public sector is heavily involved in selected productive sector activities including sugar production, arrowroot and other commodity marketing as well as several utilities including electricity and communications. Some parastatals such as the St. Vincent Sugar Industry Ltd. (SIL) and the Arrowroot Industry Association (AIA) have experienced serious fiscal losses which have been underwritten by the Government. RDO/C will encourage the Government to eliminate parastatal access to the public treasury, shift AIA activity to the private sector, eliminate the SIL, reduce the role of the marketing board to one of providing information and services, and eliminate export monopsony privileges.

2. Agricultural Diversification

Agricultural diversification is imperative in St. Vincent in that sugar, and arrowroot have no growth prospects and even bananas are limited. RDO/C should encourage the Government to make essential decisions in support of diversification in the areas of marketing policy, extension strengthening, credit provision, and land tenure policy. Aimed at halting sugar production and reducing dependence on arrowroot, non-project support may be provided by RDO/C to encourage the policy changes necessary to support the agricultural adjustments, necessitated by the elimination of sugar, reduction of arrowroot and expansion of nontraditional products.

3. Incentive System

The major elements of St. Vincent's incentive system are the customs tariff, import licensing, and investment and export incentives. The combined effect of the present incentive measures and import restrictions on competing products is to build a bias in favor of production for the domestic market and impose a penalty on nontraditional export industries except for a few enclave industries. It has thus encouraged high costs, inefficient use of capital and excess capacity. The system also penalizes the export producing sector which has had to use high cost and relatively low quality intermediate inputs produced domestically in their production process. In response to these problems, the Government is planning to conduct a review of the current incentives system and create a new investment code. Through the PDAP Advisor, the Public Management and Policy Planning Project, and policy dialogue, RDO/C will encourage the Government to make its incentives system and investment code strongly supportive of private sector-led, export-oriented growth predicated on foreign and local investment in St. Vincent's economy.

4. Development Corporation

The promotion and development of industry in St. Vincent is notionally the responsibility of the Development Corporation (DEVCO), a statutory body. In practice, the Corporation has not played a very active part in stimulating industrial development and recently has failed in its responsive role as provider of factory space. The inefficiencies and poor past performance of the Corporation have been recognized by the new Government and, in conjunction with the PDAP Advisor, steps are being taken to improve the staffing, organizational structure and efficiency of the organization. RDO/C will continue to encourage the Government to reduce DEVCO's range of activities and strengthen its capability as an investment promotion and industrial development agency.

5. Public Administration

St. Vincent's public administration system is designed more to "control" than to support private sector growth -- foreign and domestic. Import and export controls, licensing of foreign investment, prior approval of joint ventures (to participate in the incentive system), foreign exchange controls, approval of land sales and factory sites, etc. fall into this category of constraints. The Government has indicated its desire to restructure the public sector in order to make it more effective as a facilitator of private sector-led growth. RDO/C's Public Management and Policy Planning Project will assist the Government to reduce and reshape these regulatory activities to the point where they focus on facilitating rather than controlling private sector growth.

6. Tax Policies

Many aspects of St. Vincent's tax regime are a disincentive to productive sector growth. The revenue regime is a plethora of indirect taxes, varied in rate, application and base. Property taxes are virtually non-existent and income taxes, which reach only a few, are too high. In addition, export taxes on bananas, arrowroot and other agricultural commodities act as a disincentive to production given that farmer returns from these commodities are already too low. The Government desires tax reform and is seeking assistance to improve its tax regime. The tax examination facility under the Public Management and Policy Planning Project may be the conduit for providing assistance in this area. RDO/C should encourage the Government of St. Vincent to rationalize its tax system with a view to making it more efficient, equitably applied, and a source of positive incentive for private sector-led, export-oriented growth in the productive sectors.

7. Public Sector Savings

St. Vincent's public sector absorbs much of the country's GDP. At the same time, it generates almost no public savings to finance its Public Sector Investment Program which is needed to support growth in the productive sectors. Moreover, the public sector often turns to the domestic banking system to meet its credit needs, thus directly

undermining private sector expansion. RDO/C through policy dialogue and possibly program assistance will encourage the Government to increase public savings by: encouraging use of expenditure controls; improving the tax system; eliminating parastatal access to treasury resources; ensuring that recurrent costs of capital expenditure projects can be covered from domestic revenues; and encouraging the Government to set user charges at appropriate levels. The Government should also be discouraged from resorting to the commercial banking system.

Indicators of a successful outcome to the RDO/C-Government of St. Vincent policy consultations during the strategy period are:*

1. Parastatal Activities

By the end of FY 86, the Government would have divested its holdings in Sugar Industry Limited.

By the end of FY 86, the Government would have eliminated the Arrowroot Industry Association's access to the public treasury and shifted its activities to the private sector.

2. Agricultural Diversification

By early FY 86, there would be an agricultural diversification plan which addresses the issues of marketing, extension services, credit and land tenure.

3. Incentive System

By mid FY 86, the incentive system would have been revised to promote private sector-led, export-oriented growth. This would be accompanied by the creation of a new investment code.

4. Development Corporation

By early FY 86, the reorganization of DEVCO would be completed.

5. Public Administration

By mid-87, the public sector would be restructured in order to reduce and reshape its regulatory control of private sector activities.

6. Tax Policies

By FY 88, specific tax disincentives to private investment would have been removed and the tax system rationalized.

7. Public Sector Savings

Beginning in FY 86, public sector savings would gradually begin to increase as a result of:

a. Reduced borrowing by Government from the commercial banking sector;

b. Repayment of recurrent costs through user fees; and,

c. Stabilization of employment in the public sector.

* Not for public dissemination.

ST. VINCENT AND THE GRENADINES
ECONOMIC ANALYSIS

I. Recent Performance

A. Production and Employment in the Productive Sectors

After being buffetted by a hurricane in 1980 and a volcanic eruption in 1979, St. Vincent's economy bounced back, showing a high 4.5 percent average annual rate of growth in 1981-84. However, if the initial year of recovery is excluded from this reckoning, growth averaged about 3 percent in 1982-84. This lacklustre growth reflects conditions affecting all the OECS states: weak international markets for primary crop exports, poor tourism performance for similar reasons, and an uninspired manufacturing growth rate.

Agriculture--the largest productive sector--produced 15 percent of GDP in 1984 (see Table I) and employs approximately 20 percent of the labor force, primarily in bananas, arrowroot, and root crops for export. A recovery in banana production in recent years masks not only problems in infrastructure and packaging, but also the longer term viability of heavy dependence on this single crop sold in the guaranteed U.K. market. For arrowroot, the major problem is that since 1982 the crop has been virtually unmarketable due to technological advances in arrowroot starch substitutes and to higher production efficiency elsewhere. The sugar industry, revived in 1980 with the support and blessing of the Caribbean Development Bank, and serving as a substitute for imports, is clearly not viable: very high start-up and production costs have strained the commercial banking system, have not benefitted consumers, and represent an extremely uneconomical use of resources.

St. Vincent's manufacturing sector is the largest, in relation to GDP, of any country's in the Eastern Caribbean, surprising given that St. Vincent has one of the lowest GDP per capita levels in the region. However, the sector has not fared well recently, and the Government Development Corporation (DEVCO) is reorganizing to redouble its efforts to get the sector moving again. One problem has been external demand shifts (in electronics) and regional protectionism (in garments), both of which have revealed the vulnerability of export manufacturing's dependence on a few products. Government-supported import substitution, facing the diseconomies of small scale production which is inherent in small island economies, has resulted in an inevitable movement of scarce capital resources into suboptimal uses (e.g., sugar production.) Several foreign firms have recently shown renewed interest in locating in St. Vincent (e.g., sporting goods), and 1985 will see the establishment of a brewery that will provide 80-100 additional jobs.

Tourism is but a scant 3 percent of GDP, primarily a result of St. Vincent's inadequate airport facilities, poor roads and other infrastructure, and the lack of white sand beaches. To date, the country's success as a tourist destination has been the Grenadines, and their appeal to pleasure craft users. The small islands' can provide deluxe accommodations, ideal beaches, and superb yachting conditions for the up-market end of the tourism spectrum. Performance of the sector suffered from the world economic downturn, as did the region as a whole.

TABLE 1
GDP BY SECTOR OF ORIGIN AND GROWTH
(EC$ MILLION)

Sector Growth	1977	Annual Growth 1977-82	1983	1983 Growth %	% of Total CDP 1983
Agriculture	13.3	5.7	18.6	5.1	16.5
Manufacturing	5.9	4.4	12.3	2.5	10.9
Construction	10.0	2.8	11.8	0.9	10.4
Quarrying	0.3	4.9	0.4	33.3	0.3
Tourism	1.4	16.4	3.5	2.9	3.0
Services					
Government	15.4	3.7	19.2	6.1	17.0
Trade & Commerce	16.5	2.8	19.5	2.6	17.0
Other	16.5	-	27.7		24.6
Total GDP at 1977 factor cost	79.3	6.1	113.0	4.1	100.0
GDP at market prices	94.0	16.8	244.2		
GDP per capita at Market prices	996	17.2			

Notes to Table 1

Constant (1977) Factor Cost

Computed on population data from the Population Reference Bureau PRB Occasional Services. The Caribbean St. Vincent and the Grenadines: Yesterday, Today and Tomorrow. Washington D.C.

Source: The World Bank. St. Vincent and the Grenadines: Economic Situation and Selected Development Issues (Washington, D.C: The World Bank, October 5, 1984)

Employment data for St. Vincent are virtually unavailable, and the results of a recent census have yet to be tabulated. In his most recent budget address (late 1984), the Prime Minister estimated unemployment at 40-45 percent of the labor force, a figure higher by 10-15 points than any other in the Eastern Caribbean. Whatever the actual rate, net entrants to the labor force will increase at an average annual rate of 3-3.5 percent, making job provision more difficult than for any other OECS state.

Table 1 also gives a comparison of growth by sector between 1977 and 1983. After experiencing a negative rate of growth in 1982, agriculture recovered somewhat in 1983 growing by 5.1 percent. This paralleled closely the decline in banana production in 1982 and its 4 percent growth in 1983. Tourism, which had declined in 1982 because of the Grenada intervention grew moderately in 1983 although between 1977-83 tourism was the fastest growing sector at 16 percent. Similarly, there was modest growth in the manufacturing sector while construction stagnated between 1982-83. In general, there was moderate growth in all other sectors in 1982-83 except in utilities which benefitted from rehabilitation and expansion. Over the longer 1977-83 period, aside from tourism, the greatest expansion was in transport and communication at an average 10 percent per year.

Since very little reliable data are available on employment in St. Vincent, it is very difficult to analyze the employment impact of economic performance and to make subsequent projections. The only sources of information are the 1980 census, labor force estimates made by the International Labor Organization, and the demographic projections based on these data made by the Population Reference Bureau (PRB), Inc. Data from these three sources were combined to construct Table 2.

The baseline for the population and labor force data was the 1980 census. The numbers for 1985 population and labor force size were obtained by interpolation of the 1990 projections made by the PRB. The PRBs scenario B was selected for the population figure. This is based on assumptions of replacement level fertility and reduction of emigration to one half the recent historical rate. Similar assumptions were made by the PRB in projecting scenario B for growth in labor size. The total employment level for each of the years in Table 2 was generated by subtracting the number of unemployed, given rates of 15 and 22.5 percent respectively for 1980 and 1985. The sectoral allocation of numbers of workers was based on the sector's contribution to value added.

TABLE 2
EMPLOYMENT BY SECTOR

	1980	1985
Total Population	97,845	107,298
Labor Force	31,259	37,187
Labor Force as % of total population	31.9	34.7

Sector	Employment 1980	Employment 1985	% of Total 1985
Agriculture	3,400	4,845[a/]	16.8
Manufacturing & Mining	3,039	3,141	10.9
Construction	3,056	2,998	10.4
Tourism	1,010	0,865	3.0
Trade and Commerce			
Services	5,101	4,986	17.3
Government	4,836	4,900	17.0
Other	6,138	7,085	24.6
Total	26,580	28,820	100.0
Percent unemployed	15.0	22.5	

Notes to Table 2

A sectoral allocation of workers based on 1983 value added by sector as this was the last year for which data were available.

The current estimated population growth rate is 1.2 percent per annum. Since the population is young, the labor force will grow in size. The rate at which it grows will depend on fertility rates and net emigration levels. Under the set of PRB assumptions accepted for this analysis, the labor force is growing at an annual rate of 3.5 percent which yields a labor force of 37,187 in 1985. With an employment rate of 22.5 percent this means that over 8,000 people are looking for jobs. The high rate of unemployment suggests a development strategy designed to provide more jobs. At the least, the strategy should be aimed at preventing any increase in the number of unemployed in the projection period.

B. Consumption, Savings and Investment

The domestic savings rate has frequently been negative since 1977 although savings increased greatly in 1983. Despite the low savings, investment has been relatively high in the range of 25 percent of GDP. The public sector's share in investment was about 40 percent in 1977 but it increased to 67 percent in 1982 and 1983. Meanwhile, public sector investment that had been holding steady for several years, declined in 1982 to 7 percent of GDP, and stayed at that level in 1983. The lack of domestic savings has not posed a serious problem for St. Vincent because of remittances from abroad. However, private foreign transfers as a percentage of GDP delined between 1977-1982 although they recovered in 1983 to 15 percent. The savings investment gap is a potential problem. Private domestic savings has also been consistently negative and this is a constraint for local private sector development.

TABLE 3
COMSUMPTION SERVICES AND INVESTMENT AND BALANCE OF TRADE
(EC$ millions 1982)

	1982	1983
GDP at Market Prices	223.8	244.2
Consumption	213.0	220.8
Public sector	(51.7)	(56.9)
Private sector	(161.3)	(163.9)
Domestic Savings	10.8	23.4
Investment	69.9	79.5
Resource Gap (exports-imports)	59.1	56.16
Financed by:		
Private transfer (net)	21.6	36.72
Private investment	8.10	
Official grants	11.34	
Foreign borrowing (net)	7.02	
Commercial borrowing	3.78	
Changes in reserves, errors and others	3.24	

Source: Adapted from Table 2.3 and 3.1 of: St. Vincent and the Grenadines Economic Situation and Selected Development Issues, October 5, 1984.

C. External Sector

The trade sector is very important to St. Vincent as it is to the other small island economics of the region. The small size of the domestic market necessitates dependence upon foreign exchange earnings from exports to finance imports of goods that cannot be produced locally. This dependence makes the economy vulnerable to exogenous shocks from which it must attempt to protect itself.

As shown in Table 4, St. Vincent's export performance has been good as exports grew at an annual average rate of 17 percent between 1980 and 1983. Bananas were the major revenue earner followed by plantains, sweet pototoes, dasheen and eddoes categorized as nontraditional products in the table. Growth in nontraditional exports has been relatively recent but quite substantial, having doubled between 1981-83.

The balance of payments situation is shown in Table 5. St. Vincent's high level of imports of consumer goods (including food) and intermediate and capital goods resulted in trade deficits in every year. There was a slight improvement in 1983 that resulted from a higher volume of exports off-setting the decline in export prices.

The trade deficit has been helped by large private transfers. Such transfers amounted to between 15-20 percent of GDP between 1980-83. They increased at an average annual rate of 7 percent. External capital flows have financed a large share of the current account deficits. As a result of large foreign capital inflows, the public debt quadrupled from US$4 million in 1978 to US$20.9 million (28 percent of GNP) in 1983. However, debt service ratios remained low (2 percent of GNP) because of the concessionary terms on which the loans were made available.

TABLE 4
EXPORTS OF MAJOR COMMODITIES
(US$millions)

	1980	1981	1982
Merchandise			
Agricultural Products			
Bananas	6.3	10.1	9.0
Nontraditional products[a]	1.7	3.2	3.6
Sub-total	8.0	13.3	12.6
Processed and Manufactured Products			
Arrowroot	0.8	1.0	0.2
Flour	6.0	6.4	5.6
Millfeed	1.0	1.1	1.0
Subtotal	7.8	8.5	6.8
Other Merchandise	4.4	7.1	13.9
Total Merchandise[c]	21.1	29.8	34.3
Tourism	16.7	17.8	17.2
Other NFS	1.9	2.0	1.9
Total	38.8	48.7	52.4

Notes to Table 4

a Sweet pototoes, dasheen and eddoes and plantains

b NA = Not available

c Includes re-exports

Source: St. Vincent and the Grenadines: Economic Situation and S
Development Issues

TABLE 5
BALANCE OF PAYMENTS
(US$ millions)

	1980	1983
Exports of Goods and NFS	38.8	62.4
Imports of Goods and NFS	63.3	83.2
Balance of Trade	-24.5	-20.8
Factor Services and Transfers	11.3	13.6
Current Account Balance	-13.2	- 7.2
FINANCED BY		
Foreign direct investment	1.1	3.0
Foreign grants	3.9	4.2
Foreign borrowing	4.4	2.6
Domestic borrowing/repayment	1.6	-1.4
Changes in reserves, errors and others	2.2	-1.2
Trade balance as % of GDP	49.8	27.8
Current Account balance as % of GDP	26.7	9.6

Notes to Table 5

a Net of IMF credit EC$1.8 million.

Source: Adapted from Table 3.1 of St. Vincent and the Grenadines Economic Situation and Selected Development Issues, October 5, 1984.

TABLE 6
PUBLIC SECTOR BUDGET (SELECTED YEARS)
(EC$ MILLIONS)

	1981/82	1982/83	1983/84 (Est.)
Current Revenue	63.1	75.8	85.1
Current Expenditure	-63.0	-69.2	-78.2
Current Account Balance	0.1	6.6	6.9
Capital Receipts	12.8	12.2	7.4
Capital Expenditures	-16.2	-24.2	-10.0
Capital Account Balance	-3.4	-12.0	-2.6
Overall balance	-3.3	-5.4	4.3
Funded by:			
External concessionary loans	0.7	4.7	-0.7
Net external borrowing	0.6	3.3	-0.5
Net domestic borrowing	0.7	-1.9	-2.7
Net change in foreign assets	1.3	-0.7	-0.4

Source: Adapted from Table 5.4 on the "general governtment", in St. Vincent and the Grenadines Economic Situation and Selected Development Issues, October 5, 1984

D. Public Finance

The public sector in St. Vincent consists of the Central Government, the local Kingstown Government, the Social Security system and several public sector enterprises. The latter include among others, the Arrowroot and Banana Associations, the Sugar Company, the Diamond Dairy, a Marketing Corporation, the Central Water and Sewerage, Ltd., the Electricity Services and the Port Authority.

The Central Government accounts for almost the entire public sector budget as shown in Table 6. Over 50 percent of Government revenues are generated from indirect taxes, primarily import duties. Although these revenues have been rising in recent years, they tend to fluctuate with trends in international trade and are therefore a source of uncertainty. Similarly

nontax revenues which contribute a much smaller portion to overall Government income consist nearly entirely of fees and fines which are also subject to variations from year to year. The more stable source of revenue is the progressive personal income tax which has risen faster than the growth of GDP between 1977-82.

There were small surpluses in the current account in both 1982/83 and 1983/84 primarily as a result of surpluses generated by general Government operations. However, the capital account balance has been running at a deficit, the largest in recent years occuring in FY 1982/83. The deficits have resulted from consistent losses suffered over the past six years, mainly by three public sector enterprises -- the Arrowroot Industry Association (AIA), the Sugar Industry Ltd. (SIL), and the Central Water and Sewerage Authority (CWSA).

The AIA's problems stem from the inability to export arrowroot starch because of competition from other sources. Yet the AIA continues to purchase arrowroot. The SIL's financial problems, orginated in the high start up cost incurred in reestablishing sugar production in 1980. In 1983, the SIL's liabilities to the National Commercial Bank (NCB) exceeded its assets by EC$16.3 million. The CWSA's problems may be accounted for by its escalating cost structure and recent tariff increases have not had much positive impact on finances because of the large percentage of unmetered connections.

The chief source of funding for these deficits has been domestic borrowing from the NCB. Some measures have been instituted to strengthen the finances of these organizations, one of them being an annual levy on interest bearing balances at commercial banks. While some of the measures have had a positive impact on current revenues, the levy has the potential to dampen private savings which already tend to be low because of low income levels.

The level of investment in St. Vincent is greatly dependent upon external capital inflows and fluctuates with them. In 1984/85 domestic public sector investment represented about 16 percent of GDP which is much larger than the amounts spent in previous years. The low and negative public sector savings rate is responsible for the low level of domestic participation in public investment programs and although the recent current amount surpluses are encouraging, they are inadequate to cover the needs for domestic counterpart funding for planned investment projects and will therefore place an increased burden on the banking system. An important aspect of fiscal policy should be directed at improving the finances of the weak public sector institutions, while improved public sector savings are necessary for maintaining improved levels of investment.

II. POSSIBILITIES FOR ECONOMIC GROWTH

A. Agriculture

The prospects for agricultural growth at a rate higher than in past years is feasible assuming that yields can be increased and export markets developed. Current output of major commodities is as shown in Table 7. The scope for producing foodstuffs for the domestic market is also good. Agricultural development is particularly important for St. Vincent because such a large portion of the value of merchandise exports consists of agricultural commodities. Export earnings could be improved by developing new markets for agricultural products. Improved farmer earnings would stimulate increased production of export crops. Overall production potential is favorable because the variation in soil type and rainfall levels provide suitable conditions for growing a wide range of crops.

Within the sector. adoption of improved practices in banana production could lead to better yields and increased production. Since nearly the entire crop is sold in the U.K. under a preferential agreement and production has not yet filled the quota, a market is assured. However, declining prices as a result especially of the fall in the value of the pound sterling is an important argument for diversified crop production.

The greatest scope for diversified crop production lies with a variety of products such as plantains, sweet potatoes and ground provisions (eddoes and dasheen) and fruits and vegetables which are currently being exported with in the region. Plantain exports have increased greatly since 1980, as have exports of sweet pototoes and eddoes and dasheen. Fruit and vegetable production could be increased as well, both for the domestic and export markets. The region requirement for increased production and export of these nontraditional crops is market development, particularly tapping of new markets.

TABLE 7
PRODUCTION OF SELECTED AGRICULTURAL AND MANUFACTURED COMMODITIES
(MILLION LBS.)

COMMODITY	1979	1980	1981	1982	1983
Agricultural Products					
Bananas	63.03	46.15	73.24	70.00	72.86
Arrowroot	11.94	12.50	12.93	16.84	19.39
Sugarcane (MT)	0	0	8.50	30.03	33.61
Citrus fruits	1.00	0.90	0.85	1.24	NA
Root crops[a]	9.79	12.08	9.53	13.99	NA
Plantains	2.41	3.23	11.20	11.87	NA
Mangoes	3.81	1.27	3.81	4.04	NA
Manufactured Products					
Arrowroot starch	1.49	1.56	1.61	2.11	NA
Sugar	0	0	.53	1.88	2.31

B. Manufacturing

A wide range of commodities are produced in St. Vincent including metal products, electronic components, furniture, packaging, sugar, garments and flour. Recent performance in the manufacturing sector has been disappointing. This was largely due to setbacks suffered by the electronic components enclave industry. Despite such instability in enclave manufacturing, it is recommended as an important means for developing export-oriented manufacturing sector. Care should be taken, however, to develop a diversified manufacturing. Indigenous small-scale industries development should therefore be made part of the strategy too.

The requirements for increased investment in manufacturing units include construction of factory shells, infrastructure development and the proper incentive structure. Investment promotion efforts have been sagging because of lack of factory facilities and lack of finance to build them. In the case of infrastructure, the main problems are inadequate electricity supply, transportation and lack of managerial personnel.

A start has been made in addressing each of these issues. The Canadian International Development Agency is cooperating with the St. Vincent Government to plan for construction of industrial infrastructure. The Cumberland Hydroelectric Project which is scheduled to begin this year is expected to alleviate the power problem. Efforts are also being made to train labor and develop the country's human resource potential. The current incentive structure acts as a constraint to export manufacturing and requires review.

There is considerable potential for developing the manufacturing sector which is still in its early stages. if some of the current constraints could be overcome with planning, improved policies and continuing project assistance, this would be a sound basis for attracting enclave manufacturers and developing collaborative enterprises with local entrepreneurs.

C. Tourism

The development of the tourist industry has been relatively unplanned, resulting in failure to develop the potential in this sector. The opportunities lie almost completely in the Grenadines which have better beaches and are more scenic than St. Vincent. Development of airport facilities and accelerated promotion by the Tourist Board are also necessary for tourism development.

III. PROJECTIONS FOR 1990

There is considerable untapped potential for economic growth in St. Vincent in agriculture, manufacturing and tourism. The economic growth strategy for the next five years that is likely to achieve projected levels is expected to focus on export sector development. In agriculture, this requires increased production of nontraditional crops while continuing the traditional reliance on bananas. In manufacturing, this means diversified investments in enclave type manufacturing for exports and indigenous small scale enterprise development.

The strategy requires investment in infrastructure development which assumes external project assistance on concessionary financing terms. It also assumes the Government can strengthen the finances of the weaker public sector enterprises and can improve public sector savings for increasing its share in investment funding. The objectives are to enhance employment opportunities and increase foreign exchange earnings.

The GDP projections of Table 8 are based on the assumptions set forth above. The economy as a whole is projected to grow at 4.6 percent per year. Manufacturing is expected to lead this growth by expanding at the rate of 6 percent per year. Construction is expected to expand rapidly in the next couple of years with the start of the Cumberland Project and then to level off. Growth in the agricultural sector is expected to occur in traditional and nontraditional crop production and exports, particularly to newly-identified hard currency markets. It is expected that arrowroot production will decline gradually over the projection period and sugar production will level off. However, these events are not expected to have much of a negative impact on overall expansion of agriculture on exports. This is because the value added from these commodities is fairly small.

On the other hand, sudden cessation of arrowroot and/or sugar production would be disruptive in terms of employment. A gradual phasing out of arrowroot production, as has already begun, is more desirable. This will allow for a gradual adjustment as displaced workers find employment in expanded production of nontraditional crops. Employment potential in banana production is limited and increased production is possible through improved practices resulting in better yields.

Value added in the government sector is projected to grow at a slower pace than the economy as a whole while tourism and other services parallel the overall growth rate.

TABLE 8
GDP PROJECTIONS AT CONSTANT FACTOR COST
BY SECTORAL ORIGIN
(EC$ MILLIONS)

Sector	1983	Annual Growth (%)	1985	Annual Growth (%)	1990	% of Total
Agriculture	18.6	5.0	20.5	5.0	26.2	17.4
Manufacturing	12.3	2.5	12.9	6.0	17.3	11.5
Construction	11.8	1.0	12.0	4.5	15.0	9.9
Quarrying	0.4	5.0	0.4	5.0	0.5	0.3
Tourism	3.5	3.0	3.7	4.5	4.6	3.0
Trade & Commerce	19.5	3.0	20.7	4.5	25.8	17.2
Government	19.2	4.0	20.1	3.0	23.3	15.5
Other	27.7	4.0	29.9	4.6	37.6	25.2
Total	113.0	3.1	120.2	4.6	150.3	100.0

Sectoral employment projections for 1990 are shown in Table 9. The labor force is assumed to grow at about the same rate as between 1980-85, giving a total labor force size of 43,114 in 1990. Assuming some improvements in labor productivity employment in agriculture, manufacturing and construction are projected to grow at a somewhat slower rate than their projected growth in value added. Employment in tourism, on the other hand, because it is a more labor intensive sector is projected to grow at a faster rate than value added. Employment in trade and government services is projected to grow at the same rate as their growth in value added while the growth in the residential category reflects slightly improved productivity.

As a result of these projects, overall employment is expected to grow to a little over 4 percent per year and 35,362 people will be employed. Over 7,750 new jobs will have been created and the unemployment rate is therefore, projected to drop to 17.9 percent.

TABLE 9
EMPLOYMENT PROJECTIONS

Sector	1980	Average Annual Growth (%)	1985	Annual Growth (%)	1990	% of Total
Agriculture and mining	3,400	7.3	4,845	4.5	6,037	17.1
Manufacturing	3,029	0.7	3,141	5.0	4,008	11.3
Construction	3,056	-0.4	2,998	4.0	3,647	10.3
Tourism	1,010	-3.1	865	6.0	1,157	3.2
Trade & Commerce	5,101	-0.5	4,986	4.5	6,213	17.6
Services						
Government	4,836	0.3	4,900	3.0	5,680	16.1
Other	6,138	2.9	7,085	4.0	8,620	24.4
Total	26,570	1.3	28,820	4.1	35,362	100.0
Total labor force	31,259	3.5	37,187	3.3	43,114	
% unemployed	15.0		22.5		18.0	

Notes to Table 9

Some estimates of the current unemployment rate are as high as 40-45%. If this is really the case, it would not alter the rates of the expected sectoral employment increases but the number employed and the unemployed rate would differ greatly from this analysis.

TABLE 10
EXTERNAL TRADE PROJECTIONS
(US$ millions)

	Actual Value 1983	Estimated Value 1985	Projected Annual Rate of Growth(%)	Projected Value 1990
Exports	62.4	74.1	5.1	96.0
Agriculture	16.1	20.4	5.0	26.0
Manufacturers	5.2	4.2	6.0	5.6
Tourism	18.2	19.2	4.5	23.9
Other	22.9	30.3	6.0	40.5
Imports	83.2	91.5	5.1	117.3
Trade Balance	-20.8	-17.4		-21.3
GDP at market prices	90.4		5.1	128.1
Trade balance as % of GDP	23			16.6

Baseline data for the projections shown in Table 10 are for actual values of exports and imports in 1983. The estimated values for 1985 are based on the assumption that exports in each sector will grow at trend rates as will imports. Projected growth in exports in agriculture, manufacturing and tourism is equivalent to the projected rates of growth in value added. The "other" category of exports is projected to grow at a relatively faster rate of 6 percent per year. This is because nontraditional crops which have been aggregated into this category are expected to grow faster than traditional exports. Imports grow at a slightly higher rate than the economy as a whole resulting in a continued trade deficit. However, the deficit represents a smaller proportion of GDP in 1990 than in 1983.

ST. VINCENT AND THE GRENADINES
PRIVATE SECTOR PROFILE

I. Overview

The private sector in St. Vincent and the Grenadines has traditionally been dominated by a small number of firms controlling the distribution trade. Within the last five years, however, there has been a significant growth, both in small local manufacturers and in enclave industries located at the industrial estate, Camden Park. The small business sector comprises a number of hotels and inns in both St. Vincent and in the Grenadines, mostly locally owned and a number of artisanal related enterprises. Until quite recently most observers characterized the local private sector in St. Vincent as being very risk adverse and lacking knowledge of new marketing and management systems and marketing intelligence. However, both the election of an administration supportive of the private sector and the recent revitalization of the local Chamber of Commerce are being viewed as healthy growth signs. Additionally, there is good collaboration between the Employers Confederation and the Labour Department resulting in fairly harmonious labor relations.

Vincentian businessmen acknowledge their conservative nature but attribute it to problems of liquidity, lack of credit and the difficulties of the CARICOM market. The private sector also argues that while there is scope for further enclave investment in St. Vincent, for long-term development they are interested in joint ventures with both CARICOM and foreign companies. Transfer of skills and technology can only develop in an atmosphere where locals are trained to invest and employ technical expertise, including marketing intelligence and contacts.

II. Private Sector Institutions

The major private sector institutions active in St. Vincent and the Grenadines include the Employer's Confederation, the Chamber of Industry and Commerce and the Hotel Association. The Employer's Confederation represents some forty businesses in tourism, commerce, agriculture and industry. However, these are all local enterprises, foreign companies have not joined the Confederation. The Chamber of Industry and Commerce is a recently rejuvenated body with nearly 100 members. In January 1984 the Chamber established a Secretariat with a full-time Manager. The Chamber is focusing on training programs for its members and the Secretariat including those sponsored by Caribbean Association of Industry and Commerce (CAIC).

Small businesses have not formed an Association, but a National Development Foundation aiding micro businesses has been formed. There are a number of non-governmental organizations such as the Organization for Rural Development which are locally based and provide technical assistance and credit to small entrepreneurs.

The main constraints facing private sector institutions in St. Vincent are technical, financial and attitudinal. The main technical constraint is the lack of the organizational and management expertise necessary to advocate and advance their interests locally and internationally. Hopefully, this is being redressed through present programs sponsored by CAIC and U.S. Chambers of Commerce. Financial constraints are a reflection of the small capital base of the private sector in general, and particularly within the small business sector. Attitudinal constraints reflect the colonial past when the private sector was plantation based and commerce was oriented to import-export operations and retail.

III. Characteristics of the Private Sector in 1985

It is useful to examine the private sector by dividing it into segments according to size and type of activity. In doing so, it must be remembered that the small size of the economy and population (97,845 in 1980) results in even the largest enterprises being of modest scope. The long tradition of most businesses being engaged in the distributive trade conditions the present pattern of private sector activity. Manufacturing is a comparatively recent arrival on the local scene. Small enterprises play a role in many fields and are the spawning ground where potential exists for the development of the next generation of larger entrepreneurs.

A. Manufacturing

The manufacturing sector in St. Vincent is the source of 11 percent of GDP and employs an estimated 2,700 persons or 10.5 percent of workers currently employed. Manufacturing is entirely in the hands of the private sector enterprises. Companies employing over 50 persons are responsible for 41 percent of employment in the manufacturing sector. Nearly all of these are owned and managed by foreign investors engaged in enclave manufacturing.

Locally-owned manufacturing enterprises are producing goods for the local market in St. Vincent and for export to other countries in the region. These firms employ an estimated average of 20-30 employees per enterprise. Their fortunes have taken a downturn over the past two years as regional markets have been subject to significant levels of trade restrictions. Their competitive position is also weakened by the fact that the Vincentian system of taxes and incentives has forced them to use substantial amounts of high cost and inferior local materials in their production processes.

Enclave producers on the other hand have been quite successful and should continue to find the situation satisfactory. Positive and supportive government policies have been enunciated and actions are underway. These include new leadership and re-activated promotion by DEVCO as well as better electric power supplies. With external support

some port improvements are in prospect. Existing enclave manufacturers are planning for expansion and investors have shown interest in taking space in the factory shells to be erected in the new, more accessible, privately initiated industrial park expected to get underway soon. Fresh inflows of new investment, additional exports and new enterprises are therefore a likely prospect. This bodes well for growth prospects in the enclave manufacturing component of the private sector as the planning period begins.

B. Commerce and Trade

Commerce and trade are a major part of today's private sector in St. Vincent. It consists of multiple department enterprises situated in the capital, Kingstown, that perform a major share of the import, wholesale and retail business in the country. In addition a much larger number of small enterprises are engaged mainly in retail trade and services. The majority of those are located in the capital with a substantially smaller proportion in the other towns and villages. The firms in this subsector are almost wholly owned by Vincentians.

C. Small Business

The small business component of the St. Vincent private sector includes about 1,000 persons engaged in "Productive" activities and an unknown number of others in "non-productive" activities such as retail trade, hotels, and restaurants. Among the "productive" group, there are about 400 full-time or part-time artisans producing decorative articles and souvenirs. Approximately 350 "Traffickers" are engaged in the export of produce mainly to Trinidad and Barbados. The rest are in some twenty trades and services of which the most important are food processing and production of furniture, clothing and other textile articles and leather goods.

The main characteristics of these businesses are their smallness, extreme scarcity of working capital, mostly obsolete equipment and lack of funds. Few have sufficient collateral to obtain bank loans. They are further constrained by the very small domestic market where a strong preference persists for imported goods. Except those firms which process local produce, most small businesses buy their materials and supplies from local importers at high prices. They have difficulty in producing a uniform quality product. Few keep more than the most rudimentary records, have little knowledge of export markets or marketing and are unaware of their need for management assistance. In a recent survey of the small business sector by Partnership for Productivity, the small businesses contacted in St. Vincent were only marginally larger than those of Dominica, the group with the smallest average size of any

country in the Eastern Caribbean. Firms in St. Vincent had average sales equal to only 42 percent and value of equipment of less than 25 percent of the average for the region. This limited size of the domestic market is their greatest obstacle to growth.

D. Hotels and Other Tourism Related Enterprises

Tourism is a small sector in St. Vincent and the Grenadines with most operations being privately owned and managed. Only one hotel is owned by the Government. The great majority of tourist accomodations are Vincentian owned. On the main island there are 12 hotels with 188 rooms while guest houses and apartments provide an additional 108 rooms. In the Grenadines there are 14 hotels with 238 rooms and guest houses provide another 30 rooms. Mustique Island is famous for its luxury houses owned by foreigners, but often available for rent. Hotels are small both on the main island and in the Grenadines, there being an average of just over 16 rooms per hotel. The larger establishments are on Mustique, Prune Island and Young Island. The one Government-owned hotel has 20 rooms or less than 5 percent of the total.

Vincentians are engaged in the restaurant and catering trade, in yacht servicing and chartering, diving services, charter fishing and taxi and similar enterprises serving the tourist trade. This component of the tourist sector is substantial in St. Vincent and the Grenadines because of the ideal yachting, sailing and diving conditions which attract tourists who spend little time in hotels.

IV. Prospects for Private Sector Development by 1990

There are several promising features of the St. Vincent scene that provide a reasonable basis to expect growth and development of the private sector. These are:

- The positive pro-private sector policy of the government which was elected in 1984.

- The strong prospect that adequate electric power will be available at moderate rates.

- Productive infrastructure availability and accessibility is expected to markedly improve by the early part of the planning period.

- Port capacity is expected to improve reducing the costs and delays for import/export operations.

- -- The capacity and vigor of investment promotion by public sector institutions should improve as a result of current assistance efforts.

- -- The St. Vincent Chamber of Industry and Commerce has been reorganized and revitalized.

- -- Credit to local enterprises should be accessible due to reduced public sector demand for bank lending.

All of these developments are more or less dependent on the successful execution of current plans or on the maintenance or enhancement of trends and policies recently set in motion. These are similarly dependent on the anticipated performance of other donors. Nevertheless at this writing, all of the above seem to be favorable and developments appear to justify optimistic expectations.

These developments will benefit the foreign investor-owned enclave manufacturing sector. While St. Vincent will still suffer some disadvantages relative to other Eastern Caribbean countries its particular position should improve significantly. These positive factors in the context of the growing awareness of the CBI in the U.S. business community should bring a greater investment flow and accelerate enclave manufacturing growth to St. Vincent.

The local entrepreneurial community will also benefit from the improved environment. Constraints such as small market and limited experience in manufacturing will continue to hold back indigenous entrepreneurship growth and development. Nevertheless, it is reasonable to expect new indigenous enterprises to be created, productive capacity and employment to expand and social mobility to occur among Vincentian business persons.

ST. VINCENT AND THE GRENADINES
LIST OF CURRENT INDUSTRIES

	EMPLOYEES	MARKETS	OWNERSHIP
Sporting Goods			
St. Vincent Sporting Goods (Wilson)	170	US	US
Garment			
St. Vincent Children's Wear (Bayliss)	224 (Factory) 700 (Cottage Industry)	US	US
Venus Enterprises	11	St. Vincent/Trinidad	Local
Electronics			
PICO St. Vincent	60	US	US
St. Vincent Electronics	50-60	US/Far East	US
Food/Beverage			
Eastern Caribbean Flour Mills	160	Local/regional	Canadian/ Vincentian
St. Vincent Sugar Factory	150, but seasonal and scheduled to close	Local	Local
Diamond Dairy	70	Local/Trinidad/St. Lucia	Local
Bottlers Limited	50	Local	Local
St. Vincent Brewery Ltd.	50-60 (to open shortly)	Local	Local
Construction Materials			
Eastern Caribbean Metals	35	Local/Trinidad	Guyanese
Miscellaneous			
St. Vincent Plastics	15	Local/Trinidad/St. Lucia	Local
St. Vincent Container Corporation	85	Local/regional	US
Buhlers Yachts	20	Local/regional	Canadian

ST. VINCENT AND THE GRENADINES
POLITICAL, SOCIAL AND INSTITUTIONAL ANALYSES

I. The Political Setting

On July 25,1984 Milton Cato's Labour Party, which had governed St. Vincent for most of the previous decade, was overwhelmingly defeated by the National Democratic Party (NDP) of James Mitchell. What made this resounding victory (9 out of 13 seats) so remarkable was that the NDP, up to elections, held only one seat, that of the Grenadine Dependencies. The NDP victory was seen by most West Indian commentators as a positive sign indicating the resiliency of democratic traditions in the region.

Mitchell's team is young, and appears unafraid to tackle tough issues. At this stage, the new government has large support from the population who expect to see an amelioration of the high unemployment rate through an expansion of the narrow economic base. The government has support of the local private sector who view the NDP as supportive. Labour's support for Mitchell is more complex. Recent defeat for Labour Party candidates suggests a realignment of that power base away from the Labour Party. Milton Cato's resignation from politics and the Labour Party's loss of his seat in the by-election has also created a more fluid situation and a concern over succession of leadership in the Labour Party.

In regional and external affairs, Mitchell is considered a populist, firmly committed to the Westminster model of participatory democracy and to West Indian regionalism. Mitchell believes in the importance of maintaining economic links with Europe and North America, but is opposed to increased military build-up in the region.

II. Social Setting

A. Demographic Profile

St. Vincent and the Grenadines is among the least developed of the countries in RDO/C's portofolio. The country is plagued with a host of development problems which are reflected in the following indicators: the lowest GDP per capita; the highest unemployment rate; the highest population density of countries in the Organization of Eastern Caribbean States (OECS); the highest population natural increase rate; and the poorest provision of sanitation and other essential services. The population, growing at 1.2% per year, is presently estimated to be just over 102,000 persons. The population density of the country is estimated at 683 persons per square mile. Over one quarter of the populations live in the capital, Kingstown, with 7.4% (7500 persons) residing in the Grenadines.

Forty-four (44%) percent of the population is under fifteen years of age. Natural increase is 20 per thousand, with a fertility rate of 4.5, the highest in the OECS. In 1981 it was estimated that only 20% of women at risk of pregnancy were using contraceptives. Life expectancy as of 1978 was 67.5 years and the over 65 age group (presently 5.7 percent of the population) is increasing.

29,071 children are in school, 24,551 in primary and 5170 in secondary. 85% of the population receive a primary school education, yet functional illiteracy rates of 40% indicate that the present system has been unable to adequately address the educational needs, and the large and growing school age population will place increasing pressure on the inadequate system.

Unemployment is in the 23% range, and is noticeably higher among youth. The labor force is approximately 36,000. Additionally some 13,338 children between the ages of 10-14 will be leaving school during the planning period. Most of these will comprise new labor force entrants. In the past, migration has operated as a safety valve, with over 10,000 Vincentians estimated to have left during the 1970's. However, emigration rates appear to be falling, as traditional destinations such as Trinidad face serious economic problems. This will put additional pressure on the Vincentian labor market situation.

Health indicators and levels of health services are fairly high by Third World standards. The infant mortality rate is 41 per thousand while the mortality rate for children one to four is 3.7 per thousand. There has been considerable success with oral rehydration therapy, although gastroenteritis remains the highest cause of death in children. This is because there is virtually no water treatment in St. Vincent and the Grenadines. Over 90% of the population lacks pipe-borne sewerage disposal and much excrement pours into the river systems. Even Kingstown, the capital is not served by a piped sewer system. Over 75% of the town population uses pit latrines. Improvement in efficiency of delivery of relatively costly health services is a continuing concern.

B. Social Organization and Cultural Patterns

Much of the terrain (150 square miles) is mountainous and only about one-third of it is arable. The Soufriere volcano in the north of the island, which erupted in 1979, takes up a significant percentage of land that cannot be used for agriculture. In the Grenadines, the islands are largely dry and seriously constrained by inadequate water systems. Most of the alluvial valleys are controlled by large plantations of sugar, cacao and bananas. Land ownership and land use patterns in St. Vincent and the Grenadines are highly skewed. Much fertile land lies fallow on large estates, some of which have reverted to state control and some of which are still owned privately. Orange Hill estate, for example, comprises over 4,000 acres mostly in coconuts which were planted at the turn of the century. Recently there has been considerable political furor over the alleged attempt to sell this estate to foreigners. The hue and cry has pointed out the passion of the land question in St. Vincent.

Small farmers, the majority of landowners, cultivate the least arable, least accessible areas, planting export staples such as arrowroot and bananas as well as domestic crops. Over 50% of farmers work holdings under five acres. The demand for farm land has led farmers to intensively cultivate steep slopes and crown lands in the upper watersheds of the nation's main water supply catchment areas.

Although the majority of the population remains tied to the land, tourism and manufacturing have been expanding during the last decade as have the commercial sector and the civil service. Upward mobility has occured for a small elite of educated individuals, largely through the professions.

Women play important economic roles in St. Vincent. Over 45% of the labor force are women, including nearly half the workers in manufacturing and nearly all the trafficers in intra-regional agricultural marketing. Women are represented throughout the civil service, at middle management and permanenet secretary level as well as in the clerical grades. Institutionalized sexism, as it is understood in the developed world, is not a major problem in St. Vincent. There are, however, disparities in wage levels between women and men. 45% of households are female headed. The majority of women have major responsibility for the care and support of their dependents, yet most have few skills and little education beyond primary school.

III. Institutional Setting

The public sector suffers from many of the constraints found in other OECS states. There are large numbers of relatively untrained personnel in all levels of the civil service, even in technical areas. There is a dearth of skilled technocrats and administrators, due to the inability of Government to pay competitive salaries. The Civil Service apparatus, inherited from the colonial period, is not well suited to the needs of a very small, modernizing country. Also, in the past there has been considerable interference from politicians in the running of Ministries and in their allocations.

The Ministries recognized as being most in need of institutional strenghtening include the Ministry of Communications and Works, especially in the area of accounting; the Ministry of Agriculture, Trade and Industry, the Ministry of Education and Health, and the Community Development Division of the Ministry of Labour, Housing and Community Development.

Parastatals also are receiving institutional strengthening and technical assistance. Presently the AID sponsored PDAP project and the Caribbean Development Bank are reorganizing the operations of the Development Corporation (DEVCO) as well as providing necessary technical assistance and manpower. St. Vincent Electricity Services Ltd. (VINLEC) is receiving technical assistance through the donor consortium Cumberland Hydroelectric Project while the Port Authority is being aided by CIDA. Serious institutional constraints and lack of professional and managerial personnel affect the operations of the Central Water and Sewerage Authority (CWSA). The CWSA is unable to monitor water treatment, to do hydrological studies or collect data and devise the necessary plans for water development because of lack of staff and resources.

Agro-processing parastatals in St. Vincent include the Diamond Dairy, the St. Vincent Marketing Corporation (SUMC) and the Sugar Factory. The two former entities face a number of constraints which are caused by diseconomies of scale and problems associated with commodity production and marketing. However, the Diamond Dairy is financially viable due to sound management practices while the Sugar Factory operates at a loss constraint by its diseconomies of scale, and obsolescent, inefficient and outworn equipment.

The new administration, however, has very quickly decided to take remedial action and examine the reorganization of the public sector including parastatals. The first area tackled was the nerve center of macro economic planning, the Ministry of Finance and the Central Planning Unit. Government has accepted the proposals of the Regional United Nations Economic Advisor working with the OECS and has reorganized sectors of the Ministry including Planning, the Data Processing Unit, the Statistical division, the Inland Revenue Department and Customs. The reorganizaton of Inland Revenue has as its main thrust improvement in the efficiency of tax collection through innovations in tax practices, enhancement of the powers of tax administrators under the law, and the strengthening of the quality of staff through more dynamic training programs.

ST. VINCENT
OTHER DONOR ASSISTANCE

I. British Development Division

A. Ongoing

Banana Industry Support Scheme
Police Radios
Tourana Primary School
Top Working Mango II (crafting)

B. Proposed

Kingstown Primary School
Georgetown - Fancy Bay Road
Extension Ministry of Communication & Works
Community Developmnt Program

II. Caribbean Development Bank

A. Ongoing

Multisector Development (line of credit)
Banana Input Supply Scheme
Industrial Estates IV
Water Supply Project
Strengthening of DEVCO
Industrial Estates
Power Supply (2 projects)
Power loss reduction
Feasibility study - quarias
Student Loans

B. Proposed

Feeder Roads III
Quarry Development
Student loans

III. Canadian International Development Agency

A. Ongoing

Port Handling Equipment
Airport Improvement
Cumberland Hydro
Fisheries Development Study

B. Proposed

Fisheries Development
Industrial Estates
Forestry Developed

IV. Netherlands

Ongoing

Integrated Poultry Production

V. Rep. China

Ongoing

Handicraft Development

VI. World Food Program

Ongoing

Supplementary Feeding

VII. United Nations Development Program

Ongoing

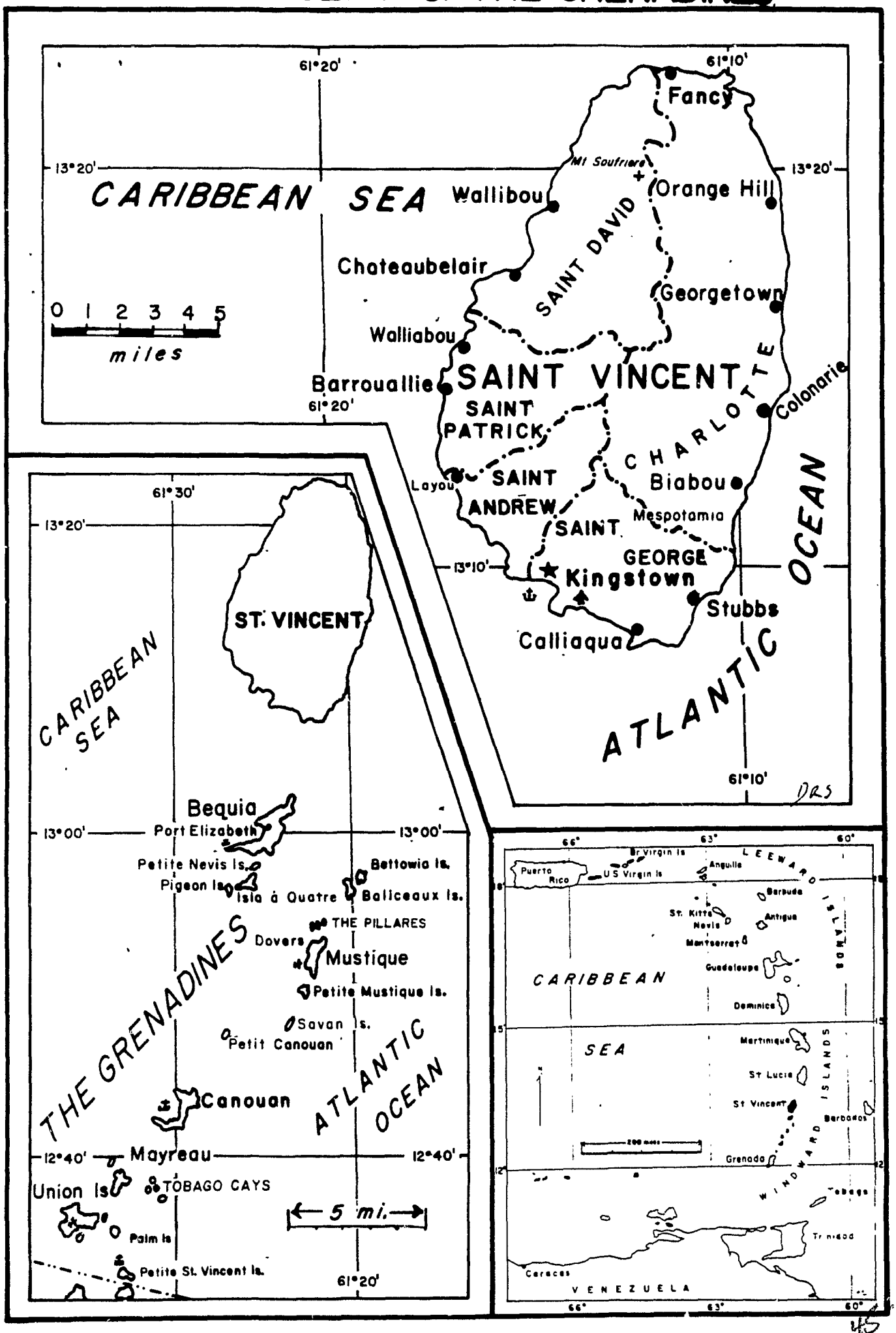
Soufriere Volcano Monitoring Equipment

VIII. Taiwan

Georgetown Byren Water Supply

Attachment E

SAINT VINCENT & THE GRENADINES



45

XA - ABB - 246 A

DOMINICA COUNTRY SUPPLEMENT TO THE CARIBBEAN REGIONAL CDSS 1986 to 1990

	Page
I. AID STRATEGY	1
A. Overview	1
B. Sectors	3
1. Agriculture	3
2. Manufacturing	5
3. Infrastructure Support	6
II. KEY DEVELOPMENT OPPORTUNITIES, CONSTRAINTS, AND POLICY ISSUES	8
A. Development Opportunities	8
1. Agriculture	8
2. Manufacturing	9
3. Tourism	10
B. Key Development Constaints	10
1. Lack of Marketing Expertise	10
2. Low Agricultural Productivity	11
3. Limited Human Resource Base	11
4. Infrastructure Constraints	11
5. Inadequate Credit for Small and Medium Enterprises	12
C. Policy Dialogue Agenda	12
1. Dominica Marketing Corporation	12
2. Public Sector Efficiency and Savings	12
3. Public Sector Management and Finances	13
4. Natural Resources Management	13
III. ATTACHMENTS	
A. Economic Analysis	
B. Private Sector Profile	
C. Political, Social and Institutional Analyses	
D. Other Donor Assistance	
E. Map of Dominica	

46

I. AID STRATEGY

A. Overview

Dominica, situated between the French islands of Martinique and Guadeloupe, is a rugged, mountainous island with a limited resource base. Compared to the other OECS states, it has the second lowest per capita GDP, the largest agricultural sector, a small manufacturing sector and the least developed tourist sector. Historically a sugar-producing plantation economy, Dominica has evolved into a country of smallholder units producing bananas and coconuts for export and foodcrops for subsistence as well as for sale to urban consumers. Agriculture, directly or indirectly, accounts for over 30 percent of GDP, 70% of exports, and 40% of the labor force. Manufacturing accounts for 8 percent of GDP and is based almost entirely on the processing of coconuts for export. Tourism's contribution to GDP is minimal and its growth potential is very limited.

Economic activity in Dominica in recent years has been dominated by efforts to recover from the devastating effects of the 1979 and 1980 hurricanes. Agricultural production in 1980 was equal to only 55 percent of 1978 production. GDP growth in 1981 was 8 percent led by a 31 percent increase in agriculture, and by 1983 had returned to a normal trend, averaging about 3% per annum.

The Government of the Commonwealth of Dominica under the leadership of Eugenia Charles is committed to the promotion of private sector-led development in order to increase employment, diversify the productive base of the economy and increase export earnings. The Government's economic policies are aimed at expanding the country's export capacity by addressing the problems confronting the productive sectors, alleviating the physical infrastructure constraints, and developing economic and social institutions supportive of its development objectives.

RDO/C's development goal for Dominica is to enable the country to achieve an economic growth rate that will increase per capita income, reduce unemployment rates, and provide the basis for self-sustaining long-term growth. This goal will be supported through a private sector based, export-oriented strategy focusing on increased production of traditional crops, increased diversification in the agriculture sector, and expansion of the manufacturing sector. Table 1 provides an overview of the RDO/C strategy considerations which form the basis for the strategy discussion in Section B below.

Table 1

DOMINICA STRATEGY SUMMARY

Goal of the AID Strategy:
Increase economic growth in order to reduce the unemployment rate, increase per capita income and provide a sound basis for self-sustaining long-term growth

Benchmarks:
4.5% annual growth in GDP
3.4% annual growth in employment
6.8% annual growth in exports
16.0% increase in GDP per capita

Sectoral Strategies

Agriculture

Objectives
- Increase productivity and production of traditional crops
- Diversification into nontraditional crops

Benchmarks
6% annual growth in banana exports
5.8% annual growth in non-banana exports
3% annual growth in employment
4.5% annual growth in agriculture

Program Interventions
- Technical and financial assistance for the banana industry
- Integrated marketing system
- Extension and applied research in nontraditional export crops
- Technical assistance for marketing cooperatives and rural credit unions
- Infrastructure maintenance program

Policy Agenda
- Role and mandate of the Dominica Marketing Corporation
- National resource management policy, esp. as it relates to forestry and water development
- Improved management in DBMC
- Government incentives for agricultural diversification

Constraints
- Dominica's terrain and size
- Lack of export marketing expertise, esp. finding markets, quality control, packaging, and dependability of supply
- Low level of technology at the farm level
- Poorly organized internal marketing
- Lack of feeder roads & inadequately maintained access roads
- Inadequate agricultural research and extension programs

Manufacturing

Objective
- Expand the medium-scale manufacturing sector through increased processing of local products and attraction of new enclave manufacturers

Benchmarks
7% annual growth in manufacturing
6% annual growth in employment

Program Interventions
- Investor search services
- Financial assistance to build factory shells
- Technical assistance, credit & training to small businesses
- Mgmt. & entrepreneurial trng. aimed at creating medium-scale enterprises
- Export marketing capability development
- Examination of efficiency of public administration, fiscal policy, and incentives for the private sector
- Program assistance related to improved financial performance in the public sector
- Expanded hydroelectric capacity

Policy Agenda
- Better controls on govt current expenditure, esp. wages and salaries
- Increased public sector savings in govt and public enterprises to be achieved through increased efficiency rather than increased taxes
- Credit policies that encourage savings and assure a rational allocation of loans by credit institutions
- Better designed fiscal incentive system for private sector investment

Constraints
- Inadequate economic infrastructure, esp. roads & ports
- Constraints related to small size of the economy
- Lack of management expertise
- Lack of marketing expertise
- Lack of support services for manufacturing
- Lack of capital
- High cost of raw materials for processing

B. SECTORS

The RDO/C strategy is focused primarily on the agriculture and manufacturing sectors, recognizing that tourism has only limited potential and growth in services will depend largely on what happens in the productive sectors. Although agriculture and manufacturing will receive equal priority, the objectives and timeframes of the two sector strategies are quite different. The agriculture strategy seeks to maximize medium term growth in employment and incomes, mainly by increasing productivity in the traditional crops. It is also expected that there will be some agricultural diversification based on production and marketing activities already underway.

The strategy recognizes, however, that Dominica is a high cost agricultural producer and that long-term development must also be based on increasing exports of manufactured goods. The growth rate in value added in the manufacturing sector should be more than double that of agriculture. However, because the manufacturing base is smaller than that of agriculture, the employment generated during the planning period in manufacturing is expected to be smaller than in agriculture. By the end of the strategy period, the export-oriented manufacturing sector should be able to identify and actively compete in both regional and extra-regional markets.

1. Agriculture

a. Banana Industry

The banana industry is the most important economic activity in Dominica. Although the industry has recovered from the 1979-1980 hurricanes, total production is still only 80% (31,000 tons) of the historical high achieved in 1978 and falls far short of effective demand in the protected U.K. market. Despite a preferential market established for Windward bananas, these islands are only able to supply 42% of current U.K. demand (320,000 tons). The major constraints to increased production in Dominica are low yields of marketed output, loss of income due to the recent depreciation of the UK sterling relative to the US dollar, and lack of funds available to the Dominica Banana Marketing Corporation (DBMC) to provide required and timely levels of inputs such that yields might be increased. In the latter case, the DBMC's substantial debt burden (US$7 million) severely limits its ability to increase production levels.

The objective of AID's assistance to the banana industry over the next five years is to increase production and productivity in order to permit the banana industry to achieve financial solvency and to enable Dominica and the Windwards to capture a larger share of the protected U.K. market. Increasing production to the 45,000 break-even tonnage for the DBMC will require the implementation of a banana rehabilitation scheme, along with the refinancing of the commercial bank debt. The banana rehabilitation scheme will consist of two parts: the provision of inputs required to increase the marketed yield on approximately 3,000 acres currently farmed by the more efficient

field pack growers and the planting of bananas on 600 acres of land not already under the crop. AID will assist the DBMC by providing pest and disease control inputs and by continuing to press for improved management of the DBMC. This assistance will be complemented by the British Development Division which is currently considering refinancing the DBMC's commercial debt through the provision of fertilizer to the commercial banks to be sold to the farmers. This assistance should enable Dominica to become a more efficient banana producer as manifested in an improved input/output ratio. As a result of these efforts, exports should reach a level of 45,000 tons in 1990, which is about 8,000 tons higher than the previous peak reached in 1978. This extensive and intensive strategy should also result in increased employment in the banana industry.

b. Diversified Agricultural Export Crops and Markets

In order to reduce its dependency on bananas as a source of foreign exchange and employment and to expand its economy, Dominica needs to diversify its agricultural exports. The Government recognizes this need and has made a concerted effort to expand and diversify its agricultural base through its public sector investment program (Attachment E). While the marketing of coconut products for export, the second largest agricultural activity in Dominica, is well organized and properly coordinated, serious deficiencies prevail in the handling and distribution of other export crops. Included in this category are citrus, mangos, avocados, vegetables, and other exotic tropical plants. It must be emphasized that Dominica's possibilities for agricultural diversification are very limited. The country will necessarily have to focus on crops with markets that are too small or too specialized to interest other Caribbean countries with larger and more productive agriculture sectors.

Possibilities for diversification also exist in the areas of mariculture and aquaculture. Although no programs are in place, the Government is supportive of fish, crayfish and prawn farming ventures. A joint venture in marron crayfish is currently being considered which would provide the needed production technology and expertise. However, the success of these ventures will be clearly dependent upon market identification.

The objective of AID's assistance to this sub-sector will be to develop new agricultural export crops and markets within and outside the region. The various components of this strategy include market intelligence, market studies, and strategic planning; market development missions; institutional strengthening, technical and financial assistance, and training to cooperatives and private marketing agencies; credit for the construction of collection, storage, and distribution depots; and feasibility studies for potential export crops; and improved shipping services.

The RDO/C program will increase marketing capability and expertise in Dominica by strengthening marketing organizations that provide assistance and advice to small and medium scale enterprises.

High priority will be given to providing the proper orientation to the services arm of the newly created Dominica Marketing Corporation (DMC) and to encouraging the Government to leave commercial trading to the private sector. To reinforce this latter objective, AID will actively support the development of the private marketing agencies involved in commercial trading such as the Huckster's Association and the recently established Farm-to-Market Limited Company. In order to improve the organization and management of agricultural enterprises at the farmer level, RDO/C will support efforts to strengthen cooperative associations. Because of the high priority and special characteristics of agricultural exports in Dominica, it is likely that these elements will be implemented through a bilateral project.

Additional constraints to the production of new and existing export crops including low on-farm productivity will be addressed through AID's regional projects which focus on agricultural research, extension and credit. It is expected that the services provided by the AID-funded CATCO project will satisfy Dominica's regional and extra-regional shipping needs. The Farm-to-Market Limited's recent acquisition of a refrigerated ship should also help to relieve transportation bottlenecks.

2. Manufacturing

The manufacturing sector in Dominica is small, contributing 8% to GDP in 1983 and employing only 7% of the labor force. An annual growth rate of 7.2% between 1978 and 1983 was achieved largely as a result of increases in the processing of coconut products for export. The major industrial development in recent years has been the growth of enclave manufacturing operations in two industrial estates that the Government is developing on the western side of the island. Over 70,000 square feet of factory facility have been constructed with about 40,000 additional square feet under construction. The demand for factory space has exceeded supply. Under the Infrastructure for Productive Investment Project (IPIP), a foreign investor is interested in constructing 60,000 sq. ft. of new factory space. Given the limited space in Roseau for the construction of additional factory space, future industrial development will be located in Melville Hall near the airport and in Portsmouth in the northern part of the island.

As part of its strategy to expand the export manufacturing sector in Dominica, RDO/C will continue to support the Government's efforts to attract foreign investment in labor-intensive assembly industries which are oriented toward export markets because these operations offer the greatest opportunity for rapid alleviation of the high unemployment levels in Dominica. At the same time, RDO/C will support the Government's longer term objective of diversifying its manufacturing base by attracting investment to develop industries which utilize the natural resources of the country. Fish, prawn or crayfish farming are possibilities, as are tourism development, agro-processing, water bottling and bulk shipment, and forest-based industries. Through its investor search activities and policy dialogue, RDO/C will encourage the Government to substantially reduce its holdings in the timber and agro-processing industries. Investors will also be sought to further develop cottage industries in such areas as sewing and handicrafts since Dominicans have a good reputation for these skills.

The program interventions designed by RDO/C to address these needs over the next three to four years include: investor search services through the Investment Promotion and Export Development Project, loans to the private sector for factory shell construction through the Infrastructure for Productive Investment Project, and skills training to entry level personnel through the Regional Non-Formal Skills Training Project.

While any significant growth in manufactured exports and employment will come from foreign investment, the development of an indigenous manufacturing capability will be critical to Dominica's longer term interests. At present, the manufacturing sector is small, and with the exception of a few companies like Dominica Coconut Products, Ltd. and P.W. Bellot & Company, Ltd., most of the companies have little or no international presence. Constraints to expansion include lack of marketing expertise, low productivity due to inadequate management, and lack of access to credit. As part of its strategy to expand the manufacturing sector, RDO/C will continue to provide marketing and technical assistance, management training, credit and institutional strengthening through the Private Sector Investment Assistance Program (CAIC), Regional Development Training II, and the proposed Small Assistance Development Program. Through its investor search activities, RDO/C will support the expansion of local production capability through sub-contracting relationships with foreign firms, especially in the garment and electronic industries.

3. Infrastructure Supportive of Private Sector Development

a. Road Maintenance

The inadequate road system in Dominica is a disincentive to both industrial and agricultural development. Most of the roads, poorly maintained for many years, were damaged severely by the hurricanes of 1979-1980 and by the floods in November 1984. Rehabilitation of the road network and improvement of road maintenance practices has been the major concern of the Government and a priority of the Government's public sector investment program. The program is supported by a number of external donors, including IDA, CIDA, EDF, USAID, and CDB. Once the current phase of the donor-financed road maintenance and rehabilitation program is completed, additional assistance may be required to support an ongoing maintenance program to prevent future deterioration of the internal road network. In addition to routine maintenance, the program will provide for the resurfacing at periodic intervals of those segments of the road system incorporating low-type bituminous pavement. AID resources will focus on strengthening the road maintenance program through the provision of technical assistance, training, and road maintenance and rehabilitation equipment.

b. Hydroelectric System

According to load forecasts, Dominica will be unable to meet its peak energy demand by 1988 despite the addition of two 750 KW diesel generators in late 1985 under AID's Dominica Rural Electrification Project. If Dominica is to continue to attract manufacturing concerns,

it will need to expand its hydroelectric generating capacity over the next five years. RDO/C will consider the Dominican request to enter into a co-financing arrangement with other donors including CDB, CIDA, and IDA/IBRD to finance a hydroelectric project. This project, which would commence in FY 1987, should supply Dominica's power needs through the year 2000.

II. DEVELOPMENT OPPORTUNITIES, CONSTRAINTS, AND POLICY ISSUES

Dominica is beset by a host of geographical and environmental features which severely constrain its ability to achieve self-sustained economic growth. The country's mountainous terrain with steep slopes extending down to the coast impose severe limitations and high costs on most development undertakings. Suitable sites for agriculture are small, scattered and remote. Even for small factories, practical locations are rare. Because it is extremely mountainous, Dominica receives a great deal more rainfall than most of its neighbors. The heavy rainfall, combined with the rugged terrain of the island, makes transportation difficult as roads deteriorate very quickly. Dominica lies in the path of hurricanes whose rain and winds of great force can destroy buildings, crops, roads and other infrastructure. These fundamental geographical and environmental features condition all economic activity.

Dominica's rugged terrain combined with its small size (750 sq. km. and a population of about 78,000) limits its development options and makes it difficult to economically justify a large infrastructure. Consequently, there is no jet airport, very limited port facilities, and only rudimentary communication connections with other countries. For the same reasons, the supporting services needed for expanded and modernized economic activity -- insurance, banks, accountants, attorneys, etc. -- are not as readily available as in larger countries. Finally, because local markets are so small, goods requiring economies of scale cannot be produced locally, thus requiring most businesses to remain very small or to target the export market from the beginning. This means that most Dominican businesses are extremely dependent on exports, thus introducing an additional element of uncertainty and risk. Despite these limitations, there are opportunities for achieving sustained economic growth.

A. Development Opportunities

1. Agriculture

Several medium-term opportunities exist for increasing output and exports in the agriculture sector. The first is banana production. Although the country is a very high-cost producer by world standards, it does have preferred access to the U.K. market. Thus far, the "green price" in the U.K. has remained high enough for Dominican farmers to earn a living from bananas and there are no indications that this arrangement will be terminated in the near future. The high cost of production and the recent depreciation of the UK sterling relative to the US dollar, however, are a disincentive to increased production. A program aimed at increasing production and productivity would increase the profitability of banana production and enable Dominica to realize its export potential in the medium term.

Dominica's abundant water and forest resources also present an opportunity for promoting increased exports. Following the development of a natural resources plan and policy, technical expertise for forestry production will need to be identified and market links for

both forest products and commercial barging established. Direct foreign investment, possibly in the form of joint ventures, would appear to be the appropriate approach to take in both of these resource areas. Other possibilities within the natural resources industries include fish, prawn or crayfish farming. Although no programs are in place, ventures in this area are being encouraged by the Government.

Opportunity also exists for increased exports of fresh produce to regional and extra-regional markets. Trade with the Caribbean region has become increasingly important, representing 12.8% of total fresh produce exports in 1984. Also of note is the post-hurricane change in the pattern of trade within the region, with Guadeloupe becoming increasingly important and accounting for 56% of the regional total. Antigua has surpassed Barbados as an importer and significant volumes of produce have begun to flow into Trinidad. Extra-regional markets for exotic crops such as aloe vera, patchouli, ornamental flowers, carombola, and vanilla bean are also a possibility.

Finally, while possessing few absolute advantages in agricultural production, Dominica's unique climate does enable farmers to produce crops that cannot be grown in neighboring islands or else can be grown at different times of the year. Furthermore, Dominica may be able to exploit its comparative advantage in certain specialty or exotic crops.

2. Manufacturing

As a small island with limited local markets, inadequate infrastructure and insufficient supporting services, it will be difficult for Dominica to develop a large manufacturing base. There are, however, several positive factors that can provide the basis for a steady if not spectacular growth in manufacturing. The most obvious is Dominica's wage rates which are among the lowest in the Caribbean. Some foreign investors will be attracted to Dominica for this reason, but on balance many of the other Caribbean islands may prove to be more attractive sites for enclave manufacturing.

This implies that Dominica should pursue a manufacturing strategy aimed at attracting investment not only in labor-intensive assembly operations, but also in industries which will utilize the natural resource base of the country. This has already happened for coconuts and to a lesser extent bottled water. Opportunities exist for stand alone, joint ventures or twin plant operations in wood products, patchouli oil, aloe vera, lime oil and passionfruit. With respect to assembly operations, investment searches are currently underway for subcontracts, particularly from the United States, in both the garment and electronic industries. As part of its manufacturing strategy, Dominica should explore the nearby islands of Guadeloupe and Martinique as potential sources of investment and markets. The combined market of these countries is ten times that of Dominica's and is one of the largest and most developed in the Caribbean.

3. Tourism

Dominica is blessed with a rugged beauty and fresh water resources that cannot be found in any other part of the Caribbean. While it is unlikely that tourism will ever become a major source of foreign exchange and employment, it is clear that it can contribute more than it does at present. Two areas are currently being considered. The first involves the development of small naturalist resorts as offshoots of larger vacation centers in neighboring islands. The second opportunity for increasing tourism involves the development of a fresh water marina in Portsmouth. Dominica would be unique in this respect since there are no fresh water marinas in the Caribbean. Dominica's location between Martinique and Guadeloupe is an important factor in the development of Dominica's tourist industry since the majority of visitors to Dominica in 1984 were from these two countries.

B. Key Development Constraints

The main constraints to the achievement of Dominica's economic potential are discussed briefly below.

1. Lack of Marketing Expertise

Marketing deficiencies constrain the development of each of the productive sectors of the Dominican economy. It is especially acute in the agricultural sector where, outside of the major export crops of bananas and coconuts, it is considered the major limitation to increased production and income. The farmers lack an understanding of the marketing process and as a result are unable to plan and coordinate the level of production. Adequate coordination does not exist between the various private marketing agencies, such as the "hucksters", and the farmers. Finally, little is known about the various markets, particularly in terms of quality, packaging, and sanitary regulations. The net effect is that although Dominican farmers are inefficient producers of bananas, they have been unable to diversify significantly into other crops.

In the manufacturing sector, the expansion of agro-based industries, especially in specialty or exotic crop products, is constrained by the lack of knowledge of markets, new product lines, manufacturing processes, product preparation and presentation, and market regulations.

The growth of the tourism industry is critically dependent on the identification of potential markets which, in the case of Dominica, would be a limited segment attracted to its unique characteristics and would require the implementation of an agressive promotional campaign. The development of marketing activities to date has been somewhat haphazard, mainly because of the financial constraints facing the Dominica Tourist Board.

2. Low Agricultural Productivity

Production of traditional and nontraditional agricultural crops has also been constrained by high production costs which are often not competitive in regional or international markets. These high costs are due primarily to low farmer productivity and high farm to market transport costs. Low productivity is attributable to a lack of technical knowledge, insufficient capital for productive inputs, and, perhaps most importantly, the country's steep topography. Because of the diseconomies of scale, citrus farmers, for example, are unable to compete with other low cost, high volume suppliers both within the Caribbean region and outside the region, except in the off-season period for other major producers.

3. Limited Human Resource Base

Private sector-led development of Dominica is inhibited by a small, risk adverse private sector, a limited pool of technical, and managerial talent, and an unskilled labor force. These deficiencies pose a severe constraint to the attraction of foreign investment and the development of local enterprises. In the industrial sector, despite vigorous promotion overseas, and provision of factory space and fiscal incentives by government, most potential investors are discouraged by the limited depth and breadth of the economy as reflected in its human resource base. Managerial deficiencies include a lack of knowledge and application of basic business tools, while technical constraints include the lack of technical training, the limited availability of qualified technical assistance, the low level of technical sophistication, and low labor productivity.

4. Infrastructure Constraints

a. Inadequate Road Maintenance

The most severe infrastructure constraint is the internal transport system. Dominica's four-year road rehabilitation program with substantial donor assistance has made progress in resolving this transportation bottleneck. However, given the frequent damage caused by heavy rains and landslides, an adequate road maintenance and rehabilitation program will continue to be a high priority of an export-oriented development strategy emphasizing agricultural diversification among a widely dispersed population. A systematic approach to the planning, programming and execution of routine and periodic maintenance will be required.

b. Projected Energy Shortfall

Dominica possesses considerable hydroelectric potential. Hydro facilities currently generate 80% of the Dominica Electricity Services Limited (DOMLEC) total output. According to load forecasts prepared by Ebasco, Dominica will be unable to meet its peak energy demand by 1988 despite the addition of two 750 KW diesel generators in late 1985. To meet projected energy demand and to reduce

dependency on diesel units, the Government is currently planning to expand its hydroelectric generating capacity in accordance with recommendations made by Shawinigan under a Caribbean Development Bank-financed feasibility study.

5. Inadequate Credit for Small and Medium Enterprises

Access to credit by small and medium sized businesses is constrained by a variety of factors, the most important being their inability to convince banks and other financial institutions of their creditworthiness. Loan decisions are usually based on the availability of collateral rather than on the ability of the small and medium enterprises to assume and carry the debt burden. Other contributing factors include the limited capital resources available for business lending and the highly risk adverse orientation of most commercial banks. An evaluation of the Dominican National Development Foundation (NDF) verified this pressing need for credit and indicated that with available funds, the Dominica NDF could easily double its lending program to small businesses.

C. Policy Dialogue Agenda

The policy framework in Dominica is very favorable to private enterprise. The Government is only minimally involved in production activities, taxes on exports are low, and price controls on imported products do not constitute a disincentive to local production. There are, however, several policy areas where improvements would help overcome constraints to private sector growth and development.

The four key issues to be addressed are discussed below:

1. Dominica Marketing Corporation

The Government is presently reorganizing the Dominica Agricultural Marketing Board (DAMB), which was responsible for agricultural exports mainly to extra-regional markets, with the External Trade Board, which has an import monopsony on sugar and rice, to create the Dominica Marketing Corporation (DMC). While the restructuring is still incomplete, the DMC is expected to have two sections, one for commercial trading and one for support services to the entire export sector. The extent of government involvement in trading activities, however, is still undetermined. The present situation offers an opportunity for RDO/C to minimize direct Government involvement in commercial activities by encouraging the development of private marketing agents through project assistance. This policy issue can be discussed in conjunction with the project design for assistance to the nontraditional agriculture sector.

2. Public Sector Efficiency and Savings

The public sector accounts for over 20 percent of GDP and almost 60 percent of gross investment. Two chronic problems facing the public sector have been the inability to control current expenditures, especially wages and salaries, and the inability to generate savings to

help finance public sector investments. This, in turn, puts upward pressure on tax rates and private sector wages and reduces the amount of funds available for lending to the private sector. Policy dialogue with respect to this issue will focus on: 1) controlling salaries by reducing underemployment in the semi-skilled positions and reducing annual wage increases; 2) improving management practices; and 3) increasing the rate of public sector savings, which at present is negative. These objectives will be pursued primarily through policy dialogue and through technical assistance in fiscal policy and public administration.

3. Public Sector Management and Finances

Under the three-year Extended Fund Facility which was completed in February, 1984, the Government made substantial progress in addressing the major causes of budgetary deficits. However, there is a need to pay continuous attention to maximizing efficiency in the public sector in order to increase public sector savings and reduce underemployment in the semi-skilled positions and to improve management capabilities at the middle and senior levels. The need to increase public sector savings can be applied to both the Central Government and public enterprises. All domestic savings are now accounted for by the private sector, although the majority of investments are in the public sector. At a minimum, RDO/C will encourage the Government to discontinue the external financing of capital expenditures such as counterpart contributions for donor-financed projects that are more appropriately financed with domestic resources.

4. Natural Resources Management

Dominica's water and forest resources are its two most significant assets. To effectively develop and exploit these resources for export, however, Dominica needs to determine: the effective carrying capacity of the land; the sustainable yield of the forests; the minimum amount of watershed that must be maintained to prevent erosion and silting of lakes, rivers and streams; the maximum potential for hydro and geothermal electric generation; and, the economic potential for export of water through commerical barging. The Government recognizes the need for a natural resources plan and policy based on a survey of existing resources. AID can assist in the development of this plan by funding a natural resources survey and by providing technical assistance through the investment promotion adviser who has expertise in this area.

Indicators of a successful outcome to the RDO/C-Government of the Commonwealth of Dominica policy consultations during the strategy period are:*

1. Dominica Marketing Corporation

If AID finances a nontraditonal Agriculture Diversification Project for Dominica by the end of FY 87 there would be a streamlined marketing corporation (DBMC) providing support services to the export sector, while commercial trading would be in the hands of the private sector.

2. Public Sector Management and Finance

a. By the end of 1988, there would be a reduction in underemployment in the semi-skilled positions and an improvement in the management capabilities at the middle and senior levels of the public sector.

b. Beginning in FY 86, there would be a gradual increase in public sector savings.

c. Beginning in FY 86, counterpart contributions for donor-financed projects would be financed from domestic resources.

3. Natural Resources Policy

By the end of FY 86, there would be a natural resource policy and management plan which will serve as the basis for the development of Dominica's forest and water resources.

* Not for public dissemination.

DOMINICA
ECONOMIC ANALYSIS

I. RECENT PERFORMANCE

A. Production, Income and Employment

Dominica is a largely agricultural country with a population of 78,000 population. The agriculture sector, which accounts for over 30 percent of GDP, produces primarily foodstuffs for domestic consumption and bananas for export. The manufacturing sector accounts for about 8 percent of GDP and is based almost entirely on agro-processing. Unlike most other Caribbean islands, Dominica has a very small tourism sector which does not have much potential for expansion. The service sectors together account for over 50 percent of GDP of which Government is equal to 20 percent. In 1983, the last year for which national income data are available, GDP per capita was US$900"

Economic activity in Dominica in recent years has been dominated by efforts to recover from the devastating effects of hurricanes in 1979 and 1980. Agricultural production declined in both of those years and in 1980 was equal to only 55 percent of 1978 production. GDP growth in 1981 was 8 percent led by a 31 percent increase in agriculture, and during 1982-83 the growth rate was more or less back to normal, at about 3 percent per year.

To give some idea of recent economic trends Table 1 compares GDP by sector in 1978, the last year before the hurricanes, and 1983. Overall annual growth over this period was only 2 percent. This was attributable to the agriculture sector which in 1983 was still five percent below its 1978 level. Within agriculture, bananas and foodstuffs were about 20 percent below their 1978 levels. Manufacturing shows a 7.2 percent annual growth over this period, due almost entirely to increases in the processing of coconut products for export. Manufacturing grew by only 2.5 percent in 1983 and is estimated to have declined slightly in 1984 due primarily to CARICOM trade restrictions affecting Dominica's exports of coconut products to Jamaica and Trinidad.

The high growth in the construction sector was due to the continuation of investment related to the rehabilitation of the agriculture and infrastructure sectors following the hurricanes. Services as a whole grew at a slightly faster rate than the overall economy. The commerce sector, which is closely tied to agriculture, grew at less than 1 percent, but this was made up by Government and Other Services which grew by 3.6 percent and 4 percent respectively.

In general this was a period of relatively slow growth for the Dominican economy. It will be noted, however, that the low GDP growth rate was due entirely to agriculture and that the other sectors in fact were able to more than make up for an absolute decline in agricultural production.

TABLE 1
GDP BY SECTOR OF ORIGIN
AT CONSTANT 1977 FACTOR PRICES
(EC$ millions)

Sector	1978	1983	Annual Growth (%)
Agriculture	35.5	33.6	- 1.1
Mining	1.1	0.8	- 5.0
Manufacturing	5.8	8.2	7.2
Construction	5.2	8.3	9.9
Services	47.5	55.2	3.0
Commerce	(11.5)	(11.9)	0.7
Government	(19.3)	(23.0)	3.6
Other	(16.7)	(20.3)	4.0
GDP at Factor Cost	95.1	106.1	2.0

Because of the lack of data it is difficult to assess the employment implications of the economic performance described above. The only sources of information on employment in Dominica are the 1981 census and the statistics of the Social Security System. The latest World Bank Report on Dominica gave official government statistics for 1983 of 76,500 for population, 24,900 for employment, and 13 percent for the unemployment rate, which implies a 1983 workforce of 28,600. An analysis of the 1981 census data by the Population Reference Bureau, Inc. indicates that the work force in 1983 was almost certainly less than 28,000, which, if the government employment estimates were correct, would imply an unemployment rate of 11 percent. This appears unlikely given the low rate of economic growth over the previous five years.

In short, it is not possible to arrive at precise estimates of employment and unemployment in Dominica based on available data. For the purposes of our analysis we are using the estimates in Table 2 for 1983:

TABLE 2
1983 EMPLOYMENT ESTIMATES

Sector	Employment	Percent of total
Agriculture	8,900	40
Manufacturing	1,550	7
Construction	1,750	8
Commerce	2,200	10
Government	5,500	25
Other	2,200	10
TOTAL	22,100	100

Total emplyment was arrived at by applying a 20 percent unemployment rate to the workforce projections in the Population Reference Bureau publication, "Dominica: Yesterday, Today and Tomorrow". The percentage breakdown for agriculture, manufacturing, and construction are based largely on the 1981 census while the other sectors are based on their share of GDP in 1983.

B. Consumption, Savings and Investment

Although Dominica has a quite low rate of domestic savings, substantial resource transfers from abroad have helped finance investments that generally exceed 25 percent of GDP. The relevant figures for 1983 are as follows:

TABLE 3
CONSUMPTION SERVICES AND INVESTMENT AND BALANCE OF TRADE
(EC$ millions, 1983)

GDP at market prices	216.4
Consumption	201.9
Domestic Savings	14.5
Investment	58.8

Resource Gap (exports - imports)	-44.3
Financed by:	
Net private transfers from abroad	25.7
Public sector grants	14.3
Net concessional loans	10.0
Residual (interest expense)	-5.7

Virtually all domestic savings are private while a majority of domestic investments (EC$ 33.1 million in 1983) are by the public sector. In most respects this is an appropriate resource allocation strategy for Dominica. Investments, which are needed for development, greatly exceed domestic savings, which are low because per capita incomes are low, and the gap is filled by resource transfers from abroad on terms that do not entail large debt servicing charges. Foreign debt service payments in 1983 equalled 5.8 percent of export earnings in 1983 and are projected to equal about 8 percent in 1990. The major shortcoming with respect to the expenditure side of GDP is the lack of savings in the public sector. The resource gap does not appear excessive but investment levels could increase and the economy would be on a sounder footing with less dependence on external resources if public sector savings could be increased and domestic resources could finance a greater portion of total investments.

C. External Sector

As a small island economy, Dominica is extremely dependent on external trade. It is too small to produce most of the manufactured goods needed by consumers and businesses and, because the domestic market is so small, it must depend on exports for sustained economic growth. As shown in the following table, exports grew by 11 percent per year between 1978 and 1983 while imports grew by 10.5 percent. During this same

period private transfers from abroad increased by about 17 percent per year. The end result of these developments is that, although the current account deficit increased in real terms, it declined as a percent of GDP from 14.6 percent in 1978 to 9.5 percent in 1983.

TABLE 4
BALANCE OF PAYMENTS
(US$ millions)

	1978	1983	Annual Growth
Exports	19.3	32.9	11.0%
Imports	29.3	49.3	10.5%
Balance of trade	10.0	16.4	
Net factor services & private transfers	3.4	8.8	17.0%
Current Account Balance	-6.6	-7.6	
Financed by:			
Public grants	4.0	5.3	
Public borrowing (net)	2.0	3.7	
Residual (int. exp.)	0.6	-1.4	

It will be noted that the current account deficit is financed almost entirely by grants and concessional loans. Dominica incurs very little high interest commercial debt and this accounts for its low debt service requirements.

The key factor determining balance of payments performance and in fact overall economic performance in Dominica is the export sector. Imports are more or less tied to overall economic growth and the composition of imports has remained relatively stable with consumer goods accounting for over 50 percent of the total. Similarly, private transfers from abroad have showed a steady and predictable growth rate. The terms of trade have also been remarkably stable. In 1983, the terms of trade index was 98.4 (1977 = 100) despite the weakening of the pound sterling and the large share of exports going to the U.K. (43 % in 1983).

TABLE 5
MERCHANDISE EXPORTS
(US$ millions)

	1978		1983	
	Value	Percent	Value	Percent
Bananas	9.2	57.5	11.2	41.5
Soap	1.9	11.9	7.5	27.8
Other coconut prod.	1.1	6.9	1.6	5.9
Citrus products	1.6	10.0	1.0	3.7
Fresh vegs. & plantains	0.5	3.1	0.9	3.3
Galvanized sheets	-	-	2.0	7.4
Other	1.7	10.6	2.8	10.4
Total	16.0	100.0	27.0	100.0

Bananas remain Dominica's most important export product but its share of total exports has dropped from 58 percent to 42 percent. The difference was made up by coconut products, so that these two crops continue to account for about three-fourths of total exports. Banana exports are completely dependent on preferred access to the British market. Since there is little likelihood that this preference will be removed in the near to medium term this provides a certain stability to Dominican exports. On the other hand, coconut products are sold in very competitive and sometimes protected markets and are therefore subject to unpredictable market fluctuations. In the long run, however, Dominica needs to diversify its exports, and in this respect, reduced dependence on bananas is clearly a positive trend.

D. Public Finance

The public sector in Dominica consists of:

1. The Central Government.

2. The rest of Government, which includes Local Government, the Social Security System, the Broadcast Corporation and the Tourist Bureau.

3. Public sector enterprises, including the Banana Growers Association, the Water Authority, the Port Authority, the Agricultural Marketing Board, and the External Trade Bureau.

The Central Government budget, which accounts for most of the public sector, is presented in Table 6. The main functional categories of the budget are: general public services (26%), education (20%), health (14%), economic services (18%), and all others (22%). Revenues are closely tied to imports. Taxes on consumption, which are almost entirely on imported goods, added to import duties account for almost 60 percent of total tax revenues.

In recent years, the Government has made substantial progress in addressing the three major causes of budgetary deficits. The first is the rapid increase in the wage bill due to hiring practices and excessive annual wage increases. Between 1978/79 and 1981/82 central government wages and salaries increased by an average of 33 percent per year. During the 1981/82-1984/85 period the annual rate of increase was reduced to 2.5 percent. Second, the Government took measures to improve revenue collection which led to an increase in current revenues of over 20 percent in 1983/84. Finally, steps were taken to improve the performance of the public sector enterprises so that, since 1982, transfers from the central government to these organizations have been negligable. As a result of these efforts the 1983/84 current budget of the central government was in balance for the first time since 1978/79.

TABLE 6
CENTRAL GOVERNMENT BUDGET
(EC$ millions)

	Actual 1982/83	Est. 1983/84	Budget 1984/85
Current revenue	57.7	70.0	76.2
Tax revenue	49.4	59.9	65.6
Taxes on income	(16.5)	(18.7)	(20.9)
Taxes on production and consumption	(22.3)	(27.1)	(30.2)
Taxes on imports	(7.5)	(10.2)	(10.3)
Other taxes	(3.1)	(3.9)	(4.2)
Non-tax revenue	8.3	10.1	10.6
Current Expenditures	62.6	70.3	73.3
Wages, sal., soc. sec.	35.8	39.6	41.5
Retirement benefits	4.3	4.3	3.7
Goods and services	12.0	14.0	14.3
Interest	4.7	4.4	4.4
Transfers to autonomous agencies	0.7	0.7	0.7
Other expenses	5.1	7.3	8.7
Current account balance	-4.9	-0.3	2.9
Capital expenditures	29.6	33.1	27.1
Financed by:			
Grants	13.4		
Net foreign borrowing	12.0		
IMF	7.6		
Residual (interest expense)	-3.4		

Despite considerable progress, additional efforts are needed with respect to public finances. First, current expenditures, especially salaries, continue to be too high. In 1983/84 labor costs totalled 65 percent of current expenditures compared to 53 percent in 1978/79. This seriously limits funds available for the goods and services needed for the Government to function effectively.

The second continuing problem concerns the public enterprises. Although as a group they are now covering their current expenses without resorting to Central Government subsidies, they still are not able to finance any of their capital expenses. In the few cases when public enterprises have incurred capital expenses they were financed through foreign concessional loans. These enterprises need to recognize that they are not truly self-sufficient if they are unable to replace their depreciated capital out of their own revenues.

II. MAJOR FACTORS AFFECTING FUTURE ECONOMIC GROWTH

A. The Small Size of the Economy

The fact that Dominica is a small island economy seriously limits its development options. The main reason is that the island's terrain and small size make it difficult to justify a large economic infrastructure. Consequently, there is no jet airport, port facilities are inadequate, and communication, electricity and water supply systems are of lower quality than what is available on other islands. For the same reasons, the supporting services needed for expanded and modernized economic activity -- insurance, banks, accountants, attorneys, etc. -- are not as readily available as in larger countries. Finally, because local markets are so small, goods requiring economies of scale cannot be produced locally and must be imported. This means that most Dominican businesses are extremely dependent on exports thus introducing an additional element of uncertainty and risk. When all of these factors are taken into account it becomes clear that any sustained long-term growth in Dominica will require determined and imaginative efforts on the part of the Government, donors and the private sector.

B. Low Agricultural Productivity

Dominica's mountainous terrain greatly increases its costs of production relative to most other countries in the Caribbean. Most farms are quite small (less than 5 acres) and are generally not competitive with large plantations for the traditional export crops. In addition, internal marketing costs from the farms to the ports are very high, further reducing competitiveness. The result is that Dominica is not competitive in the two major export crops of the Eastern Caribbean, sugar and bananas, and there are no other crops with significant export markets where it would have a cost advantage.

C. Agricultural Possibilities

Despite the above constraints, Dominica can take certain steps to increase agricultural production. There are three concrete possibilities in the medium term. The first is banana production. Although the country is a very high cost producer by world standards, it does have preferred access to the U.K. market. Thus far, the "green price" in the U.K. has remained high enough for Dominican farmers to earn a living from bananas and there are no indications that this arrangement will be terminated in the near future. However, it is clear that Dominica's costs of production are rising relative to other countries.

Also, with present farming practices production is close to maximum with the result that the country is unable to meet its export quota. What is needed now is a program to introduce productivity increasing innovations, to increase farmer profits, and to induce them to keep increasing production until the quota is reached.

A second possibility concerns the development of the country's abundant water and forest resources. Both resources are currently underutilized but considerable efforts are required before they can be brought to the full production stage. The first step is the preparation of a natural resource management plan to identify appropriate methods and levels of production. At the same time the technical expertise for production must be identified and market links established. Direct foreign investment, possibly in the form of joint ventures, would appear to be the appropriate approach to take in both of these sectors.

Finally, the mountains give Dominica a weather pattern that is unique in the Caribbean. It is thus able to produce crops that are not produced elsewhere or are produced at different times of the year. Some of these crops have already been identified. The next step is to identify the export markets and establish effective and dependable links between markets and producers. It must be emphasized, however, that these are crops with very limited markets. The possibilities identified thus far amount to only a very small percentage of what is being earned from bananas.

Since Dominica has few absolute advantages in agricultural production, it needs to determine where it has comparative advantages. For example, coconut products which accounted for over 30 percent of total exports in 1983 may be a crop in which Dominica has a comparative advantage. Other crops are likely to be those with export markets that are too small or too specialized to interest larger more agriculturally productive countries. These could include essential oil crops and flowers. The key to realizing these possibilities is aggressive marketing and continuing efforts to increase efficiency in production and in-country marketing.

D. Manufacturing Possibilities

Given the many disadvantages listed under item A above, it will be extremely difficult for Dominica to develop its manufacturing sector. There are, however, several positive factors that can provide the basis for a steady if not spectacular growth in manufacturing. The most obvious is the wage rates which are among the lowest in the Caribbean. Some foreign investors will be attracted to Dominica for this reason but it must be recognized that on balance many of the other Caribbean islands are more attractive sites for enclave manufacturing. Other things being equal (e.g., availability of factory space, a trainable labor force, tax incentives), Dominica will tend to be one of the last locations selected by enclave manufacturers and during recessionary periods Dominica will probably be one of the first islands that they will leave.

This implies that Dominica should pursue a manufacturing strategy that is export oriented but linked to locally-owned and managed businesses and, to the extent possible, based on the processing of local products. This has already happened for coconuts and to a lesser extent water. Further possibilities appear likely in the water and forestry industries, and in processed agricultural products for the Guadaloupe and Martinique markets. Promotion of foreign investment must be an important part of this strategy as a means of obtaining the capital, management, and technical expertise so sorely lacking in local enterprises.

E. Macro-economic Policy Framework

The policy framework in Dominica is generally favorable to private sector-based economic growth. Two areas where there could be improvements and that could be issues for a policy dialogue are discussed briefly below:

1) There is a need to pay continuous attention to maximizing efficiency in the public sector which accounts for over 20 percent of GDP. The most urgent needs are to reduce underemployment in the semi-skilled positions and improve management capabilities at the middle and senior levels. One of the objectives of this effort should be to reduce taxes in ways that will encourage private sector investments that will increase production and exports.

2) Related to the above is the need to increase public sector savings. This applies to both the central government and the public enterprises. Virtually all domestic savings are now accounted for by the private sector, although the majority of investments are in the public sector. At a minimum the government should seek to discontinue the external financing of capital expenditures that are more appropriately financed with domestic resources, e.g., the local contribution for projects financed by foreign donors.

F. The Public Sector Investment Program

The general thrust of the public sector investment program is very much in line with a private sector-based development strategy. The strong emphasis is on infrastructure development, especially roads, but also the airport, electricity and water supplies. There is also substantial emphasis on the agriculture sector, including extension, pilot crop diversification projects, feeder roads, and input supply. Virtually no public sector funds are being channelled to production projects, which indicates a clear policy decision to leave production to the private sector. On the whole, this investment program should alleviate many of the constraints to increased agricultural and agri-based manufacturing.

III. ECONOMIC PROJECTIONS FOR 1990

The projections in this section assume a successful development strategy that results in agricultural and manufacturing growth rates that are significantly above past trends. The first step is the projection of GDP at factor prices by sector of origin. Projections for employment and the external trade sector are related to and flow largely from the GDP projections.

TABLE 7
GDP PROJECTIONS
AT CONSTANT 1983 FACTOR PRICES
(EC$ millions)

	1983	Annual growth (%)	1985	Annual growth (%)	1990
Agriculture, livestock, fishing & forestry	57.4	6.0	61.1	4.5	76.1
Manufacturing & mining	14.1	4.0	14.7	7.0	20.6
Construction	12.6	8.0	14.7	6.0	19.7
Utilities	5.2	5.0	5.7	5.0	7.3
Government	44.8	2.0	45.7	3.0	53.0
Commerce	14.3	3.0	15.2	4.0	18.5
Other services	33.3	5.0	36.7	5.0	46.9
Total	181.7	3.3	193.8	4.5	242.1
GDP at Market Prices	216.4		230.9		287.7
Population (thousands)	74.6		76.8		82.5
Per capita GDP (US$)	1,075		1,115		1,300

Notes to Table 7:

1. The growth rate in agriculture from 1983 to 1985 is based primarily on the continued recovery of banana production. Between 1985 and 1990 it is assumed that:
   - banana production will grow at 6 percent per year which will bring exports in 1990 to 45,000 tons. A recent study of the banana industry in Dominica has determined this to be the minimum level needed to achieve maximum productivity.
   - production for domestic consumption will grow at 2.5 % per year; and for
   - production of non-traditional crops will grow at 5 % per year.
2. Manufacturing is assumed to grow at 4 percent per year until 1985. This is well below past trends and reflects increased trade restrictions in the CARICOM markets. The 7 percent growth rate for the 1985-90 period assumes that, partly as a result of the AID program, alternative markets will be found for coconut products and that new businesses will be attracted into other agro-processing industries and into enclave manufacturing.

3. The growth rate in construction assumes that investments in infrastructure and productive capacity will remain high as a result of an intensified development effort.
4. Utilities and Other Services are projected to grow in line with the modern sectors, i.e., at a slightly faster rate than the overall economy.
5. Commerce continues to be closely tied to agriculture and is therefore projected to grow at 4 percent per year.
6. The government sector is projected to grow at 3 % per year in line with efforts to control expenses, increase efficiency, and reduce its share of total economic activity.

TABLE 8
EMPLOYMENT PROJECTIONS

	% of total	1983	Annual growth (%)	1985	Annual growth (%)	1990	% of total
Agriculture	40	8900	4.0	9625	3.0	11160	39
Manufacturing	7	1550	4.0	1675	6.0	2250	8
Construction	8	1750	8.0	2050	6.0	2750	10
Commerce	10	2200	5.0	2425	4.0	2950	10
Government	25	5500	3.0	5850	3.0	6780	24
Other	10	2200	5.0	2425	4.5	2550	9
Total	100	22100	4.3	24050	3.4	28440	100
Total workforce		27600	3.3	29500	3.3	34600	
Unemployment rate		20%		18%		18%	

Notes to Table 8:

1. The initial sector breakdown was taken from Table 2 on page 2 of this attachment. The growth rates for agriculture and manufacturing are lower than growth in production because of assumed increases in productivity in these two sectors. The other sectors are assumed to experience no changes in productivity so that employment grows at the same rate as production.

2. The workforce projections are based on a 1.2 percent annual growth in population and a steady increase in the workforce as a percent of the total population as presented in the Population Reference Bureau publication: "Dominica: Yesterday, Today & Tomorrow".

TABLE 9
EXTERNAL TRADE PROJECTIONS
(EC$ millions)

	1983	1985	Growth (%)	A 1990	B 1990
Merchandise exports	75.1	84.7	6.8	118	113
Bananas	30.2	33.3	6.2	45	45
Coconut products	24.8				
Other agri. prod.	8.7	51.4	7.3	73	68
Other manuf. prod.	11.4				
Non-factor services (net)	7.8	8.7	6.0	12	12
Total Exports	82.9	93.4	6.8	130	125
Imports	127.1	141.5	5.5	185	185
Balance of Trade	44.2	48.1		55	60
Private transfers	23.8	28.8	7.0	41	41
Current Acct. Balance	20.4	19.3		14	19
Resource gap as % of GDP	(24.4)	(24.0)		(22)	(24)
Current Acct. deficit as % of GDP	(9.5)	(9.6)		(7)	(8)

Notes on Table 9

1. External trade projections in column 1990 (A) assume a gradual decline in the resource gap from 24 % of GDP in 1983 to 22 % of GDP in 1990. These are the projections that are most in line with the GDP projections and the successful achievement of AID strategy objectives.

2. Imports are projected to increase by 5.5 percent per year, slightly higher than GDP.

3. Private transfers from abroad are estimated to have increased by 10 percent per year between 1983 and 1985, and are projected to increase by 7 percent per year between 1985 and 1990. Based on recent trends these can be considered conservative estimates

4. There are two export projections. The 1990 (A) column in the table calculates the exports needed to reduce the resource gap (defined here as the trade deficit) from 24 pecent of GDP in 1985 to 22 percent in 1990. The 1990 (B) column projects the export level needed to keep the resource gap constant as a percent of GDP. Under both assumptions, banana exports are projected to grow by 6 percent per year between 1985 and 1990 in line with projected increases in production. The difference in the two columns is in non-banana exports which grow by 7.3 percent per year in column A and by 5.8 percent per year in column B.

DOMINICA
PRIVATE SECTOR PROFILE

I. Overview

The private sector in Dominica is among the most underdeveloped in the region. Dominica historically was a backward plantation economy. Sugar was uneconomical by mid-nineteenth century and plantation owners switched to tree crops for the local and imperial market. However, serious constraints in transportation coupled with the vagaries of weather made the price of Dominican agricultural commodities uncompetitive. Much of the island was largely inaccessible until the 1960's, while external transportation was erratic due to lack of a deepwater harbor and berthing space for regularly scheduled cargo ships. To this day problems of transport remain key constraints facing the private sector.

In this depressed economic environment the private sector remained a provincial commercial sector dominated by three or four commission agents who had a monopoly over exporting agricultural produce as well. These commercial families in time became creditors to both plantation owners and small farmers and during several key periods in the world economy, appropriated large tracts of arable land from bankrupted producers. The large commission houses were complemented by small retail shops and itinerant peddlars largely comprised of ethnic Syrians who brought needed goods and extended credit to the majority of the population located in remote valleys scattered around the coastline of the island.

Transformation of this economy has begun, but is still nascent. Roads, harbors, and airports have opened up both the interior of Dominica and made shipping and communication with the outside world easier. There are a small number of local manufacturers, most producing for the local market. The commercial sector has not expanded to any large extent; the banking sector remains very conservative and almost loathe to lend for any enterprise that carries an element of risk. Social cleavages continue to characterize the private sector. Tensions remain as Dominicans have long historical memories, and the exploitation practiced by commercial families in the past impedes present cooperation. Thus the natural tensions that exist between manufacturers and traders is exacerbated by ethnic and social conflict. This affects the institution-building process negatively.

II. Private Sector Institutions

The formal private sector institutions are strongest in the cooperative sector, particularly in the cooperative credit union movement which is considered to be one of the most viable cooperative movements in the third world.

However, the cooperative associations are comprised largely of individuals with very small holdings and little capital for investment. Given Dominica's terrain, large acreages suitable for cultivation are rare and the cooperative movement maximizes cost effectiveness for farmers. This is also true of the fishing industry where Dominica's coastal shelves impede large scale fishing enterprises. But, these types of productive enterprises do not provide enough capital for expansion. Hence the important role played by the cooperative credit union movement. Local capital accumulation via community based credit unions has grown to the stage that some credit unions operate along commercial bank lines providing mortgage finance, checking accounts and foreign exchange services. Productive loans constitute the majority of financing and are predominantly for agriculture. Thus the credit union movement has become a primary developmental agency in Dominica. Continued financial growth of credit unions should ensure balanced rural development as community based credit unions are admirably suited to the social ecology of the island.

In addition to being financially solvent, the structure of the credit union movement gives it strength. Community based, each credit union has elastic growth potential and draws its leadership from the most respected members of the community. The Credit Union League, which is itself a registered Cooperative Credit Union, both coordinates and directs the movement as well as provides financing for the movement itself and for local credit unions.

Although the credit union movement and Private Voluntary Organization development institutions which are community based are the strongest organizations in Dominica, there are attempts being made to strengthen other productive sector institutions. The Dominica Chamber of Industry and Commerce (DAIC) has been recently revitalized as an umbrella organization representing both manufacturing and the trade sectors. The DAIC has been working with Caribbean Association of Industry and Commerce and Caribbean/Central American Association to establish the organization on sound institutional and financial foundations. Cognizant of their traditional differences, the private sector in Dominica have decided to work together in areas where they have common interest which is a positive step forward. The small corps of manufacturers in Dominica are a particularly vibrant group and their willingness to cooperate in an institution like the DAIC and liaise with the Industrial Development Corporation should ensure the successful development of private sector institutions in Dominica throughout the planning period.

III. Characteristics of the Private Sector in 1985

The private sector in Dominica is presently characterized by a small commercial sector, a large distribution trade dominated by hucksters, and a growing manufacturing sector. However, many of the enterprises in all these sub-sectors must still be viewed as small enterprises, many of which are cooperatives. Although small in size of enterprise, numbers employed and profits realized, the private sector, including agricultural self employment, is the largest sector in Dominica. Nearly 35% of all employed men and 20% of women own their own business or farm. 40% of the labor force is employed in agriculture, 10% in commerce and 7% in manufacturing"

A. Manufacturing

The manufacturing sector in Dominica is small, contributing around EC$8.2 million to GDP in 1983 and employing approximately 1550 persons. Between 1978 and 1983, the sector enjoyed a healthy growth rate with production and employment increasing by 7.2% per year. Most of this growth, however, was attributed to a single industry, Dominica Coconut Products Limited which exports coconut products to Jamaica and Trinidad.

The Government, through agressive marketing by the Industrial Development Corporation and favorable fiscal incentives, has succeeded in attracting foreign investment to Dominica. Enclave manufacturers are involved in the production of garments and galvanized sheet metal. The nine foreign firms currently operating in Dominica are divided equally between regional and extraregional (U.S., U.K.) ownership and markets.

Local entrepreneurs are also engaged in manufacturing in Dominica. The majority of the twenty-six local firms are involved in the production of apparel/textiles, construction materials, food/beverages, and furniture for the local market. Only a small number of local firms are actually exporting their products to regional and extra-regional markets. As noted previously, the largest exporter in the manufacturing sector is the locally owned firm of Dominica Coconut Products Limited. It is also the largest single employer with twice as many employees (185) as any other firm in Dominica. The rest of the firms are smaller in size with an average of 28 employees per firm. In summary, the manufacturing sector is characterized by a few recently established enclave industries, a large local agro-processing firm, and many small indigenous firms producing solely for the domestic market.

B. Commerce and Trade

The commercial sector of Dominica is quite small and dominated by a very small number of firms who are primarily commission agents. Although this has been the pattern for over a century, there are signs of new actors and new ways of doing business. Most notably, the creation of both the Hucksters Association, and Farm-to-Market Ltd. has begun to address the marketing constraints faced by producers. Farm-to-Market is utilizing both air freight and refrigerated vessels to ship fresh fruits and vegetables to Antigua and Trinidad. They have also recently sub-contracted with AID-funded CATCO to ship produce to Barbados. CATCO's growing experience and improved transport facilities also offers scope for expansion, including the extraregional trade.

C. Small Enterprise

According to recent data there are approximately 750 to 1000 small businesses in Dominica. These include commerce, huckstering, light manufacturing, handicrafts, and agro-processing. Typical small businesses in Dominica have assets of EC$5,000 and annual sales of around EC$10,000. The above can be characterized as micro businesses and they dominate private sector activity in Dominica. They are joined by a growing number of productive cooperatives in furniture making, candle making, handicrafts and agro-processing, such as the Petite Savanne Bay Oil Cooperative.

Impediments and constraints to small enterprise development are numerous and include lack of management and bookkeeping skills, lack of marketing expertise and limitations to medium and long term credit. However, donors, PVO's and government have been highly supportive of small enterprise development in Dominica and have begun to address these issues through the Industrial Development Corporation and the National Development Foundation of Dominica.

IV. Prospects for Private Sector Development by 1990

Prospects for modest private sector expansion in agriculture, distribution and manufacturing during the CDSS planning period are predicated on government policy and donor interventions in key areas:

- reorganization of a private oriented marketing corporation specializing in providing marketing intelligence and other services;
- donor technical assistance and financial credit for commercial marketing enterprises under the proposed AID Small Enterprise Development Project;
- Government fiscal policies through budgetary reform which will relieve pressure in the commercial banking system and allow for greater liquidity;
- increased agricultural extension and research activities in export oriented crops; and,
- improved infrastructure in roads, ports and airports to facilitate exports, and in provision of factory space for local and foreign enclave plants.

The emphasis on private sector growth throughout the planning period is two pronged. Firstly, there will be a focus on expanding both agricultural output and export of traditional and non-traditional crops. Secondly, there will be continued expansion of the manufacturing sector, particularly in enclave light manufacturing and in agro-processing. Manufacturing is estimated to grow by 6% a year to 1990 and to contribute a minimum of 575 new jobs. It is expected that by 1990 an additional 60,000 square feet of enclave factory space will be in place under IPIP as well as the construction of a Free Zone in the Melville Hall airport region. This should result in the creation of several garment and electronic manufacturers settling in Dominica as well as local and joint venture enterprises in furniture and agro-processing.

Continued technical assistance in agricultural marketing should result in significant expansion of fresh fruits and vegetables to the French islands, the Leewards and Barbados, as well as to extra-regional markets such as the U.K. and the U.S. This will create a few small

marketing companies as well as provide a more reliable income for small farmers. A 4% growth rate in agricultural production is projected along with a 3% annual growth in employment resulting in approximately 1535 jobs. Joint ventures with at least one Puerto Rican company in agro-processing should witness the beginnings of an export market for citrus and exotica.

Mention should also be made of the modest growth in tourism. Tourism in Dominica will continue to focus on the island's attributes as a naturalist's haven. In the Portsmouth area development of yachting facilities catering to the section of the tourist market largely from the French islands of Martinique and Guadeloupe will provide additional scope for small enterprise development in the north of the island.

DOMINICA
LIST OF CURRENT INDUSTRIES

NAME	EMPLOYEES	MARKETS	OWNERSHIP
Garments			
Carib Apparel Ltd.	81	US/Local	Local
Clmaingo Industries	60	Regional CARICOM	Local
Dominica Leather Crafts Ltd.	54	Local	Local cooperative
E.E. Mitchell & Associates Ltd.	45	U.S.	Local 52%/Foreign 48%
Knitwear Products Dominica Ltd.	40	CARICOM	Trinidad
Moreau's Manufacturing Center Co.	19	Local	Local
H&L Enterprises	7	Local	Local
Heliance Dress Shop	19	Local	Local
Construction Materials			
Dominica Clay Products	6	Local	Public company
Dominica Steel Works Ltd.	3	Local/CARICOM	Subsidiary of Barbados Steel Works Ltd.
Harris Paints Dominica Ltd.	9	Local	Subsidiary of Harris Paints, Barbados
Murry Block	8	Local	Local
Northeastern Timber Utilization Project	18	Local	Cooperative
P.H. Williams & Company, Ltd.	38	Local/some export	Local
Small Lumber Producers Group	40	Local	Local cooperative
Electronics			
Dominica Electronics & Appliances Ltd.	40	CARICOM/USA	Dominica Industrial Corp.
Food & Beverage			
Agro Industries Ltd.	12	U.K.	Government
Belfast Estates Ltd.	17	Local	Local private
Bottlers Ltd.	35	Local	7-UP - USA, JU-C - Trinidad
Dieter Fabig Meat & Sausage Enterprise	14	Local	Expatriate - German
Josephine Gabrielle & Company	36	Local	Foreign (Coca Cola and Fanta) under franchise
Macoucherie Rum Distillery	50	Local	Local
Paul Joseph & Company Ltd.	5	Local	Local private limited company
Perry W. Bellot & Co. Ltd.	40	Local/CARICOM/UK	Local private company
Furniture			
Charles Brothers Furniture	13	Local	Local
The Cheapside Furniture Store	18	Local	Local
Home Industries Cooperative	31	Local	Local
Industrial Enterprises Ltd.	14	Local/Foreign	Local
Jaws Enterprises Dominica	N/A	Local	Local
Raffoul Furniture & Foam Mattress Co.	17	Local	Local
Handicraft			
Tropicrafts Ltd.	21	U.S. mainly	Local
Miscellaneous			
Agri-Management International	90	Export	
Candle Making Industry	5	Local	Local cooperative
Dominica Coconut Products, Ltd.	185	Local/CARICOM	Local public limited company (2% St. Lucia)
James Garraway & Co.	29	Local	Local
Petite Savanne Bay Producers Cooperative Society Unlimited	Approx 65	Export US	Local cooperative
Photo/Printing			
Tropical Printers Ltd.	33	Local	Local

DOMINICA
POLITICAL, SOCIAL AND INSTITUTIONAL ANALYSES

I. Political Settin

In 1980 Eugenia Charles and the Dominica Freedom Party were overwhelmingly elected to power after the fall of a regime that was considered to be unpopular. In the midst of political turmoil in 1979 and 1980, Dominica was further shattered by successive hurricanes which devastated the fragile banana and coconut industries (the economic mainstays of the economy) and wiped out basic infrastructure and housing for thousands of the island's 78,000 residents.

Dominica's rugged topography and geographic position in the tropical storm zone has contributed to the island's impoverishment and underdevelopment. Political uncertainty has further exacerbated the situation. Shortly after assuming office, the current administration was rocked by two separate coup attempts, allegedly by supporters of the former regime and mercenaries from the U.S. and Canada.

Although there is widespread support for the current administration, whose popularity rose even higher as a result of the prominent role played by the Prime Minister as chairperson of the OECS during the Grenada intervention of October 1983, the Freedom Party government is faced with underlying social cleavages that continue to threaten the stability of the island. While sections of the labor union movement have given qualified support to the present regime, labor unions have traditionally been the backbone of the opposition Labour Party. The Freedom Party is viewed as a more conservative party supported by business interests and farmers. The political fragmentation of the opposition and the turmoil of the last regime have aided Ms. Charles' and the Freedom Party in drawing support from those who traditionally would have supported labor. Dominica also has a large Rastafarian movement, splinter black nationalist groups and a small Marxist political party.

Dominica is presently gearing up for an election in the immediate future. The Freedom Party has begun its campaign which focusses on plans to inaugurate and complete a number of important donor projects in infrastructure including the recently signed AID Rural Electrification Project. The government is committed to agricultural diversification and private sector development predicated on local and foreign investment. The government also proudly stands on its record as a supporter of US policies in the region.

At this date, it is difficult to predict the outcome of elections scheduled for late 1985 which will determine Dominica's economic policies for the next five years. However, support for the Freedom Party is still fairly large, even though not all share in the political philosophy or welcome such an overt support of a foreign Government. Although the left-leaning opposition enjoys the support of significantly high numbers of youth in the country, many would argue that sympathy with aspects of political philosophy has not been deepened to a trust in the ability of the opposition to run the country.

This mistrust appears to be well founded. The only factor which unites the opposition is their political aspirations. Hence, should the Freedom Party lose the elections, the country would again be most likely thrown into a period of instability.

However, the determination and commitment of the Freedom Party leadership, though thin in numbers, and the present large political support for the Government may prove to be most significant in the present conjuncture which is very crucial to the long term political and economic stability of the Commonwealth of Dominica.

II. Social Setting

A. Demographic Profile

The 1981 census indicated a population increase of a mere 3,788 or 0.05% annually over the decade. This low rate of increase, attributable to a declining fertility rate, is the result of two factors. First, the growing acceptance of family planning and contraception among Dominican men and women, and secondly, and more importantly, continuously high emigration rates throughout the decade. The migration of women is particularly notable. Rates of out-migration by women dramatically increased in 1979 and 1980 following two severe hurricanes. In fact, during the decennial period, the female population did not grow; the sex ratio is 99.2 which is most unusual for the Caribbean where women significantly outnumber men. Crude birth rates have fallen from 39 per 1,000 in 1970 to 27.6 in 1981. Concurrently, the total fertility rate (TFR), that is, the average number of live births per women is around 3.4 which is quite low by Third World standards.

Fertility decline and changing emigration patterns have resulted in significant alterations in the age composition of the Dominican population. In 1970 Dominica exhibited a high dependency ratio of 122 with about 50% of the population under 15 and 5.9% over 65. By 1980 the dependency ratio was significantly modified. Only 40% of the population are under 15 while 7.2% are over 65 resulting in a much more favorable ratio of 89. Between 1970 and 1981 there also was a sharp decrease in the age group 15-30 due to heavy out migration. There has been little change in the school age population of Dominica between 1970 and 1980 and little change is expected for the rest of the decade; in fact the school age population as a proportion of the total population will actually decline.

However, there will be dramatic increases in the numbers of persons entering the labor force for the rest of the decade and up to the year 2,000. Despite continued emigration at present rates (800 per year), the numbers of persons entering the labor force will continue to grow because of the baby boom of the 1960's. Between 1970 and 1981 the number of young men in their twenties has grown 70% as the relative size of the age group 15-44 rose in this period. Both the labor force and the number of potential mothers has been increasing in size faster than the population as a whole. With 49% of the population under 14 in 1970, the 1980's and 1990's will experience the largest cohort ever ready to

enter the labor force. If the fertility rate declines from 3.4 to 2.9 and emigration drops to 400, by 1990 the labor force is projected to reach 34,600 persons, an increase of 9,467 over 1980.

Unemployment in Dominica is estimated to be around 20%. Data on the 1985 situation is not available, but indications are that the patterns exhibited during the 1981 census remain the same. That is, in Dominica seasonality is not that important to unemployment rates, nearly 70% of the male and female economically active labor force work year round. Female unemployment for women is significantly higher than for men; 50% higher than for males. Female heads of households have higher unemployment rates than males. Unemployment rates for those under 20 are higher than for any other group; over half of the total unemployed are in this age group. These numbers are not only a reflection of the larger cohort under twenty, but also of the high emigration rates among the 25 to 35 age group.

B. Physical Quality of Life

In Dominica certain indicators point to fairly low standards reflective of the serious underdevelopment problems of the island. Most of the population live in widely separated villages around the coastline and near the major rivers of the island. Transportation is hazardous and difficult. According to the 1981 census, only 30% of the population uses electricity. Access to potable water varies widely. The majority of people residing in the major towns of Roseau and Portsmouth and in the larger villages have access to standpipes (47%). Throughout rural areas, however, many residents utilize river water, while for others delivery and quality of potable water is substandard. The vast majority of households outside Roseau use firewood and charcoal for fuel (75%). In some areas women have to walk a good distance to obtain firewood and there is need for proper forest harvesting and maintenance. Housing is very poor and much of it is merely scrap erected after the hurricanes of 1979 and 1980.

Health services delivery needs improvement in management and cost effectiveness. Access to physicians is low at 4,560 persons per physician and 230 persons per hospital bed. On the east coast, health care delivery is severely affected by lack of electrification. Quality of water is a concern particularly with respect to pesticides used in agriculture and the widespread use of pit latrines. Some communicable diseases are a matter of concern, typhoid rates are 84 per 10,000 and gastroenteritis is a problem, especially among infants.

Literacy rates and access to education are high by Third World standards. According to a 1982 UNESCO survey, only 8% of the population is estimated to be illiterate and 13% functionally illiterate with less than six years of primary school"

C. Social Organization and Cultural Patterns

1. The Village as the Cornerstone of Society

Until ten years ago the majority of the settlements of Dominica were isolated communities cut off from one another by steep mountains and ravines, fast-flowing unbridged rivers and rough seas. It was only in 1966 that an east coast road was opened to vehicular traffic followed by a west coast road which was only completed in 1972. To date, there are numerous communities which lack electricity, telephone and water services. Poor access to roads and transport facilities keep the populace heavily dependent on their own resources. Consequently, although transport and services have been improved, most Dominicans live in villages that have less than 500 people and for most village life is the center of social and economic activity. Rural local government, self-help efforts and voluntary action through committees and private organizations are characteristic. At present there are thirty village councils with statutory powers, seven district councils and the Dominican Association of Village Councils. Participation in local government elections and activities is high. Cooperative activities in production are also numerous and Dominica has the largest community-based credit union movement in the world. Government is seriously considering proposals for further devolution of powers from the Central Government to District Councils whereby local bodies would have administrative control over all services with the exception of fire, police, water and electricity.

2. Role of Women

Women are active participants in the development of Dominica. The dynamic Prime Minister Eugenia Charles is not an exception but rather a reflection of the significant role women have historically played in Dominican political, social and economic life. Not only has Ms. Charles been a co-founder of a political party, but the co-founder of the other major political party in Dominica, the Labor Party, was also a woman, Phyllis Allfrey, who also was active in the trade union movement and the West Indies Federation Movement in the 1940s and 1950s.

Women, who comprise 50% of the population of Dominica, are economically active in every sector, including agriculture, where women farmers represent 21% of banana growers, 13% of citrus growers, and 18% of the tree crop diversification project participants. A recent Ministry of Agriculture survey found that women are an important category of landowners in several districts of Dominica. Women agriculturalists are also involved in the cooperative movement where they appear to play a dynamic leadership role. This is also true of the community based credit unions, where in many rural districts women form the majority of board members, such as in the successful Marigot district. Additionally, women in Dominica dominate the booming huckstering trade with the Leewards, Martinique and Guadeloupe. Recently, a Huckster's Association has been formed with the aim of improving credit lines, trade volume and marketing. Women's participation in the economic sector is an important factor in Dominica's overall standard of living because women are frequently the primary support of their families. Female-headed

households are at least 50% of all households in Dominica with an average of 4.6 persons per household. Women workers comprise 45% of service sector employment, 50% of the manufacturing employees and one quarter of the agricultural labor force. However, as noted earlier women workers in all age groups suffer from higher unemployment rates than men. For example, in 1981 67% of girls aged 15-19 were unemployed. As these are critical years in terms of personal development and childrearing patterns, these statistics are cause for concern.

III. Institutional Setting

The Government is impeded in its ability to carry out development projects and to successfully plan and administer programs due to serious budgetary constraints and staffing gaps at the management and technocratic levels. Also, the lower grades of the civil service are composed of individuals who view their jobs as sinecures and have little motivation to expand either their skills or to change their outlook and view themselves as agents in the development process.

At the higher echelons, technocrats are overburdened by heavy workloads and an inability to delegate responsibility. Hence, even where Ministries are receiving technical assistance from donors and agencies such as AID, BDD and CFTC, the ability to internalize and build up expertise is hampered by bureaucratic inertia, organizational and management problems and lack of qualified personnel. There are serious gaps at the middle and lower technical levels of the civil service. Lower level employees, such as extension officers, often have little education or training. In fact, lack of certification impedes many from further training. These staffing shortages are accompanied by the excessive hiring of clerical and semi-skilled personnel due to the Government's role as an employer of last resort.

In spite of financial constraints and lack of senior administrative and technical personnel, the Government has been successfully building institutions at the grassroot level by channeling funds and coordinating donor development projects through the Ministry of Home Affairs which has responsibility for local government and community development. Village councils identify projects and programs for the community and administer social welfare, community development and donor projects. They have also been working with the National Development Foundation in identifying persons who will benefit from the National Development Foundation of Dominica's program. Local initiative, participation and learning capacity are being encouraged in this process of decentralization.

DOMINICA
OTHER DONOR ASSISTANCE

I. Caribbean Development Bank

A. Current Projects

1. Feeder Roads
2. Industrial Estates I and II
3. Hydroelectric Resources (exploratory)

B. Proposed Projects

1. Feeder Roads III
2. Fisheries Development (Cold Storage and Marketing)
3. Industrial Estate III
4. Hydroelectric Project
5. Water Catchment and Development

II. British Development Division

A. Current Projects

1. Tree Crop Diversification
2. Coffee Rehabilitation
3. Portsmouth-Capuchin Road
4. Dominica Agricultural Marketing Board (Cold Storage)
5. Banana Industries Support Scheme

B. Proposed Projects

1. Banana Industries Support Scheme II
2. Tree Crop Marketing Project
3. Coffee Development II

III. Canadian International Development Agency

A. Current Projects

1. Coconut Rehablitation and Expansion
2. Portsmouth-Hatton Garden Road
3. Melville Hall Airport Rehabilitation
4. Deep Water Port Shed

B. Proposed Projects

1. Water Systems Development Project
2. Hydroelectric Project

IV. European Development Fund

A. Current Projects

1. Essential Oils I
2. Fresh Water Prawn Culture
3. Lime Rehabilitation
4. Ornamental Plants
5. Fruit Production and Processing
6. Pont Casse/Castle Bruce Road
7. Colihaut-Arose Feeder Road

B. Proposed Projects

Feeder Roads

V. World Bank

A. Current Projects

Road Maintenance (IDA)

B. Proposed Projects

Hydroelectric Project (IBRD or IDA)

VI. France

A. Proposed Projects

Canefield Airport Extension

VII. I.F.A.D.

A. Current Projects

Food Production

B. Proposed Projects

Integrated Rural Development

VIII. Cable and Wireless

A. Current Projects

Private Sector Telephone Expansion

XN - ABB 246 B

GRENADA COUNTRY SUPPLEMENT TO THE CARIBBEAN REGIONAL CDSS 1986 to 1990

	Page
I. AID STRATEGY	
A. Overview	1
B. Sectors	4
1. Agriculture	4
2. Tourism	5
3. Manufacturing	6
II. KEY DEVELOPMENT OPPORTUNITIES, CONSTRAINTS, AND POLICY ISSUES	7
A. Development Opportunities	7
1. Agriculture	7
2. Tourism	8
3. Manufacturing	8
B. Key Development Constraints	9
1. Economic Policies	9
2. Infrastructure	10
3. Investment Promotion and Support	11
4. Managerial and Technical Skills	12
C. Policy Dialogue Agenda	12
1. A Comprehensive Development Strategy	13
2. Investment Incentives and Investment Approval	13
3. Fiscal Issues	14
4. Privatization of Public Sector Assets	14
5. Market Restrictions	15
6. Sectoral Issues	15
III. ATTACHMENTS	
A. Economic Analysis	
B. Private Sector Profile	
C. Political, Social and Institutional Analyses	
D. Other Donor Assistance	
E. Map of Grenada	

I. AID STRATEGY

A. Overview

Grenada's economy is agriculture-based with 90 percent of export earnings derived from three principal crops: mace and nutmeg, cacao, and bananas. While tourism earns one third of the country's foreign exchange, the lack of any investment in the sector in the last eleven years has resulted in substantial deterioration in hotel plant and services. Manufacturing, whose enterprises are small and almost all locally owned, averaged only 3 percent of Gross Domestic Product (GDP) in 1980-1984. Performance overall has been very uneven since 1980, and experienced a dip in 1983, due partly to the October intervention and partly to the political destabilization which occasioned that intervention.

From November of 1983 up to the elections of December 1984, the Interim Administration introduced a number of economic reforms designed to brake the economic decline, raise the level of investor confidence, increase private sector participation in the economy, and encourage growth. To support the Government goals and to improve the country's investment climate, AID provided balance of payments assistance, technical assistance for policy analysis, and substantial grant funds for infrastructure development. The economic decline was arrested in 1984, but GDP growth for that year is estimated at less than 1 percent. This insignificant growth rate reflects persistently low investor confidence due to uncertainties over the outcome of the December elections and potential Government attitudes towards private investment, poor infrastructure, and concerns about island security after planned U.S. troop withdrawals in June of 1985.

Since elected in December of 1984, the new Government has been consolidating its political position and refining its economic strategy. In his 1985 Budget Speech before the House of Representatives, the Prime Minister outlined a series of economic policies the present administration wishes to pursue in establishing a framework for economic growth leading to self-sufficiency and to reduced unemployment, which Government estimates at 30 percent of the work force.

The goal of RDO/C's strategy in Grenada during the 1986-1990 planning period is to assist the country in moving closer to both stable growth in productive activity and financial solvency. Financial solvency is vital because Grenada is dependent on substantial external funding, resulting in high debt servicing obligations that diminish resources for the provision of vital public services. While movement toward stable growth in productive activity is consistent with the Government's commitment to private-sector led growth, rising expectations will make financial solvency more difficult to achieve in the same timeframe.

To achieve the strategy goal, assistance will be focussed on efforts expected to increase the private sector's investment and production in the country's leading economic sectors: agriculture, tourism, and manufacturing. Project interventions to be used to achieve

these objectives may be grouped into four principal areas: (1) Economic Policy Reform; (2) Infrastructure Improvement; (3) Strengthening of Investment Support Institutions; and (4) Private Sector Skills and Management Training. The specific sector objectives, project interventions, and benchmarks for the 1986-1990 planning period are set forth in Table 1 and provide the basis for the sectoral discussions in Section B, below.

To achieve the solvency goal, AID is prepared to provide significant support for policy analysis. The Government's response has been encouraging, particularly with respect to fiscal reform. Nevertheless, the challenge for AID over the five-year planning period is formidable. AID's assistance to Grenada will be greatly reduced beginning in FY86 to levels more comparable with the other Eastern Caribbean States. The benefits of policy changes, however, are unlikely to be realized in less than two years. Thus, at a time when the populace's expectations of the new Government will be highest, AID will be reducing the amount of assistance substantially.

Moreover, some of the policy changes, such as privatization of state-owned enterprises and rationalization of the public sector, may result, in the short term, in reduced employment. Convincing the Government that such policy changes will indeed contribute to fiscal solvency and provide a sound economic base for increased investment, growth, and political stability will become increasingly difficult as the Government struggles with the political aspects of possible economic dislocations.

A critical caveat is in order here. It is important to recognize that it is neither possible nor desirable to complete the changes involved in the restructuring of the Grenadian economy in a short period. Realistically, it should not be expected that the reduction in the share of the available resources absorbed by the public sector will be accomplished by significant early reductions in the level of Government expenditures. The maintenance and operation of public capital formed in the past four years, and the need for further major improvements in the infrastructure that support private productive activity preclude major spending cuts. Therefore, the only real means of increasing the relative role of the private sector is to realize strong economic growth with the private sector taking the lead. This should be the goal of an institutionalized 5-year economic recovery program focussed on policy changes. Since there will undoubtedly be short to medium term net costs to the Government associated with the changes that must be undertaken, it must be recognized that significant levels of external, concessionary assistance will be needed for several years into the future.

AID's strategy, given this sobering situation, must be to tackle those growth constraints whose removal can most expeditiously give impetus to productive, employment-generating, economic activity. If this can be successfully accomplished, the short-term negative impact of reduced revenues and of policy changes can be minimized, and the economy brought closer to a stable growth path.

Table 1

GRENADA STRATEGY SUMMARY

1986 - 1990

Goal of the AID Strategy: Achieve both stable growth in productive economic activity and financial solvency

Benchmarks:
3.9% annual growth in GDP
3% annual growth in employment
7% annual growth in exports

Sectoral Strategies

Agriculture	Manufacturing	Tourism
Objective: Increase private sector investment and production while diversifying to earn foreign exchange and reduce imports	Objective: Expand manufacturing output, primarily for extra-regional markets	Objective: Encourage rapid expansion of tourist accommodations and ancillary facilities within the framework of a comprehensive Government strategy which addresses environmental concerns
Benchmarks: 4% annual growth in traditional crops 10% annual growth in nontraditional crops 4% annual growth in employment	Benchmarks: 8.8 annual growth in employment 12.4% annual growth in manufacturing	Benchmarks: 13% annual growth in employment 20% annual growth in tourism
Program Interventions: - Develop a long-term strategy for attracting private investment into nontraditional agriculture and fishing - Privatize state-owned lands - Improve the operation of the Marketing and National Import Board (MNIB) - Improve the Grenada Development Bank's capacity to appraise medium and long-term agricultural project proposals - Improve operations of the Pest Management Unit - Improve the marketing efforts and pricing schemes of the producer associations - Investor search for agro-industry projects such as ornamental plants and cut flowers, as well as exotic spices and fruits	Program Interventions: - Improve productive infrastructure, particularly water and electricity - Improve investment promotion and investor search - Assist in development of more factory space - Assist the IDC in streamlining investment approval process - Providing credit, training, and TA to the private sector	Program Interventions: - Improvements in road and water systems - Assist with development of a national tourism development strategy and identification of lands for hotel & restaurant development - Investor search and assistance in developing projects - Assistance to indigenous private sector in identifying and preparing projects for financing - Assistance to the Government in development of larger tourist establishments and cruise ship market - Studies of projected electricity and water demand - Training of managers and staff
Policy Agenda: - Gradual reduction in export duties - Analysis and plan for making producer association pricing schemes more responsive to international market prices - Privatization of Government owned estates - Replacement of import licensing requirements and quota restrictions with tariffs - Develop a medium to long-term strategy to attract private investment into nontraditional agriculture and fishing	Policy Agenda: - Assess corporate tax rates and consider reductions - Eliminate import duties on inputs used for processing for export or consider a tax draw back scheme for exporters - For local manufacturers involved in 807 operations, consider elimination of airport tax and foreign exchange tax - Delegate more authority to the IDC in approval of investment proposals - Removal of tax on exports - Legal clarification of investment code - Privatization of State-owned enterprises	Policy Agenda: - Temporary moratorium on import duties on vital imports needed by the indigenous private sector to expand plant - Adoption of a tourism development strategy with zoning - Establishment of a semi-autonomous Tourism Promotion Board with the authority to develop and expand the sector, identify training and assistance needs, and borrow funds for sector development - Divest GRC, with first option to local business sector
Constraints: - Producer Associations are weak in management and use ineffective pricing schemes - Inadequate capabilities in pest management - Lack of coordination and cooperation between Ministry and producer association extension efforts - Lack of feeder roads and poorly maintained access roads - Increase in value of U.S. dollar relative to European currencies has made Grenadian exports less competitive - Downward trend in spice prices on the international markets - Maturation of cacao and banana trees has resulted in low yields	Constraints: - Absence of factory space, an industrial estates development plan, and identified land on which private investors could develop suitable factory space - Limited institutional capabilities in providing one-stop investor assistance, providing timely approval of investment proposals, - Lack of investor confidence - Poor infrastructure - Shortage of skilled managerial talent - Limited cargo shipping routes - High corporate tax - Small domestic market	Constraints: - International image is one of political instability - Limited hotel accommodations - Lack of approved sector development strategy - Inadequate promotion program - Inadequate water and electricity services and the absence of waste treatment facilities - Limited recreatonal and entertainment options - Cumbersome investment approval process - Ideological legacy that tourism is a form of foreign domination and exploitation - Shortage of skilled managerial talent

B. Sectors

1. Agriculture

Agriculture is Grenada's most important source of income, export earnings, and employment. The sector accounted for nearly 21 percent of GDP in 1984. It produces approximately 90 percent of export earnings and employs almost 40 percent of the country's work force. Four crops, bananas, cacao, nutmeg, and mace produce three quarters of the sector's value added.

Grenada's agricultural sector is presently subject to declining production. The decline can be attributed to reduced plantings, low yields, and falling earnings. Factors contributing to the sector's malaise include disruptive political events over the decade, weakened demand for the principal exports, maturation of trees, disease, and poor pricing systems. High export taxes have also discouraged investment and production.

The constraints notwithstanding, opportunities exist to encourage increased production. Grenada's cacao is among the finest in the world. Grenada's geography and climate lend it to diversification into other spices such as vanilla, as well as into fruits and vegetables, cut flowers, and ornamental plants. The country's fishing industry offers unknown possibilities which should be explored. AID's strategy, then, is to increase private sector investment and production in cacao and bananas, while facilitating linkages in the domestic economy which would encourage substitution of local fruits and vegetables for imports. Diversification into high value exports such as minor spices, cut flowers, and ornamental plants will be assessed.

To improve the operations of weak support institutions such as the producers' associations (banana, cacao, and nutmeg) and the Marketing and National Import Board (MNIB), AID will provide technical assistance to improve marketing as well as screening, sorting, grading, and packaging of produce. Training in pest management will also be expanded through encouragement of greater coordination between Government agricultural extensionists and officials in the Pest Management Unit of the Ministry of Agriculture. Technical assistance will be provided, if necessary and requested, to private sector agribusiness concerns through Project SUSTAIN and the International Executive Service Corps.

To stimulate and support agricultural diversification, AID will provide funding under the High-Impact Agricultural Marketing and Development Project for pre-feasibility studies in the area of agro-processing and fish processing. Potential crops to be researched will include cut flowers, ornamental plants, minor spices (such as vanilla), and fruits and vegetables. AID will also support an assessment of marine resources. To assist the small producer, efforts will be made to improve linkages with other sectors, particularly tourism, including hotels and restaurants.

In the policy area, the Fiscal Reform Project will examine the production and revenue implications of further reductions in the export tax. The project will also examine the effects of import licensing requirements and quota restrictions on the sector's competitiveness. Increased participation of growers on the boards of the producers associations will also be an item on the policy dialogue agenda.

2. Tourism

The tourism sector has now become the leading foreign exchange earner in Grenada's economy. In 1984, approximately 28,800 stay-over visitors spent nearly US$17.2 million. Tourism related activity employed approximately 4 percent of Grenada's active work force. The number of visitors still falls short of the 1972 high of 38,000, but places Grenada in striking distance of the Hotel Association's target of 32,000-35,000 for the 1985/86 winter tourist season. The Association's 1990 target of 70,000 visitors would represent 1 percent of the Caribbean tourist market, but is unlikely to be met. Still, tourism is estimated to grow at about 20 percent on average per year for the quinquennium, and tourism's contribution to Grenada's GDP is expected to rise to about 9 percent in 1990. The sector's share of the work force could be expected to also increase from 4 percent in 1984 to 7 percent in 1990.

There are a number of opportunities in the tourist sector. The new airport has the potential of increasing overnight visitors substantially, once hotel facilities are adequately expanded. Also, tourism is the only economic sector that can have an immediate impact on both the employment and foreign exchange problems in the short term, as the physical plant is in place and can be readily expanded without significantly overburdening existing physical infrastructure. In addition, increased numbers of visitors will add to airport revenues, relieving the burden on the treasury of supporting the airport's operations. Finally, 90 percent of Grenada's hotel rooms are owned by indigenous businessmen, thus immediate investment in the sector will benefit local business.

A major constraint in the tourist sector at this point, in addition to the lack of sufficient hotel space to justify major international air carrier service, is political uncertainties which have discouraged investment (there has been no new investment in the sector in 11 years). In addition, — reductions in air services have resulted in low occupancy rates and consequent deterioration in plant and services. The strategy objective in tourism will be to encourage rapid expansion of tourist accommodations and ancillary facilities within the framework of a comprehensive Government strategy which addresses environmental concerns (sewerage and beach erosion) and appropriate tax incentives for indigenous as well as foreign investors.

Under the Fiscal Reform Project, the Government may wish to consider certain tax incentives for local hotel plant expansion, such as temporary relief from taxes on imports used in hotel construction. Since foreign investment is difficult until particular zones are designated for hotels and ancillary services, the Government will be

encouraged to develop and adopt a tourism development strategy. The strategy will be instrumental in AID's primary activity focus, infrastructure development in major tourist centers. Areas of attention will include water supply, electricity distribution, and road repair improvements. Other donors are expected to contribute assistance in the areas of telecommunications, electric power generation, and waste water disposal. AID will consider jointly funding major infrastructure efforts. AID will also assist the Hotel Association with training of hotel and restaurant workers where needs are identified under the Regional Non-Formal Skills Training Project.

3. Manufacturing

The manufacturing sector in Grenada is small; it is comprised of less than 40 companies and accounts for fewer than 900 jobs. From 1980 to 1984, the sector's share of GDP averaged 3 percent percent. Within the sector, the beverage and tobacco industry is the largest employer followed by garment manufacturers, and food products. Most companies are operating below capacity and are small, averaging 25 employees. Only four companies have any foreign participation, and in only one case is the controlling interest foreign. Only 14 companies export, and less than half export in any significant quantity outside the CARICOM region. All 14 companies export garments, primarily to Trinidad until the Government of Trinidad and Tobago imposed exchange controls in late 1982. With the exception of food and wood product industries, companies import their raw materials.

The constraints confronting the manufacturing sector are the high company tax rate, lack of adequate factory space, poor infrastructure, a slow investment approval process, and limited managerial capacity. The sector's opportunities include a healthy and relatively educated labor force, comparatively low wages, the newly opened international airport, and the Government's announced intentions to pursue a privatization strategy.

AID's strategy for manufacturing is to expand manufacturing output, primarily for extra-regional markets. AID assistance will focus on the company tax problem through the Fiscal Reform Project, which will also examine the advantages of a tax drawback scheme for manufacturers and certain import tax holidays for indigenous factory expansion and construction. Technical assistance and training will be provided to key personnel in the major institutions supporting development of the sector, including the Industrial Development Corporation (IDC) and the Chamber of Commerce.

In addition to bilateral infrastructure development projects, AID will tap the regional projects specifically supporting the sector. Regional projects will include the Infrastructure for Private Investment Project for private sector construction of factory space, the Investment Promotion and Export Development Project to continue investor search and technical assistance to the IDC, the Caribbean Financial Services Corporation Project for private sector investment credit, and the agreement with the Caribbean Association of Industry and Commerce for assistance to private sector business associations.

II. KEY DEVELOPMENT OPPORTUNITIES, CONSTRAINTS, AND POLICY ISSUES

A. Development Opportunities

1. Agriculture

Although agriculture is Grenada's most important source of income, export earnings, and employment, production of the major export crops is steadily declining. Banana production declined approximately 54 percent over the last five years from 41.9 million pounds in 1979 to 19.7 million pounds in 1984. Cacao production declined almost 28 percent from 6.1 million pounds in 1979 to 4.4 million pounds in 1984. Nutmeg production declined nearly 5 percent from 6.2 million pounds in 1979, to 5.9 million pounds in 1984.

While Grenada's traditional agriculture sector is experiencing difficult problems, opportunities exist for expanding and diversifying production. Approximately 80 percent of Grenada's bananas are exported to the UK, but the annual quota of 20,000 tons has not been met since 1970. Grenada's cacao is considered to be of the finest quality in the world. Lower prices notwithstanding, additional production could be absorbed in the market.

Grenada has not only recognized that it has a great deal to gain by diversifying its exports, but also has demonstrated significant potential to succeed in this effort. In 1984, exports of fruits and vegetables accounted for 33 percent of all agricultural products. Performance can be partially attributed to the declines in yield and earnings noted in the traditional sector. On the other hand, farmers appear to be responding to the high intra-regional demand for fruits and vegetables, particularly in Trinidad. The market could be expanded with improved packing and storage facilities, better standards of screening and sorting of produce, improved market information, and adequate transportation. The Marketing and National Import Board has a role to play in these activities but needs institutional strengthening assistance.

Grenada also offers climatic and geographical opportunities for diversification into cut flowers, ornamental plants, and minor spices such as vanilla. Given trade opportunities created under the Caribbean Basin Initiative, such nontraditional exports could be highly profitable. To encourage agricultural diversification, AID will, under the High-Impact Agricultural Marketing and Development Project, finance analyses and pre-feasibility studies of potential agricultural products in the nontraditional sector which could most benefit from the CBI.

Finally, it should be noted that the Government is examining the requirements for implementing a "model farms" program in Grenada which would permit agricultural workers to purchase land through a leasing arrangement over several years.

Opportunities exist to develop Grenada's fishing industry. Some preliminary studies of the Smithsonian Institute indicate the eastern shore of Carriacou offers excellent possibilities for cultivation of the Caribbean Spider Crab. Several foreign invstors have indicated an interest in pursuing this opportunity. The best opportunity for AID assistance is in collaboration with Grenada's private sector, with the Government, and perhaps with other donors, in an assessment of the entire fishing industry and articulation of a strategy for its development. This assessment, as noted earlier, might be included in the High-Impact Agriculture Project.

2. Tourism

In tourism, Grenada has an opportunity to develop assets that are favorable compared to those of its neighbors. Grenada has long been a destination of the up-scale market and is recognized as one of the most attractive areas in the world for yachtsmen. It possesses a rich history that is evident in the old-world charm of St. Georges, built around a picturesque harbor that provides anchorage to cruise ships, luxury yachts from Europe and North America and local vessels of every shape and description. Its history is captured in the forts and the profusion of pre-twentieth century buildings that surround and overlook the harbor. The island is volcanic in origin and its extremely hilly and rugged terrain, much of it covered by rich tropical growth, is spectacular. The interior is largely undeveloped and, with its soaring mountains, waterfalls and rain forests, offers tourists something different from the more settled coastal areas which are characterized by dozens of secluded bays and, at Grand Anse, one of the most beautiful white sand beaches in the Caribbean. Much of Grenada's appeal is in its life-style. Grenada moves at a slower pace; and to the European or North American tourist who wants to escape for a few weeks, it provides a refuge and a tonic.

The completion of the Point Saline International Airport makes Grenada accessible by direct flights from Europe and North America. There is great potential in the expected increase in tourism, not only in the hotel and restaurant sub-sectors, but also in the increased demand for agricultural and manufactured products necessary to serve the market. In the short run, tourism is the only economic sector that can have an immediate imprint on both employment and foreign exchange problems. However, it will be important to maintain Grenada's appeal while expanding its market. The sector's high visibility and attraction to large foreign investments may be perceived as a threat by local businessmen. Their interests must be taken into account to avoid demands for protection, including Government restrictions on foreign investments.

3. Manufacturing

With the opening of the new airport and the opportunities provided by the Caribbean Basin Initiative, Grenada must begin to develop its manufacturing sector. The investment code has been revised to harmonize Grenada's investment incentive legislation with that of other

Eastern Caribbean states. A regional AID project has been initiated in Grenada to provide skills training. A loan from the CDB will finance construction of 40,000 square feet of factory by 1986. In addition, AID is refurbishing warehouses to provide 40,000 square feet of space, primarily for domestic manufacturers, and a regional AID project is channeling funds through an ECCB credit line to finance private construction of factory space.

Most important, the Government has established an Industrial Development Corporation (IDC) to provide one-stop investor assistance. It will take time, but with technical assistance, the small and inexperienced staff can develop the IDC into an effective instrument for facilitating Grenada's industrialization.

A healthy, relatively well educated work force and renewed confidence among investors should attract foreign as well as local interest in the possibilities of assembly and enclave industry.

B. Key Development Constraints

1. Economic Policies

Unique to the region, Grenada faces the problem of enacting fundamental changes in its economic system. The new Government is committed to converting from an inward focussed, non-market economic system to one guided by private markets and competition. There are a number of problems involved in achieving this transformation. The public share of Gross Domestic Product is substantially too large: public consumption and investment were equivalent to 56 percent of GDP in 1984. In the 1980-84 period, investment has been between 70 and 90 percent public, rather than private. In order to finance the enlarged public sector budget during the period, resources were drawn away from the private sector through taxes and Government borrowing from domestic sources. In real terms, private investment dropped by a total of 40 percent during the 1980-84 period, and public investment increased by 75 percent.

The policies that were adopted to facilitate the expansion of the public sector discouraged private investment and production. The result was a flight of human and financial capital, and an unwillingness to make the investment required to maintain and renew the stock of private capital. These policies must be reversed in order to attract domestic and foreign investment in Grenada.

It is important to recognize that it is neither possible nor desirable to complete the changes involved in the restructuring of the Grenadian economy in a short period. Realistically, it should not be expected that the reduction in the share of the available resources absorbed by the public sector will be accomplished by significant early reductions in the level of Government expenditures. The maintenance and operation of public capital formed in the past four years, and the need for further major improvements in the infrastructure that support private

productive activity preclude major spending cuts. Therefore, the only real means of increasing the relative role of the private sector is to realize strong economic growth with the private sector taking the lead. It must be the goal of an institutionalized 5-year economic recovery program focussed on policy changes. Since there will undoubtedly be short to medium term net costs to the Government associated with the changes that must be undertaken, it must be recognized that significant levels of external, concessionary assistance will be needed well into the future.

2. Infrastructure

Inadequate infrastructure is a significant obstacle to investment across sectors. The Interagency Team on Commercial and Private Sector Initiatives travelled to Grenada in November 1983, to examine general economic and private sector conditions in the aftermath of the rescue mission. In its analysis of the principal constraints to increased trade and investment, the team recommended support for the rehabilitation of public utilities and infrastructure. Priority concerns identified were completion of the airport, primary road repair and maintenance, construction of feeder roads, improvements in the supply and distribution of water and electricity, and investment in more reliable communications systems.

Years of inadequate maintenance and insufficient additions to the infrastructure base have left the Government with the formidable challenge of just meeting current demand for services, let alone the strains to be added from expected economic expansion and population growth over the next five to ten years. While the Infrastructure Revitalization Project initiated in September of 1984 funded a wide variety of infrastructure activities, work was limited to repairs to meet a few of the country's immediate needs. New systems for sewerage, electricity, telecommunications, and water are still needed.

There are presently some 650 miles of roads in the state of Grenada, most of which are in poor condition. Until recently, less than 330 miles of the roads were paved, and 70 percent of the paved roads have only one lane. There are some 57 bridges most of which are narrow and in an extreme state of disrepair. There is a great need for complete bridge rehabilitation and reconstruction, and the temporary "Bailey" bridges at Pearls and Douglaston should be removed. In addition to a strong road maintenance unit with adequate staffing and equipment, the country could benefit greatly from traffic management improvements. Road signs need to be increased and pedestrian side-walks provided. The primary area for traffic management and control is in and around St. George's, where congestion is becoming a more difficult problem.

The total daily demand for water during 1984 was estimated at 8.0 million gallons per day. At present, the Central Water Commission supplies approximately 6.0 million gallons, leaving a shortfall of 25 percent. The projected demand by year 1990 is estimated at 11.0 million gallons per day. Seasonal shortages are a particular problem for St. George's and the southern part of the island, the chief hotel and tourist zone in the country.

Grenada's electricity is produced through Grenada Electricity Services, Ltd. (GRENLEC). The most difficult problem is unreliable electricity generation. There are presently 9 generators of which five are out of order and only 2 of the remaining four can be considered reliable due to age and deterioration. Present demand is running at 5.2 MW (this is distinct from potential demand which is estimated at 6.3 MW) and GRENLEC can supply only about 3.5 MW, in spite of much higher rated capacity. By yearend 1985, although replacement of units will have increased capacity, supply will still fall short of demand. The second major problem in the energy sector is the poor transmission and distribution capacity of the electricity system. Line losses are estimated to be as high as 25 percent. Finally, the system lacks adequate revenues for repairs due to the outmoded accounting and billing system.

Grenada's telephone system consists of seven exchanges in Grenada and one in Carriacou. The principal problem is lack of capacity. The Grenada Telephone Co. (GTC) has approximately 2,000 lines, out of an estimated demand ranging from 4,000 to 4,500 lines. There is a waiting list of some 2,000 applications. The system is also plagued by the same poor billing and collection problem as is the water system.

3. Investment Promotion and Support

All sub-sectors lack development plans articulated in clear strategies complemented with appropriate policy measures. As a result, decision-makers tend to be swayed more by political arguments than objective technical analysis. Without guidelines, investment approvals are subject to discretionary factors, rather than a rational application of technical criteria.

The Industrial Development Corporation (IDC), established in February, 1985 to provide one-stop investor assistance, has a staff of fourteen lacking experience and training. It will be some time before the institution is capable of carrying out its mandate to "stimulate, facilitate, and undertake establishment and development of industry in Grenada". Training and technical assistance will be required under the Investment Promotion and Export Development Project, to make the IDC operational. More importantly, decision makers at the highest levels of the Government must be willing to provide more authoritative support to the institution's activities and be willing to address policy issues and operational obstacles to accelerated investment development. If manufacturing is to realize its potential in Grenada, immediate attention must be focussed on the need for development of factory space and on industrial estate development.

In the tourism sector, the Ministry of Tourism is a small organization with a staff of thirteen local employees and five overseas personnel located in New York, Toronto, and London. The Ministry is active in marketing, public relations, and cruise ship administration. It has limited experience in developing tourism policy, examining zoning requirements, or managing tourist facilities. The potential for conflict in the sector is high as local hotel owners foresee large foreign

investments which threaten to bring in a totally different segment of the tourist market than Grenadians believe should be the country's target. An active private sector under the leadership of the Hotel Association, working in concert with Government, could contribute significantly to the sector's sound development in a manner sensitive to local interests.

In agriculture, the weakest links in the traditional sector are the producers' associations for nutmeg, bananas, and cacao. Better organization, reduced operating costs, and improved pricing schemes could contribute significantly to productivity and earnings. Well targetted assistance to the Marketing and National Import Board could provide a vital service to small farmers who lack market information and technical skills in the high potential area of fruits and vegetables.

4. Managerial and Technical Skills

Grenada's pace of development in all areas of the private and public sectors will be constrained by limited Grenadian managerial and technical capability. Grenada is capable of producing talent, but most of it leaves the island. Events of recent years accelerated the departure of skilled manpower. In addition, large numbers of Grenadians are still in training in Cuba and Eastern Bloc countries. Hopefully, new investments and new private sector oriented Government policies will provide incentives to attract skilled Grenadians with a free market orientation. A significantly expanded AID training program for other Grenadians as well as returnees is necessary if managerial and technical constraints in all fields are to be addressed without undue reliance on Cuba and Eastern bloc trainees. While several efforts have been initiated to provide non-formal skills training, more resources must be directed towards this effort if hotels, factories, and agricultural enterprises are to be efficiently operated.

C. Policy Dialogue Agenda

As noted, the Government has announced its intention to restructure the economy to promote domestic and foreign private investment and to reduce the role of Government. This restructuring involves three elements:

-- articulation of a comprehensive development strategy, designed through joint public-private collaboration;

-- reduction of arbitrary market restrictions that impede private sector development in the economy;

-- reform of the tax system to reduce its adverse impact on incentives for production; and

-- reduction in public sector expenditures by restricting Government growth and encouraging privatization of Government-owned enterprises, beginning with those that are a drain on the treasury.

Throughout FY84/85, AID has linked budget support assistance for Grenada to economic reform. Some progress already has been demonstrated in removing price controls, liberalizing import licensing, dismantling foreign exchange controls, lifting the interest rate ceiling, returning control over the producer's associations to democratically elected leadership, and tax reform. The most pressing policy issues which must be addressed during the planning period are briefly highlighted below.

1. Toward a Comprehensive Development Strategy

The most important policy issue facing the Government is that it must articulate for the public--domestic and foreign--precisely how it sees the country developing over the next 3-5 years. The domestic private sector itself must participate in the designing of this "comprehensive development strategy" and be firmly behind the publicized strategy. The strategy will likely evolve over time, and should be regularly updated, again a task that public and private sector should view as a collaborative one.

The purposes of a strategy would be several. First, its existence will assist Government in determining priorities for public sector investment outlays. The analysis that goes into developing the strategy should tell the drafters exactly where and to what degree infrastructure development is likely to fall behind demand. Second, the existence of such a strategy, if it explains in detail how the country will treat domestic or foreign entrepreneurs who are willing to invest in productive facilities, will reduce uncertainties and better enable them to make rational investment decisions. Third, the strategy can be used to clearly determine where elements of Government's economic policy are inimical to the success of the strategy.

At the same time, this comprehensive development strategy should not be thought of as an economic plan in the traditional sense. Government should not design a plan that sets detailed production targets or that serves as a basis for important departures from a market system. A frequent complaint heard in the Eastern Caribbean is that the "market system" does not work and therefore Government must step in. In fact, upon deeper probing, the existence of barriers to market entry, not the market itself, is major constraint to smoothly functioning markets. A major barrier facing domestic producers of agricultural products, for example, is knowledge about potential foreign buyers of their produce. A second barrier is low technical skills or inadequate knowledge of technology. The purpose of the comprehensive development strategy should be to assess methods of overcoming these barriers.

2. Investment Incentives and Investment Approval

Grenada's inability to attract external productive investment stems in part from deficiencies in investment incentives and in the investment approval process, particularly the latter. In 1984, Grenada's Government designed a new investment code to replace its prohibitively unattractive (to potential investors) predecessor. Although now relatively harmonious with codes of other Eastern Caribbean states, the Government should repeal the previous code to prevent ambiguities.

To obtain approval for an investment (if a foreigner) or to obtain export-related fiscal incentives (if a domestic investor), one must apply to the fledgling Industrial Development Corporation (IDC). The IDC then considers approval and makes recommendations to Cabinet, which must approve all applications. Given the amount of time this process is now taking, the system is clearly too cumbersome. More appropriately, Cabinet should set clear guidelines for investment approval and delegate the bulk of the decisions to a lower body, such as the IDC. Certainly, there would be decisions on proposals too large or too controversial to delegate, but these would be few. Guidelines such as these would likely be a component of the comprehensive development strategy.

3. Fiscal Issues: Tax and Expenditure Reform

The public sector's exceedingly high command of resources, discussed above, is a serious impediment to development, RDO/C believes. In the first instance, marginal tax rates are so high that productive economic activity is discouraged. Import duties protect inefficient domestic producers and penalize the consumer. Export duties are a disincentive to production for export. The expenditure side of the budget is poorly managed, and financing requirements for the overall budget deficit will be large in coming years. There is general acknowledgement that the civil service operates very inefficiently, providing the public with subsidized services at a resource cost that is not optimal from society's standpoint. Linked to this problem, of course, are parastatals, discussed in the following section.

Government, with some urging from AID and the IMF, has embarked on a fiscal reform project, and an AID-funded advisory team will examine the revenue and expenditure systems, and provide reform options to Government. Government's decision on which reform option to take up should be based upon the evolving comprehensive development strategy. At the same time, Government has engaged, with British support, a consulting firm to provide advice on making the civil service operate more efficiently.

4. Privatization of Public Sector Assets

The Government of Grenada owns and operates several hotels, two commercial banks, an import-export firm, and an ice-cream plant, to describe but a few of the public sector enterprises. The nature of the incentive system in the public sector, providing as it does certain immunities from performance-based rewards and punishments for public sector managers, clearly militates against the most efficient use of society's resources. Even though Government does not expect to need to subsidize recurrent expenditures of the non-financial public sector as a whole in 1985, resource misallocation in a resource-scarce country should be eradicated wherever possible.

With certain encouragement from AID conditionality under two previous, and one proposed, Program Assistance Grants, the Government of Grenada has indicated its willingness to consider privatization of its

asset portfolio. An AID-funded team of privatization experts has begun to assess the asset portfolio to provide Government with information on means of privatizing public sector enterprises. To the extent that privatization occurs, this will signal to the domestic and foreign private sectors that Government is even more serious about a private sector solution to Grenada's development problems.

5. Market Restrictions

In order to stimulate private sector development in the Eastern Caribbean, RDO/C will encourage the OECS Governments to deregulate their markets, particularly with respect to import licensing regulations and with respect to monopoly and monopsony status conferred on import and export businesses, respectively. The motivation behind such restrictions is usually to take advantage of economies of scale and therefore protect import consumers against high prices and export producers against low prices. Often, on the export monopsony side, the holders of such monopoly rights are the public sector. Import licensing arrangements are used not only to monitor the inflow of goods Government wishes to control for policy reasons, but also to assist in regulating the market. While all such arrangements may have been established for the purpose of protecting the country's population, such systems are likely to become increasingly distorted as market conditions change. In any event, RDO/C believes that the massive management burden that frequent fine-tuning imposes on Governments, plus the potential for incorrect timing, argues against such tinkering with markets. RDO/C believes it probably would be more socially and economically efficient to dismantle the systems and permit the market to allocate resources.

RDO/C will, working with OECS/EAS, conduct an examination of the effects of such marketing restrictions to determine how strongly they distort resource allocation. In instances where the study finds significant inefficiency, RDO/C will, through the Public Management and Policy Planning Project, attempt to persuade Governments of the desirability of policy change. In addition, because the effects of export monopsonies on agriculture are generally greater than on other sectors, RDO/C will include agreement for changes as conditionality necessary to the success of its high-impact agriculture project. By the end of FY87, RDO/C expects to have significantly reduced the most influential market restrictions in all the OECS countries.

6. Sectoral Issues

In addition to the general fiscal and economic reforms mentioned above, AID will engage the Government in discussions of a number of policy issues which more directly effect the leading growth sectors of the economy:

a. Agriculture

Gradual reduction of traditional crop export duties, beginning with cacao;

Analysis and planning for assisting the producer associations in developing pricing schemes more responsive to the markets; and,

Development of a medium/long term strategy to attract private investment into nontraditional, extra-regional exports.

b. Tourism

Temporary moratorium on import duties on vital materials and equipment required by the indigenous hotel and restaurant sector to rehabilitate and expand plant.

c. Manufacturing

Assess corporate tax rates and consider reductions;

Eliminate import duties on inputs used in processing for export, or consider a tax drawback scheme for exporters;

For local manufacturers involved in Section 807 operations, consider relief from the airport tax and foreign exchange tax; and,

Establish industrial zones and identify lands available for private sector construction of factory space.

The successful completion of the following activities will serve to indicate accomplishment of RDO/C's policy dialogue objectives in Grenada.*

1. Comprehensive Development Strategy (CDS)

a. Government's National Economic Council (NEC) holds initial organizational meeting prior to July 1, 1985, and prepares work plan by August 1, 1985.

b. First draft of CDS circulated internally within Government for comment.

c. First public version (abridged) of CDS unveiled in tandem with 1986 budget address (expected in December 1985).

d. Additional studies/analysis to determine parameters of CDS completed by March 31, 1986.

e. Final version of CDS prepared, approved by legislature, and published by June 1, 1986.

f. Public sector investment program (PSIP) reassessed in conjunction with CDS development, and clear priorities set for key infrastructure components of the PSIP.

g. Semiannual meetings of National Economic Council (NEC) conducted, after CDS publication, to review the economy in light of the CDS, and to set agenda for Government actions needed to ensure success of the strategy. If further analysis or study is needed, Government will make use of Public Management and Policy Planning (PMPP) Project facilities.

2. Investment Process

a. Obsolete investment code repealed by October 1985.

b. Industrial Development Corporation (IDC) work plan prepared by August 1, 1985. This should include a proposal to Cabinet that the latter delegates the majority of investment approval decisions to the IDC.

c. Cabinet will set guidelines for the IDC by the date of publication of the first draft of the CDS, i.e., by yearend 1985.

d. By yearend, the investment approval process should adhere to the requirements stated in the investment code.

3. Fiscal Reforms

a. Fiscal Reform Advisory Team (FRAT) will have completed studies leading to development of options for Government consideration by August 1, 1985.

GRENADA
ECONOMIC ANALYSIS

I. THE ECONOMY IN THE EARLY 1980s

In the 1980-84 period, Grenada's economy has been through a radical philosophical shift, and performance during the period has been very uneven. However, many of the characteristics of the economy are, in spite of this, similar to other OECS countries. The economy is small and very open, with imports approximately equivalent in value to GDP. A shortage in domestic savings is made up for partly by private transfers from those who have emigrated. The foundation of the economy is production of primary crops largely for export. Government is large and has accounted for the bulk of investment in recent years. Since the October 1983 intervention, and especially since the December 1984 elections, the Government has attempted to move the economy from a non-market to market orientation, with an eye to attracting foreign investment to generate output and provide jobs. This has yet to happen.

A. Production and Employment: The Productive Sectors

Grenada's 92,000 person-strong economy averaged a low 2.6 percent per year growth rate in 1981-84 (see Table 1). In 1983 the economy dipped (primarily because of the October intervention) and 1984 saw less than one percent growth. Agriculture, the largest sector, has not experienced two years of consistent growth since 1980, and the same is true for all other sectors with the exception of Government services, the second largest sector. The economy's two productive sectors besides agriculture--manufacturing and tourism--have performed poorly over the period, largely from a lack of encouragement and the poor international climate. Unemployment appears to have climbed significantly over the four years and now presents the Government with an important social problem.

1. Agriculture

Agriculture, which employs about 40 percent of the active labor force, makes the bulk of its 21 percent contribution to GDP in four traditional crops: bananas, cacao, nutmeg, and mace. These crops accounted for about 60 percent of domestic exports in 1984, the majority of the remainder being fresh fruit exports. However, production and exports have been erratic in recent years for numerous reasons: declining world prices, aging plants (especially cacao) and inadequate extension and other support services, to name but a few. Production of all four crops is below 1979 output levels. With carefully crafted Government policies and support, however, Grenada can increase its banana exports in the medium-term and look forward to large increases in its premium cacao production three to five years hence.

2. Tourism

Although an ideal tourist destination from the standpoint of natural beauty, tourism (i.e., its proxy, hotels and restaurants) contributes less than 5 percent to GDP and employs directly less than 3 percent of the active workforce. Tourism has stagnated not only from inclement exogenous factors, but also from domestic political and social instability. The resurgence of stay-over visitor arrivals in 1984 masks the reality that the former included many business visitors in for abnormally short stays; this reality is demonstrated by the mere 5 percent increase in hotel value added, compared to a nearly 20 percent increase in stay-over arrivals in 1984. Between 1980 and 1984, the number of guest rooms declined precipitously from 750 to 400 as a fire partially destroyed the structure currently known as the Grenada Beach Hotel. Present supplies of power and water are poorly placed to adequately support the existing hotels, and Grenada's reputation among travel agents as a tourist site is not glowing, as a result. A boon to tourism has been the international airport at Point Saline: not yet fully completed, most international carriers are awaiting assurances of sufficient tourist arrivals to initiate regular service.

3. Manufacturing

Manufacturing, at just under 3 percent of GDP, is also only a marginal employer: barely 3 percent of the working population. Growth of the sector in the past few years, likewise, has been negative primarily due to the Government's lack of policy encouragement and the country's poor infrastructure. In spite of a few manufacturing starts since the October 1983 intervention and despite numerous visits by foreign (particularly U.S. investors), no foreign investor has an established facility in operation as of 18 months later. Government attitudes are more positive since the intervention, but factory shells are generally unavailable, no industrial park exists, the investment approval process is disappointingly cumbersome to most potential investors, and power supply is unstable even given the existing demand. The manufacturing sector as of mid-1985 remains simple in character, primarily including assembly or production of wood products, garments, building materials, and food and drink products. The market for the majority of output is domestic, with the exception of garments whose venture into the Trinidad market was cut short by Trinidad's current protectionist stance.

4. Other

As for the remainder of the economy, construction has exhibited the most rapid growth over the 1981-84 period, primarily a reflection of construction on the new international airport. Still, with work on the airport down in the final quarter of 1983, and with resumption of work only part-way through 1984, construction dropped sharply from its 1982 high, and contributed to poor growth in both 1983 and 1984.

5. Employment

Grenada's employment data are too poor to give an accurate picture of trends over the past few years, but the fall-off in production in 1983 and 1984, compared with 1982, suggests that productive employment fell (see Table 2). In addition, the pace of labor force entrants has been so rapid that unemployment--by whatever definition--must have increased. In this paper, RDO/C uses a round figure of 30 percent for unemployment in Grenada in 1984/85, a figure cited in the Prime Minister's April 1985 budget address. One should be careful, because of definitional questions, in comparing this high rate with countries outside the Eastern Caribbean, but the size of the numbers of unemployed in Grenada is judged to be very high by most observers. Whatever the current rate, therefore, significant increases are probably intolerable and the large numbers of net entrants to the labor force in the 1986-90 period pose a serious problem. As is clear from Table 2, the bulk of current jobs are in agriculture. Regardless of how high reasonable job creation estimates are for other productive sectors in 1986-90, agriculture's large size in 1985 dictates that the majority of productive job creation will likely come in that sector.

B. Trends in Consumption, Investment and Savings

Grenada consistently spends more than the economy produces on consumption and investment (see Table 3), and Grenada's resource balance has been 30-50 percent of GDP in recent years. In part, this stems from consumption shares of expenditure that have been as high as or greater than GDP, and partly it reflects very high investment-to-GDP ratios. Investment has been between 70 and 90 percent public, rather than private, in the 1980-84 period, largely a reflection of the pro public sector approach of the People's Revolutionary Government (PRG) (1980-83) and the continuation of the airport (1984). In real terms, private investment dropped by a total of 40 percent between 1980 and 1984, and public investment shot up by 75 percent. Private consumption grew, in real terms, at about 1.5 percent per year, compared to the 2.6 percent annual GDP growth rate.

Grenada's economy has not saved successfully in 1980-84 (except 1981), and consumption has consistently exceeded GDP, meaning that investment has been totally financed externally. With the exception of a dip in 1983, private transfers from abroad have grown steadily, helping pay for investment. The other important element, of course, has been loans and grants from abroad. Public sector savings have generally been low, and have been more than outweighed by private domestic dissavings.

C. External Account

Grenada's economy depends heavily on the world economy for consumer goods, intermediate producer goods, and capital investment imports. The value of such goods imported each year, in fact, is as large as GDP and about 30 percent of GDP is expected to help pay for these imports. The balance of this gap between production and consumption of traded goods is paid for primarily by tourism earnings, private transfers and foreign capital.

The current account of the balance of payments registered increasing deficits in 1980-82 (see Table 4) and only improved in 1983-84 as domestic political and economic uncertainties affected investment and production, thereby reducing demand for imports. Although the downward trend in exports continued through 1984, an increase in tourism earnings and private transfers kept the current account from worsening that year.

The vast majority of Grenada's merchandise exports are agricultural and, as described in the discussion on agriculture above, have declined in recent years. The single growth sector--and one which amounted to about one-third of merchandise exports in 1984--is fresh fruits, most of which are shipped to the large Trinidad market.

Although Grenada has been fortunate in receiving a significant volume of official grants over the past few years, the country also borrowed heavily to finance capital imports related to the public sector investment program. External debt servicing obligations remained low through 1984, but in 1985 began much larger repayments of loans and repurchases of IMF borrowing. The debt-service ratio will peak at 24 percent in 1985 and then is expected to fall off. About one-sixth of the 1985 debt payments are to cover arrears on short-term borrowing from Libya and the German Democratic Republic, and another important element is short-term non-concessional airport-related borrowing from a British firm.

D. The Public Sector

The public sector's share of available resources, as we have said, was 41 percent in 1984, and consisted of 26 percent of consumption and 88 percent of investment (see Table 5). This represents a small reduction compared with 1983, when the public sector share was about 45 percent.

Recurrent budget revenues have been a growing share of GDP in the 1980s, in part a reflection of changes in the tax system designed to help cover the mounting share of Government expenditures. Public savings improved in 1982 and 1983, but a sharp increase in the wage bill (23 percent) and in interest payments (50 percent) nearly eradicated the surplus in 1984. Public saving is expected to turn sharply negative in 1985 because of tax cuts and large spending increases.

Improvements in public savings in 1982 and 1983 coincided with a massive expansion in the public sector investment program (PSIP) in 1981-83, primarily in connection with the new airport, and average annual capital spending was two-and-one-half times the 1980 level. A registered drop in 1983 and 1984 occurred only because of the effects of the intervention, and public sector investment program spending will go beyond the 1982 level in 1985. To pay for this investment, the Government borrowed heavily in 1981-83; in 1984, borrowing dropped significantly, and was made up for by an increase in grant financing. Those loans are coming due in this latter half of the decade and will severely strain Government finances. A depressing aspect of the massive past outlays on public sector investment is that for future growth to occur, much more infrastructure will be required.

II. MAJOR ECONOMIC ISSUES

Although recent events have focussed international attention on and support in Grenada, and although Grenada's December 1984 election demonstrated the willingness of the country to hammer out a democratic solution to political questions, this set of circumstances is by no means sufficient to ensure economic growth. Large amounts of foreign assistance and political stability have provided only the beginning of what will be an uphill development battle for the country. From the vantage point of June 1985, 20 months after the intervention that promised to move Grenada away from an inward-focussed, non-market approach to economic growth, several issues loom on the horizon and deserve the rapid attention of the Government of Grenada.

Grenada's is an obsolete economy in many ways. For exports, Grenada is largely dependent upon traditional crops, usually protected markets. The stock of not only cacao trees (with long gestation periods), but also banana trees (with shorter gestation) is too old, and rehabilitation efforts will take 3-5 years in the case of the former. Manufacturing is underdeveloped and produces for shrinking regional markets, and no single enclave manufacturer is in operation. As for tourism, the stock of hotel rooms has shrunk dramatically in the past few years, and occupancy rates of the remainder are among the lowest in the Caribbean. Government is very large, and recurrent revenues amount to nearly 50 percent of GDP, a figure high even in the Eastern Caribbean.

In order to generate growth in the productive sectors of the economy, as opposed to relying on Government and large investment projects such as the airport to provide the impetus, Grenada must develop conditions that encourage private individuals to invest in and manage productive activities. These conditions require, we believe, both changes in policies and some careful additions to infrastructure.

A. Critical Policy Issues

1. Toward a Comprehensive Development Strategy

The most important policy issue facing the Government is that it must articulate for the public--domestic and foreign--precisely how it sees the country developing over the next 3-5 years. The domestic private sector itself must participate in the designing of this "comprehensive development strategy" and be firmly behind the publicized strategy. The strategy will likely evolve over time, and should be regularly updated, again a task that public and private sector should view as a collaborative one.

The purposes of a strategy would be several. First, its existence will assist Government in determining priorities for public sector investment outlays. The analysis that goes into developing the

strategy should tell the drafters exactly where and to what degree infrastructure development is likely to fall behind demand. Second, the existence of such a strategy, if it explains in detail how the country will treat domestic or foreign entrepreneurs who are willing to invest in productive facilities, will reduce uncertainties and better enable them to make rational investment decisions. Third, the strategy can be used to clearly determine where elements of Government's economic policy are inimical to the success of the strategy.

At the same time, this comprehensive development strategy should not be thought of as an economic plan in the traditional sense. Government should not design a plan that sets detailed production targets or that serves as a basis for important departures from a market system. A frequent complaint heard in the Eastern Caribbean is that the "market system" does not work and therefore Government must step in. In fact, upon deeper probing, the existence of barriers to market entry, not the market itself, is a major constraint to smoothly functioning markets. A major barrier facing domestic producers of agricultural products, for example, is knowledge about potential foreign buyers of their produce. A second barrier is low technical skills or inadequate knowledge of technology. The purpose of the comprehensive development strategy should be to assess methods of overcoming these barriers.

2. Investment Incentives and Investment Approval

Grenada's inability to attract external productive investment stems in part from deficiencies in investment incentives and in the investment approval process, particularly the latter. In 1984, Grenada's Government designed a new investment code to replace its prohibitively unattractive (to potential investors) predecessor. Although now relatively harmonious with codes of other Eastern Caribbean states, the Government should repeal the previous code to prevent ambiguities.

To obtain approval for an investment (if a foreigner) or to obtain export-related fiscal incentives (if a domestic investor), one must apply to the fledgling Industrial Development Corporation (IDC). The IDC then considers approval and makes recommendations to Cabinet, which must approve all applications. Given the amount of time this process is now taking, the system is clearly too cumbersome. More appropriately, Cabinet should set clear guidelines for investment approval and delegate the bulk of the decisions to a lower body, such as the IDC. Certainly, there would be decisions on proposals too large or too controversial to delegate, but these would be few. Guidelines such as these would likely be a component of the comprehensive development strategy.

3. Fiscal Issues: Tax and Expenditure Reform

The public sector's exceedingly high command of resources, discussed above, is a serious impediment to development, RDO/C believes. In the first instance, marginal tax rates are so high that productive economic activity is discouraged. Import duties protect inefficient domestic producers and penalize the consumer. Export duties are a disincentive to production for export. The expenditure side of the budget is poorly managed, and financing requirements for the overall budget deficit will be large in coming years. There is general acknowledgement that the civil service operates very inefficiently, providing the public with subsidized services at a resource cost that is not optimal from society's standpoint. Linked to this problem, of course, are parastatals, discussed in the following section.

Government, with some urging from AID and the IMF, has embarked on a fiscal reform project, and an AID-funded advisory team will examine the revenue and expenditure systems, and provide reform options to Government. Government's decision on which reform option to take up should be based upon the evolving comprehensive development strategy. At the same time, Government has engaged, with British support, a consulting firm to provide advice on making the civil service operate more efficiently.

4. Privatization of Public Sector Assets

The Government of Grenada owns and operates several hotels, two commercial banks, an import-export firm, and an ice-cream plant, to describe but a few of the public sector enterprises. The nature of the incentive system in the public sector, providing as it does certain immunities from performance-based rewards and punishments for public sector managers, clearly militates against the most efficient use of society's resources. Even though Government does not expect to need to subsidize recurrent expenditures of the non-financial public sector as a whole in 1985, resource misallocation in a resource-scarce country should be eradicated wherever possible.

With certain encouragement from AID conditionality under two previous, and one proposed, Program Assistance Grants, the Government of Grenada has indicated its willingness to consider privatization of its asset portfolio. An AID-funded team of privatization experts has begun to assess the asset portfolio to provide Government with information on means of privatizing public sector enterprises. To the extent that privatization occurs, this will signal to the domestic and foreign private sectors that Government is even more serious about a private sector solution to Grenada's development problems.

B. The Pressing Need for Infrastructure

Much of Grenada's physical infrastructure is inadequate to handle existing demand, and thus makes Grenada unappealing as a foreign investment site. The Government has assembled a massive $250 million, 4-year public sector investment program for donor consideration and support, but has not done the analysis to point up what the most pressing needs are. The following, we believe, must be addressed in the immediate future, particularly if foreign investment is to be attracted.

1. Electric Power

Grenada's state-owned GRENLEC (Grenada Electricity Services, Ltd.) suffers from insufficient generating capacity, significant distribution losses, and a tariff structure too low to even meet maintenance needs. With overhaul of some generating units (U.K.-funded) and replacement of others (by borrowing from the European Investment Bank) in 1984-85, rated capacity is expected to be 10MW by yearend 1985. However, in the ensuing two years, 3MW more of that capacity will require replacement, and conservative demand projections indicate the need for an additional 2.5MW. Given current unreliability of power and uncertainty about the Government's ability to meet future requirements, potential investors, particularly in manufacturing and tourism, are likely to be reluctant to come into Grenada.

2. Water Supply

Another state-owned enterprise that falls short of meeting domestic demand is the Central Water Commission. Old pipes result in large line-losses, and existing externally funded projects cannot hope to remedy the situation, which puts a strong damper on tourism development primarily. A UNDP-funded study in 1985 will develop a 10-year plan for upgrading the system, and should provide external donors with a rational assessment of requirements.

3. Other Infrastructure Deficiencies

Grenada's telephone system needs extensive upgrading: most of the equipment is 1950s vintage and no expansion has occurred since 1976. Poor telephonic access from abroad and deplorable in-country service are yet another disincentive to potential investors.

Two major problems plague Grenada's relatively extensive road system. Almost total inattention to maintenance in the past few years has decimated the highway system and Grenada still has little capability to handle maintenance of roads completed since the intervention. At the same time, the state of agricultural feeder roads severely reduces the quantity of produce which can be brought out of agricultural areas in marketable condition.

III. A SCENARIO FOR 1990

The following tables and accompanying discussion describe a growth scenario for Grenada that is based on the Governments' and other observers' views of opportunities for, and constraints to, growth. This growth scenario depends upon some relatively optimistic assumptions about the willingness and ability of Government to deal with the various issues raised in the preceding section. It also rests heavily on the strong assumption that requisite infrastructure needs will be met. Further into the planning period it should be clearer whether the constraints will be overcome in time to yield the growth rates estimated in this scenario. This scenario should be regarded as the highest possible. Yet, as one can see from the employment implications, attainment of these goals will barely make inroads into unemployment.

A. Production

We estimate that the average annual growth rate of the economy as a whole in the 1986-90 quinquennium is likely to be no higher than 3.9 percent. As is suggested in Table 1, over one-fourth of this growth will come in agriculture, partly from bananas and cacao, and partly from nontraditional, export-oriented production. Nearly another 20 percent will come from increases in what in 1984 was essentially a nonexistent enclave manufacturing sector. The third production sector, tourism, will generate about one-third of the growth, in hotels and restaurants value added alone. With an expected drop in public investment, and some compensating growth in private investment, we expect the construction component (as opposed to investment in machinery and equipment) to fall off somewhat.

B. Employment

In spite of a less than 4 percent economic growth rate projected on average from 1986/90, RDO/C believes that employment will grow less rapidly, or by less than 3 percent per year (see Table 2). The highest employment growth rates occur in manufacturing and tourism, but those sectors have started out small, and high growth does not translate into many jobs. Still, if our estimate is correct, the Grenadian economy should be able to absorb slightly more than the annual net increase in the labor force in the 1986/90 period, reducing the unemployment rate from an estimated 29 percent to about 27 percent.

C. Expenditures, Resource Gap and External Trade

Given the production projections in Table 1, the projections in Table 6 are intended to be illustrative of how the combination of domestic production and net external goods and services might provide resources to permit certain levels of consumption and investment in the economy. We assume that consumption and investment will grow less rapidly than GDP (consumption will grow 2 percent on average, or only 1 percent on average in per capita terms; investment will drop by

about one percent per year). In 1990, under this scenario, investment would be just over 30 percent of GDP (compared with 41 percent in 1984), and gross domestic savings would have turned positive, at about 5 percent of GDP. If the one percent average per capita growth in consumption is exceeded, the implications are for a higher level of imports, to be financed by a larger volume of capital inflows. The economy should, however, strive to control consumption--particularly in the public sector, and to use the reduced volume of investment to more efficiently generate growth.

D. Public Finances

Projecting the public sector budget for the 1986-90 period is a difficult exercise particularly given uncertainties about the effects of the fiscal reform program that Government will undertake later this year. In lieu of projecting details of the budget, RDO/C has attempted to assess what budget financing will be required through 1990, given certain assumptions (see Table 7). These estimates probably err on the side of optimism overall, although public savings from the recurrent budget may be too low. It is most difficult to predict what Government's capital spending requirements will be; this estimate assumes a continuation of concessional external financing, albeit at a declining rate.

The U.S. dollar value of the unfinanced gap recedes through the remainder of the decade, but is still large in the 1986-88 period. This suggests strongly that Government will be compelled to seek further current budgetary grants or turn to the IMF, where Grenada is nowhere near its borrowing ceiling.

TABLE 1
GROSS DOMESTIC PRODUCT
AT CONSTANT MARKET PRICES
(1980 EC$ million)

	1980	1984	Percent Average Annual Growth 1981/84	1985	1990	Percent Average Annual Growth 1986/90
Total	160.7	178.3	2.6	183.7	222.1	3.9
Agriculture	35.6	37.9	1.6	37.9	49.5	5.5
Traditional		(30.2)	N.A	(29.3)	(35.6)	4
Nontraditional		(7.7)	N.A	(8.6)	(13.9)	10
Manufacturing	4.8	4.7	-0.5	5.3	9.5	12.4
Domestic	(4.8)	(4.7)		(4.8)	(5.3)	2
Enclave	(0)	(0)		(0.5)	(4.2)	53
Hotels/Restaurants	7.4	7.8	1.3	8.3	20.7	20
Construction	8.8	13.6	11.5	15.0	11.6	-5
Government	35.4	37.7	1.6	39.6	39.6	0
Trade	30.6	31.6	0.8	32.2	41.1	5
Other	38.1	45.0	4.2	45.4	50.1	2.0

1980 and 1984 World Bank "Green Cover"

Notes to Table 1

A. 1985

1. Agriculture

(a) 1984's 80/20 split is a guess, looking at the 1984 traditional (67 percent) and nontraditional (33 percent) of agricultural exports.

(b) Traditional: budget speech says 1984's downward trend (a 3 percent drop) will continue in 1985.

(c) Non-traditional: budget speech also says no change in agriculture in 1985, thus, total agriculture is unchanged from 1984 and nontraditional is the residual.

2. Manufacturing

(a) Domestic: assumed a mundane 2 percent growth rate, because the budget speech projects only a "marginal" increase.

(b) Enclave: this category is non-existent through the first half of 1985. Assuming 50 persons get jobs in manufacturing in the domestic manufacturing sector (and therefore about EC$10,000 per worker).

3. Hotels/Restaurants

In 1985, another 150 (approximately) rooms will be available for the winter season. This 37.5 percent capacity addition is not, however, likely to reflect anywhere near a comparable increase in arrivals. With arrivals up 20 percent in 1984, this sector only recorded a 5 percent increase in value added. We expect that in 1985, arrivals will be up by less than that, but that tourism sector value added will be up slightly more (say 7 percent), as the arrivals become less short-term business people than longer-stay visit tourists.

4. Construction

Realistic expectations of public sector investment show a 20 percent increase. Because of the expected high proportion of non-construction costs in this, as projects come to a close, only a 10 percent construction increase is estimated.

5. Government

A 5 percent increase in Government's value added is estimated. Government expenditures will likely increase nearly 10 percent in real terms but it is unlikely that all of this will be translated into value added increases.

6. Trade

Estimated to grow at weighted average of agriculture, manufacturing, and hotels or about 2 percent.

7. Other

Half the growth rate of the remainder, or 1 percent.

B. 1990

1. Agriculture

(a) Traditional: Estimated at 4 percent per year on average, and depends upon successful cacao rehabilitation and intensification of efforts to increase Grenada's share of the U.K. banana market while nontraditional crops are further developed and take hold.

(b) Non-Traditional: Suggesting a 10 percent average growth rate for nontraditional agricultural output (including mariculture, fruits, and vegetables primarily for export to regional and extra-regional markets as well as to substitute for imports) seems reasonable, given much higher export growth rates over the past two years.

2. Manufacturing

(a) Domestic: We postulate only negligible growth in domestically owned manufacturing over this quinquennium, with the expectation that skills and technology transferred in the period from enclave industry will only begin to show a stimulative effect after 1990.

(b) Enclave: Starting from base zero in 1984, enclave investors are expected to begin arriving only in 1985 and then only in small numbers. However, Government must streamline the investment approval process and develop a strategy for attracting investment to Grenada. At present, neither of these has been done and both are discouraging to potential foreign investors. When they are done (we expect by mid-1986), we expect to see average annual increments of EC$0.75 million over the period in enclave manufacturing value added.

3. Hotels/Restaurants

World Bank tourism experts estimated that 600 hotel rooms can be expected to be added to the existing stock of 400 by 1990. A.I.D. concurs with this estimate. This implies a 20 percent average annual rate of increase, even assuming no increase in occupancy rates.

4. Construction

This sector should drop back to just above the pre-airport level, implying an average annual decrease of 5 percent in 1986-90.

5. Government

In keeping with the current Government's stated concern with the size of the public sector, we postulate a 5-percent-per-year decline in that sector.

6. Trade

Trade (wholesale and retail) can be crudely estimated to grow at the weighted average of the productive sectors (agriculture, manufacturing, and tourism), or about 10 percent per year.

7. Other

Based upon past performance, this category is estimated at 2 percent growth per year, or about half the rate of the economy as a whole.

TABLE 2
EMPLOYMENT
(Persons)

	1981	1984	1985	1990	Percent Average Annual Growth 1986/90
Workforce	40,800	43,300	44,000	48,580	2
Unemployed	8,800	13,000	12,850	12,430	0
Working	32,000	30,300	31,150	36,150	3
Agriculture	12,500	12,500	12,500	15,200	4
Manufacturing	1,600	900	1,000	1,550	8.8
Tourism	1,250	1,000	1,350	2,500	13
Construction	2,900	2,500	2,900	2,250	-5
Government	1,700	1,600	1,750	1,350	-5
Other	12,050	11,800	11,650	13,300	3

Notes to Table 2

1981: (1) Workforce: assuming 2 percent labor force growth between 1981 and 1984; this is from the TFR of 3.5 percent, about 2 points of whom emigrate; if actual population growth is therefore 1.5 percent, the labor force (given a younger age distribution) will likely be more rapid; i.e. 2 percent.

(2) Unemployed: WBGC (World Bank April 1985 Green Cover) reports 17.4 percent and Population Reference Bureau 20 percent; I used the latter.

(3) Agriculture: in spite of a table at rear of WBGC that reports about 9,000 in this sector, the text reports 12,500.

(4) Manufacturing, Construction, Government: WBGC.

FOOTNOTES CONT'D

(5) Tourism: WBGC reports about 500 hotel rooms in 1981; CTRC's estimate of total employment per room, direct and indirect, is 3.3 persons for th entire Caribbean. The low level of development of tourism in all OECS states but Antigua suggests that a figure of 2.5 would be more appropriate for Grenada.

(6) Other: residual.

1984: (1) Workforce: "unemployed," and working are calculated from the April 1985 budget address statement that 13,000 are unemployed, about 30 percent of the workforce.

(2) Manufacturing: WBGC, quoting PDAP, says about 900 in this sector.

(3) Tourism: See "Tourism" for 1981; WBGC says 400 hotel rooms exist in 1984.

(4) Agriculture: output has dropped since 1981, but I assumed steady labor force.

(5) Construction: I reduced this by the 14 percent reduction in construction value added.

(6) Government: inasmuch as the wage rate rose more rapidly than the retail price index between 1981 and 1984, and inasmuch as the price index rose nearly 30 percent, and inasmuch as the wage bill rose by about the same amount, I infer a marginal reduction in the Government workforce.

(7) Other: residual; the slight decline does not call into question the estimate.

1985: (1) Workforce: 44,000 is a rounding of a 2 percent labor force increase (see explanation in 1984, above).

(2) Unemployed and Working: Working is sum of components and unemployed is a residual.

(3) Agriculture: assumed no change.

(4) Manufacturing: 100 new jobs assumed, probably too high.

(5) Tourism: See "Tourism" for 1981; the reopening of Grenada Beach Hotel to tourists by yearend will put 140 rooms back into tourism; however, the stripped down services at Grenada Beach (where U.S. troops stayed) probably employed 150, who in 1984 were in "Other".

FOOTNOTES CONT'D

(6) Government: analysis of the 1985 fiscal account shows a 16 percent increase in the wage bill; here, we assume about 10 percent points of that is in addition to public labor rolls; the majority of that new public employment was previously nestled in "Other", because of new inclusion of one former parastatal under central Government in 1985, so the "Other" category should lose yet another 150 people.

(7) Construction: Although overall investement is slated to rise about 25 percent in 1985, I assume only a rough 15 percent increase in employment, returning it to its 1981 level.

(8) Other: A 1.5 percent increase (half of the 3 percent GDP growth rate) less 300 jobs lost to "Tourism" and "Government".

1990: (1) Workforce: Assumed to grow at 2 percent per year, from PRB's booklet on Grenada.

(2) Unemployed: Residual.

(3) Working: Sum of components.

(4) Agriculture: While agriculture will grow at 5.5 percent per year, we assume that employed will increase by less, only by about 4 percent per year.

(5) Manufacturing: Here again, employment growth falls shy of production growth. The major growth element in manufacturing is the enclave sector, with productivity higher than in the traditional sector.

(6) Tourism: Assumed to be a direct function of the increase in hotel rooms, allowing 2.5 employees per room, as in the "Tourism" note for 1981.

(7) Construction: Assumed to decline at the same rate as the sector's growth rate.

(8) Government: As in construction.

(9) Other: Assumed to grow at the same rate as total employment.

TABLE 3
CONSUMPTION AND INVESTMENT[1]
(Current EC$ million)

	1980	1982	1984	Average Annual Growth 1981-84[2]
Consumption	176.3	216.2	241.6	1.6
Public	46.8	51.4	62.2	1.8
Private	129.5	164.8	179.4	1.8
Investment	55.9	110.0	79.7	7.2
Public	37.1	95.7	70.0	15.1
Private	15.6	11.5	10.0	-12.8
Stock changes	3.2	2.8	-0.3	
Gross Domestic Expenditure	232.2	326.2	321.3	3.0
Public	83.9	147.1	132.2	8.3
Private	148.3	179.1	189.1	-0.4
Resource Balance	-56.7	-107.2	-86.7	11.8
Goods	-99.1	-125.6	-108.0	6.7
Exports	47.0	50.2	46.2	3.9
Imports	-146.1	-175.8	-154.2	5.8
Non factor services	42.2	18.4	21.3	1.6
GDP at market prices	160.7	219.0	234.6	2.6
Gross Domestic Savings	-15.6	2.8	-7.0	

As a percent of GDP[3]

	1980	1982	1984
Consumption	100.5	98.7	103.0
Investment	31.9	50.1	34.0
Resource Balance	32.3	48.9	37.0
Gross Domestic Savings	-0.5	-1.3	-3.0

Notes: 1/ All nominal data from World Bank April 1985 Green Cover (WBGC).
2/ Average Annual Growth calcuated from 1980-priced series in WBGC
3/ Calculated from data above.

TABLE 4
EXTERNAL ACCOUNTS
(Million US$)

	1980	1982	1985
Current Account	-13.3	-33.7	-20.0
Merchandise Trade	-36.7	-46.5	-40.0
Exports	17.4	18.6	17.1
Imports	-54.1	-65.1	-57.1
Services	13.8	1.8	8.3
Tourism	15.0	13.1	13.9
Transfers	9.6	11.0	11.7
Capital Account	13.4	34.0	20.7
Official Grants	12.7	16.7	25.2
Public Borrowing	1.3	9.5	5.2
Disbursement	1.8	10.1	7.3
Amortization	-0.5	-0.6	-2.1
Overall Balance	0.1	0.3	0.7
Financing	-0.1	-0.3	0.7
IMF	-	-0.9	-1.2
Disbursement	0.7	0	0
Amortization	-0.7	-0.9	-1.2
ECCB	0.3	0.8	-
Foreign Assets	-0.4	-0.2	-0.4
Arrears	-	-	0.9

Source: WBGC

TABLE 5
CENTRAL GOVERNMENT FINANCES

	1980	1982	1984
Recurrent Revenues	57.7	74.4	87.3
Recurrent Expenditures	-59.6	-71.6	-86.7
Recurrent Balance	-1.9	2.8	0.6
Capital Expenditures	-37.5	-103.6	-77.4
Current External Grants	1.4	2.6	28.6
Overall Deficit	-38.0	-98.2	-48.2
Financing	38.0	42.4	48.2
External Capital Grants	33.0	24.9	39.4
Net External Borrowing	3.5	26.3	18.2
Disbursements	4.5	-1.4	19.0
Amortization	-1.0	-0.7	-0.8
Other External Financing	0.9	-2.4	-3.0
IMF		2.2	-3.3
ECCB	0.9	2.2	--
Change in Foreign Assets	-1.1	-0.5	0.3
Other	1.1	-	--
Net Domestic Borrowing	-3.0	31.6	-6.4
Commercial Banks	-4.6	29.0	-12.5
National Insurance		-	3.8
Other	1.6	2.6	2.3
Unidentified	--		--

Sources: WBGC (1980, 1982) and published Government accounts (1984)

TABLE 6
EXPENDITURE, RESOURCE GAP, AND EXTERNAL TRADE
(1980 EC$ Millions; Percent)

	1980*	1984	1990	Percent Average Annual Growth 1985/90
Consumption	176.3	187.8	211.5	2
Investment	55.9	73.7	69.4	-1
Gross Domestic Expenditure	232.2	261.5	280.9	1.2
Gross Domestic Product	160.7	178.3	222.5	3.9
Resource Gap	-57.0	-83.2	-58.4	-
Merchandise Trade	-99.1	-128.4	-155.7	-
Exports	47.0	54.7	82.1	7
Imports	-146.1	-183.1	-237.8	4.5
Net Non-factor Services	42.1	45.2	97.3	14

* A statistical discrepancy exists between GDP and GDE, and components do not sum to totals.

As a Percent Of GDP

	1980	1984	1990
Gross Domestic Savings	-9.7	-5.3	4.9
Consumption	109.7	105.3	95.1
Investment	34.8	41.3	31.2
Resource Gap	-35.3	-46.7	26.2

Notes to C, & 1 and the R.G.

1980/1984: From World Bank "Green Cover", with the exception of "merchandise trade," which is extrapolated using volume indices in the November 1984 IMF Article IV consultations paper, and "nonfactor services," which is a residual.

1990: Consumption: Assumed to grow at a low 2 percent, reflecting austerity in both public and private consumption, particularly the former.

Investment: With lumpy public investment projects such as the airport slated to be completed by 1986, and with a comprehensive development strategy articulated, Government can much reduce investment spending. We expect that in part this drop-off will be compensated for by increases in direct foreign investment.

Gross Domestic Expenditure: Sum of two components.

Gross Domestic Product: From Table 1.

Resource Gap: difference between two preceding lines.

Merchandise Trade: Exports plus imports.

Exports: Discussion in World Bank documents, describing likely outputs of major export crops (cacao, bananas, and fruits and vegetables), suggests growth of 7 percent is attainable. In the case of cacao, output is expected to be up 40 percent; in the case of bananas, up 50 percent; and in the case of nontraditional crops, Table 1 estimates a 10 percent average growth rate.

Imports: On the basis of historical data, we estimate that import growth will be slightly higher than GDP growth. This will be especially true as investment requires machinery and materials from abroad, and until agricultural production is able to begin significantly substituting for good sales to tourists.

Non-Factor Services: This item has been left as a residual. In fact, the 14 percent average annual growth is to be expected if gross tourism receipts, as anticipated, are to rise by 20 percent per year.

TABLE 7
PROJECTED BUDGETARY FINANCING REQUIREMENTS
(EC$ Million)

	1985	1986	1987	1988	1989	1990
Amortization Outlays 1/	25.5	17.1	16.5	15.9	13.0	12.2
IMF	(6.8)	(4.1)	(1.9)	(1.6)	(1.1)	(1.1)
Other	(18.7)	(13.0)	(14.6)	(14.3)	(11.9)	(11.1)
Capital Outlays 2/	24.8	12.0	12.0	12.0	12.0	12.0
Total Capital Outlays 3/	50.3	29.1	28.5	27.9	25.0	24.2
Financing	50.3	29.1	28.5	27.9	25.0	24.2
From Recurrent Budget 4/	-6.0	5.0	7.5	10.0	12.5	15.0
N.I.S. 5/	4.0	4.2	4.4	4.6	4.8	5.0
Unfinanced 6/	52.3	19.9	16.6	13.3	7.7	4.2
(US$ Value) 7/	17.9	7.4	6.1	4.9	2.9	1.6

1/ WBGC
2/ 1985: from 1985 Government budget estimates
1986-90: RDO/C estimates of a bare minimum
3/ Sum of preceding
4/ 1985: from 1985 Government budget estimate
1986-90: RDO/C estimate of reasonable target
5/ National Insurance Scheme, from WBGC
6/ Residual; 1985 would be lower if AID program support were included
7/ US$ Value of preceding line.

GRENADA
PRIVATE SECTOR PROFILE

I. Overview

The private sector in Grenada exhibits a historical development similar to the other Windward Islands of the Eastern Caribbean in that the latter quarter of the nineteenth century saw the development of a local commercial sector comprised of merchants who operated as commission agents for European and North American finished products and certain food items, and wholesale traders who purchased raw agricultural products, predominantly cacao and spices, from both large plantation owners and small farmers. This pattern of a sector dominated by trade in predominantly agricultural products persisted until about thirty years ago.

Since the 1950's there has been a movement toward the development of a small local manufacturing sector, largely in agro-processing and beverages, and the consistent expansion of the tourism sector and the establishment of small hotels, guest houses, restaurants and marinas. The service sector, reflecting the development of a more cash based society, has grown up in the St. George's and Grenville areas, supporting a wide range of activities from photocopying to an informal sector of hucksters.

The political turmoil of the last ten years has negatively affected the development of the private sector. Victimization, land expropriation, inappropriate fiscal policies, and lack of access to long-term credit undermined business confidence both in Grenada and without. Significant numbers of entrepreneurs left the island during those years, further eroding the development of the private sector. Although there is a cautious rate of optimism being sounded, the local private sector on the whole, remains wary and hesitant to invest.

II. Private Sector Institutions

There are a large number of private sector institutions in Grenada. These reflect the various interest groups operating in the society. Both the Grenada Chamber of Commerce and the Employers Federation represent the large firms. The Employers Federation has a membership which cross cuts the spectrum of business life including hotels, commerce, manufacturing, construction and professionals. The commodity associations also reflect various social groupings but are dominated by the largest growers and Government interests. The small business sector is not represented by a Small Business Association, which is a drawback in advocating the special interests and problems of this sub-sector. There are, however, a number of support institutions which aid the small business sector, these include the National Development Foundation of Grenada, the Cooperative Division of the Ministry of Labor, Artisanal Fisheries, the Minor Spices Cooperative and the Grenada Development Bank.

In terms of institutional strengthening, it appears that those organizations representing the larger firms are in need of greater institutional development than those representing the small and micro business sector. The latter are in need of better collaboration and coordination, perhaps through the rubric of a Small Business Association to better integrate small business into Grenada's economic recovery. The medium and larger firms could benefit from technical assistance from U.S. Chambers, Barbados Institute of Management and Productivity (BIMAP) and programs sponsored by Caribbean Association of Industry and Commerce (CAIC). Manufacturing interests, in particulary, are in need of technical assistance.

III. Characteristics of Sub-sectors in 1985

The major sub-sectors of private enterprise in Grenada at the present time can be categorized as commercial, industrial, tourist services, and small enterprise. Small enterprise activities tend to be concentrated in agro-commercial activities, tourism, crafts and other services.

A. Manufacturing

The manufacturing sector is relatively small and is composed of less than forty companies and accounts for approximately 900 jobs. Grenadian manufacturing companies tend to be small, averaging under 25 employees. Only three companies employ 100 people or more. Most companies produce for the CARICOM market. Total sales in 1983 amounted to nearly EC$40 million. The manufacturing sector can be divided into six product categories: food products, beverages and tobacco, apparel, wood products, building materials and miscellaneous manufacturing. Agro-processing including beverage and tobacco industries dominate the sector comprising sixteen companies and employing around 440 people. The majority of manufacturers are hesitant about producing for markets outside of CARICOM. This hesitancy stems from lack of knowledge of the U.S. market, high transport costs and small volumes of exports. Presently only fourteen companies export, all are garment manufacturers; less than half export outside the region. The majority which include Trinidadian shareholders export to a declining market in Trinidad. Trinidad imposed exchange contracts on imported garments in 1984 which has seriously cut into this sub sector's profitability.

B. Commerce and Trade

Trade and commerce continues to dominate the private sector in Grenada as it has since the nineteenth century. The majority of firms are family establishments in the wholesale and retail trade. At the top are the manufacturers' representatives and wholesalers who import and export a wide range of products. Major firms include Huggins, Julien, Brydens and Renwick and Thompson. Some of these types of firms are subsidiaries of Barbadian and Trinidadian conglomerates.

The commodity associations - the Nutmeg Producers Association, the Grenada Cooperative Banana Society and the Grenada Cacao Growers Association are also power structures in their own right. Their membership extends across the breadth of Grenadian society to include the smallest peasant proprietor, but the organizations are dominated by old proprietary interests and Government representatives. These associations, given their commodities' strategic importance in the economy, have been focal points for Government interference and political struggle during the Gairy and People's Revolution Government (PRG) years. This history continues to haunt these associations as they attempt to develop programs that focus on productivity, marketing, and quality control for their members. The associations themselves are in need of special institution building efforts.

C. Small Enterprise

The small business sector in Grenada, which includes for our purposes, the informal sector, is very underdeveloped and has not been viewed in the past by either Government or the larger firms as a contributor to national development. Historically there have been few institutional structures to assist small businesses, either financially or with technical assistance. Most owners met their financial requirements through individual savings, Friendly Societies or through credit arrangements with the large wholesalers who charged considerable interest. Small businesses are especially prone to the vagaries of an open agricultural economy such as Grenada's.

The most interesting recent development in the small business sector has been the movement toward light manufacturing. Much of the light manufacturing sector in Grenada is comprised of firms which are quite small in terms of assets. A recent survey of the small business sector in Grenada found 44% in this category; 11% were engaged in agro-industries, 34% in services and another 11% in crafts.

D. Tourism

The tourism sector in Grenada remains largely undeveloped and dominated by small owner operated apartment hotels and guest houses. The majority of these are concentrated in the Grand Anse and Lance Aux Epines area south of St. George's. There are approximately 22 establishments, the majority are guest houses; total rooms in 1984 amounted to 397 down from 747 five years ago. Much of this loss has been due to occupation of the Grenada Beach Hotel by the military. The U.S. Embassy is also housed in a small hotel, Ross Point Inn. Hotel size is small, averaging 16 rooms with the largest complex containing 40 rooms. The small average size of hotels negatively affects effective marketing. Total tourism employment is estimated to be around 1200 in both direct and indirect activities. Direct employment approximately 950.

Although tourist arrivals were up by nearly 60% in 1984, it is thought that nearly all of this is comprised of Government officials and technical consultants. Actual holiday arrvials are thought to have declined. The opening of Point Salines Airport has long-term potential for facilitating tourist expansion. However, in the short to medium-term

tourist infrastructure in Grenada is not large enough to result in an adequate return on investment. Tourist infrastructure is also hampered by other infrastructural constraints. Improvements in water, electricity, and roads, and the special problem of beach erosion at Grand Anse, are cited by local investors as necessary before successful expansion can occur. While the optimal limit of local tourist investment in hotels has probable been reached, at least in the short-term, there is scope for foreign investment in large tourist plants. In fact, all twenty new hotel projects approved by the Government are foreign investments. However, Government involvement in every step of the negotiations causes unnecessary delays which will impinge negatively on investors' ability to complete construction and renovations before the 1985-86 tourist season.

IV. Prospects for Private Sector Development by 1990

Private sector growth and development in the next five years is predicated on a number of assumptions which should occur as a result of AID and other donor interventions and the Government of Grenada's active promotion. These assumptions are the following:

- A more stable political environment which would mitigate the serious risk aversion which has affected Grenada for the last ten years.

- An improved Government policy environment for business which includes a reduction of and simplification of the tax structure and the resolution of land use problems including cadastral surveys and land titling.

- The establishment of an Industrial Development Corporation and investor search activities.

- Better provision of credit opportunities for local investors.

- Upgrading of infrastructure in terms of water, electricity, telephone and roads.

- Some productive infrastructure development in industrial estates.

- Improved access to and from the island resulting from Point Salines Airport construction.

- Institutional strengthening of private sector organizations including the commodity associations as providers of service to the membership and the strengthening of small business organizations such as the National Development Foundation.

With a positive environment created as a result of the above, the private sector in Grenada should witness the following developments:

A. Manufacturing

Manufacturing is expected to double in contribution to GDP from 3% to 5%, and increase employment from 900 to 1650, approximately 750 net new jobs. It is expected that this will occur primarily with the introduction of foreign investment. Whereas this sector is presently dominated by local manufacturers, only one firm is presently majority foreign owned, over 80% of new manufacturing firms are expected to be foreign, while 20% will be local. Among local firms, it is expected that about fifteen small firms will be established employing around twenty persons each. With the provision of new market opportunities and credit facilities at least five existing local manufacturing firms should be able to expand their operations.

Concentration of foreign firms will probably be in electronics and garments, while among the local firms there should be a movement away from agro-processing to furniture production and garments.

B. Tourism

In the tourist sector, again, the majority of new business activity will be in foreign investment. By 1990 it is hypothesized that over 400 additional rooms will either by refurbished or constructed. Hotel investment coupled with an increase of visitors to around 70,000 annually should result in an increase in direct and indirect tourist employment to 2500.

While hotel development will be largely foreign, there will be a significant increase in small business activities in the ancillary tourist activities such as water sports, yachting, restaurants, taxi services and handicrafts. Over 1000 new jobs should be created in this area, and much of this will be self-employment.

C. Commerce and Services

These sectors should be stimulated by the investment drive and growth in the manufacturing and tourism sectors. They should also benefit from the general improvement in the economic climate and rising standard of living among the population. If agricultural activities also exhibit growth, as predicted in the CDSS, trading activities will also occur. It is projected that there should be growth in small and medium specialized businesses such as construction activities and services to industrial estates. Some twenty-five new businesses should be in existence by 1990 in these sub-sectors.

V. Summation

In sum, the private sector in Grenada will be modified by investment opportunities in manufacturing and tourism and by increases in agricultural productivity. A high percentage of foreign investment in manufacturing and tourism will change the composition of those sectors. In addition to a large foreign ownership pattern, however, there should be stimulation of the local business sector in all productive and distributive activities. With specific interventions aimed at small and medium enterprises, a more stable Grenadian private sector should be in place by 1990, less dominated by a few firms engaged in trade, a multiplicity of small floundering agro-processors and a large informal sector.

GRENADA
POLITICAL, SOCIAL AND INSTITUTIONAL ANALYSES

I. Political Setting

On 3 December 1984 Grenadians went to the polls and gave Herbert Blaize and the New Nationalist Party (NNP) a landslide victory of 14 out of 15 seats. Mr. Blaize headed a party that was, in effect, a coalition of individuals and minor political parties, determined to find common ground and present a centrist democratic program of reconstruction to the people of Grenada. The election was widely viewed as a weathervane indicating a rejection of both the right wing tendencies of Sir Eric Gairy's Grenada United Labour Party (GULP) and the Marxist program of the reorganized PRG, the Maurice Bishop Patriotic Movement. The NNP under Blaize's leadership virtually controls Parliament, as the lone seat in opposition was won by a candidate, Marcel Peters, who has since been expelled by Gairy from the GULP for refusing to boycott the results and taking up his seat. Mr. Peters has formed a new political party, the Grenada Democratic Labour Party (GDLP) with three individuals nominated to the upper chamber and has been named leader of the Opposition in Parliament. The new party has also refuted earlier charges they made while GULP party members that the December elections were rigged.

In the months since the election, the Blaize administration has sought to further cement the democratic process by establishing a Constitution Review Committee which has been charged with the responsibility to make recommendations for amendments and reforms "in order to promote the peace, order and good government of Grenada". Specifically, the Committee, headed by the former Governor General of St. Kitts-Nevis, Sir Fred Phillips, has been asked to develop proposals for: the revival of local government abolished in 1968; entrenching a provision which ensures that the Prime Minister does not serve more than two consecutive five year terms; ensure that the Grenadine ward islands have special administrative control over their internal affairs; and to establish a recall provision which will allow constituents a way to remove their Members of Parliament for "persistent malrepresentation". The Committee has been holding meetings in villages throughout the country to ensure community participation in the exercise. Recently, the Government announced that on the expressed advice coming from such community participation 52 village councils would soon be created.

The top priority of the Government is to create a stable political climate for economic development. Presently, however, although there are millions of dollars of donor projects and investments being implemented in Grenada, unemployment has reached unacceptable 30% levels, around 13,000 persons. A high percentage of these are youth, who were the major supporters of the Maurice Bishop regime. Rising expectations on the part of the populace who want quick solutions and an increase in armed robberies are also worrisome conditions affecting the psychology of both residents and investors. There appears to be some concern about island security with the planned departure of U.S. troops in June 1985. Labor relations appear to be good although the Government has warned that given economic stringencies, it would not agree to large wage hikes. In sum, the necessary fiscal structural adjustments and long-term

infrastructural efforts may not address a number of social issues in the short term. These concerns will have to be constantly monitored. The Government's commitment to involving the populace in the development dialogue and utilizing community efforts will go some way to mitigating possible dissatisfaction.

II. Social Setting

A. Demographic Profile and the Problem of Unemployment

According to the 1981 census there were 89,088 persons residing in Grenada, by 1985 the estimates are 92,000, a 1.5% annual growth rate. This low annual growth rate is primarily the result of high emigration rates averaging about 2,000 a year. High emigration rates affected fertility as well, further contributing to low annual growth rates up to 1981. Figures in births since 1981 indicate an increase, but actual effect on population growth is difficult to assess as emigration since 1981 rates are not known. However, in 1981 there were 2,422 live births, this rose to 2,614 in 1982 and 2,493 in 1983.

As in other societies in the Eastern Caribbean, the majority of births (62%) are occuring among mothers between the ages of 13-29. However, 30% of all births are occuring among mothers between the ages of 13-19. 29% of this group has two or more children. The issue of teenage pregnancy is cause for concern since most of these young mothers are not economically geared to be responsible parents nor are they adequately educated with marketable skills. Further compounding the problem is the fact that 80% of all live births are to single mothers. Female headed households typically earn less and are more underemployed than other household forms. The growth in infant mortality which has been rising since the early 1980's may be correlated with the rising number of teenage single parents with two or more children.

The 1981 census indicates that Grenadian society is young; 41% of the population was under the age of 15. Additionally, the age cohorts 10-14 and 15-19 are very high, 11,047 and 11,710 respectively. The large size of these cohorts reflects the high birth rates of the late 1960's and early 1970's. Even if fertility falls substantially in the future, the large size of the generation poised to enter the labor force throughout the 1980's will not be affected, except by emigration, for these people are already born.

These figures have implications for employment issues, and hence questions of political stability, throughout the CDSS planning period. Many of the 11,710 youth between the ages of 15-19 have already entered the work force population and a high percentage remain unemployed. We estimate that approximately 60% of this age group or 7,026 are potential labor force material at this present time. Among this group there is high unemployment. According to a 1980 household survey unemployment was highest among youth 15-24. For men, 62.1% of the

unemployed were between 15-24 and for girls 64.5%. These unemployment figures were not simply a reflection of aggregate numbers, for according to the 1980 household survey, 41% of the employed were between the ages 40-60, both men and women.

Although unemployment data by age cohort are not available for 1985, it can be expected that the situation has worsened. This is indicated by several factors. First, according to the government, the unemployment rate has risen from approximately 20% to 30% . Secondly, the numbers of youth employed by the PRG in the Army, cooperatives, and militia are now unemployed with their disbandment, and thirdly, this age cohort has grown in absolute numbers as a percentage of the total population.

Unemployment among women is also an issue. Women in Grenada are disproportionately represented in activities that have been adversely affected by recent political events. Women dominate employment in the tourism sector which is not only seasonal, but has suffered a downturn in both direct and indirect employment. Women also are found in large numbers in the light manufacturing sector, especially in the garment industry which has been adversely affected by exchange control policies in Trinidad. Thus, unemployment figures for women, which were significantly higher than for men in the 1980 survey may have even risen in the intervening years. The higher figures for female unemployment were true for both urban and rural areas; for example 58.1% of the unemployed of urban St. George were women and 71.6% of the unemployed of rural St. Mark were women. When we correlate these statistics with the high percentage of female headed households and the high dependency rates of Grenadian society, these exhorbitantly high levels of female unemployment are a matter of serious concern.

In sum, while unemployment in Grenada has grown to very high levels, the concern expressed is due not primarily to the percentage itself, but rather to the sections of the population who are disproportionately unemployed - the youth, especially young men, and women.

B. <u>Manpower Questions</u>

One of the most serious problems facing Grenada as the country attempts to effect economic transformation is a lack of skilled personnel in both the public and private sectors, coupled with growing numbers of untrained labor force entrants. The last years of the Gairy regime and the four years of PRG rule witnessed massive out migration of skilled Grenadians in both the public and private sector. The majority of these people have not returned. Thus in Grenada the manpower problems typical of the Eastern Caribbean have been exacerbated by the political upheaval of the last five years. Specifically:

1. Education System

The education system in Grenada is not meeting the country's vocational training needs. This is true both of traditional academic subjects as well as subjects in technical education. The vast majority of Grenadian students fail to pass the necessary examinations which would allow them to advance to secondary and tertiary schooling. In 1981 of the 29,322 students enrolled in schools, 22,602 were receiving some form of secondary education. Not surprisingly, functional illiteracy rates are fairly high by West Indian standards (40%). Survey indications are that some 18% of the employed labor force have completed less than Standard 5 of primary school. Reasons are many, including high absenteeism, overcrowding in schools, lack of school materials, poor infrastructure including lack of water and electricity, and poorly trained teachers. Additionally, despite the fact that nearly 80% of the labor force finishes their education by ages 14-15, there is virtually no vocational education at the primary school level. Technical training outside of primary school is comprised of several craft centers, one Technical College (for "O" level graduates) and a USAID/OAS Skills Training Project. Migration patterns have disrupted the traditional apprenticeship system in the crafts; many of the skilled artisans have left the island, leaving a gap which has yet to be filled. Many of those remaining are only partially trained and do not make the best teachers. Also, as yet there is only a rudimentary knowledge of manpower needs to the year 2000 and thus very tenuous links between education and labor force needs.

2. Public Sector

Small island states exhibit a strong correlation between public service personnel and political allegiance. Despite the best intentions, decision-making by public servants is often perceived as a reflection of their political loyalties. In Grenada, both under Gairy and the PRG, there was little attempt made to ensure non-partisanship and consequently there was rapid turnover of personnel as the regime placed those sympathetic to its policies into positions of decision-making. These practices have had a very negative impact on the civil service and many of the most experienced personnel have retired or migrated.

This phenomenon is repeated in the professions associated with the public sector, most notably in health and education. In 1983 of the 738 primary school teachers only 31% were qualified. In addition, there is a high turn over rate among teachers. Of the teachers who leave the profession every year, it is estimated that 25% of them are qualified. In health there is a great shortage of adequate staff in the professions. There is an acute shortage of doctors (3.0 per 10,000) and in nursing. The attrition rate is high as a result of poor working conditions and inadequate levels of pay. The total number of nurses per 10,000 is 21.0 and there are 0.7 dentists per 7,000 people. Grenada also faces a shortage of health personnel who are laboratory technicians,

health social workers and public health officers. Serious vacuums exist in all the parastatals concerned with infrastructure, such as GRENLEC and the Central Water Commission, as well as in the Ministry of Construction. This is further analyzed in the institutional Analysis.

C. The Land Issue

Access to productive land has been a continuing issue in Grenada from the 1950's down to the present. It was the land issue which propelled Gairy to political power as he translated the aspirations of the peasantry and plantation laborers into a mass base. The land issue was paramount under the PRG, as the leadership sought to remove the private sector from medium and large estates and create state farms. By 1983 over 20% of the land was controlled by the state, the most numerous included in the Grenada Farms Corporation totalling over 7,000 acres.

Distribution of cultivated land is, therefore, very uneven. According to an agricultural census carried out in 1981, 23% of the land was owned by less than one percent of the farmers, that is, by about 24 individuals out of farm household heads of 8,202 persons. Half of these heads depended solely on agriculture for their income, and 68% of the farms were less than two acres; the average farm size was 4.2 acres. Acreage cultivated in cash crops declined from 50,695 acres in 1961 to 34,243 acres in 1981. The intervening years 1981 to 1985 have witnessed stagnation in agricultural production. Part of this is due to questions of divestiture of state controlled lands and part due to the necessity for small farmers to turn increasingly to subsistence when faced with both growing off-farm unemployment and declining market prices for cash crops such as nutmeg and bananas. Farm family households are large in Grenada, and a high percentage depend on off-farm income as an important component of total farm income. 1984 figures indicate that 40% of the employed labor force are dependent on agriculture for their income. This is a significant increase from 26% recorded in 1980.

These figures indicate that production is presently concentrated in small farms producing for either subsistence or subsistence and a small amount of cashcropping in declining export commodities. Much of the best land is either underutilized or completely unutilized awaiting transfer of title back to private ownership. Productivity is low and it is questionable whether a high percentage of existing small farmers can increase production without significant transformation in farm systems including size of holdings, access to credit, and changes in technology and types of cash crops. Agricultural labor is also problematic. Approximately 4,000 laborers were employed on State-owned farms in 1984 working approximately 3 days a week. But many estate workers have either reverted to subsistence farming or migrated in search of employment.

An overall agricultural sector plan is needed which calculates both the ratio between crop type and size of holdings and also the labor force and technical expertise needed for this transformation. Of

necessity the plan will have to include both large estates focusing on export commodities as well as small farms producing for the domestic and regional markets. The AID-funded DAI Assessment of Agriculture in Grenada in 1984 outlines many of the necessary steps which the Government needs to consider taking if a more equitable land system and increased productivity are to be implemented.

D. Physical Quality of Life

While fairly high compared to many third world countries outside the region, Grenada's quality of life indicators reflect the political problems which have plagued the country for the last five to ten years. For example, infant mortality has been rising from a low of 15.39 per 1,000 to 32.0 per 1,000 in 1984, an increase of 104%. Thirty percent of all total births are by teenage mothers. Experts express growing concern over the nutritional intake of children, teenagers and lactating mothers in the community, although present data are conflicting and incomplete at the present time.

Housing statistics evidence some overcrowding with 32% of all households below two rooms and some 16% of dwellings with less than five rooms being comprised of seven persons or more. The major problems associated with housing are lack of access to basic services. Some 69% of the houses in Grenada use pit latrines and about 51% are without access to piped water.

Although literary standards are higher than for most third world countries we have indicated that there are serious functional literary problems of approximately 40%. Population density is about 684 persons per square mile and there is no significat rural-urban split in the distribution of the population due in part to the small size of the island and its dependencies Carriacou and Petit Martinique.

III. Institutional Setting

A. Public Sector Overview

As in other Eastern Caribbean islands, the public sector employees a fairly high proportion of the labor force; approximately 7,000 people out of a labor force of 30,752 (1982 census). Of the 7,000 workers only about 2,000 are in established full time positions while the other 5,000 hold temporary or part-time, relatively unskilled positions. These 7,000 workers comprise about 26% of the labor force. An additional 8.6% or 2,365 are employed in parastatals.

The public sector of Grenada is currently undergoing a major reorganization process which has become absolutely necessary as a result of long-term political upheavals which have demoralized members of the service and administratively and organizationally caused a state of near

total disarray. For a long period of time lack of systems of management and control evident in the non-observance of basic procedures were replaced by personalism, party loyalty and ministerial control. Rapid turnover during the PRG and Interim Government era has created a number of critical vacancies in both senior and middle management positions throughout the Ministries and in statutory bodies. In addition, while some personnel recruited may have basic academic requirements, little effort was made to provide in-service training in administration and public management. Even worse, according to a number of assessments of the public service completed both during the PRG and under the Interim Government, the majority of civil servants possess no more than the minimum requirements for entry into the service and function merely as an extension of the clerical grades. Thus one of the most pressing needs in Grenada is in-service training to upgrade skills and capacity. This needs to be done in conjunction with a revision of grade structure so that job progression can be effectively linked to increased job responsibilities and progressive work experience.

The new Government has announced during the Budget Speech of April 1985 that a team of Organization and Methods Consultants from the United Kingdom would shortly arrive in Grenada for the purpose of undertaking a rationalization of the Grenada Public Service. Government has also planned to provide for intensive in-service training at all levels. As well, Government has decided to restore the Efficiency Bar Examination which was suspended for the last six years. This should restore professionalism and objective criteria for advancement which led to such demoralization and disorganization in the recent past. Additionally, Government is experimenting with plans for consolidation of and better coordination between Ministries.

These efforts at reorganization are long-term in nature. In the short term, during the CDSS period when the Grenada Government will be faced with the very difficult task of administering major donor projects in numerous areas, particularly in agriculture and infrastructure, as well as implementing important fiscal reforms, it will be doing so very short staffed and lack key technicians such as development planners, engineers, accountants, statisticians and human resources development officers. It will be administering projects and programs in the midst of public sector reorganization and attempts to develop overall plans and priorities. Hence, given the herculean task at hand, continued technical assistance at all professional levels including support at the central planning level both in Government and in the remaining parastatals will be critical to Grenada's success at managing the transformation process.

B. Commodity Associations

Grenada's commodity associations, the Grenada Co-operative Banana Association (GCBA), the Grenada Cacao Association (GCA), the Grenada Co-operative Nutmeg Association (GCNA) and the minor Spices

Co-operative Marketing Society (MSCMS) have a turbulent social and political history. They began as growers' organizations during a period when the economic and political hegemony of the planter class was being challenged by Gairy who represented the small growers and agricultural laborers. As a result, during the latter Gairy years they became a focal point of political and social differences. During this period, the government came to dominate the Board of Directors and this continued under the PRG, who in turn, nominated their own representatives. A decision was reached by the Interim Government in 1984 to reprivatize control of the commodity associations. Government no longer holds a majority of the Board, in most instances out of a nine member Board, Government representation has been reduced from six members to three.

The four commodity associations function similarly. They bring the commodity from the farmer and grade, package, sell and ship it. The GCBA and the GCA supply some inputs and services to members, including pesticide applications. The GCNA is planning to expand its processing ability for members who are overwhelmingly small growers. The associations also provide credit in kind and price stabilization services for members.

The Grenada Cooperative Banana Association (GCBA) represents approximately 1400 banana growers producing on 10,000 acres. Nutmeg is Grenada's major export earner (35-40% of all export earnings) and is produced by about 6,000 growers on 5,000 acres. The minor Spices Co-operative has about 529 members. These associations have monosony power. They are the sole purchasers of the commodities on the island. The rationale is that as small producers, their bargaining power is enhanced by operating as a unit on the world market. However, membership in these associations overlaps and it is likely that administrative and input expenses are higher than necessary as a result. This is particularly true of the minor Spice Cooperative society and the Nutmeg Association, both of whom are in serious financial straits. The GCNA purchases a substantial amount of minor spices for the Society at its nutmeg collection points and overseas buyers of nutmeg also purchase cinnamon and cloves.

All of the associations suffer from both organizational weaknesses and financial problems caused primarily by world market prices and competitive disadvantages. Institutionally the Nutmeg Association has in the past successfully marketed the island's major export. However, the GCNA has not been able to conform to U.S. marketing requirements and has not been able to penetrate this market. Lack of marketing intelligence is also hampering the GCNA, particularly with respect to its major competitor, Indonesia. The Grenada Cacao Association appears by all accounts to be well managed and has established a good working system to collect, process and market cacao. They also have a systematic pest control program but it is high cost. Internal inability to evaluate cost effectiveness and efficiency of operations especially when faced with reduced prices for cacao appears to

be its major weakness. The GCBA, suffers from the plight of all small Eastern Caribbean Banana producers faced with a declining British pound and low prices for bananas. But the Grenada Association faces additional difficulties stemming from a poor management system which is considered to be the weakest in the region. This has also contributed to an outbreak and lack of control over Moko disease. Grenada has not been able to provide a consistent volume of bananas for the market and as a result Geest Industries, the sole buyer, has been considering the possibility of ceasing to call at Grenada for pick-up of produce.

In sum, given the strategic importance of the commodity associations to the Grenadian economy, attention is being given to problems of organizational development, efficiency of accounting procedures, marketing expertise, and importantly in determining which activities are feasible to merge Associations to improve efficiency of operations, reduction of overhead and increase market capabilities.

C. Marketing and National Import Board (MNIB)

The MNIB is a statutory body established by Government in 1979. Like all marketing boards in the Eastern Caribbean the MNIB has fairly extensive powers. The Board is in charge of the marketing of all Grenadian agricultural and fisheries produce, with the exception of those marketed by the commodity associations and also the monoply importation of certain basic food and non-food items such as bulk purchases of sugar, rice, flour, powdered milk and cement.

The MNIB is the responsibility of the Minister of Finance, in this instance the Prime Minister, who appoints the nine Board members. There is also a general manager and approximately 90 employees placed in six major divisions: administration, imports, finance, shipping, marketing and purchasing. The MNIB also has a division each in Carriacou and Petit Martinique.

The MNIB collects approximately 25-30% of fresh produce at the farm, the rest is delivered by farmers to the Board. Over half of all purchases are retailed through the MNIB outlet in St. Georges, the remainder are sold to Government institutions. Present pricing policy adds a 25% mark-up which is low relative to other Eastern Caribbean islands and the U.S. The Board markets almost exclusively fruits, vegetables and root crops for the domestic market. Only very small quantities of tropical produce have been exported. The MNIB has had little success in penetrating extra-regional markets and shipments have invariably incurred losses.

An FAO/World Bank team undertook a financial analysis of the MNIB in 1983 and determined that the Board had serious inefficiencies in management and operations which were hidden by windfall profits predicated on free gifts from overseas Governments during the PRG years

141

1979-1983. The Study concluded that the Board could not have remained in business if it had been a private sector company, and that the MNIB was consistently financially mismanaged during that period. A recent study by Development Alternatives Incorporated has concluded that the MNIB has failed to establish itself as a major vehicle for fresh produce marketing. There have been a number of recommendations which when implemented will shift MNIB's function away from direct participation in fresh produce commercial marketing, returning this to the private sector. The MNIB will be reorganized into the provision of marketing services which will facilitate private sector led development of the fresh produce sector of Grenada. Technical assistance in management, operations and marketing is envisioned along with administrative reorganization and changes in staffing.

D. Ministry of Works (MOW)

A major focus of RDO/C's strategy will be project interventions in infrastructure improvement including roads, utilities and social infrastructure, such as schools. Grenada faces problems in infrastructure maintenance similar to those of other OECS states, but these have been compounded by years of neglect during the PRG when all infrastructure effort was redirected to construction of the airport. Damage also occured during the military intervention.

The Ministry key to infrastructure rehabilitation is the Ministry of Works. The MOW is divided into ten divisions. Four of these operate as government units, such as the Roads and Buildings Divisions, and six operate as a combination of central service and private enterprise. These include the Quarry, the Central Garage and the Gravel and Concrete Production divisions.

Prior to the intervention all of these divisions operated from a central fund, with few budgetary and accounting systems in place. The major infrastructure rehabilitation effort amounting to over EC$80 million for 1985 alone necessitate implementation of better accounting systems. Other weaknesses also are organizational. Record keeping has been poor and there is a lack of systems for various types of activities including maintenance and major repair. This is related to an absence of formal internal control guidelines to carry out assigned functions. The Ministry also suffers from a high turnover rate among technicians, artisans and supervisors, its problems are compounded by a large, virtually untrained, daily paid labor force.

The Ministry is presently receiving some donor assistance in institutional development. CIDA is aiding the Central Garage with spare parts and technical assistance in equipment handling and control. Other reorganizational efforts are occuring throughout the other units, but given the massive projects being undertaken, the Ministry will continue to need technical assistance in training, systems development and project implementation throughout the CDSS period.

142

GRENADA
OTHER DONOR ASSISTANCE

I. British Development Division

A. Ongoing

Banana Development
Electric Generator (incl. spare parts)
Water Equipment (spare Parts)
Central Garage Unit
Police/Fire Buildings and Equipment

B. Proposed

Forestry Development II
Sawmill Development

II. Caribbean Development Bank

A. Ongoing

Carriacou Sheep Development
Grenada Farms Development
Banana Regional Input
Industrial Estates
Quarry Development Study
Port Development
Feeder Roads II
Western Main Road I
Mama Cannes Water System

B. Proposed

West Coast Roads II
Feeder Roads II

III. Canadian International Development Agency (CIDA)

A. Ongoing

Cacao Rehabilitation
Point Salines Navigational Aids
Mama Cannes Water System
Central Garage Unit

B. Proposed

Rural Electrification II
Water: Tufton Hall/Dougaldston II
Solid Waste Disposal Trucks
School Construction and Expansion
(Hillsborough and GTVI)

IV. European Economic Community (includes EDF and EIB)

Ongoing

GRENLEC Generators (2) (EIB)
IFE Expansion - (Education; EDF)
Library Renovation

V. European Economic Community

A. Ongoing

Mirabeau Training School
Moko Eradication
Petite Martinique Jetty
Carriacou Jetty
Farm Roads
Eastern Main Road
GRENLEC Generators (2)
IFE Expansion
Library Renovation

B. Proposed

Moko Eradication II
Eastern Main Road II
Rural Electrification I
Peggy's Whim Expansion (water)

VI. International Food and Agricultural Development (IFAD)

Ongoing

Artisian Fisheries

VII. Organization of American States

Ongoing

Curriculum Development

VIII. United Nations Development Fund

Ongoing

Women's Motor Mechanic Apprentice Training

IX. Sweden

Ongoing

Health Centers II

X. Venezuela

Ongoing

Pre-Fab Housing

XI. International Development Agency (IDA)

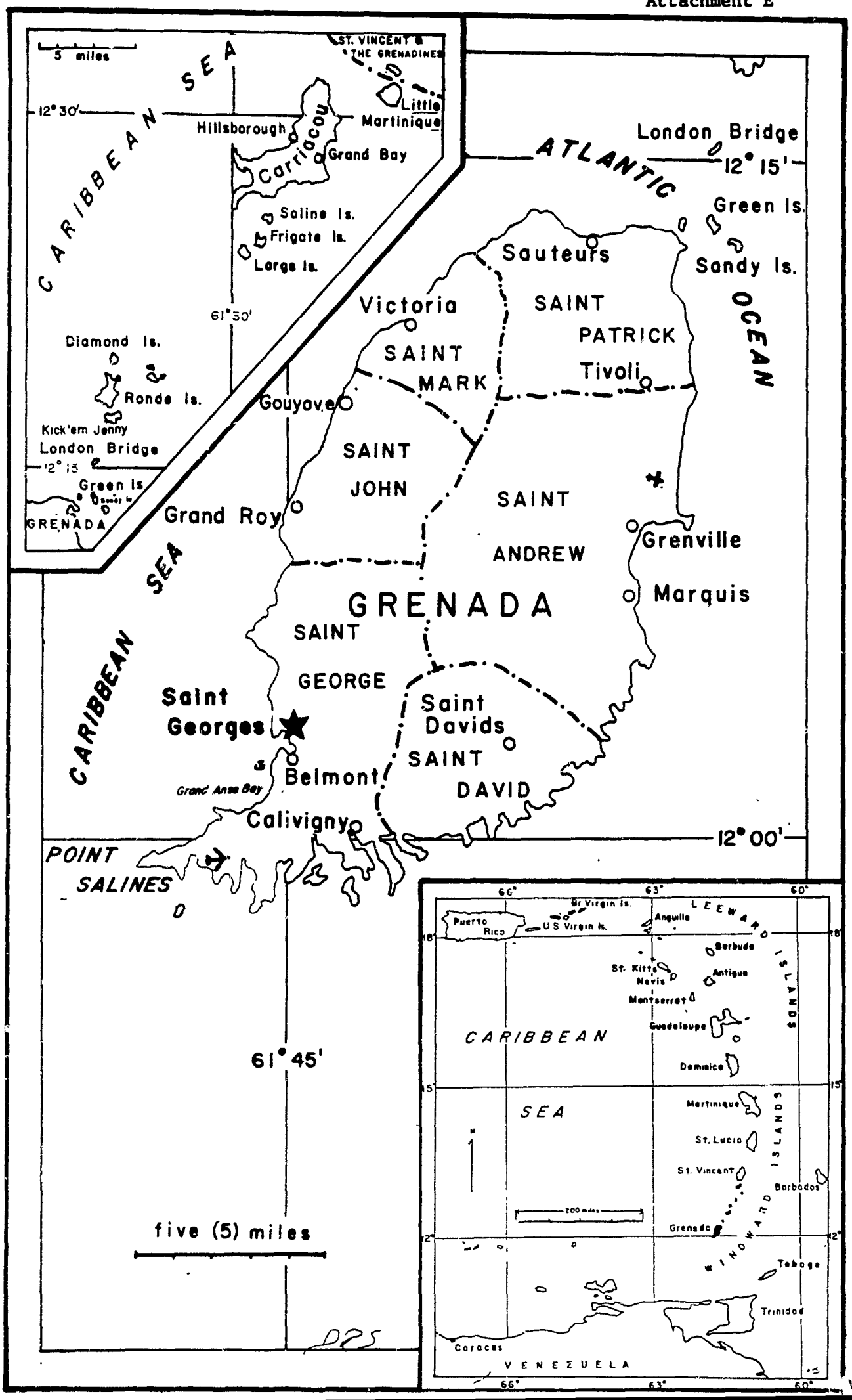
Proposed

Agricultural Rehabilitation and Crop Diversification

XII. France

Proposed

Agricultural Coops and Marketing Depots


5 miles
ST. VINCENT & THE GRENADINES
CARIBBEAN SEA
12° 30'
Hillsborough
Carriacou
Little Martinique
Grand Bay
Saline Is.
Frigate Is.
Large Is.
61° 30'
Diamond Is.
Ronde Is.
Kick'em Jenny
London Bridge
12° 15
Green Is
GRENADA
ATLANTIC OCEAN
London Bridge
12° 15'
Green Is.
Sandy Is.
Sauteurs
Victoria
SAINT PATRICK
SAINT MARK
Tivoli
Gouyave
SAINT JOHN
Grand Roy
SAINT ANDREW
Grenville
Marquis
GRENADA
SAINT GEORGE
Saint Georges
Saint Davids
SAINT DAVID
Belmont
Grand Anse Bay
Calivigny
12° 00'
POINT SALINES
61° 45'
five (5) miles
66°
63°
60°
Br Virgin Is.
Puerto Rico
US Virgin Is.
Anguilla
LEEWARD ISLANDS
Barbuda
St. Kitts Nevis
Antigua
Montserrat
Guadeloupe
CARIBBEAN
Dominica
SEA
Martinique
St. Lucia
St. Vincent
Barbados
200 miles
Grenada
WINDWARD ISLANDS
Tobago
Trinidad
Caracas
VENEZUELA
18°
15°
12°

XN

ST. LUCIA COUNTRY SUPPLEMENT TO THE CARIBBEAN REGIONAL CDSS 1986 to 1990

	Page
I. AID STRATEGY	
A. Overview	1
B. Sectors	1
1. Agriculture	1
2. Manufacturing	4
II. KEY DEVELOPMENT OPPORTUNITIES, CONSTRAINTS, AND POLICY ISSUES	
A. Development Opportunities	7
1. Agriculture	7
2. Manufacturing	7
3. Tourism	8
B. Key Development Constraints	8
1. Government	9
2. Market Information and Access	9
3. Credit and Technical Assistance	9
4. Land Access and Use	9
5. Labor	10
6. Entrepreneurs	10
C. Policy Dialogue Agenda	10
1. Taxation	10
2. Public Sector Savings	11
3. Land Use	11
5. Credit Allocation	11
III. ATTACHMENTS	
A. Economic Analysis	
B. Private Sector Profile	
C. Political, Social and Institutional Analyses	
D. Other Donor Assistance	
E. Map of St. Lucia	

I. AID'S STRATEGY

A. Overview

St. Lucia, at its current state of development, demonstrates greater balance among its productive sectors than do the other less developed countries of the Eastern Caribbean. Agriculture, manufacturing, and to a lesser extent, tourism have each contributed to economic growth and the country's elected leadership has created a policy environment that is conducive to development led by the private sector. However, to sustain the pace of development, the Government will need to respond to the imperative to rapidly increase employment; the need to increase foreign exchange earnings through exports and tourism; the need for improved efficiency in both agricultural and manufacturing production; and the requirement to expand local private enterprise.

The goal of RDO/C's strategy in St. Lucia over the planning period will be to promote broad-based economic growth through the expansion and diversification of the agricultural and manufacturing sectors and to increase indigenous entrepreneural capacity and activity. This will be accomplished in the agriculture sector by efforts to improve efficiency in the important banana industry while introducing new crops for export and domestic consumption that will reduce St. Lucia's dependence on the vagaries of the banana market. These efforts will be supported by interventions in research and technology transfer, marketing, training, land tenure and use, and the attraction of foreign investment. In the manufacturing sector, the attraction of foreign investment to St. Lucia will be emphasized and a variety of training efforts will be undertaken to facilitate the expansion and growth of the sector by providing a more adequately trained labor pool. The tourism sector has not been targetted for intervention because it is already fairly well developed and in terms of development priority, needs less attention than the other productive sectors. Finally, in the agricultural, manufacturing, and tourism sectors, the support of local entreprenuers will be undertaken through a combination of credit, technical assistance and training. An expanded local private sector will provide linkage among the productive sectors, create employment, and facilitate the inflow of private foreign investment to the extent that local entrepreneurs meet the need for services and materials of enclave and other foreign entrepreneurs. Table 1 provides an overview of the RDO/C strategy considerations which form the basis for the strategy discussions in section B below.

B. Sectors

1. Agriculture

At present, the economy of St. Lucia is heavily dependent on the banana industry and the maintenance of the U.K. market for its output. In 1984, bananas comprised almost 25% of St. Lucia's total income from exports. While there appears to be no immediate threat to the continuity of the U.K. market, there is a need for St. Lucia to diversify its agricultural output to take advantage of the domestic and regional foreign market while improving the efficiency of the banana

Table 1

ST. LUCIA STRATEGY SUMMARY

Goal of the AID Strategy:
To promote broad-based economic growth through the expansion and diversification of the agricultural and manufacturing sectors

Benchmarks:
5.1% annual growth in GDP
3.6% annual growth in employment
6.3% annual growth in exports

Sectoral Strategies

Agriculture

Objectives
Expand, diversify and increase the efficiency of market oriented led agricultural production especially for export

Benchmarks
5.0% annual growth in banana exports
6.0% annual growth in non-traditional crops
2.5% annual growth in employment
5.0% annual growth in total agriculture

Program Interventions
- Test the viability of producing/marketing new crops strengthen and focus research and extension
- Facilitate private sector links
- Identify and define export market opportunities
- Collect and disseminate market information
- Establish quality control and standards
- Provide training in marketing skills
- Establish offshore brokerage links
- Support programs to commercialize new exports
- Shift from public to private marketing
- Focus regional skills and pre-employment training

Policy Agenda
- Encourage public sector savings
- Encourage land use planning
- Examine land tax policy examination

Constraints
- Marginal lands, lack of technology, high cost of inputs and transport, and inadequate marketing systems
- Insufficient access to and utilization of resources necessary to expand agriculture
- Lack of market information, market access and marketing capability
- Risk aversion orientation

Manufacturing

Objective
Expand output of a diversified range of products in enclave and export manufacturing

Benchmarks
8.2% annual growth in exports
6.5% annual growth in employment
8.2% annual growth in manufacturing

Program Interventions
- Promote foreign investment in manufacturing
- Strengthen Government investment/investor service capacity
- Provide pre-employment skills training
- Train managers/entrepreneurs
- Support training of labor leadership
- Facilitate entrepreneurial access to needed research findings
- Support positive outreach program to transfer technology
- Facilitate access of small and medium-scale enterprise to adequate credit
- Strengthen institutions providing support services to entrepreneurs and productive sector enterprises

Policy Agenda
- Examine tax package
- Reduce public sector borrowing and increase earnings
- Reduce bank lending for consumer durables and increase credit to productive sectors

Constraints
- Lack developed support services, high cost of transport, and outdated technologies
- Insufficient public sector capacity to support productive sector growth
- Insufficient credit and equity capital
- Lack of technical managerial marketing experience
- Disincentive in the taxation system

149

industry in order to increase productivity and income. Fortunately, there is potential for expanded production and export of both traditional and nontraditional crops. As new technology and improved management are applied, substantial gains can be realized from St. Lucia's growing acreage of medium-sized farms; while processing, packing, grading, storage and transport services related to the expanded and diversified output are given the opportunity to grow apace. The combination of diversification and improved efficiency should result in a reduction of food imports and an increase in foreign-exchange earnings from increased exports. Most important, it will create employment opportunities in the agriculture sector and in the service industries which support it.

The expansion and diversification of agriculture will necessitate the identification of regional and hard currency markets for which St. Lucian products are competitive in terms of cost and quality. This will require the development of an effective market information system as well as the means to bring new crop production to commercial status. Research and technology transfer will be needed to enable production, marketing and related expansion and diversification problems to be overcome and to increase the productivity of both land and labor. Finally, efficiency must be improved by the introduction of new techniques and systems in production and marketing; training of labor to use new production methods; and improvement of financial accounting to enable producers to accurately determine and control their costs.

RDO/C intends over the next five years to implement a balanced program that will concentrate our efforts in research and technology transfer, marketing, improvement of human resources, better land use, and the creation of foreign investment opportunities. The opportunities to use better technology are considerable. As large estates have been broken up, there are more farmers with the means to apply improved practices. The new farm owners are typically persons with education, technical competence, at least some capital, and better access to modern sector inputs and credit. RDO/C intends to capitalize on the opportunity that this target group represents by intensifying its efforts in the testing and field trial of new crops as well as the development of more suitable varieties of existing crops. Demonstrations will be conducted of commercial production systems closely linked to markets in which farmers can participate. The extension system will be strengthened to deliver information about modern and efficient production packages including pest management and post harvest crop protection. These efforts should result in not only improved production of traditional crops, such as bananas, but should create opportunities for the production and marketing of nontraditional crops as well.

Diversification to nontraditional crops is pointless without access to markets. The AID program will support improved marketing through the provision of technical assistance in market search, the development of a market information system, training in marketing, marketing oriented quality control, processing and the establishment of an off-shore brokerage mechanism. Both local and export market development will be emphasized. RDO/C will also support programs to assist in commercializing new export products as they are identified and

to shift marketing efforts from public to private marketing entities. A major intervention will be the development of privately operated small nuclear farms and packing facilities in which small farmers can join to create sufficient production for the export of nontraditional products handled by an experienced marketer with established market connections.

RDO/C's concentration on improved efficiency, expansion to nontraditional crops, and marketing will be greatly supported by the on-going land-use program which is identifying and rectifying problems of land registration and ownership. Greater incentive for land owners to invest in their land should result in the development of underutilized land and improved yields. Together with the other expanded and intensified programs in the sector, and given St. Lucia's recognized lead in the areas of planning, resource development and institutional effectiveness, much of the agricultural potential of St. Lucia should begin to be realized during the planning period.

Finally, the successful identification of nontraditional export crops and the need for related service industries should create opportunities for modest investment by foreign entrepreneurs. Investors can provide both a demonstration effect and create a critical mass of export movement which is essential to the creation of reliable shipping. The two together create opportunities for local entreprenuers that would more slowly develop without the inflow of foreign investment. RDO/C will continue its efforts in investment promotion and facilitation and will intensify its efforts to promote foreign investment in the sector and related service sectors.

2. Manufacturing

Presently contributing 9% of GDP and employing approximately 8% of the labor force, the manufacturing sector in St. Lucia offers some very real opportunities for development given the substantial sector assets that are already in place. The Vieux Fort port, industrial estate and free zone and the Hewannora International Airport comprise a very large cluster of infrastructure assets for export manufacturing. These are supplemented by the Vigie Industrial Estate near Castries and the Dennery Estate on the east coast. The port of Castries is connected to these estates by good roads and the utility systems are presently adequate to support expansion. The lower cost of manpower and St. Lucia's preferential access to the U.S. and European markets through arrangements under the CBI and Lome Agreements further increase St. Lucia's attraction for foreign investment. All contribute to RDO/C's strategy for giving high priority to the diversification and expansion of manufacturing and, particularly, the attraction of foreign investment. Given the heavy dependence of the economy on the export of bananas, growth in the manufacturing sector, especially of exports to a more diversified set of markets is essential to the future economic health of the country. This growth will only come through product diversification; human resource development; greater activity by local entrepreneurs; and foreign investment.

The attraction of foreign investment is central to the RDO/C Strategy to expand and diversify the manufacturing sector. Foreign investors are needed to bring to St. Lucia the necessary technology and market contacts to link more of the sector to hard currency markets; make St. Lucia a more efficient and competitive export producer; and create opportunities for a larger set of service-oriented activities in which indigenous entrepreneurs can operate successfully. Foreign private investors engaged in enclave and other export-oriented operations will help to overcome the constraints of limited capital, technology and extra-regional marketing experience. RDO/C will intensify its efforts to attract foreign investors through the investment promotion and investor search activities already underway. Technical assistance will be provided to the Industrial Development Corporation to strengthen its promotion and investor service functions. To support both efforts RDO/C will encourage the Government of St. Lucia to maintain the positive tax, fiscal and other policies that are necessary to attract and support foreign investment.

A critical element in the climate for investment is the readiness of the work force to undertake productive roles in manufacturing as entrepreneurs, managers, technicians and laborers. At present, St. Lucia is limited in this resource area and RDO/C intends to support a variety of training efforts to bridge the perceived gap. St. Lucia will benefit from regional programs which will provide pre-employment trade skills training as well as assist enterprises to train new hires in specific job-related skills. Other programs will offer business skills training in areas such as personnel and middle management, marketing, data processing, transport, procurement and technical skills. Management training at the senior level will be offered through short courses and through more academic training in business. Training to the private sector will be augmented by assistance and training of key public sector staff in management, planning and policy formation to engender better cooperation between the public and private sectors.

One element that is critical to the development of the manufacturing and agricultural sectors is the need for the creation of a cadre of local entrepreneurs who may benefit from the increase in foreign investment. The opportunities cut across both sectors and in some areas, activities in one sector may create opportunities in another. Entrepreneurs are engaged in many lines of business, including trade, distribution, hotels, manufacturing, and service industries supplying the needs of both consumers and other enterprises in each of the productive sectors. They provide critical links among the sectors; create needed employment and income; and facilitate the attraction of private foreign investment to the extent that they meet the need for services and materials of enclave and other enterprises. As entrepreneurs grow in experience, management competence, technical knowledge and marketing capacity, they become the source of future more modern enterprises.

RDO/C plans to facilitate the development of local entrepreneurs through a regional system which will provide access to production technology, market data and other business related information. Credit will be provided through regional and local institutions along with training in management, marketing, brokeraging, packaging and other skills necessary to small and medium-scale entrepreneurs. Existing institutions such as the National Research and Development Foundation, the Chamber of Commerce, and the Small Business Association will be encouraged to participate in these programs.

II. KEY DEVELOPMENT OPPORTUNITIES, CONSTRAINTS AND POLICY ISSUES

RDO/C's strategy for development in St. Lucia is grounded upon perceived opportunities that complement and, to some extent, dictate the strategy.

A. Development Opportunities

1. Agriculture

The Goverment of St. Lucia recognizes both the imperative and the opportunity to expand and diversify the agriculture sector while at the same time making the production of traditional crops more efficient. Relative to other Eastern Caribbean LDC's, St. Lucia has a large amount of arable land. To take advantage of favorable marketing arrangements with the U.K., much of this land has been brought under banana cultivation. Banana production, however, has been plagued by low yields due to inadequate technology and poor land use. St. Lucia's model farms have demonstrated that banana productivity can be doubled when appropriate technology and land use are practiced. The opportunity exists, therefore, to maintain or increase current banana production while arable land unsuitable for banana cultivation is utilized for other crops. Marginal hillside lands can be used for productive tree crops while other land can be used for fruits, vegetables, spices and exotic flowers.

Although land tenure has in the past been a significant constraint, the AID-financed cadastral survey and land titling program is having significant impact. Secure land titles should facilitate access to credit and promote investment. A program which encourages expansion and diversification while providing market access will take advantage of the opportunities presented.

2. Manufacturing

The Government is committed to a program that envisions economic development and growth led by the private sector. It recognizes the need for the manufacturing sector to attract private foreign investment in a diversified range of products for exports to hard currency markets. At the same time, it perceives the need for the development of human resources required to achieve growth and modernization in the productive sectors, including the encouragement of indigenous entrepreneurs. This healthy climate is supported by St. Lucia's ability to offer potential investors the infrastructure that manufacturing depends upon. This includes land for factory sites, adequate power and water, a good telecommunications system, and one of the best road networks in the region. These are complimented by two major airports and port facilities with regular scheduled shipping. Finally, St. Lucian workers have already demonstrated, in enclave manufacturing, their ability to rapidly raise productivity to the benefit of investors.

3. Tourism

St. Lucia can expect real growth in a tourism sector that is already well developed. In 1984, some 85,000 tourists visited the island and stayed for an average of ten days. Physically, St. Lucia has much to offer. It is a relatively large island with a topography that is volcanic in origin. Some of its features, like the twin Pitons are unique. Although it lacks the extensive beaches of some of its neighbors, the coastal areas are accessible and a number of picturesque and well developed resorts, such as Anse Chastenet, have an appeal that other islands cannot offer. With superior and expanding yacht facilities, it attracts its share of visiting yachtsmen and is only beginning to achieve its potential in the yacht charter business. Access is facilitated by an international airport with direct connections to Europe and the United States. An adequate road system gives access to most parts of the island and the combination of tropical forest, rugged natural beauty, and more rolling settled areas offers a variety of sites that tourists find interesting and appealing.

The tourism sector presently accounts for about 8 per cent of GDP and 12 per cent of employment. RDO/C has not targetted the sector in this development strategy because of indications that it is already well developed and will continue to grow apace. This is not intended to underemphasize its importance. To the contrary, the vitality of the sector is viewed as an opportunity for accelerated growth in the other productive sectors. It represents a significant market that can be tapped by the mobilization of the manufacturing, agriculture and support services sectors to meet its needs. The hotel industry can provide a market for fresh fruits, vegetables, juices and other agricultural products that are produced and processed locally. Tourism creates a demand for handicrafts, garments and souvenirs not to mention a variety of services. The tourist, who is usually from the United States or Europe, is representative of the larger market and can provide a test market for local products.

Although RDO/C is confident that the tourism sector will continue to expand, St. Lucia will benefit from a regional program designed to offer assistance in marketing, planning and skills training that will focus on tourism and the development of St. Lucia's unique niche in the market.

B. Key Development Constraints

There are specific constraints which shape and limit the development of St. Lucia. However, St. Lucia is relatively more advantaged than its Eastern Caribbean neighbors and there are strong indications that development can proceed despite the constraints which have a limiting effect. Success depends, however, upon the establishment of policies which will minimize constraints and maximize the pursuit of opportunities.

1. Government

St. Lucia's public sector entities suffer from human resource limitations that restrict their ability to support productive sector development activities fully. Sufficient administration, policy making, financial and technology management capabilities are lacking even though external assistance efforts have trained some persons in these and related areas. This is, in part, the result of too few people being available; in part it reflects lack of adequate preparation of those who are available; finally, it results from a continuing misorientation of public sector services toward traditional roles (such as parastatal marketing activities) instead of toward providing support for the private sector.

2. Market Information and Access

St. Lucia's private sector entrepreneurs do not possess sufficient marketing data, access or ability, especially with respect to extra-regional markets. This is a result of their historical dependence upon importing and retail trade. Systems to provide market information, to gain access to world markets and to gain experience in negotiating and taking advantage of available market opportunities have not been developed. As a result, it is difficult for indigenous entrepreneurs to identify agricultural and manufactured products suitable for export and to gain profitable access to markets which do exist.

3. Credit and Technical Assistance

As in all of the Eastern Caribbean countries, access to credit and technical assistance for potential entrepreneurs is a constraint to development in both agriculture and manufacturing. Although an influx of foreign investment will create the need for symbiotic service industries, St. Lucia does not presently have the capacity to provide credit and technical assistance to potential entrepreneurs. The present limitations of the service business sectors will not be overcome unless the wherewithal is provided for entrepreneurs to take advantage of the opportunities that are presented. Facilities to obtain credit and technical assistance must be created in both the agriculture and manufacturing sectors if the entrepreneurial potential is to be realized. To fully tap the potential, an aggresive program must be developed to make potential entrepreneurs aware of real opportunities and to guide them through the process of business development.

4. Land Access and Use

Until very recently, land access has been a major constraining factor due to the difficulty of obtaining clear title under the existing land registration system. Although the cadastral survey and land titling efforts have borne results, the Government will have to intensify its efforts to implement recommendations and assure an orderly and rapid response to the demand for titled land. Regarding land use, although very real opportunities exist for better land use in the agriculture sector, farmers must be educated to the potential of alternative uses and intensive efforts must be made to identify markets and marketing methods to take advantage of the opportunities presented.

This effort will require not only extension services and technical assistance, but the access to credit that new ventures will demand.

5. Labor

St. Lucia shares with its Eastern Caribbean neighbors the problem of high unemployment. This is currently estimated to be 25 percent. Although the previous average growth rate of 6.2 percent in the labor force is suspect, there is no question that the creation of employment is a major requirement for political and economic stability. However, if employment generation is to be realized, human resource development must be a priority of the development effort. Foreign investment and related service industries depend upon both skilled and semi-skilled workers and while St. Lucian workers have demonstrated the capacity to learn quickly, major training programs in pre-employment and job-specific skills are essential to real growth. This will require not only the support of Government, but the dynamic involvement of those private and parastatal institutions which serve both the agriculture and manufacturing sectors.

6. Entrepreneurs

St. Lucia lacks sufficient entrepreneurs in terms of numbers, skills and areas in which they are active. The number of persons able to presently undertake small to medium-scale efforts in any sector is limited. The skills of St. Lucia's entrepreneurs presently active are also limited. This impedes their ability to plan, initiate and manage expanded and innovative efforts. At present, available entrepreneurial skills tend to be concentrated on import-based retail trade and banana production rather than upon export-oriented nontraditional agriculture, manufacturing and the services which support them. There is little knowledge of marketing. The development of an entrepreneurial cadre will be dependent upon the provision of credit and technical assistance in both product development and marketing.

C. Policy Dialogue Agenda

To realize the CDSS objective for St. Lucia, the AID strategy must reduce the above constraints and take full advantage of the country's special development opportunities. Policy is a central factor in ensuring that both of these results will be realized. Thus, policies should be developed or altered where appropriate to be fully supportive of an expanded ability on the part of the private sector to initiate and sustain long-term growth in St. Lucia. Successfully carrying out the policy dialogue set out below will lead to a private sector more able to contribute to St. Lucia's economic well-being and to a public sector more fully supportive of sustained rapid economic growth.

1. Taxation

Although the Government of St. Lucia is committed to growth led by the private productive sectors, there are elements of its tax policy which serve as disincentives to economic growth via private sector activity and exports. The property tax, for example, is not well developed as a source of income from the agriculture sector. Specific

import and export taxes discourage manufacturing and production for export. Both tax collection and administration need to be improved to reduce current constraints to private sector development and the many indirect taxes need to be simplified. Duties and excise taxes on consumer durables should be raised to discourage excessive expenditure of scarce foreign exchange on such items and to reduce the volume of bank credit used for this purpose. RDO/C, through its regional efforts in public management and policy planning will provide technical assistance and training to rationalize the tax system so that it better supports private sector expansion for export in agriculture, manufacturing and tourism. At the same time, assistance to the productive sectors will be used as a vehicle for policy dialogue to help bring about the reforms necessary to support the assistance.

2. Public Sector Savings

St. Lucia must increase public sector savings and check private consumption of durable goods to better support sustained economic growth. RDO/C will engage the Government in dialogue to encourage expenditure control. Parastatal activities will be examined and recommendations made that will reduce their burden on the public treasury. Efforts will be made to ensure that the recurrent costs of new projects are covered by appropriate user fees or can be covered by domestic revenue rather than resorting to the commercial banking sector.

3. Land Use

As noted earlier, land access in St. Lucia has been a constraint in the past and although the AID-funded cadastral survey and land titling program has borne results, it is important that the effort now underway be complimented by new efforts to ensure that land is put to its most productive uses. This may involve rationalization of the land tax system; assistance to privatize state-owned lands; and the improved utilization of land through planning and the elimination of agricultural practices harmful to the land resource. RDO/C will use regional programs that address policy planning and agriculture privatization to further discuss these issues with the Government.

4. Credit Allocation

The commercial banking sector presently provides more credit for personal consumption than it does for agriculture and manufacturing. Policy dialogue intended to raise duties and excise taxes on consumer durables may reduce demand for these items, but RDO/C will have to work with the Government and commercial lenders to ensure that credit is available to the productive sectors and that a climate conducive to credit liquidity exists.

Indicators of a successful outcome to the RDO/C-Government of St. Lucia policy consultations during the strategy period are:*

1. Taxation

By mid FY 87 assistance through the Public Management and Policy Planning Project should have enabled the Government to identify specific tax disincentives to domestic and foreign investment and a plan will have been developed to rationalize the tax system.

2. Public Sector Savings

Beginning in FY 86, public sector savings will gradually begin to increase as a result of:

a. Reduced borrowing by Government from the commercial banking sector;

b. Payment of recurrent costs through user fees; and,

c. Stabilization of employment in the public sector.

3. Land Use

By FY 88, better land use should be reflected in:

a. A significant increase in gross tonnage of banana exports;

b. Modest savings in food imports through import substitution brought about by an increase in production of vegetables and better marketing; and

c. An increase in the export earnings of nontraditional crops.

4. Credit Allocation

The rate of increase in lending to small and medium-scale enterprises in the productive sectors will be at least double the annual rate recorded during the period 1980-84.

* Not for public dissemination.

ST. LUCIA
ECONOMIC ANALYSIS

I. RECENT PERFORMANCE

A. Production, Income and Employment

St. Lucia is a small mountainous country with a population of about 134,000 (mid-1984 estimate). Agriculture is the predominant economic activity contributing 15 percent to GDP and employing about 40 percent of the labor force. Within agriculture, and indeed for the economy as a whole, banana production is critical bringing in an estimated EC $ 1 million per week in export earnings. At least 7,000 people are directly engaged in growing bananas and more than half the population is dependent upon the industry.

Overall economic performance in St. Lucia recently has been dominated by the effects of two hurricanes which occurred in 1979 and 1980. Whereas the economy had grown at an annual rate of over 7 percent during the 1970s, GDP growth fell to 3.1 percent in 1978, becoming slightly negative in 1980 (-0.2%), and then recovering to achieve a modest growth rate of about 3.0 percent per annum. In 1984, GDP growth was estimated at 5 percent, a rate somewhat higher than the average in recent years.

As shown in Table 1, agriculture grew at almost the same rate as the overall economy in 1984 but the share of value added in manufacturing declined by 2.0 percent. As a result of the completion of the Hess transhipment facility in 1983, construction suffered a severe decline in that year. The sector recovered somewhat in 1984 contributing about 6.0 percent to value added. Tourism is also an important sector which accounted for about 8.0 percent of GDP growth in 1984. By far the largest sector is Government services contributing 22.2 percent of production.

Per capita GDP has grown from EC $ 1,480 in 1980 to EC $ 1,530 in 1984, despite the economy's fluctuating performance. In current prices, per capita GDP in 1984 stood at EC $ 3045.

The 1980 census estimated St.Lucia's population to be 120,200 and the Population Research Bureau Inc., (PRB), estimates that it has been growing at an average rate of 1.5 percent per year since. Data on labor force size and employment are shown in Table 2[1]. They are derived from Government Statistical Office estimates based on the 1970 census as reported in the World Bank's Report on St. Lucia[2]. Since there are serious inconsistencies in the data they should be regarded as indicative.

1/ PRB Occasional Series: The Caribbean St. Lucia: Yesterday, Today and Tomorrow Washington D.C. PRB, nd).

2/ The World Bank, Performance and Prospects of the St. Lucian Economy, Vol. I (Washington, D.C.: The World Bank, 1985)

The most serious flaw in the data is the huge unexplained jump in labor force size from 36,500 in 1980 to 43,800 in 1983. This yields an annual average growth rate of over 6.0 percent during the period, which seems highly unlikely. However, for lack of better information, the labor force estimate for 1983 is accepted for this analysis although the 1980-83 rate of growth is not as will be explained below in the discussion on projections. One justification for accepting this figure, 43,800, as the size of the labor force in 1983, is that when combined with the data on number employed in that year (32,900) it yields an unemployment rate of 24.9 percent which is generally acknowledged to be more accurate than other lower estimates. From all reliable current accounts, the unemployment rate on St. Lucia is estimated to be between 20-25% and could be as high as 40 percent. Undoubtedly, one of the most serious problems confronting the St. Lucian economy is that of providing increased employment opportunities for its growing labor force.

Currently, as Table 2 indicates, agriculture is the largest employment sector followed by Government services which provide 22.2 percent of employment. (Since data were not available on Government service employment numbers they were assigned by the sector's contribution to GDP; the "other services" category is the residual.) Tourism and manufacturing account for about 8 and 12 percent of employment respectively.

B. Consumption, Savings and Investment

The rate of domestic savings in St. Lucia is relatively low while private and public consumption both have increased. Between 1980 and 1984, domestic consumption increased at an average annual rate of 9.6 percent, most of the increase coming from the public sector. As a result, domestic savings are primarily in the private sector, which in 1984 contributed 20 percent of GDP to domestic savings, as compared with the public sector's contribution of less than 1 percent of GDP.

Although the overall domestic savings rate is relatively low, investments amounted to a comparatively high 35 percent of GDP in 1984, as shown in Table 3. This represents somewhat of a decline from the average rate of 58 percent of GDP which prevailed between 1977 and 1981. A large proportion of the latter was associated with the construction of the Hess facility which was completed in 1983. Investment in St. Lucia has been led by the private sector and this continues to be the case, although the share of private investment has been declining over the past two years.

St. Lucia's relatively high level of investment which in 1984 amounted to EC $ 142 million, is sustainable despite the low savings ratio because of the large net remittances from abroad. Thus, net private transfers amounted to EC $ 27.8 million in 1984. The remainder of the resouce gap is financed by official loans and grants and private direct investment. Since this financing is generally obtained on concessional terms it does not pose a problem. For instance, debt

service payments in 1983 amounted to about 3 percent of total export earnings. However, the persistent lack of public sector savings is a major shortcoming. An increase in the public sector's rate of saving would help to reduce the dependence upon external financing. This requires a serious effort to reduce current expenditures and collect outstanding revenue. There seems to be some scope for boosting private sector savings by channelling savings to banks.

C. External Sector

Like other small island economies, St. Lucia is heavily dependent upon trade. It imports consumer goods, foodstuffs, intermediate inputs and capital goods which are not produced domestically. Exports are dominated by bananas and tourist receipts, the latter having grown 33 percent between 1980 and 1984. Between 1980 and 1984, the value of merchandise exports grew at an average annual rate of 7.5 percent. Banana exports contributed over 50 percent to these earnings (see Table 4). Tourist receipts also grew at about 7 percent per year in the period, increasing 10 percent in 1984 when they amounted to US $ 44 million. Meanwhile imports, which have grown at an average rate of 2.5 percent per annum since 1979, jumped 7 percent in 1984.

As the table demonstrates, St. Lucia has had continuing current account deficits, which were larger in the period 1980-82 than they had been in recent years. The large deficits in the early years were due to heavy capital imports for construction. Since 1983, the deficit has dropped because of declining capital imports and increased banana and tourist receipts. In 1984, the current account balance stood at US $ 22.1 million or 14.6 percent of GDP. The deficit has been financed mainly by official grants and loans and by direct private investment. Private transfers from abroad have also helped the balance of payments position. Transfers grew at an average rate of 6 percent between 1980 and 1984.

Overall St. Lucia's external debt grew from US $ 8 million in 1977 to US $ 31.2 million in 1984. This has been accompanied by increased debt service payments some which have been in arrears indicating the need for fiscal improvement to maintain the economy's creditworthiness.

D. Public Finance

The public sector in St. Lucia consists of the Central Government and other parts of the Government including the Castries City Council, the National Insurance Scheme, and the St. Lucia Development Bank. There are also seven public sector enterprises: the Port Authority, the Central Water Authority, the National Development Corporation, the St. Lucia Electricity Services, the Banana Growers' Association, the Marketing Board and the Government Funding Scheme.

Central Government operations which account for the major portion of the public sector have been deteriorating. As shown in the budget presented in Table 5, the current account deficit doubled between 1982/83 and 1984/85. The overall deficit has also grown and is estimated to be EC $ 34.1 million in 1984/85, representing about 6.5 percent of GDP. The primary cause for the continuing budget deficits is the large increase in wages for civil servants and daily paid workers. In 1984/85 Government expenditures on wages and salaries alone accounted for 60 percent of current expenditures. In addition, interest payments on the public debt have been increasing steadily and they now represent 8 percent of current expenditures.

Revenues, which are closely tied to imports, have performed relatively well. Receipts are primarily from income taxes, the consumption tax, import duties and the stamp duty. The high rates of import and consumption have contributed to good performance. However, since revenues have not been sufficient to cover the Government's requirements it has resorted to heavy commercial borrowing. This has caused a growing problem of arrears accumulation which at the start of 1985 amounted to EC $ 21 million. There is an urgent need for fiscal improvements through elimination of arrears.

Some steps in this direction have been taken recently. They include attempts by the statutory bodies to improve their financial positions. For example, the Public Utilities Commission is seeking an increase in rates from the Water Authority. An additonal measure that could be taken is for the Government to repay its debt to the Water Authority and Electricity Services.

II. MAJOR FACTORS AFFECTING FUTURE ECONOMIC GROWTH

St. Lucia is in a relatively favorable position for increased economic growth despite the constraints of being a small island economy with a limited domestic market and few raw materials. Unlike other islands in the region, St. Lucia's infrastructure is fairly well developed, with two airports (one serving large jets), two seaports and good roads. The Government's policies favor private sector investment and small manufacturing by indigenous and foreign entrepreneurs. Manufacturing is already quite diversified though export marketing is a presistent problem. In order to achieve higher levels of economic growth, to increase unemployment and reduce balance of payments deficits, St. Lucia must strengthen agriculture and expand manufacturing and tourism. It must seek ways to intensify and diversify agricultural production and pursue growth-oriented policies in manufacturing emphasizing export production for extra-regional markets. Tourism must be expanded with increased inter-sectoral linkages to reduce foreign exchange leakage.

A. Agriculture

Within the agricultural sector, the St. Lucian Government's policy is to accelerate strengthening and diversification efforts. The

emphasis is well placed. Although the expansion of output is constrained by land availability the full potential from improved yields and better marketing strategies has not yet been realized.

While bananas contribute significantly to the economy at present, the heavy reliance upon production and export of a single primary product could become a constraint in the long run. Already, though bananas have preferential treatment in their primary market in the U.K., the decline in the value of the pound sterling has lowered export earnings for St. Lucia. Therefore, a policy of encouraging crop diversification for the longer term is judicious.

The general problems in the agricultural sector include marketing difficulties. The collapse of the CARICOM agreements that gave preference to regional exports creates the need to seek extra-regional markets. Other problems are production related, namely, fertilizer and credit availability for farmers, and farmer training in better practices to improve crop quality and reduce production costs.

Despite these constraints, possibilities exist for improving agricultural productivity and in diversification if appropriate policies are pursued. As a result of the Government's policy to divide large land holdings into smaller units, the possibility exists for some expansion in agricultural employment and production on the redistributed lands. The potential also exists for increased banana yields given WINBAN'S research into improved production methods and the St. Lucia Banana Growers' extension efforts to keep farmers informed about improved practices.

Possibilities also exist for expanded coconut production if the coconut mite problem can be addressed. Efforts are being made to do so and improvements in coconut size would be important both to agriculture and to related agro-processing industries such as coconut oil. As part of the Government's tree crop diversification program, cocoa production can be increased as it is well below the historical high of 240,000 lbs achieved in 1979. Increases could be made as well in fruits and vegetables production which would be important if these would substitute for imported foods stuffs in domestic consumption and supply hotels and restaurants associated with tourism.

B. Manufacturing

The manufacturing sector is vitally important to St. Lucia's economic growth, particularly in providing expanded opportunities for employment and for earning greater export revenues. Limitations within the agricultural sector make it even more important to develop manufacturing. Real value added in the manufacturing sector grew at twice the average rate of agricultural growth between 1977 and 1984. Although manufacturing suffered a minor setback in 1984, real value added between 1980 and 1984 increased over 18 percent. It would be possible to keep manufacturing growing at an annual rate well below this and still achieve growth objectives.

St. Lucia has the advantage of a relatively developed and diversified manufacturing sector that produces a variety of commodities including manufactured food products, paper and paper products, wood and wood products, and textile and metal products. Most of the exported products are produced in small enclave industries. The Government has attempted to promote private sector development by providing good physical facilities. It has developed four industrial estates and built factory shells. Roads, communications and port facilities are also relatively good. Further, the Government offers fiscal incentives and has set up the National Development Corporation to help potential investors identify industrial opportunities.

Given the small domestic market, the lack of industrial raw materials and the need for large increases in employment and export revenues it will be necessary to develop export oriented light manufacturing. Agro-processing based on local products also has potential for development. Market diversification will be critical to the success of these enterprises expecially now that the CARICOM regional market has become more restricted. While real value added is not greatly increased by enclave type industries, they may be suitable for employment generation and access to the more lucrative U.S. and other world markets.

C. Tourism

Growth in the tourist sector is important as a means of securing increased employment and earning more foreign exchange. Expanded infrastructure development has helped this sector but more efforts are needed to retain a larger proportion of revenues generated. One of the means to do this would be greater promotional efforts in nontraditional markets such as in South America. Greater efforts must be made as well to stem foreign exchange leakage in this sector which occurs because foodstuffs and building materials must be imported. Agricultural diversification designed to supply more domestic foods for the tourist sector will benefit agriculture and stem leakage of tourist earnings.

D. Macroeconomic Policy Framework

On the macroeconomic side, the main objective should be to address the following areas:

(1) Employment: St. Lucia has a young and growing population. The possibility that migration opportunities may become increasingly restrictive in the projection period implies that more people will be seeking employment. The World Bank estimates that 2,000 - 3,000 jobs must be added to the economy every year in order to stem the growth in unemployment; and

(2) Fiscal Policy: High Government expenditures which have contributed to a steady accumulation of arrears in the Government budget must be stemmed. Public sector arrears payment and increased Government savings are necessary to ensure continued credit worthiness abroad and development at home.

III. ECONOMIC PROJECTIONS FOR 1990

The projections in this section assume a successful development strategy is instituted that will result in significantly increased growth rates in manufacturing and tourism relative to past trends. Other sectors, particularly agriculture, are also assumed to grow steadily though at a more moderate pace than tourism and manufacturing. Exports are assumed to increase steadily. Table 6 sets out real GDP projections by sector of origin. These projections are the basis for the employment and trade sector projections given in Table 7 and 8 respectively.

As shown in Table 6, agriculture is projected to grow at an average annual rate of 5 percent between 1984 and 1990. It is expected that the sector's growth will be led by corresponding increases in banana production. Over the reference period, banana output will surpass the previous production record of 54,000 tons. Nontraditional crops grown for domestic consumption and for the tourist sector (fruits and vegetables, for example) will grow at a faster pace of 6 percent per year while cocoa production will increase more slowly at the rate of 4 percent per annum.

Manufacturing is assumed to grow at an average of over 8 percent per year. This will be accompanied by an increase in construction activities of 6 percent per year. This is because the success of manufacturing is greatly dependent upon good infrastructure availability. While infrastructure is already fairly well developed, maintenance of physical facilities will be required as well as some additional construction to support continued growth. Tourism is projected to grow at the rate of 6.5 percent per annum.

In order to achieve the macroeconomic objectives of reduced Government expenditures, this sector is projected to grow much more slowly than overall GDP at an annual rate of 3.0 percent. Trade and other services are projected to grow in line with the overall economy at just over 5 percent per year. This is about equal to the rate of growth achieved in 1984. Although the projected overall GDP growth rate of 5 percent per annum is somewhat conservative, it allows for growth in manufacturing and tourism, a small decline in Government services, and holds contributions of value added in agriculture and trade to the same proportions as at present.

Employment projections for 1990 (as shown in Table 7) are based on the labor force growth rates projected by the PRB. Based on different sets of assumptions concerning fertility rates and net migration, the PRB applies three different rates for labor force growth. For this analysis a labor force growth rate of 2.8 percent per year was selected. This results in St. Lucia's having a labor force of 53,140 in 1990.

Employment in all sectors except tourism is assumed to grow at a slightly slower rate than projected sectoral GDP growth in order to allow for increases in labor productivity. Tourism, which is more labor intensive, is projected to add employment at a rate equal to value added for the projection period. The projections do not result in any structural changes in employment patterns and agriculture remains the major employment sector. The unemployment rate is projected to decline to 20.0 percent.

In keeping with the idea of export led development, the external trade projections in Table 8 show exports growing at 6.3 percent per year. This results in a decline of the resource gap from 21.4 percent of GDP in 1984 to 17.5 percent of GDP in 1990. Exports in each sector are assumed to grow at the same rate as their contributed increase in value added. Imports are assumed to grow at approximately the same rate as overall economic growth.

TABLE 1
BY SECTOR OF ORIGIN
GDP (1977) FACTOR COST
(EC$ millions)

Sector	1977-84 Annual Growth %	1977	1983	1984	1983-84 Growth %	% GDP by Sector 1984
Agricultural	2.5	25.7	29.0	30.6	5.0	14.9
Manufacturing	4.2	13.8	18.8	18.4	-2.0	9.0
Construction	2.5	10.8	11.7	12.8	9.0	6.2
Tourism	3.5	12.4	14.6	15.8	8.0	7.7
Trade & Commerce	1.6	27.9	30.3	31.2	3.0	15.2
Utilities	7.2	4.6	6.6	7.5	4.0	3.6
Government Services	7.6	27.3	43.1	45.5	5.6	22.2
Other Services + Banking	3.3	34.7a/	41.6a/	43.5a/	4.5	21.2
Total GDP at Constant Factor Cost	3.9	157.2	195.7	205.3	4.9	100.0
Total GDP at Current Factor Cost	12.0	157.2		348.2		
GDP Per Capita at Constant Prices		EC$ 1,531 (1984)				
GDP Per Capita at Market Prices		EC$ 3,046 (1985)				

a/ Total represents 5% imputed banking service charges

Source: Performance and Prospects of the St. Lucian Economy (Washington, D.C. The World Bank, 1985)

TABLE 2
LABOR FORCE AND EMPLOYMENT
BY SECTOR

	Census 1975	Est. 1980	Est. 1983	% Total in 1983	Annual Growth 1980-83 %
Total Population	111,800	120,200	125,000	-	1.5
Labor Force	34,000	36,500	43,000	-	6.2
As % total Population	30.4	30.4	30.5		
Employed	29,200	31,400	32,900	100.0	1.5
Agriculture and Mining	11,600	13,700	13,000	39.5	-1.7
Manufacturing	2,300	1,900	2,600	7.9	11.0
Construction	3,400	2,300	1,500	4.6	-13.2
Tourism	3,400	3,600	4,000	12.2	3.6
Gov't Services	N.A[a]	6,196	7,303	22.2	5.6
Other Services	8,500	3,704	4,497	13.6	6.7
Unemployed	4,800	5,100	10,900	24.9	7.6
As % of total Labor Force	14.1	14.0	24.9		

a/ NA = Net Available

Source: Adapted from Table 1.2 Performance and Prospects of the St. Lucian Economy

TABLE 3
GROSS DOMESTIC EXPENDITURES
AT CURRENT MARKET PRICES
(EC $ millions)

	1984	% of Total GDP
GDP at Market Prices	408.4	100.0
Consumption	352.2	86.4
Savings	55.2	13.5
Investment	142.4	34.8
Resource Gap	87.2	21.3
Financed by:		
Net Private transfers	27.8	6.8
Official grants	17.0	4.2
Official loans	0.5	-
Private Direct Investment	27.0	6.6
Change in reserves	-0.3	-
Error and omissions	15.3	
	87.3	

Source: Performance and Prospects of the St. Lucian Economy.

TABLE 4
BALANCE OF PAYMENTS
(U.S. $ millions)

	1980	1981	1982	1983	1984
Export of Goods and NFS	86.5	80.1	82.2	89.4	96.7
Merchandise exports	46.0	41.6	41.6	41.8	45.2
of which Bananas	33.7	36.8	37.7	20.8	25.4
Travel and other NFS	40.5	38.5	40.6	47.6	51.5
of which Tourism	32.9	29.4	32.5	39.7	43.7
Imports of Goods & NFS	130.2	136.4	127.3	117.2	129.1
Trade Balance	-43.7	-56.3	-45.1	-27.8	-32.4
Net Factor Services	-4.2	-3.5	-8.5	-4.6	-3.7
Private Transfers	11.1	14.9	15.1	12.0	14.0
Current Account Balance	-36.8	-44.9	-38.5	-20.4	-22.1
Financed by:					
Offical transfers				13.5	6.5
Commercial Banks				-5.6	-0.3
Private Direct Investment				12.0	10.0
Currency Holdings[a]				-0.6	-0.9
Errors and Omissions Plus borrowing from ECCB and IMF				1.1	6.7
Trade Balance as % of GDP		44.6	33.5	19.7	21.4
Current Account Balance as % of GDP		35.6	28.6	14.5	14.6

[a] Increase in EC $ in circulation

Source: Performance and Prospects of the St. Lucian Economy.

TABLE 5
CENTRAL GOVERNMENT BUDGET
(EC $ millions)

	1982/83	1983/84	1984/85
Current Revunue	106.1	111.3	117.7
Taxes		98.5	107.5
Non-Tax Revenue		12.8	10.2
Current Expenditures	114.8	114.5	135.3
Salaries and Benefits 60%	71.0	68.5	81.2
Goods and Services	26.3	21.3	25.0
Interest	5.2	8.2	10.8
Subsidies	2.6	3.7	4.9
Transfers	9.7	12.8	13.4
Current Account Balance	-8.7	-3.2	-17.6
Capital Expenditures	23.3	25.3	34.4
Less Capital Grants	6.94	9.4	17.9
	-16.36	-15.9	-16.5
Overall Deficit			
Financed by:			
Arrears	7.0	8.65	8.2
Domestic Borrowing	8.7	3.00	8.6
Net Foreign Borrowing	10.6	-	-0.8
Residual plus ECCB Borrowing		7.45	16.5

Source: Performance and Prospects of the St. Lucian Economy, Volume 1, 1985

TABLE 6
GDP PROJECTION BY SECTOR
AT CONSTANT (1983) FACTOR COST
(EC $ millions)

	Actual Value 1984	% GDP by Sector 1984	1984-90 Projected Annual Growth %	Projected Value 1990	% GDP by Sector 1990
Agriculture and Mining	30.6	14.9	5.0	41.0	14.8
Manufacturing	18.4	9.0	8.2	29.5	10.7
Construction	12.8	6.2	6.0	18.2	6.6
Tourism	15.8	7.7	6.5	23.1	8.3
Trade & Commerce	31.2	15.2	5.1	42.0	15.2
Government	45.5	22.2	3.0	54.3	19.6
Banking & other Services	51.0	24.8	5.1	68.7	24.8
Total	205.3	100.0	5.1	276.8	100.0
Per Capita GDP	1,615			1,983	

TABLE 7
EMPLOYMENT PROJECTIONS

Sectors	% of Total 1983	1983	Annual Growth 1975-83 %	% of Total 1990	Projected Annual Growth %	1990
Total Labor Force		43,800	-3.2		2.8	53,140
Agriculture & Mining	39.5	13,000	1.4	36.4	2.5	15,450
Manufacturing	7.9	2,600	1.5	9.5	6.5	4,040
Construction	4.6	1,500	-9.7	5.0	5.0	2,120
Tourism	12.2	4,000	2.1	14.7	6.5	6,215
Government	22.2	7,303 a/	4.0	20.1	2.5	8,625
Other Services	13.6	4,497	4.5	14.0	4.0	5,940
Total Employed		32,900	1.5	99.7	3.6	42,415
Total Population		125,000	1.1		1.5	139,613
Unemployed as % of Labor force		24.9				20.0

a/ Estimated number employed based on % GDP in the Government Sector

TABLE 8
BALANCE OF PAYMENTS PROJECTIONS
U.S.$ millions

	Actual Value 1984	Projected Annual Rate of Growth %	Projected Value 1990
Exports	96.7	6.3	139.9
Agriculture	25.9	5.0	34.7
Manufacturing	19.3	8.2	31.0
Tourism	43.7	6.5	63.7
Other	7.8	5.1	10.5
Imports			
Tourism	128.1	5.2	175.6
Other	107.1	5.0	143.5
Trade Balance	-32.4		-35.7
GDP at Market Prices	151.2	5.1	203.7
Trade Balance as % of GDP	21.4		17.5

ST. LUCIA
PRIVATE SECTOR PROFILE

I. Private Sector Overview

The local productive sector in St. Lucia has generally been weak and divided, which is reflected correspondingly in the institutional development of key organizations. The traditional business base in St. Lucia has been agro-commercial and dominated by a few elite families. Recently, many of these firms have expanded their holdings to include light manufacturing. Although this has been done in several instances and is a common growth pattern throughout the Commonwealth Caribbean, the base of these types of operations remains trade. Below the commission agents and traders is a small class of local manufacturers who are engaged in a number of activities. The local manufacturing sector suffers from a number of constraints, among which is the problem of lack of working capital and an inability to develop successful linkages through sub-contracting with the commercial sector; nor have linkages been successfully established with foreign firms operating out of St. Lucia. Traditional business conflict between commercial firms who import large volumes of imported industrial goods and local manufacturers who have difficulty competing with the imported products, is often compounded by social class and color in St. Lucia. In many instances it is also reflected in political party preference as well.

Natural conflicting interests have been exacerbated by ethnic and political differences which escalated during the years of political turmoil between 1979 and 1982. Among the wider St. Lucian community, the productive private sector is viewed with mistrust; ideological factors and social class antagonisms have impeded the development of an understanding of the role of business in the community and its problems. Attempts to resolve these conflicts have been only marginally successful to date.

II. Private Sector Institutions

The St. Lucian private sector has a number of organizations representing various interests. This is an indication not only of the variety of business interests but also of the problems of collaboration between sections of the private sector. The larger firms tend to belong to the Chamber of Commerce which is still viewed as an elitist organization by small businessmen despite concentrated efforts on the part of the Chamber to counter this image. The smaller entrepreneurs have established their own organization, the Small Business Association. The Chamber of Commerce has promoted the idea of an umbrella organization which would include the Manufacturer's Association and the Small Business Association, but this continues to be resisted by the latter. However, both foreign and local firms belong to the Manufacturer's Association which is a positive sign.

This fragmentation among private sector organizations impedes effective delivery of technical assistance and management consultancies. Because organizations like the SBA are small, they are unable to have full time professional managers to staff an office and represent their interests. Belonging to an organization affiliated with (CAIC), for example, would allow them to benefit from several regional programs aimed at strengthening private sector organizations. This fragmentation is, therefore, in a number of ways, a major constraint facing private sector institutional development in St. Lucia.

III. Characteristics of the Private Sector in 1985

The private sector in St. Lucia is probably the most diverse in the OECS states. In addition to diversity in terms of investments in agriculture, manufacturing, tourism and commerce, the private sector is characterized by vertical divisions between large, medium, small, micro and informal enterprises. The local ownership of enterprises is high, with foreign ownership dominating in only certain sections of the manufacturing sector and the larger hotels in tourism.

A. Manufacturing

The Government of St. Lucia has exhibited a strong commitment to the establishment of both local and foreign industrial expansion. To this end, port and airport facilities and significant international borrowing to support an active factory shell construction program have occurred, including provisions for the creation of infrastructure in a Free Zone. With a Government strongly committed to the creation of economic development through private sector initiatives, manufacturing grew to 9.6% of GDP by 1983. However, problems with the CARICOM market and the closure of a number of garment factories reduced this contribution to 8.9% or EC$18.4 million in 1984. In 1983 the manufacturing sector employed around 2,600 people, the majority women, or about 8% of the employed labor force"

A survey of manufacturing units carried out in 1983 showed that 22.6% were engaged in the manufacture of food products, 9.5% in beverages, 15.5% in textiles, 14.3% in wood and wood products, 11.9% in paper and paper products, 8.3% in industrial chemicals, 5.9% in other metallic and mineral products and 11.9% in fabricated metal products, indicating that St. Lucia has a fairly highly diversified manufacturing sector.

The survey also demonstrated that the manufacturing sector is largely locally owned, 71.4%. Over 20% of establishments were foreign owned and nearly 6% joint ventures. Foreign-owned firms dominated in textiles and fabricated metal products.

In sum, the sector encompasses a wide range of industrial activity, both local and foreign owned. Recent problems in CARICOM are forcing St. Lucia to look toward establishing a larger percentage of foreign owned and joint venture operations for the Latin American market. This should be possible given the present role of PDAP and the

decision by a local investor to participate in the Infrastructure for Productive Investment Project (IPIP) program. Productivity and marketing intelligence appear to be critical factors to success in meeting these objectives.

B. Tourism

Expansion of the tourism sector in St. Lucia has been the product of a number of factors in addition to the natural attractions of the island. These include good infrastructure in roads, airports and berthing space for cruise ships; the establishment of a tourist board to effect promotion; and the provision of incentives to build and operate hotels. Accommodation has increased from 1,205 rooms in 1975 to 1,705 rooms in 1984. The total number of visitors in 1984 increased 13.4% over 1983. These tourists spent an estimated US$43.4 million in 1984, compared with US$39.7 million in 1983.

While the largest resort complexes with over 100 rooms are foreign owned, St. Lucia also has a fairly high percentage of indigenous and resident-owned establishments. Local ownership is also high in the number of quality restaurants which abound in the island. The growth in visitors has also expanded the number of handicraft, taxi and tour operators in the island; but this remains a precarious business more akin to the informal sector, sporadic and seasonal in nature.

C. Commerce and Trade

Commerce and trade continue to be important areas of private sector activity in St. Lucia. Figures for 1985 indicate that this sector contributed about 15.5% to GDP and employed approximately 5128 persons. The commercial and distribution sector is divided hierarchically between large mercantile firms with investments as manufacturer's representatives, insurance agents and retail and department stores to medium size retail and service establishments including laundries, bakeries, auto parts suppliers, hardware stores, cinemas, jewellers and management consultants. This section of the private sector is quite diversified reflecting the fairly cosmopolitan nature of Castries. The countryside, however, has few formal establishments and services, with the exception of very small grocery-cum-rum shops, mechanics and other skilled artisans such as plumbers and electricians. As the distances are more signifiant in St. Lucia than in the Leewards, this overcentralization of services illustrates the underdevelopment of the countryside. The informal sector is also quite large in St. Lucia, and this includes the numerous hucksters who buy and sell agricultural produce for both the domestic and the regional market, particularly Barbados. The firms in this sub-sector are almost wholly owned by St. Lucians.

D. Small Enterprise

St. Lucia exhibits a fairly complex small business sector which ranges from owner-operated micro businesses with assets under EC$5,000 to small-scale enterprises employing 10 to 20 people. Those in

the micro business sector are afflicted with a number of constraints including lack of accounting and bookkeeping practices, little or no access to credit, and high production costs. Included in these enterprises are traditional artisans, crafts, repair works, food processing for local consumption, and petty traders. There are also extensive numbers of persons who own businesses of a similar nature who have been successful, employ and apprentice from 2 to 10 persons, receive credit from commercial banks or the Development Bank of St. Lucia and have had some training or technical assistance. These firms are the backbone of the small business sector and their potential for expansion, particularly in the countryside is considerable. St. Lucia, however, also has a few companies which, although considered small enterprise, have many of the credentials necessary to expand to medium and large size firms. They typically are owner-operated, hire 11 to 20 employees, and have assets of EC$50,000 and above. This category of business can become expansive with greater assistance in medium and long-term credit. Some of these enterprises belong to the Small Business Association but they have not yet transformed themselves into modern small-scale factories.

There is also a formal medium-scale business sector in St. Lucia, unlike some of the other islands of the Eastern Caribbean which has assets ranging from EC$250,000 to EC$2 million. These organizations are modern, more formal, and have fairly good internal management and levels of technology. These enterprises should be targetted for their growth potential.

IV. Prospects for Private Sector Development by 1990

Prospects for modest expansion in agricultural production, and more significant growth in manufacturing and tourism are hypothesized by the end of the planning period in 1990. AID estimates that there will be a 5.1% growth in GDP and a 3.6% growth in employment. Commerce will grow at 5% per annum, agriculture at 5% per annum, tourism 6.5% per annum and manufacturing at 8% per annum. These figures are based on existing advantages that St. Lucia already enjoys in terms of infrastructural development, growing local medium-size manufacturing and service sectors, good air links and great natural beauty for tourism and a Government well disposed to developing the private sector. Additionally, the following specific interventions will facilitate expansion of the private sector:

- interventions to improve market information and market access in agricultural and manufactured products.

- clear titles for land development in agriculture and manufacturing.

- reduction in costs of production and increased worker productivity to make St. Lucia's products more competitive through technical assistance and training programs.

- improvement of container facilities at Vieux Fort and Hewanora industrial sites which will cut costs and increase the attractiveness of St. Lucia for enclave investment.

- rationalization of the tax system to support private sector expansion for export in agriculture, manufacturing and tourism.

In agriculture these interventions will result in greater productivity in non-traditional agricultural products and encourage their commercial marketing both regonally and extra-regionally. In manufacturing, specific interventions targetted at different categories such as medium-size enterprises, micro-businesses, and training workers for large-scale enclave industries will facilitate expansion of both local and foreign firms. Tourism will continue to enjoy significant expansion, especially once the question of clear title is resolved. By 1990 manufacturing should have become a dynamic sector, especially in the southern part of the island, able to mitigate the effects of continued migration from the countryside and absorbing new entrants. Linkages between agriculture, tourism and manufacturing should further aid the strategy of a local medium-size private sector.

ST. LUCIA
LIST OF CURRENT INDUSTRIES

NAME	EMPLOYEES	MARKETS	OWNERSHIP
arments			
esiree Manufacturing Co. Ltd.		Local	N/A
shionaire Ltd.	65	Local/Foreign	Fashionaire International Ltd. - Canada
ygee Garments Ltd.	21	Local/Regional	Foreign: Harrow
yfair Fashion Knit Ltd.	120	Caribbean	E.S. Vieira & Company - Canadian
oft Furnishings Ltd.	25	Local	Foreign: Harrow Servomotors, Div. Bomar - USA
t. Lucia Garments Ltd.	N/A	N/A	Foreign: T.S.I. - Guyanese
lectronics			
rib Tronics	4	N/A	Local
riman Ltd.	150	Export to U.S.	RCD Components Corp. - USA
ta Delay Devices (St. Lucia) Ltd.	35	North America	Data Delay Devices Inc., New Jersey, USA
numatics Ltd., St. Lucia	Varies	Export to U.S.	South American Development Corp., Box
13,	10-80	and Far East	Route 96, Hyde Park, NY 12538, USA M. Edwin Faber (914) 229-8866 Hyde
rk, NY 12538 US			
chmatics Ltd.	17	Local	CIMPEX - USA
ood & Beverages			
rib Processing Ltd.	25	Local/Foreign	Local
pra Manufacturers Ltd.	103	Local/Foreign	Local
Boulays Bottling Co.	N/A	N/A	Local
lm Tree Foods	N/A	Local	Local
sa (St. Lucia) Ltd.	N/A	Local/Foreign	Local
. Lucia Canners Ltd.	N/A	Local	Local
iversal Flavours Ltd.	N/A	N/A	Local
ndward & Leeward Brewery	115	Local/Foreign	Local Francise
rniture			
P Furniture Co.	N/A	Local	Locally owned
rrill's Furniture Manufacturing Co. Ltd.	50-75	Local - Martinique, Guadeloupe	Local
dern Furniture Enterprises Ltd.	20	Local	Local
s & Fuel			
ndward Island Gases Ltd.	N/A	Local	Local
scellaneous			
jestries Ltd.	75-115	USA	Clevepark Corporation, USA
cholas Y. Daber Tobacco Co.	N/A	Local	N/A
ses Enterprises Ltd.	N/A	N/A	N/A
per			
ndward Island Packaging Co. Ltd.	N/A	Local/Foreign	Local

ST. LUCIA
POLITICAL, SOCIAL AND INSTITUTIONAL ANALYSES

I. Political Setting

From 1979 to 1982 St. Lucia was rocked by political instability and turmoil caused primarily by a leadership struggle between moderate and radical factions of the St. Lucia Labour Party (SLP). In May of 1982, the United Workers Party (UWP) under the leadership of John Compton was returned to power as the fifth Prime Minister in four years of independence after a remarkable showing of unity on the part of the St. Lucian people forced the dissolution of Parliament and called for elections.

Such a landslide is all the more remarkable since in 1979 Mr. Compton's party, after ruling St. Lucia for nearly 15 years, was swept out of office on the SLP's platform which stressed the need for social and economic reforms. What these electoral switches indicate very clearly is the manner in which stagnant internal economic growth, international economic conditions, and persistent underdevelopment precipitate a demand for change. This demand occured despite the UWP's program of economic diversification emphasizing tourism and manufacturing. The role of trade unions in St. Lucia is an important factor in understanding political forces and their dynamic in this island state. The trade union movement has been an integral part of national political life since the 1940's. St. Lucia's trade unions are traditionally associated with particular political parties, hence labor issues tend to become interwined with party politics.

The nine active trade unions in St. Lucia together represent about 50% of the labor force. The bulk of the unionized labor force belongs to unions which are affiliated with the opposition labor parties. The largest union, the National Workers Union (NWU) which has given qualified support to the Compton regime, is a radical socialist movement affiliated to the Eastern bloc WFTU. With 6,000 registered members employed in all the key sectors of the economy including the airports, hotels and public utilities, the NWU is a major power broker in St. Lucia politics. Removal of its support from the Compton regime would remove an important source of present quietude and stability.

This indicates that there are underlying class and ideological cleavages which characterize St. Lucian society and which are predicated on structural economic weaknesses and traditional social inequities. The mass base of Compton's UWP lies among the business sector, middle class, rural agricultural laborers and small farmers. Youth, organized labor and the urban working class support the opposition parties. Hence the Compton regime must be able to expand the economy significantly and redress the high levels of unemployment in order to remain in power. Although the rank and file of organized labor supported the call for an end to Labor Party rule in 1982, this should not be misinterpreted as a change in political alignment. Rather, the internecine warfare was such that no faction could secure control and hence, by default, support

for the UWP mounted in order to restore some stability to the island. The continued divisions within the trade union movement have also impeded the formalizing of tripartite discussions on national policy and reconciliation.

The situation remains unstable. International recession, political tension, declining revenues from bananas, and the after effects of serious hurricane damage in 1980 and 1981, and wind storms in 1984, have seriously weakened the economy. Compounding economic problems are serious population and employment problems. The "baby boom" of the 1960's now results in new labor force entrants in unprecedented numbers through the early 1990's. Expectations among youth are high and continuing political stability is very much dependent on the Compton administration's ability to convince the population that the necessary structural adjustments to be taken in the next few years will result in longer term prosperity for greater numbers. This will be difficult.

II. Social Setting

A. Demographic Profile

According to 1980 census data the population was estimated to be 120,200 which is an increase of about 19.2% over the 1970 enumeration. The average annual growth over the decade is 1.8%. The statistical office of St. Lucia estimates that the population increased to about 124,000 by mid-1982, an average growth rate of 1.5% since 1980. Population density is 5,503 per square mile. St. Lucia's growth rate, both crude birth and fertility rates, is among the highest in the Caribbean. In 1982 the crude birth rate was 32.6 and the total fertility rate (TFR) was 4.9.

The demographic profile has been highly influenced by migration patterns. St. Lucia has long been a migrating society. In the last twenty years over 30,000 persons have emigrated. In general, the less-skilled migrants have stayed within the region both as legal and illegal emigrants while skilled and technical personnel migrate to the U.S. and Canada. St. Lucians who sojourn abroad send home considerable sums as remittances. According to the 1982 Statistical Digest over EC $25 million was remitted through the post office from 1973 to 1982. It is estimated at least one-third again is delivered personally. Although there have been no studies on the impact of remittances on St. Lucian society, it is apparent that such large sums alter the economic lives of individuals and communities. Observers note that the recent recessionary period has resulted in a downturn of remittances, which declined from EC$3.5 million in 1980 to EC$2.1 million in 1982.

Because of continued high fertility and fairly constant levels of emigration, the population of St. Lucia remained basically young throughout the 1970's. The median age is 16.5 which has serious implications for development planners as not only is nearly 50% of the population under 16, but the high birth rates of the 1960's and 1970's will result in large numbers of new job entrants throughout the 1980's

and 1990's. At present the unemployment rate is 25%. Some 7,200 new jobs would have to be created in the rest of the decade just to maintain present unemployment figures.

B. Physical Quality of Life

Quality of life indicators for St. Lucia are relatively high compared to most third world countries. Life expectancy is estimated at 67 while the crude death rate is 7 per 1,000. Infant mortality is 22.4 per 1,000 which is significantly lower than the average for developing countries of 86 per 1,000. GNP per Capita at US$970 is about medium for the Commonwealth Caribbean, but with rapid population growth coupled with unemployment this could erode. Another important social indicator, that of literacy is more problematic. St. Lucia has both literacy and functional illiteracy problems, with 30% of the population estimated to be illiterate and 40% considered functionally illiterate according to a 1981 UNESCO Education Sector Survey.

Health indicators and access to health related services are of a high standard although there are problems in water and sanitation. While 97% of the population are estimated to have access to a health center within three miles of their residence; there are 4.8 physicians per 10,000. Some 70% of the population is served by potable water but most persons must walk considerable distances to standpipes. The other 30% use river water. 62% of the population are provided with a sanitary waste disposal system, the other 38% use pit latrines. Total health expenditure by Government is high, 14% of the budget, amounting to US$29 per capita.

St. Lucia has serious housing problems. A UNDP study in the late 1970's estimated that 60% of rural housing was sub-standard and 17% unimprovable. While in urban areas, high density districts with substandard housing and amenities prevail, reflective of the considerable urban migration which has occured over the last twenty years. Castries exhibits miniature shanty towns endemic of third world urbanization.

C. Social Organization and Cultural Patterns

1. Rural/Urban Dichotomy

In the 1950's the backward sugar economy of St. Lucia was transformed by the "banana revolution". This shift in agricultural production induced the significant growth in small farmers and the development of a rural middle class. Cash cropping in bananas has become an important source of income for all social classes in the countryside including agricultural laborers. However, despite the role bananas have played in providing much needed cash income to small producers and in facilitating a transformation of the society toward greater modernity and equity, heavy dependence on this low profitability crop makes St. Lucia's economy vulnerable to storm loss, price fluctuations and a weak set of long-term market prospects.

These factors have encouraged migration from the countryside, leading to overcrowding and serious pressures on social amenities in urban areas. Both children of the rural middle class who have been educated in urban areas and semi-skilled agricultural laborers have migrated to Castries and Vieux Fort in large numbers. The bulk of St. Lucia's farmers are peasant proprietors with holdings under two acres, only marginally educated and suffering from insecurity of tenure. These factors, plus the relative isolation of rural areas, due to the rugged terrain exacerbate the migration from the countryside and contribute to continued rural underdevelopment. Income and amenity disparties between rural and urban areas are recognized by the Government of St. Lucia in its proposed Five Year Plan and specific programs are being designed to address these inequalities.

2. Land Tenure

St. Lucia's land tenure system is a complicated system with components derived from British Common Law, French Code Napoleon and family cultural patterns derived from Africa. Only a small portion of landholdings have been properly surveyed and registered with the result that only the larger estate owners and a few of the small holders have clear title. A further complication is the existance of what is known as "family land", land held jointly by members of an extended family. Each member of the family, which may run into the hundreds, has an undivided right to cultivate a portion of the land. This situation has naturally given rise to a long history of intra-family disputes, which often spill over into the criminal and civil court of the island and serve as an additional barrier to more productive use of St. Lucia's limited land base. The Government of St. Lucia has recognized that solution to tenure problems can only be solved by fundamental land reform implemented through a new land registration and adjudication system.

3. Role of Women

In St. Lucia, important differences with respect to income and access to resources exist between those households which are headed by men and the over 50% which are headed by women. Fully 27% of women who are household heads are unemployed. Many of the unemployed female heads of households are young women and the teenage pregnancy rate is 28% of all live births. Again, unemployment rates are highest among youth, particularly young women. It is estimated that 43% of all households in the urban areas are female-headed; 81% of these households earn a weekly income below US$57.

In rural areas, the 1980 Land Reform Commission found that female farmers have less access to inputs, tend to grow crops that they themselves can market, such as vegetables and root crops, and have more difficulty in securing labor than men. Most of the distribution and retail trade in non-commodity crops is in the hands of women hucksters. However, problems of access to credit, storage, reliable shipping, and modern business techniques hamper their ability to expand their operations into modern enterprises. In urban areas, the majority of women are underemployed and earn low wages. Many women work as

domestics, or part-time in the tourist sector while others dominate the informal sector as street vendors. Women are increasingly finding employment in the manufacturing sector, particularly in garments and electronics on industrial sites near Dennery, Castries and Vieux Fort. But this employment has been intermittant and prone to lay-offs as a result of problems in CARICOM trade and global recession. St. Lucia's serious population problems focus attention on women and development issues as there are such high numbers of female headed families and growing numbers of teenage mothers. In the recent budget address, the Government stated that the population problem is one of the major development constraints affecting the islands.

III. Institutional Setting

A. Public Sector

Compared to most of the other islands of the Eastern Caribbean, St. Lucia's Government Ministries are better staffed, particularly at the highest levels. But, similar to all OECS states, ministry performance is uneven due to organizational and personnel weaknesses. The Central Planning Unit (CPU) of the Ministry of Finance has developed as the nerve center of Government and integrated a well-conceived five-year plan into a strategic framework for achieving development goals. Unfortunately, this document has never been published. The CPU has also conceived a decentralization plan for St.Lucia which promises both to rationalize and more effectively provide services as well as better utilize the community and small business in their provision. The Government is exceptional in its attempt to develop mechanisms for coordination between the various sectoral ministries, the parastatals, the CPU, and with external institutions and donors.

Parastatals in St. Lucia are among the most developed in the Commonwealth Caribbean in terms of organization, defined objectives and strategy, personnel and corresponding performance. The National Development Corporation (NDC) which is responsible for the promotion of and assistance to private investment and management of the industrial estates program is considered to be a model institution among OECS states. The St. Lucia Development Bank (SLDB) which is a significant source of development lending for local private enterprise, housing and agriculture has undergone major reorganization with the aid of the Caribbean Development Bank (CDB) and is run on a sound financial and administrative footing by a well-trained staff. The SLDB is the most solvent in the Eastern Caribbean and capable of expanding its portfolio into larger capital investments. Other parastatals such as the St. Lucia Marketing Board, the Tourist Board and the Banana Growers Association suffer from a number of weaknesses associated with the constraints of their respective sectors. The St. Lucia Marketing Board, similar to marketing boards throughout the region, is under-capitalized, and hamstrung by overly-bureaucratic structures and inefficient management.

B. The Decentralization Challenge

In an attempt to cut heavy overheads and cost of transport and communications the Government is involved in a major plan to devolve authority and management from the Central Government to the districts. Up to now, each Ministry, whether Agricultural Extension, or Education or Health, had divided the island into its own districts for its own purposes, leading to confusion and lack of coordination in services.

Decentralization of services and decision-making will occur with the creation of 8 districts and the formation of regional councils composed of representatives selected by the community; from local organizations, youth groups, PTA's and cooperatives. Liaising with the Regional Council will be a Technical Coordinating Committee composed of the district technical officers such as: Public Health Officers, Education Maintenance Officers, Agricultural Extension Officers and officials of statutory bodies and private corporations providing services. Through this model, the Government hopes to effect substantive administrative economies, better social services, and allow the planning and implementation of development projects which fit the discrete needs of the various areas of the island.

As much inter-ministerial and community liaising already exists through programs developed by the Ministry of Community Affairs, there is a good foundation on which the Government is building. Village and rural Councils will continue to exist and have a member sitting on the Technical committee for each region. The Government plans to establish four such bodies a year, over a two year period, beginning with Vieux Fort, Soufriere, Barbonneau and Gros Islet in 1985.

ST. LUCIA
OTHER DONOR ASSISTANCE

I. British Development Division

A. Ongoing

Banana Extension and Training
Tree Crop Diversification I and II
Navigational Equipment
Integrated Water Development I and II
St. Alysious Boys School

B. Proposed

Suburban Road Rehabilitation
Castries Drainage I

II. Caribbean Development Bank

A. Ongoing

Small Farmer Agriculture
Banana Input Supply Scheme
Industrial Estates V and VI
Point Seraphone Tourism Center
Hewanorra Air Cargo Facilities
Second Power Project
Water Supplies II and III
Mortgage Finance III
St. Lucia Development Bank Strengthening
Student Loans II, III, IV

B. Proposed

Feeder Roads IV and V
Pigeon Island Development
West Coast Road Construction

III. Canadian International Development Agency

A. Ongoing

Fisheries Development

B. Proposed

Forestry Management and Conservation
Castries Craft center
Vigie Airport Improvement
Roseau Dam Construction

IV. European Economic Community

A. Ongoing

Resettlement and Diversification
Livestock Development
Drainage and Land Conservation I

B. Proposed

Agriculture Resettlement II (Roseau)
Agriculture Resettlement II (Dennery)
Drainage and Land Conservation II
Feeder Roads

XN-DBB-246-D

ANTIGUA COUNTRY SUPPLEMENT TO THE CARIBBEAN REGIONAL CDSS 1986 to 1990

	Page
I. AID STRATEGY	
A. Overview	1
B. Sectors	4
1. Tourism	4
2. Manufacturing	5
3. Agriculture	6
II. KEY DEVELOPMENT OPPORTUNITIES, CONSTRAINTS, AND POLICY ISSUES	
A. Development Opportunities	7
1. Tourism	7
2. Manufacturing	7
3. Agriculture	7
B. Key Development Constraints	7
1. Infrastructure	7
2. Human Resource Development	10
3. Public Sector Institutions and Financial Constraints	11
C. Policy Dialogue Agenda	13
1. Infrastructure	13
2. Human Resource Development	13
3. Public Management, Finance and Planning	13
III. ATTACHMENTS	
A. Economic Analysis	
B. Private Sector Profile	
C. Political, Social and Institutional Analyses	
D. Other Donor Assistance	
E. Map of Antigua	

I. AID Strategy

A. Overview

1. The Antiguan/Barbudan Development Model

Antigua differs significantly from the other OECS states in terms of its economy, politics and even natural resources. The island of Antigua is flat and relatively arid, surrounded by natural harbors and beautiful white sand beaches. It is estimated that approximately 40%-50% of GDP is directly or indirectly related to tourism. Light industry plays a growing but distant second place role in the economy and agriculture follows with a third place position and less growth potential. In 1981, the year Antigua gained its independence, it achieved a real GDP growth rate of 3.8%. During the world recession years of 1982 and 1983, Antigua achieved real GDP growth rates of 1.7% and 3.3% respectively. Meanwhile the other countries of the Eastern Caribbean were suffering negative growth rates. The estimated real growth rate in 1984 was between 4.5 and 5.0%, and in 1985 it is expected to exceed 6.0%. Between 1983 and 1984 tourist arrivals increased by 30% and initial figures for 1985 indicate a further 16% increase. With a population growth rate of only 1.3% per year, Antiguans have been able to enjoy a fairly steady increase in standard of living. The per capita GDP of $1,700 is the highest within the OECS (except Montserrat).

When one looks at the Government and politics of Antigua, it is tempting to conclude that Antigua's remarkable growth has been achieved in spite of the public sector. The Antiguan Labour Party (ALP) has no effective opposition, and none is on the horizon. In last year's election the ALP won all 16 of the Antiguan parliamentary seats (Barbuda's one seat is held by an independent). Vere Bird Sr. has been Prime Minister since independence and was premier for years before that. His two sons occupy two key cabinet positions. Political power is wielded effectively, while Government institutions and formal management and control systems are relatively weak. The Government is in substantial arrears to creditors and regional organizations. For example, it has been cut off from further borrowing by the Caribbean Development Bank. Despite the fact that a large portion of the Government debt and arrears relate to commercial borrowings, and despite the apparent unorthodox attitude toward fiscal responsibility, the Government still manages to line up financing for major projects.

The co-existence of weak Government institutions with a vibrant private sector and growing economy is the paradox of the Antiguan development model. The explanation lies in the congenial environment provided to investors, particularly the expatriate investors who dominate the tourist and manufacturing sectors. There is no personal income tax in Antigua and corporate tax, which is not high, is often not paid due to tax holiday concessions or evasion. The tax system is primarily based on consumption taxes, including import duties, but waivers are common and a significant amount of imports reportedly enter the island illegally. In terms of regulating, controlling or otherwise interfering with private

Table 1
ANTIGUA STRATEGY SUMMARY
1986 - 1990

Goal of the AID Strategy:
Maintain the continued expansion of the private productive sectors

Benchmarks:
- 5% annual growth in GDP
- 3.3% annual growth in employment
- unemployment reduced from 20% to 15%

Sectoral Strategies		
Agriculture	Manufacturing	Tourism
Objective: Stabalize the agricultural (including maricultural) contribution to GDP to avoid further skewed dependence on tourism and to maintain employment opportunities	Objective: Attract new enclave manufacturers and stimulate the development of small enterprises to exploit the local market	Objective: Ensure continued high growth in the sector and increase the benefits accruing to Antiguans, both within the hotel industry and in supporting economic activities
Benchmarks: - 6.0% annual growth in agriculture - 2.1% annual growth in employment	Benchmarks: - 7.5% annual growth in manufacturing - 5.5% annual growth in employment	Benchmarks: - 7.0% annual growth in hotel and restaurant sector. - 5.8% annual growth in hotel/restaurant employment. - Comparable growth in related sectors, such as construction.
Program Interventions High impact interventions for one or more of the following: - Vegetable production (tourist market) - Drought resistant grains (domestic livestock) - Edible legumes (regional market)	Program Interventions - Improvements in water systems - Improved maintenance of other infrastructure - Continued factory shell construction - Small enterprise assistance - Management and vocational training - Public management and policy planning technical assistance.	Program Interventions - Regional tourism marketing/planning program. - Improvements in water system - Improved maintenance of other infrastructure. - Small enterprise assistance - Management and vocational training - Public management and policy planning technical assistance
Policy Agenda None	Policy Agenda - Increased financial viability of public utilities - Increased attention to infrastructure maintenance - Improved Governmental financial management and revenue collection	Policy Agenda - Increased financial viability of public utilities - Icreased attention to infrastructure maintenance - Improved Government financial management and revenue collection
Constraints - Irregular and low levels of rainfall - Expertise and/or connections to market outside	Constraints - Infrastructure in need of upgrading - No vacant factory shells - Skill shortages of vocational and management levels - Lack of credit and marketing constraints for small businesses - Potentially precarious government financial situation - Government formal investment promotion agency	Constraints - Infrastructure in need of upgrading - Skill shortages of vocational and management levels - Lack of credit and marketing constraints for small businesses - Potentially precarious government financial situation

businesses, the Government has little inclination, and therefore has not concentrated on developing its control/regulation apparatus. In short, laissez-faire capitalism prevails in the tourism and manufacturing sectors.

2. Potential Problems with the Antiguan Development Model

The tourism industry in Antigua has proven itself to be immune to external shocks, such as the recent worldwide recession, due largely to the fact that Antigua promotes and attracts the upscale market. Internal disturbances, however, could have a disastrous impact on the sector, and thus the economy as a whole. The development of a more balanced economy would reduce the damage of a downturn in the tourism industry, but growth of the agriculture sector is not expected to be as rapid as tourism growth, and growth in the manufacturing sector, while it is expected to be marginally higher than growth in the tourism sector, will not significantly reduce the percentage of GDP attributable to tourism.

There would appear to be some possibility of internal instability arising from a succession struggle following the eventual departure of the ageing Prime Minister. However, most observers do not view this as a serious threat. The more serious long term threat is a potential backlash by the Antiguan population against an economic system in which most of the businesses are owned and managed at the upper and middle levels by expatriates. At present, most Antiguans are appreciative of the fact that foreigners bring in the capital and expertise to provide jobs, but with the steadily rising expectations of the populace and the limited opportunities available to receive the training necessary for advancement, this situation is unlikely to continue.

The second area of major vulnerability is Government finance. It is difficult to determine how long the Government can continue its present financial practices and policies. When the crunch comes and the Government runs out of new creditors, it could be faced with the need to drastically cut back Government employment and abandon efforts to expand and upgrade the infrastructure upon which the productive sectors depend. This would result in a fairly rapid deterioration and possible collapse of the economy.

3. AID Strategic Objective

RDO/C's strategy objective for Antigua is to support the continued expansion of the private productive sectors. As Antigua is already fairly advanced in terms of private sector lead growth, the strategy will focus on addressing the more serious vulnerabilities of the present economic model, i.e. inadequate infrastructure and under-representation of indigenous Antiguans in managerial, technical and ownership positions in the private sector.

The major components of the program strategy are:

a. The provision or improvement of infrastructure required to support private enterprise;

b. The development of indigenous human resources to meet the various requirements of a dynamic private sector;

c. The improvement of Government financial management and public sector investment planning, operation and maintenance; and

d. Activities specifically aimed at each of the productive sectors, such as tourism promotion, manufacturing investment promotion and small enterprise asssistance, and assistance with the production, processing and/or marketing of food products consumed in the tourist sector.

B. Sectors

1. Tourism

Tourism is expected to remain the leading sector of the economy indefinitely. Average growth rates of 7% are expected through the planning period. Within the sector, the large hotel complexes aimed at the up-market tourists are the greatest contributors to growth. Investment financing for the sector has been predominantly from off-shore private sources, although the Government has been involved in several projects, including the Deep Bay project, which is in its initial stages of development.

The RDO/C objective for the tourism sector is to help ensure continued high growth and to increase the benefits accruing to Antiguans, both within the hotel industry itself and in supporting economic activities.

AID will contribute to achieving this objective as follows:

- Upgrading or expanding key supporting infrastructure, primarily water production and distribution; addressing maintenance problems affecting the road and power systems; and possibly marking reefs to facilitate boat navigation and technical assistance to support airport upgrading;

- Provision of training programs in management and technical areas for Antiguans employed in the sector and those operating or aspiring to operate small businesses such as restaurants, guest houses and watersports service activities;

- Providing complementary credit and technical assistance for small enterprise development;

- Providing technical assistance to improve Government financial management;

- Augmenting OAS, CTRC and UNDP technical assistance on development of the five year economic development plan to ensure that the future needs of the tourism sector are adequately addressed. Particular concerns are land use planning, public sector investment plans and human resource development planning; and,

- Assistance through PDAP, if needed, for the divestment of the planned Deep Bay tourism facilities.

2. Manufacturing

Following several years of robust growth on the basis of production for the intra-regional market (particularly Trinidad), the manufacturing sector had no growth in 1982 and negative growth rates of 15% and 12% in 1983 and 1984, respectively. In 1984, despite the significant net loss of production and employment related to the contraction of intra-regional trade, particularly with Trinidad, new enterprises oriented toward the extra-regional market began operation. With the painful part of the transition behind it, the manufacturing sector should grow at a healthy 7.5% per year average through 1990. The projection for 1985 is 10%. This growth will be achieved through the further development of export-oriented enclave industries and, to a lesser-degree, through the development of small enterprises which can exploit the local market.

AID will contribute to achieving this objective as follows:

- Continue PDAP investment promotion efforts, including institutional development support for the Industrial Development Board (IDB) if and when the Government should decide to give the IDB a real role in industrial development.

- Upgrading or expanding key supporting infrastructure, primarily water production and distribution and factory shells. Other possibilities include road and power systems' maintenance activities.

- Provision of training programs for orienting Antiguans to the disciplines of manufacturing sector employment, for providing basic skills, for developing supervisory and managerial abilities and for providing Antiguans the skills necessary to operate small enterprises.

- Providing technical assistance and credit to small and large enterprises.

- Providing technical assistance to improve Government financial management.

3. Agriculture

The small size of the agricultural sector in Antigua, both relative to the other economic sectors and relative to the agricultural sectors of the other OECS countries, and the numerous constraints in the sector weigh against designating agriculture as a priority sector in RDO/C's strategy for Antigua. Between 1978 and 1983 the agricultural sector's contribution to real GDP has decreased from 11% to 7.5%. In 1984, the drought contributed significantly to a 10% reduction in output from the agriculture sector. In 1985 production is expected to return close to the 1983 level. With the demand pull from the tourism sector and recent modifications in the Government's land leasing policy, the agriculture sector may achieve an average annual growth rate of 6% through 1990. However, judging from the fact that agricultural employment was fairly stable through the years of declining production, it is assumed that average employment growth through 1990 cannot be expected to exceed 2% per year.

Although Antigua does not warrant an agricultural sector program, there are opportunities that can be exploited, such as irrigated vegetable production and mariculture for the internal tourist market, edible legume production for the regional market, agricultural enclave production for the U.S. or U.K. markets, and draught-tolerant grain production for domestic livestock production. One or more of these opportunities will be exploited in the latter years of the planning period, after experience has been gained on other islands with RDO/C's regional high impact agriculture strategy.

II. KEY DEVELOPMENT OPPORTUNITIES, CONSTRAINTS AND POLICY ISSUES

A. Development Opportunities

Antigua's economic growth pattern reflects its comparative advantage. The RDO/C strategy does not call for a shift in emphasis between sectors, rather it addresses constraints that could limit the rate of growth of the economy. The key factors favoring each of the sectors are as follows:

1. Tourism - Relatively developed infrastructure; international airport; port facilities for cruise ships; good harbors for yachting; white sand beaches; dry warm climate and conducive Government investment policies.

2. Manufacturing - Conducive Government investment policies; fairly good worker productivity relative to wages; regional trade advantage in terms of being the most developed of the countries receiving special LDC treatment under the CARICOM agreement; extra-regional opportunities through LOME (EEC), CBI and U.S. section 807 arrangements; good transportation linkages and relatively developed infrastructure.

3. Agriculture - A lot of flat underutilized land; mariculture opportunities in the marshes, coves and coastal waters and a ready internal market provided by the tourism sector.

B. Key Development Constraints

1. Infrastructure

a. Potable Water and Sewerage

As stated earlier, the supply, distribution and quality of fresh water is the Achilles heel of the Antiguan economy. The problem is due to several factors. Rainfall is highly variable and the country is prone to droughts, such as the severe one in 1984. Evaporation rates are high and there is a lack of favorable watersheds, reservoirs and dam sites. Also groundwater aguifers have limited storage capacity and geological structures make locating production well sites difficult. In addition to these natural constraints, there is the problem that the Antiguan Public Utility Authority (APUA) suffers from institutional and financial weaknesses that most clearly manifest themselves in the state of disrepair of the existing supply and distribution system.

Water rationing has been common for years in Antigua, but the 1984 drought caused particular problems, and the donor community had to step in to help finance the barging of water from Dominica. Several of the larger hotels purchased small desalinization plants, while others were forced to close. While the damage to the

agriculture sector was quite evident, it is uncertain what effect the water shortage had on manufacturing production. It is reasonable to assume that even if existing manufacturing production did not suffer, the chaotic water situation was not an encouraging factor for potential investors.

Steps have been taken to improve the situation. The $9.8 million AID-financed Antigua Water Supply Project will rehabilitate inoperative wells, upgrade the treatment storage and distribution system, and address institutional and financial problems in APUA. This project will be completed in late 1986, and by early 1987 the new 2 million gallon per day desalinization plant should be operational. Water tarrifs, which have not covered costs, will be increased by 50 to 60% over the next two years. These initiatives will significantly improve the situation, but additional work will be required within the planning period which will be defined in greater detail under the present AID Project. This will include:

- further institutional development work, particularly with regard to maintenance capability.
- installation of a 16" transmission main from the desalinization plant to Scotts Hill ($2.0 million).
- replacement of the distribution main in the capital, St. John's ($2,250,000).
- investigation of the limestone region for possible ground water ($2,500,000) to meet future demand and to have a safety margin in times of drought.
- Possible development of small water catchment systems for agriculture and livestock.

Sewerage treatment and surface drainage is a problem in Antigua as in all the other OECS states. Where individual septic tanks are not employed, raw sewage runs directly into the drainage systems and then into the ocean. In the capital, St. John's, with its open drainage system, noxious odors are a persistent problem. The potential for coastal pollution damaging the tourist sector is a matter of concern, and in rural areas there is concern that groundwater supplies could become contaminated. CARICOM has begun to set up a system to monitor pollution of coastal waters, but unless the Government contributes to the program Antigua will not be included.

b. Electricity

The desalinization package includes two 9MW steam generators. Fifty percent of the generated power will be required to operate the desalization plant, leaving 9MW to meet the country's growing power through the planning period. Generation capacity is therefore not a problem, but investments are required to upgrade the transmission and

distribution system to provide the reliability of electricity that the tourism and manufacturing sectors demand. Continuing attention to maintenance is also necessary. APUA has a list of required improvements that cost $10 million, but operating surpluses are only anticipated to cover 10% of these costs. Electricity rates are already among the highest in the region.

c. Communication and Transportation

For the last couple of years the telephone switching capacity has been 100% utilized and it has been impossible to add new lines. However, APUA has arranged with TELCON to upgrade the system allowing for an additional 4,500 new lines. This should meet the demand through the planning period.

When Antigua received its independence, it inherited one of the most developed road systems in the Commonwealth Caribbean. However, because of the Government's fiscal problems and institutional and management problems in the Ministry of Public Works, the road system has fallen into a serious state of disrepair. Over 96 miles of major roads need repair and rehabilitation, of which 18 miles will be repaired with financing from the EDF. Whether or not the present state of disrepair of the road system is now a constraining factor vis-a-vis the productive sectors is debatable. However, it is clear that the lack of an effective maintenance system results in unnecessarily large capital expenditure requirements to rehabilitate the road network.

Another area of concern is the Coolidge International Airport, a major air traffic hub in the Eastern Caribbean. The airlines have threatened to stop service unless the Government resurfaces the runway at an estimated cost of $2.0 million. A new taxi-way is required due to the large number of small aircraft based at Coolidge and the traffic control system needs to be upgraded. Financing for these improvements is reasonably assured, but some technical assistance may be required.

d. Land Use and Infrastructure Planning

While most of the other OECS countries have only a few easily identifiable areas that are ideal for tourism-development, virtually the entire coastline of Antigua is suitable for tourism development. Areas suitable for intensive agricultural production are more scarce. Manufacturing operations generally gravitate naturally toward the airport or stockyards. Residential developments, both for Antiguans and the luxury condominiums for foreigners are popping up all over the island. The city of St. John's is the result of unplanned urban sprawl.

Given the small size of the island, the need to avoid incompatible or wasteful land uses, and the need to rationally plan infrastructure development, the Government should sooner rather than later begin to develop a land use planning capability. With land use plans and the establishment of zoning regulations a more orderly development can be achieved and APUA and the Ministry of Public Works can better anticipate future infrastructure requirements.

e. Miscellaneous

(i) Factory Shells - There is presently no available factory space for lease in Antigua. With Antigua being ineligible for further CDB assistance until it pays its arrears, the Infrastructure for Productive Investment Project (IPIP) is the only source of funds for factory shell construction. The Government has embraced the IPIP concept of having the private sector build and operate industrial estates and one leading member of the private sector has already advanced to the construction stage of a facility that will be funded under IPIP. Thus it appears that this infrastructural constraint to new manufacturing development will be resolved.

(ii) Reef Marking - Dozens of bays with white sand beaches are yet to be developed. Experience in Antigua indicates that the profitability of tourist facilities is enhanced if yachts have access to the facilities. The visiting yachtsmen, however, must avoid most of the coast because of the reefs. If the channels were marked this would remove a barrier to private development of new areas.

2. Human Resource Development

The human resource development constraint in Antigua is similar to that of all the other OECS countries. As elsewhere, the educational system is largely academic rather than vocational and is geared to passing tests. As elsewhere, outmigration of skilled people is a problem. One factor that weighs in Antigua's favor is its demography. With its low population growth rate, the percentage of population that is school age is actually dwindling. Thus it should be easier for Antigua than the other OECS states to concentrate its education resources on providing better and more relevant education and training. The tourism orientation of the country also has human resource implications that make Antigua somewhat different from other OECS countries. The relatively good wages and attractive working conditions in the tourism sector tend to discourage many young people from seeking employment in the manufacturing and agricultural sectors and from obtaining the skills to work in these sectors. On the other hand many vocational, technical and managerial skills are required to operate a luxury resort complex and in many areas Antiguans with the necessary expertise cannot be found. The liberal attitude of the Government toward granting work permits to foreigners tends to moderate the impact of skill shortages on the economy. Dominicans are coming in to occupy the lower-level skill jobs in the manufacturing sector while Trinidadians, Jamaicans, North Americans and Europeans form much of the managerial and technical class. Ethnic Syrians are increasingly predominating in the commercial sector, and North Americans and Europeans run much of the tourism sector and provide the specialized expertise required. Clearly if social problems are to be avoided in the future Antigua must harmonize its human resource development policies with the needs of its economy.

While the above discussion is focussed on the private sector, the Government has similar problems finding qualified people. Here again the pattern is similar to other OECS countries. Key positions are left vacant for years for want of qualified candidates. They are

either not available in the country or they will not work for the low Government salaries. Most needed are managers, and administrators/ planners, economists, accountants and engineers. Some gaps have been filled by donor-funded expatriates, and such gap filling will be required for the foreseeable future, but increased attention needs to be given to salary incentives to attract and keep qualified people and short and long term training for existing personnel.

3. Public Sector Institutional and Financial Constraints

The institutional and financial problems of the Government are interrelated phenomena. With greater revenues and more efficient use of revenues, the Government could address some of its institutional problems and some institutional improvements would make it easier to address revenue problems. However, the possibilities for significant change on either front are somewhat limited by the political environment. Government finance, institutions and the political environment are all discussed in detail in the respective annexes to this document. Therefore, only the general conclusions will be included here.

There is a wide gap between the Government leadership on the one hand and the World Bank and IMF on the other, with regard to perceptions of the seriousness of Antigua's fiscal difficulties and the need to improve credit worthiness. Our own assessment falls somewhere in the middle. We note that the high projected GDP growth rates and the present low tax ratio (tax revenue as a percent of GDP) give Antigua a comparatively large margin for maneuvering without the need for painful adjustment measures. On the other hand, if timely incremental changes are not adopted, Antigua could well find itself in serious financial difficulties toward the end of the planning period. This view is largely shared by key Antiguan technocrats. At the political level, we would expect decision making to continue to be highly influenced by political and personal factors, but believe that improved fiscal information, planning and control systems will lead to a more judicious consideration of the fiscal implications of particular decisions.

Listed below are major areas of concern and an assessment of whether AID involvement is warranted and feasible.

a. Creditworthiness

The Government has as explanation for why it is not paying each of the loans for which it is in arrears. In a number of cases, the explanation is that the project for which the funds were borrowed did not generate the revenue expected to pay off the loan. Consequently the Government feels justified in not keeping up its payments. It does not look like this attitude to meeting certain of its obligations will change as long as the Government can continue to find new creditors. The major consequence of this approach to debt management has been the increase in the percentage of total debt financed at commercial interest rates. Intra-Governmental arrearages are also a problem. For example 18% of the APUA Water Division's charges are billable to the Government, and the Government's failure to meet these obligations puts a financial strain on APUA. Resolution of this problem would be a condition of any further AID assistance to APUA.

20

b. Public Sector Payroll

The last several years have seen a significant increase in the number of nonestablished workers on the Government payroll. Much of this workforce is nonproductive. Patronage and a sense that the Government is the employer of last resort are the reasons for this wasteful expenditure. Government leaders have stated both that it is not politically feasible to reduce the number of nonestablished workers until the private sector can absorb the excess and that they plan to reduce the number through attrition. The real intent is not clear, but RDO/C judgement is that this is not a fruitful area for policy dialogue. AID's influence can best be exerted through stimulating private sector growth.

Payscales are also a matter of concern. The public payscales for lower skilled workers tend to set the pace for labor rates in the private sector. Pay adjustments in the last eight years or so have gone beyond the inflation rate. An increase of 12.5% has just been granted for the next three years. This is in accord with anticipated inflation.

The problem of attracting qualified professionals to key posts (partly a problem of insufficient incentives) is a matter which AID and other donors will be examining in a regional context through the CGCED, and particularly in discussions of the IARM-EAS transition proposal.

c. Economic Planning and Expenditure Control

While the budget is prepared and managed by the Ministry of Finance, decisions and plans affecting the budget are largely made in the Ministry of Economic Development. Formal procedures for ensuring a proper interrelation between the budgeting and economic planning process are lacking. Operating divisions of the Government also are prone to make financial commitments in advance of receiving Ministry of Finance concurrence. The official Government Estimates (budget) are approved at the beginning of the year without a clear definition of how the gap between revenues and expenditures will be financed. During the budget year, the Ministry of Finance operates on a cash-flow basis, apportioning funds to the various Government divisions as they become available. For most operating divisions this means that less than the total budgeted amount is received and funds are not received when needed. This complicates operational planning and creates inefficiencies. These problems may be addressed through the Public Management and Policy Planning (PMPP) Project.

d. Tax Policy and Administration

Over the past five years, many ad hoc measures have been introduced which have added to the complexity of the tax system and increased anomalies in taxing incomes and transactions. The country abolished personal income tax in 1976 and this undermines the efficiency of the corporate profits tax. The country has a system of partial taxes,

some of which are regressive in nature and not responsive to changes in GDP. There are many unnecessary complications, and in some cases, revenue generated by certain tax categories does not justify their existence as independent taxes.

Tax collection is hampered by the complexity of the system, the dispersion of tax collection and assessment functions in various Government agencies, auditing and valuation weaknesses, legal hamstrings on entities responsible for collection, and mild penalties for nonpayment.

AID will encourage the Government to request PMPP assistance to examine these problems.

C. Policy Dialogue Agenda

The relatively successful performance of the Antiguan economy, combined with Government pride at being able to do things their way (as opposed to the IMF way or another donor's way), tends to narrow the field for potential policy dialogue. While there may be exceptions, it is expected that policy dialogue will be project-related. The following is indicative of the policy issues that may be addressed.

1. Infrastructure

The proposed follow-on water system project will provide an opportunity to reinforce institutional development and financial viability initiatives started under the on-going project. Two issues of particular concern are water rates and the failure of the Government to pay APUA amounts owed for water services provided to the Government.

The proposed regional maintenance project may provide the opportunity to address the problem of inadequate Government resources dedicated to maintenance.

2. Human Resource Development

The OAS Non-Formal Skills Training Project, which is beginning in Antigua in late 1985, will present the opportunity to dialogue with the Government on their policy for continuing to provide this type of relevant vocational training after the project ends. Of particular interest is establishing a permanent capability to identify the skill needs of the economy and translate this into relevant training programs.

3. Public Management, Finance and Planning

The FY 85 Public Management and Policy Planning Project will be the vehicle for addressing policy concerns in this general area. It is still unclear what specific areas will be of interest to the Government. Topics of interest to RDO/C include simplifying and improving enforcement of taxes, improving expenditure control and debt management and achieving better integration of planning and budgeting. The Inter-Agency Resident Mission may also address some of these issues.

Indicators of a successful outcome to the RDO/C-Government of Antigua policy consultations during the strategy period are:*

1. Infrastructure

a. By FY 87 better water rate collection and Central Government payment of outstanding bills owed to APUA should be in place.

b. By FY 88 Government commitment to maintenance of infrastructure should be evident in adequate budgeting for various maintenance needs and the introduction of better recordkeeping and maintenance systems.

2. Human Resource Development

a. By FY 88 Government will have taken steps to further course offerings directly relevant to tourism and manufacturing and to initiate an industrial arts program which reflects actual manpower needs.

b. By FY 88 Government will have made provision for institutionalizing a skills development program which includes on-the-job training modules relevant to private sector growth.

3. Public Management, Finance and Planning

By FY 86 or FY 87 agreement should have been reached with the Government on specific interventions for improving fiscal management, including tax administration and collection, and debt management.

* Not for public dissemination.

ANTIGUA
ECONOMIC ANALYSIS

I. RECENT PERFORMANCE

A. Income and Employment

After increasing at a brisk 6.6% per year during 1978-80, real GDP growth in Antigua per Barbuda slowed to about 2.9% per year during 1981-83. Led by two very good back-to-back tourism years, and significant increases in construction activity, the economy bounced smartly back last year. GDP may have grown by some 11% in nominal terms, and by a very respectable 5% in real terms. 1984 GDP evaluated at market prices, probably reached $158 million, equivalent to just under $2,000 per capita.

Prospects are excellent that the economy will continue this year with the momentum achieved last year, driving real GDP growth to 6% or more. Assuming continued economic recovery in the OECS countries, and timely development of the tourism and export-oriented manufacturing activities, it is reasonable to expect average real GDP growth of around 5% per year through 1990. Provided that the recovery can be sustained at average GDP growth in the 5% per year range, employment should increase by 5,400 jobs: from about 24,700 last year to 30,100 by 1990, or some 3.3% per year. The growth in employment will be significantly faster than growth in the labor force, expected to rise from 30,900 persons last year to 35,500 in 1990, or 2.4% per year. The net number of unemployed should decline by about 800 persons: from 6,200 last year, to 5,400 in 1990. The unemployment rate will fall from just over 20% of the labor force to about 15%.

The leading sectors are expected to be tourism and export-oriented manufacturing. Value added from tourism will need to grow at roughly 7% a year, increasing by about 50% over the 1985-1990 period, from some 25% ($34 million) of total GDP, to about 28% ($51 million). This will create about 2,200 new jobs, of which 1,500 will be directly employed in the hotel, restaurant and travel sectors, and 700 in supporting activities.

Value added from manufacturing should increase about 7.5% per year, from $6.7 million 1984 to $10.4 million in 1990. This will result in about 600 new jobs, as employment in manufacturing increases from some 1,550 persons in 1984 to 2,150 in 1990. The increase in employment by 1990, compared to 1984, will be in the range of 29% for both tourism and manufacturing activities.

Although value added by construction is expected to grow at the same sustained levels as tourism and manufacturing, and is expected to generate 1,100 new jobs during the 1985-1990 period, about 14% of the total expected increase in employment. Some 500 jobs, nearly 60% of the total, should be available during 1985 and 1986.

Value added from agriculture in 1984 was less than 75% equivalent value added in 1980. In fact, the total value of all agricultural output, including fishing, cattle and forest, has declined every year since 1979. The fall in value added averaged about 7% per year over the 1980-84 period, and was an especially severe drag on last year's recovery, when drought contributed to a decline in value added of over 10%, rivaling the 12% drop registered in manufacturing output (due to the disappearance of previously satisfactory CARICOM markets). In 1980, agriculture and related activities accounted for 7.5% GDP; for 1984, these activities accounted for perhaps 4.9% GDP, evaluated at constant prices.

Despite agriculture's difficulties, agricultural employment has remained stable at about 2,100 persons since 1980. In 1980, this level of employment represented 9.3% of the employed working population; in 1984, 8.5%. Prospects are good, however, for significant employment increases in agricultural activities over the next five years, as agricultural diversification away from sugar and cotton and into crop production of fruits and vegetables proceeds.

Provided that an adequate land tenure system (such as long term leases, or preferably, the sale of free-hold titles) is implemented soon, and severe drought can be discounted, significant increases in root crops, vegetables, and fruits can be expected.

Although the stringent price controls legally imposed on imported substitutes would normally be a major disencentive to agricultural diversification aimed at efficient import substitution, there is little evidence that the mandated price controls are consistently adhered to"

Indeed, despite the array of apparent obstacles facing the typical farmer, substantial increases in volume occurred during the three years preceding last year's drought. The annual increase in root crop production averaged 4.5%; vegetables, 17.0% and fruits, 13.0%; representing, over-all, a significantly better performance than recorded for most economic activities during the period.

On the other hand, fishery and livestock production declined over the period. Despite the substantial implied demand from the hotel and restaurant sector, and a growing resident population, production of beef, mutton and pork fell 5.4% per year, and fish and lobster landings declined, on average, 10.5% per year.

Price controls on fish and meat are more comprehensive than the margin controls applicable to fruits and vegetables. Canned and frozen meat and fish imports are subject to margins over landed value of 10-15% wholesale and 15-22-1 per 2% retail. In addition, local fresh fish and meats are subject to fixed price maximums ranging from $0.55 to $1.11 per pound for meats, including steak; and from $0.61 to $1.30 for fish.

Given the significant potential demand for fresh fruits and vegetables, and meat and fish for the hotel and restaurant trade, and the need for efficient import substitution in agriculture generally (food products imports in 1983 amounted to about $36 million, or one-third the total value of imports), value added from agriculture is expected to grow by some 6% per year during the period 1985-90. Agriculture's contribution to GDP will increase from $10.6 million in 1984 to $15.2 million in 1990. New employment of the order of 400 jobs will be created in the sector. Much of this growth will occur despite continued inappropriate government policies and possible periodic drought; and will largely be confined to crop agriculture, as the severity of price controls on meat and fish, coupled with the absence of grading and quality standards for these products, limit commercial viability, especially for the lucrative tourism trade.

It is assumed in the analysis that Government employment will decline by about 400 jobs net, over the period, from 7,400 persons to 7,000. The existing Government work force consists of 2,700 established workers, 3,800 unestablished workers, and some 900 employed by the statutory boards. Established and Statutory Board employment is expected to increase by some 200 workers. However, many unestablished workers have been employed because alternative employment has not been available. With the new employment opportunities that accompany the economic recovery, this practice is expected to stop. The reductions in the size of the unestablished work force will occur mainly by attrition.

TABLE 1
ORIGIN OF GDP AT FACTOR COST
1984 Prices

	Millions of EC$				Percentage			
	1984	1985	1987	1990	1984	1985	1987	1990
Agriculture and Related	28.6	31.3	35.2	41.1	7.8	8.1	8.2	8.5
Manufacturing	18.2	20.0	23.2	28.1	5.0	5.1	5.4	5.8
Construction	30.5	32.8	36.4	38.2	8.4	8.4	8.5	7.9
Transport & Commun.	63.3	68.4	75.9	87.2	17.3	17.6	17.8	18.2
Trade	41.7	43.8	46.5	50.7	11.4	11.3	10.9	10.5
Hotels and Restaurants	63.6	68.8	79.4	95.4	17.4	17.7	18.6	19.8
Government Services	54.5	55.5	57.0	59.6	14.9	14.3	13.4	12.4
Other, Net	65.0	67.8	73.2	81.4	17.8	17.5	17.2	16.9
Total	365.4	388.4	426.8	481.7	100.0	100.0	100.0	100.0
Memorandum Item								
Tourism Value Added	92.1	100.2	116.1	138.1	25.2	25.8	27.2	28.2

TABLE 2
SECTORAL COMPOSITION OF EMPLOYMENT
1977 - 1990

Sector	Past Trends[1]			Estimated[2]		Forecast[3]		
	1977	1980	1983	1984	1985	1987	1990	
Agriculture & Related	2,366	2,092	2,100	2,100		2,250	2,350	2,500
Manufacturing	1,355	1,619	1,750	1,550		1,650	1,800	2,150
Construction	2,044	2,564	2,700	2,950		3,200	3,600	4,300
Government	5,741	6,618	7,300	7,400		7,350	7,150	7,000
- Establishe9	2,528	2,633	2,700	2,700		2,700	2,750	2,800
- Unestablished	2,313	3,185	3,700	3,800		3,700	3,450	3,200
- Statutory Boards	900	800	900	900		950	950	1,000
Tourism[4]	n.a.	n.a.	n.a.	5,300		5,650	6,350	7,500
- Direct				3,700		3,850	4,350	5,200
- Indirect				1,600		1,800	2,000	2,300
Other[4]	n.a.	n.a.	n.a.	5,300		5,500	5,850	6,650
Total Employment	20,233	22,491	24,096	24,600		25,600	27,100	30,100
Labor Force	25,418	28,378	30,424	30,900		31,500	32,800	35,500
Unemployed	5,185	5,887	6,328	6,300		5,900	5,700	5,400
% Unemployed	20.4	20.7	20.8	20.4		18.7	17.7	15.2

1 Based on World Bank Report No. 5279-CRG, 1/3/85
2 Based on past trends and employment-GDP relationships by sector; C. Karch, Trip Report, 4/85; Beasley-Orr trip to Antigua, 4/85
3 Based on information referred in 2 above; expected structual change, per AID-Antigua CDSS strategy and 5% growth in real GDP.
4 Not available

B. Consumption, Savings and Investment, and Public Sector Finances

Gross domestic expenditure, averaging 133% of GDP during the 1979-83 period, seems, high. However, this largely reflects the country's ability to attract foreign private investment.

Despite a trade deficit averaging 75% of GDP, and a current account deficit of some 27% of GDP during the period, the overall balance of payments deficit averaged less than 3% of GDP, comfortably financed by accumulation of external arrears of roughly equivalent amounts. Net private capital inflows over the period amounted to $87 million - 58% of total net foreign savings inflows of $150 million.

Consumption spending accounted for less than 90% of GDP; of which 75% was private, and 25% public. Led by an aggressive private sector, gross domestic investment averaged $49 million per year, equivalent to 43% average GDP. Public sector investment, $12 million per year, accounted for less than 25% of the total. Financing for this investment was provided exclusively by the country's private sector and foreign savings - about 60% foreign, 40% local.

Public sector savings has been negative in recent years, even though the Social Security and Medical Benefits Schemes annually yield surpluses of some 3% of GDP. State enterprises typically produce deficits of the order of 1% of GDP. The Central Government's current account deficits amount to about 3% of GDP. This excludes build-ups of arrears - about 50% to state enterprises and the Social Security and Medical Benefits Schemes - that, on an accrual basis, add to the Central Government's recurrent deficits, amounts averaging 4% of GDP. On a cash flow basis, the nominal amount of negative savings by the consolidated public sector is equivalent to 1% of GDP; on an accural basis (since current account averages to non-public sector entities typically amount to about 2% of GDP) the consolidated public sector dissavings amounts to 3% of GDP. Exclusive of the operating results of state enterprises and the Social Security and Medical Benefits Schemes, Central Government dissavings average 6% of GDP. Not only does the Central Government not make timely contributions to these schemes, it has borrowed about 50% of the contributions made by others in recent years. By non-payment and borrowing, the Central Government seems to have effectively accessed at least 75% of the Schemes' accumulated surpluses and used them to finance current operations.

Reliance on the Social Security and Medical Benefit Schemes' surpluses to finance recurrent expenditures is not prudent, and aggravates the ability of the consolidated public sector to contribute to national savings - even though the public sector investment program typically requires funding equivalent to 11% of GDP.

The economic recovery last year resulted in a 14% increase in Central Government Revenues; consequently, the current account deficit declined from 3% of GDP to nearly nil, on a cash flow basis, and from 4% of GDP to under 1% of GDP on an accrual basis. Some 40% of the year's Social Security Scheme contributions were paid, but nothing was paid into the Medical Benefits Scheme. In 1983, no payments were made into either scheme.

Expected increases in Government revenues this year, including interest earned on foreign deposits, should be sufficient to generate a surplus of the order of 2% GDP on Central Government current account. However, perusal of the 1985 fiscal budget, published in March 1985, contemplates recurrent and capital spending levels far in excess of likely revenues. The recurrent budget amounts to some $51 million, and the capital budget an additional $24 million - 29% and 13% of likely GDP, respectively.

Revenue estimates are not presented, but the budgeted increase in recurrent expenditures over last year is some 38%, whereas revenue bouyancy will likely be limited to an increase of 30%; accordingly, a current account fiscal gap of 2% GDP, and perhaps more, seems likely for the 1985 budget year.

Public sector capital expenditures of the order of 13% GDP, or greater, are expected throughout the 1985-90 period. Spending for on-going projects havings to do with directly productive investments in agriculture, industry and tourism, and basic economic and social infrastructure is expected to total about $5 million this year. Financing of these projects will consist of about $2.8 million in foreign grants, and the remainder can probably be arranged through local commercial banks ($1.8 million) and external commercial banks ($0.4 million).

The remaining $19 million of expected capital spending this year will probably (this is not confirmed) be largely associated with work on: 1) a new water disalinization plant and two new diesel generators for electricity, with a combined cost of about $40 million; and 2) continued work on the Deep Bay tourist complex, which will eventually consist of a 200 room luxury hotel, a casino, a yacht marina, a convention center, and 178 condominium units - with a combined total cost of the order of $70-90 million.

Financing is in place for the water desalinization plant and diesel generators. Financing for the Deep Bay Project, however, is not known to be assured. Feasibility studies, preparatory engineering work and needed land purchases have already been done.

Over the period 1979-83, the over-all Central Government deficit, including capital investment spending, amounted to some $67 million, equivalent to 12% GDP. Financing was mainly by accumulation of arrears and foreign borrowing, as indicated below:

TABLE 3
FINANCING OF CENTRAL GOVERNMENT
OVER-ALL BUDGET DEFICIT
1979-83

Source	$ Millions	% Total
Accumulation of Arrears	29.1	44
Net Foreign Borrowing	20.1	30
Net Local Bank Borrowing	8.0	12
Net non-Bank Domestic Borrowing	7.3	11
Net Borrowing from ECCA and Changes in Foreign Assets	2.0	3
	66.5	100

Of the $29 million in accumulated arrears as at the end of 1983, about $11 million, 38% of the total, corresponded to arrears on outstanding external debt of some $66 million. By the end of 1984, Central Government external debt was reduced to about $38 million, although external averages increased to some $14 million. Combined total outstanding Central Government and Government guaranteed external at the end of 1984 amounted to $51 million, and total arrearages, including interest payments, about $19 million. Total external debt at end 1984 was equivalent to roughly 33% of GDP; total external debt arrearages, about 12% of GDP.

The structure of the country's external debt at end-1984 is summarized below:

TABLE 4
ANTIGUA-BARBUDA EXTERNAL DEBT AND ARREARS
END-1984

Type	Total Debt 1/ $Millions	%	Total Arrears 1/ $Millions	%
Commercial	30.8	60.3	17.1	91.4
- Central Government	21.6 2/	42.3	12.5	66.8
- Government guaranteed	9.2 3/	18.0	4.6 5/ per	24.6
Official	20.3	39.7	1.6 6/	8.6
- Central Government	16.4	32.1	1.1	5.9
- Government guaranteed	3.9 4/	7.6	0.5	2.7
Total	51.1	100.0	18.7	100.0

1/ Excludes private debt to Government guarantee
2/ Of which, $6.8 million, ENMBANK
3/ Of which, $4.5 million, ENMBANK
4/ Of which, $0.2 million, USAID
5/ Of which, $2.1 million, ENMBANK (Port Authorization)
6/ All CDB

210

Total debt outstanding in 1984 was equivalent to 56% of exports of manufactured goods and non-factor services. Total arrearages, which ought to be eliminated soon amounted to 20% of exports of manufactured goods and non-factor services. Since it is unlikely to be able to pay these arrearages off soon, efforts should be made to reschedule. A cleaner balance sheet in this regard will be helpful as financing is sought for the various components of the Deep Bay project, which the Government has decided to implement.

The public sector investment budget is expected to average about 13-14% of GDP over most of the 1985-1990 period. Public sector savings should b generated to finance at least 50% of the public sector investment cost by 1990.

It is understood that the Government is considering new revenue measures, equivalent to some 5% of the landed value of imports, in connection with assured servicing of external debt associated with the new desalination plant and diesel generators for electricity. This kind of measure, together with a commitment to constrain public sector recurrent spending to roughly present levels, or real value added by Government during the period 1986-1990, will permit public sector savings of 5% of GDP by 1987, and 7% GDP by 1990. Recurrent public sector spending should decline from the unprecedented 33% of GDP expected this year to 28% of GDP, recorded in 1981. Current revenues would increase from 31% of GDP anticipated this year to 35% of GDP.

The following table illustrates the expected results:

TABLE 5
ANTIGUA-BARBUDA FISCAL BUDGET
1984-1990

	Estimated % GDP		Recommended	
	1984	1985	1987	1990
Recurrent Expenditure	27.6	33.2	31.1	28.3
Recurrent Revenues	27.4	31.2	36.3	35.3
- Existing Structure	27.4	31.2	30.6	29.8
- New Revenue Measures			5.7	5.5
Current Savings	- 0.2	- 2.0	5.2	7.0
Public Sector Investment	-13.0	-13.0	-14.0	-14.0
Overall Balance	-13.2	-15.0	- 8.8	- 7.0

NOTE: Central Government only

Gross domestic investment of the order of $85 million per year is indicated for the period 1985-1990. This can be achieved if past consumption and investment patterns continue to hold throughout the period, and provided that foreign savings of the order of $26 million will be available. National savings must be mobilized for financing about 50% of the gross domestic investment requirements and be shared roughly 60 per 40 between the private and public sectors. The expected financing sources are approximately as follows:

about 50% of the gross domestic investment requirements and be shared roughly 60 per 40 between the private and public sectors. The expected financing sources are approximately as follows:

TABLE 6
ANNUAL SAVINGS
1985-1990

Savings Source	Annual Amount US$ Millions	% GDP	% Distribution
Gross National Savings	41.5	22	48.9
Public Sector	15.1	8	17.8
Central Govt Current Surplus	9.4	5	11.1
Soc Sec. & Med. Benef. Schemes' Surpluses	3.8	2	4.4
State Enterprises Surpluses	1.9	1	2.2
Private Sector	26.4	14	31.1
Foreign Savings, Net 1/	43.5	23	51.1
Official Transfers & Loans, Net	18.9	10	22.2
Direct Private Investment	24.6	13	28.9
Total	85.0	45	

1/ Equivalent to current account deficit of Balance of Payments - distribution of foreign savings expected to be similar to distribution of past five years.

Antigua-Barbuda has been very successful in recent years at attracting foreign investment. There is no persona income tax and corporate income tax is a low 40%, when imposed. New investors may qualify for fiscal incentives, including tax holidays, of up to 15 years; enclave industries qualify for the maximum tax holiday. Exporters can qualify for additional tax relief, even after the formal incentive period is over. There are no restrictions on profit repatriation of approved enterprises, although a foreign exchange levy may be imposed. Imports of new materials, equipment and spare parts may be imported duty free by approved enterprises.

C. Prices and Wages

Inflation in Antigua-Barbuda in recent years has been similar to inflation in other East Caribbean countries. Moreover, since the country is relatively small and open, inflation has generally followed patterns evidenced by its major trading partners. Increases in the consumer price index have averaged just over 5% per year since 1980; since 1982, the CPI measure shows inflation at an average annual rate of 3.1%. As measured by the GDP deflator index, and primarily reflecting changes in underlying cost structures inflation has averaged about 7% per year since 1980, falling to an annual average of 5.0% during 1983 and 1984. For 1984, the CPI reflected inflation at 3.9%, and the GDP deflator index, 5.8%. Expectations for 1985 are for about 4% growth in the CPI, and 7% in the GDP deflator index.

Wages, on the other hand, have far outstripped all other measures of inflation in recent years. Average annual wage increases of the order of some 20% per year resulted in a doubling of average wages for 1984, compared to 1980. Wage increases in 1981 averaged some 30%; 1982 - 22%; 1983 - 16%; and last year, just under 12%. Prospects are for average wage increases in the 9% range during 1985; however, since a number of contracts are subject to negotiation this year, and some employers face labor shortages in some categories of skilled labor as the economic recovery gains momentum, this estimate may be on the low side.

The last wage adjustment for central government employees was in late 1981. The large increase in recurrent spending reflected in the 1985 budget likely anticipates significant large wage increases this year. The Port Authority and the Public Utilities granted wage increases, to be phased in over a three year period, of up to 40% during 1983.

Antigua's main industry, toiurism, has experienced sharp increased in costs and prices in recent years. The IMF estimates that the cumulative increase in average prices paid by tourists during the 1981-1983 period was some 37%. Notwithstanding such hefty increases, hwever, tourism value added soared by 18%-20% in real terms in 1983 and again in 1984; foreign exchange receipts rose some 25-28% per year during 1983 and 1984.

Public utilities services are not subsidized; onaverage, the Public Utilities Authority generates operating surpluses, primarily due to the surpluses from electricity sales. Water rate increases have been approved, which will result in significant surpluses from water distribution operations in 1987. The Antigua Sugar Corporation has been incurring substantial losses. Detailed information on the corporation's operations is not available.

Price controls, as indicated in Section 2 of this Attachment, apply to a large number of basic foods, mostly imported. These controls seem to be harmful, however, only for local production of meats and fishing. There is no evidence that price controls have deterred agricultural diversification and expansion.

D. Money and Credit

Since Antigua-Barbuda does not have its own Central Bank, but is a member of the East Caribbean Central Bank (ECCB) and subject to the same constraints as other ECCB members with respect to required resumes, currency in circulation and the like, this discussion will deal with the operations of the country's eight commercial banks, six of which are foreign owned.

Growth in commercial bank liablities to the private sector (deposits) averaged 18.5% per year during the period 1981-84, increasing from $54 million to $104 million (including non-resident deposits). This growth significantly outstripped growth in nominal GDP, estimated at 10.7% per year.

These funds were largely on-lent to the private sector. Lending to the private sector increased from an outstanding portfolio of $40 million in 1980 to nearly $80 million in 1984, an average increase in 1984, an average increase of some 18.7% per year.

On the other hand, lending to the Central Government has not been significant, growing slowly from an outstanding balance of $14 million in 1980 to about $16 million in 1984, to post an average annual increase of just 3.5%. In 1980, private sector lending amounted to 75% of depostit liabilities and the Central Government, 27%. By end-1984, the private sector's share had incresaed marginally to 76%, but the Central government's borrowing accounted for just 16%. Accordingly, total net credit outstanding grew only by 13.5% per year, from $51 million to $85 million. The difference between net domestic assets at end-1984 of $85 million (largely credit portfolios) and private sector liabilities (deposits) of $104 million is primarily accounted for by holdings of ECCB currency ($3 million) statutory, reserve requirements with the ECCB ($5 million), and other deposits with the ECCB ($13 million). Although Antiguan commercial banks had net liabilities with banks abroad exceeding $8 million as recently as 1982, these liabilities have now been largely paid down.

Total deposit liabilities at the end of 1984 represented 66% of estimated GDP for the year, and net credit outstanding of about 54% of GDP. 1984 loan balances with the private sector, of about 50% of GDP, represents a significant increase over relative levels at the end of 1980 of 38% of GDP.

Prospects are good that deposits and private sector lending will continue to grow faster than GDP over the next five years. Nominal GDP will likely increase by about 14% during 1985. Deposit liabilities and private sector lending will likely increase in the 17/18% range.

Interest rates paid to depositors in Antigua/Barbuda were generally negative in real terms during the period 1980-1982, and not competitive by international standards. By end-1983, however, interest rates paid on savings deposits were increased by some banks to as amuch as 8%, and minimum rates paid on time deposits were also increased and range from 17.5% to 14.0%. As inflation has been relatively modest recently, interest rates paid to depositors are broadly positive. Lending rates are generally in the 9.0-18.0% range, and are competitive by regional and international standards.

E. External Sector

Antigua/Barbuda's current account deficit increased marginally last year over 1983, from $15 million to $17 million. The deficit in both years was approximately 11% of GDP. Over the period 1985-1990, the current account deficit can be expected to increase significantly, and average some 23% of GDP. During the five year period, 1979-1983, current account deficits averaged about 26% of GDP.

Merchandise exports, excluding re-exports, are expected to grow in real terms from $13 million in 1984 to some $23 million by 1990; this growth will be roughly in line with growth in value added from manufacturing activities.

Foreign exchange earnings from tourism will grow by about 7% per year, from $82 million in 1984 to $124 million (1984 prices) by 1990. This growth corresponds to the expected development of the hotel and restaurant sector over the period.

Also significant, at an average 7.8% GDP are private transfers, expected to increase from $12 million in 1984 to perhaps $15 million in 1980.

The largest component of the current account, imports, reflects the import requirements of the tourism sector, projected investment requirements, as well as increased consumption needs. The import bill will generally exceed 100% of GDP over the period.

The Capital Account balance, on average, reflects financing on the current account deficit. The composition of the capital account balances is expected to consist broadly of official transfers and loans (mostly commercial) and direct private investment. Loans and transfers will average 10% of GDP, and direct; private investment some 13% of GDP. These items will contribute some 50% to the financing required for the country's investment programs over the 1985-1990 period.

215

TABLE 7
BALANCE OF PAYMENT SUMMARY
1984-1990

(Millions US$)
1984 Prices

	1984	1985	1987	1990
Current Account	-17	-49	-50	-35
Trade Balance	-108	-147	-162	-168
Exports FOB	22	23	27	32
Domestic	13	14	18	23
Re-exports	9	9	9	9
Imports CIF	-130	-170	-189	-200
Services (Net)	79	85	98	118
Tourism	82	89	104	124
Other (Net)	-3	-4	-6	-6
Private Transfers	12	13	14	15
Capital Account	9	41	44	26
Net Transfers & Borrowing	2	28	29	4
Private Capital	7	13	15	22
Overall Balance	-8	-8	-6	-9
(Probably accumulation of arrears)				
Memorandum Item				
GDP at Market Prices	158	168	184	211
	As a Percent of GDP			
Current Balance	-10.8	-29.2	-27.2	-16.6
Trade Balance	-68.4	-87.5	-88.0	-79.6
Exports	8.2	8.3	9.8	10.9
Imports, CIF	-82.3	-101.2	-102.7	-94.8
Capital Account and Balance	5.7	24.4	23.9	12.3
Overall Balance	-5.1	-4.8	-3.3	-2.8

ANTIGUA
PRIVATE SECTOR PROFILE

I. Private Sector Overview

The local private sector in Antigua is among the most vibrant in the OECS states. The growth of local entrepreneurs is especially encouraging given Antigua's history. Until twenty years ago the private sector was comprised almost entirely of traders. The larger mercantile houses were owned by expatriates, recent Syrian traders from Trinidad and local whites. These houses dominated the commercial sector and were the primary creditors of black small business persons engaged in the retail trade or domestic agricultural production.

The dramatic shift in the economy from sugar plantation monoculture to tourism and light manufacturing has witnessed a shift in the types of businesses operating in Antigua. The service sector (excluding Government services) now constitutes the largest source of GDP; hotels and restaurants contributed some EC$63 million in 1984 while 23% of employment is in tourist and distributive trade activities. Although there has been considerable upward mobility for black Antiguans resulting from the shift in economic activities and a new black middle class of entrepreneurs has developed, there are still important social cleavages between black and white in the private sector. Black Antiguans tend to be concentrated in businesses with smaller capital and tend to be skilled craftsmen or retail traders. In the tourist sector Antiguans are the owners of guest houses and apartment hotels; all the large hotels are owned either by the Government or by expatriates. Antiguans are heavily involved in tourist ancillary activities such as taxi drivers, handicrafts and beach vendors of wearing apparel. The informal sector of tourist related activities is, however, quite seasonal and income erratic.

There has been significant growth in the numbers of Antiguans engaged in manufacturing. However, they have been financially hurt by the problems with the Trinidad market as the majority of local industries were producing for the CARICOM market. With a shift to enclave industries catering to the U.S., it is not clear that Antiguans will be able to gain a significant share of the new thrust.

One positive sign is the successful negotiations to establish a privately owned industrial estate under the Infrastructure for Productive Investment Project (IPIP). It is hoped that this estate will provide a needed boost to the local manufacturing sector. The Government has also declared its intention to encourage "Antiguanization" in manufacturing through the provision of many of the same incentives offered to foreign investors. A key factor in the successful "Antiguanization" thrust will be the availability of long term credit.

Major constraints facing the private sector in Antigua include lack of marketing intelligence and expertise in selling Antiguan products abroad. To a certain extent this constraint is being rectified by the AID-funded Investment Promotion and Export Development Project (PDAP) which includes aiding the local private sector in its 1985-86 work plan; additionally Antigua has a representative at UNIDO in New York.

Other constraints include problems of long term credit, the need for training and probationary periods for workers unaccustomed to factory discipline, and problems of transportation of imports due to long delays at Customs and the Port.

II. Private Sector Institutions

There are a number of private sector institutions in Antigua/Barbuda fairly successfully representing sectoral interests. These include: The Antigua Chamber of Commerce, the Antigua Manufacturer's Association, the Employer's Federation of Antigua, the Antigua Hotel and Tourist Association, the Small Farmers' Association, and the National Development Foundation of Antigua/Barbuda. Each of these organizations represent differing enterprises in a wide range of size, capital and interests. There is no all-embracing umbrella organization representing the private sector. Attempts to create such an entity failed to materialize largely because of Government disapproval. The Government was quite sensitive to political backlash from its trade union support base who feared a coalition of private sector interests. During the political campaign for the April 1984 elections the Antigua Labour Party (ALP) in its manifesto called for the creation of a Tripartite National Planning Commission comprising Government, private sector organizations and trade unions. Very little has come of this, although the Government has appointed individuals from the private sector to sit on the Board of the recently reconstituted Industrial Development Board. Unfortunately, this entity remains a paper corporation with no budget allocations.

Support for private sector organizations in terms of institutional strengthening goes largely to the Chamber of Commerce through the Caribbean Association of Industry and Commerce (CAIC) and the Caribbean/Central American Association (CCAA) and Partners of the Americas and to the local manufacturing sector through PDAP. Presently, CAIC gives very little support to the local manufacturing sector. Support for small enterprises has recently developed through the creation of a National Development Foundation (NDF) established along the lines of the successful Dominican model.

Training of personnel in key private sector institutions, including training in and introduction of data processing systems, will continue to be the most pressing constraint throughout the planning period. The need for managerial training exists at both the firm and institutional level.

III. Characteristics of the Private Sector in 1985

The private sector in Antigua as presently constituted can be divided into several sub-sectors. The major sub-sectors for discussion include manufacturing, tourism, commerce and small enterprises. The private sector in Antigua employs some 60% of the labor force. Employment in all kinds of services accounts for 66.3% of the working population followed by 16.4% in manufacturing and 15.7% in construction.

A. Manufacturing

The manufacturing sector in Antigua is a mix between foreign enclave producers and local entrepreneurs producing for the domestic and CARICOM markets. This is a relatively recent development as up to 1983 the majority of firms were either locally or regionally owned and engaged in import substitition activities. Antigua's investment incentives afforded a high degree of protection even for products with low value added. Importation of a number of products is prohibited including specific clothing articles, bedding, furniture, stationery, paints, stoves, refrigerators and batteries.

However, from 1983 through 1984 these firms producing for the regional market were severely hurt by the import restriction imposed by Trinidad and Tobago and the foreign exchange problems of Jamaica. During this period two companies closed completely (Caribbean Biscuit and Antigua Hosiery) and many others were forced to operate at much reduced levels. Of the fourteen export oriented companies operating during this period, nine were almost totally dependent on the Trinidad market. During this period, employment in those factories decreased by nearly 70%. This downward trend is expected to continue through 1985.

Recent foreign owned export operations include Maidenform's expansion to a second factory employing an additional 150 people; CANAM, a Section 807 garment operation employing 80, Computer Products employing 50 with plans to add 110 new employees by the end of 1985 and Brooks Manufacturing, a Philadelphia based company producing electrical outlet strings for the US market. By the end of 1985 the manufacturing sector should have employed an additional 300 persons.

This shift to foreign enclave industries has not solved the problem for local manufacturers who also need to redirect their markets. Two local companies, Sealy Mattress and Electronic Technology International, weathered the storm as they diversified into new product lines in the former, and in the latter developed extra-regional sales through successful negotiation of an electronic sub-contracting business with two US companies. Local companies are being encouraged to examine the prospects of sub-contracting, particularly in electronics and data processing which will provide opportunities for building up technological expertise and knowledge of the US market.

There are approximately seventeen local manufacturing firms producing for the domestic and regional markets. Altogether these companies employ over 400 persons. Products manufactured are diverse and include paper products, PVC furniture, small electrical appliances and garments.

The main problems for local manufacturers continue to be associated with relatively high costs of production, including wages and abnormally high freight rates which place Caribbean producers in a negative competitive position. Another serious problem facing local as

well as foreign manufacturers are their training needs and the costs associated with training workers. Marketing constraints occasioned by lack of marketing information is being met to a large extent by PDAP and the UNIDO representative in New York.

B. Commerce and Trade

Commerce and trade contribute approximately 11.4% of GDP employing approximately 3,000 persons in both established firms and as over account workers/hucksters in the distributive trade. This sector includes not only large firms engaged in several commercial activities such as car dealerships and wholesale and retail activities in a number of products varying from food to electronic equipment, but also around 11% of the self-employed who are estimated to be street vendors. The commercial sector in Antigua is quite active, although the majority of firms continue to stock, display and retail goods in very traditional patterns. There are high numbers of shops, pharmacies, insurance companies, banks and boutiques for a small island of nearly 80,000 people. All of these enterprises are located either in St. John's and its environs or in the area of English Harbour.

The majority of large firms in this sector are owned by Antiguans, but a high percentage of these are local whites and ethnic Syrians. Afro-Antiguans tend to be found in smaller businesses and owner operated enterprises.

C. Small Enterprise

According to data presented by the Social Security Board only 10% of the labor force are self-employed, that is around 2,000 persons. Of this number, approximately 1,000 are small and micro business personnel. The private sector as a whole employs around 12,000 persons; thus the small business sector is not very large in Antigua. 60% of small businesses are engaged in service activities, the rest in manufacturing - such as bakeries, and furniture and small farmers. The service occupations tend to be concentrated in mechanics, retail operations, beauty salons, seamstresses, tailors and shoe repair and leathercraft. There is little link between small business activities and the formal manufacturing sector. The link with tourism is primarily found with 14 firms engaged in crafts and a number of owner-operated taxi drivers. The average number of employees per firm is small (2) and average sales amounted in 1983 to around EC$29,000.

Antigua has a Small Business Association and a National Development Foundation designed to meet credit and technical assistance needs of the micro-business sector. The implementation of a regional Small Enterprise Assistance Project in 1986 should address several of the major constrints affecting the private sector which are market information, credit, and technical assistance in modern business practices and general bookkeeping skills. High cost of raw materials also negatively affects small producers who often lack information on best sources. Despite these constraints, the specialized services that small businesses perform appear to have a solid niche in the Antiguan private sector.

D. Tourism

Tourism is the most important economic activity in Antigua, employing the largest number of persons in the major economic sectors and contributing the most to GDP. The tourism sector directly contributes over 17.4% through hotels and restaurants; indirectly it is estimated that the percentage is as high as 40%. Over 12% of the labor force is directly employed in this sector. Taxes on hotels, guests and cruise ships ammounted to over EC$8 million in 1983, over 9% of current revenue. There are nearly sixty resort complexes in Antigua. They range from large 400 room hotels like Tally Beach to several smaller guesthouses. Antigua has concentrated on being an "up market" destination, and the highest percentage of its tourist plant is invested in exclusive resorts such as Curtain Bluff and St. James Beach Club. There are also growing numbers of condominiums and apartment hotels functioning as timesharing operations. Occupancy rates in Antigua are nearly 100% during the primary season.

It is difficult to get an accurate picture of the breakdown in ownership between local and foreign investment and size of establishment. However, it is fair to say that the overwhelming number of foreign owned hotels are luxary hotels. Antiguans are concentrated in guest houses and increasingly in condominium developments. This is not to say that Antiguan participation is negligible. Antiguans are making sizeable investments in tourist facilities, often in partnership with foreign investors.

In tourist ancillary activities such as yachting, water-sports, tour operators, car rentals, tourist shops, and nightclubs ownership is also mixed. Expatriates tend to dominate such activities as restaurants, tourist shops and yachting facilities. With the growth of apartment hotels additional opportunities for local investment are occurring in services such as mini-marts and car rentals. Real Estate and land development are also providing lucrative investments for Antiguans and can be expected to accelerate throughout the planning period. There are fairly large numbers of persons operating as beach vendors in Antigua. This portion of the informal sector is difficult to quantify, as it is somewhat seasonal in nature. There are perhaps 500 people plying the beaches and tourist areas on a full-time basis. Handicraft activities are not that important in Antigua, although there are growing numbers of artists and craftsmen, especially in the English Harbour area.

IV. Prospects for the Private Sector by 1990

Prospects for extensive private sector growth to 1990 appear very likely given the present momentum of both tourism and manufacturing. We are projecting a 5% per annum growth rate for the entire economy with tourism increasing by 50% over the 1985-1990 period to about 19.8% of GDP. Value added from manufacturing should increase about 7.5% a year. The increase in employment for both tourism and manufacturing should be in the 19% range.

These prospects are based on several positive factors encouraging growth which include:

- attractive geographic location and good transportation infrastructure for both tourism and manufacturing.

- Government policies which facilitate private sector development including tax laws, incentives, and the provision of productive infrastructure.

- provision of training programs to aid tourism, manufacturing and small enterprise activities.

- apparently elastic tourist potential until 1990 facilitated by Antigua's comparative advantages for up market resort tourism.

With these interventions in place the private sector in Antigua should continue to experience a healthy growth in tourism and manufacturing. In 1990 we would expect that the basic economic configuration which characterizes Antigua today would remain. However, within the high growth sectors of tourism and manufacturing some restructuring will have occurred which should result in a greater share of the decision-making process and projects residing in Antiguans.

In tourism we expect to see a healthy growth in tourist support industries. Within the hotel sector itself, training programs should witness more representation at the upper and middle management levels. In manufacturing, the problems associated with producing for the regional market should have been somewhat resolved by redirecting several companies from that market and successfully making the transition to external markets. We also expect, as a result of Government policy, to see even a larger percentage of Antiguan joint ventures in manufacturing with the successful implementation of the IPIP project. In agriculture, there will be a modest increase in intensive production for the tourist market with the establishment of a dozen or so significant agribusiness firms. Meat production and marketing for both domestic and tourist markets will also be in place. Thus by 1990 better backward and forward linkages should be in place between and among the primary economic growth sectors.

ANTIGUA
LIST OF CURRENT INDUSTRIES

NAME	EMPLOYEES	MARKETS	OWNERSHIP
Garments			
Antigua Hosiery, Ltd.	8	Regional	Local
Canam	110	Export - USA	USA
Eagle Garment Factory	25	Local/Regional	Local
Knitwear (Antigua) Ltd.	100	Local/Regional	Local
Rachel Needlecraft Ltd.	250-300	Export - USA	Maidenform USA
Boat/Auto Parts and Repair			
Local Batteries Ltd.	6	Local	Local
Construction Materials			
Antigua Masonry Products, Ltd.	50	Local	USA
Lee Winds Paints	18-20	Local/Regional	Local
Electronics			
Electronic Technology International	10-20	CARICOM	Local
Mauser Co. Ltd.	9	CARICOM	N/A
Food & Beverage			
The Antigua Distillery Ltd.	32	Local/Regional	Local
Antigua Winery	11	Local/Reginal	Local
Cari Packers Ltd.	4	Local	Local
Furniture			
Antigua Appliance Industries Ltd.	45	Local/Regional	Local
GiGi Industries Ltd.	10-15	Local/Trinidad	Local
Mauser Co. Ltd.	3	Local/Regional	N/A
Plastic Foam & Furniture Co. Ltd.	25	Local	Local
Sealy Mattress Co. (Antigua) Ltd.	75	Local/Regional	Sealy Mattress Co. (W.I.) Ltd. Jamaica
Paper Products			
Onaia Paper Products	6-15	Local	Local
Plastic Products			
Caribbean Packaging Materials Ltd.	8	Local/Regional	Jamaican
MultiPlast Ltd.	20-25	Local/Regional	Local

ANTIGUA
POLITICAL, SOCIAL, AND INSTITUTIONAL ANALYSES

I. Political Background

Antigua and Barbuda were among the first plantation colonies in the West Indies. Antigua developed into the archtypichal sugar plantation economy, while Barbuda remained the private preserve of an aristocratic family. While Antigua continued to produce sugar for over 300 years, Barbuda gradually developed into a small holder society with land held in common. Common ownership of land, shifting cultivation and open range practices by a tight knit community characterize Barbuda up to the present. Sugar monoculture molded Antiguan society with virtually all land held in large estates by expatriate owners. Until the 1960's, the majority of black Antiguans worked on estates. Village society was an extension of the plantation. The society was polarized between white expatriate estate owners and black Antiguan workers. Consequently, the development of the early trade union movement, which propelled the present Prime Minister into the political forum, was an amalgam of trade union, racial and nationalist issues. These still form the political ethos of the Antiguan Labour Party (ALP), the party in power.

The formation of the Antigua Labour Party was an outgrowth of the trade union movement of the 1940's. This party has always had a mass base in labor. Even with the split in the labor movement in the 1970's and the formation of the Progressive Labour Movement under another trade unionist, George Walter, the mass base of both parties was in trade unions. The Walter regime came under considerable fire with charges of mismanagement and corruption and the Bird's and the ALP were returned to power in 1976. The former Prime Minister was convicted on corruption charges and incarcerated. From that point onwards the official opposition has been in disarray. So much so that the results of the last election in 1984 saw the ALP sweep the opposition to win all 16 seats in Antigua.

The vacuum created by the demise of the PIM/UPM coalition has not been filled. Antigua/Barbuda is presently, de facto, a one party state. The only vocal opposition to the Bird regime is the Marxist Antigua-Caribbean Liberation Movement, ACLM, headed by Tim Hector. The ACLM produces a weekly newspaper, the Outlet, read by virtually every citizen in Antigua. All other media including local television and radio is controlled by the Government. The Bird family owns the island's only other radio station, ZDK. Although Antiguans look to the Outlet for monitoring the activities of the regime, at the moment this has not translated itself into support for the party or its politics. Trade union struggles provide the other arena for expressing opposition to the regime as the largest trade union, supports the limited Peoples Movement of George Walter.

However, Antigua may soon see a departure in traditional party politics. In March 1985 a new political party, the National Democratic Party (NDP), was formed. This party appears to be composed primarily of businessmen, professionals and some individuals connected with the PLM/UPM. The party does not have a mass base associated with labor. While some commentators argue that without such a base, a party cannot be successful in Antigua, it may be that Antiguan society and its economy are changing.

The dominance of the service sector, particularly tourism, and the growth of the light manufacturing sector, may be creating a new balance of social forces. Whereas in the past, the conflict was starkly evident between black and white, expatriate and Antiguan, plantation owner and sugar worker, the modern Antiguan economy has encouraged the development of a small local private sector, in commerce, manufacturing and tourism while independence has meant that the Antiguan Government is now held culpable for its management of affairs of state. If opportunities for black Antiguans do not appear to be increasing in contrast to opportunities for foreign investors, Antiguans will blame the ALP.

Also, independence came to Antigua/Barbuda in a piece meal fashion which seriously affected the indigenous institutional development of the public sector. Antigua and Barbuda continued to stagnate under Crown Colony Government during the era when the larger territories of CARICOM were becoming independent. The road to independence was not only confrontational, but the major party evolved a style of Government akin to its trade union modus which is highly centralized, authoritarian and personalized. All trade unions and political parties in the Caribbean evolved in this fashion. Most countries, however, developed two party systems and have witnessed changes in regimes. Antigua's political style and administration continue to reflect the older era. It may be, with the ageing of the Prime Minister, who is in his eighties, that the population of Antigua/Barbuda which is predominantly young, may be ready for an alternative. Much will depend on the ability of the new NDP to woo the young, the middle class and also the large disaffected ALP supporters who will still need to be convinced that the NDP is not elitist. Elections are not constitutionally due until 1990. By then the various social forces may bring about new balances and political alignments. In the short-term, barring economic collapse, this appears to be the prevailing political climate throughout the CDSS planning period.

II. Social Analysis

A. Overview

During the past twenty years Antiguan society has undergone a significant social transformation from a society based on agricultural production to one based on the provision of services. At the same time even larger numbers of youth have been passing through the school system, including secondary and tertiary schools. However, as in other OECS

countries changes have not been made in curriculum at the primary and secondary school level to correlate with the structural changes in the economy and labor needs. Hence, we find the classic scenario of high unemployment coupled with a skills scarcity.

Changes from a seasonally based sugar economy, which was predicated on conflictual social relations and highly unattractive labor, to a services economy have not necessarily resulted in a changed work ethic or perceptions of life chances. Historically improving one's life chances has meant migrating, and the culture of migration and the psychology of "strategic flexibility" have become bedrocks of the society. Migration is seen as an important component in life education, training and in amassing capital for self-employment. This, in turn, affects attitudes toward the indigenous environment which is viewed typically as less desirable.

The high out-migration rates among the skilled, in turn, have resulted in large numbers of expatriates filling the highest managerial and technical posts, particularly in the private sector. This occurs even as the nation faces an unemployment rate of 20%. In a recent study completed by the ILO for the Caribbean Labour Administration Centre (CLAC) a survey of informants comprised of managers and employers, in both the public and private sectors, concluded that there were critical shortages of Antiguan engineers, technicians, accountants, salespersons, business managers and manufacturing supervisors. In assessing the causes for this manpower imbalance the main conclusions were:

a. Lack of comprehensive training policy which takes into account the real needs of the country, resulting in a permanent shortage of skills required by employers.

b. Lack of a precise policy in granting work permits to expatriates, and follow-up analysis and evaluation of the work they are carrying out, so that Antiguans could be trained to take up these duties in the future.

c. Lack of sufficient training facilities and opportunities to provide workers and jobseekers with a deeper knowledge of the specific skills and qualifications generally enjoyed by expatriates.

d. Many trained nationals who possess similar qualifications and could perform the same duties as expatriates, have emigrated because they are not offered the same respect and attractive salaries, incentives and working conditions to return to their country.

e. The education system is not designed to meet the growing needs imposed by the diversification of the national productive structure.

We will pursue some of these problems in human resources development in the following sections.

B. Demographic Profile and Quality of Life

In 1985 the total population of Antigua/Barbuda was estimated to be 78,241. These estimates are based on calculations of the Statistics Division and are "guesstimates" due to the fact that Antigua has not had a census since 1970. This is unfortunate for the seventies witnessed notable demographic changes that are difficult to calculate without data. First, annual emigration from Antigua was quite high throughout the 1970's. Antiguans migrated in large numbers to Canada, the United States and the U.S. Virgin Islands. At the same time, migration into Antigua from neighboring islands is estimated by all observers to have been, and continues to be quite high. United Nations' estimates have assumed that net migration as a result was very low over the decade.

Secondly, fertility also appears to have been quite low throughout the last decade, but again is difficult to ascertain given the paucity of information on the total population. It is estimated that fertility fell from about 26.0 in 1970 to about 17.0 in 1980. The rate of natural increase per thousand is presently estimated to be about 9.3. Total fertility rate in 1980 has been estimated to be 2.4 live births per woman, somewhat above the replacement level.

Thirdly, mortality was reduced during the 1970's. Life expectancy during the previous decade has increased from 62 to 65 years and the crude death rate fell slightly from 7.5 to 6.0 per 1,000 during the same period. Infant mortality has also declined from about 40 per 1,000 live births in 1970 to 32 in 1980.

These factors have created a demographic profile somewhat different from the Windward Islands which are facing problems resulting from population pressures. In Antigua the dependency ratio has declined dramatically over the decade from 96 dependents per active persons in 1970 to 62 in 1980. This remarkable drop over such a short period should have contributed to a higher quality of life for the average Antiguan family. Another important result of declining fertility is the decline in the number of school age population. In 1970 the number of school age children was 18,900, by 1980 this number had steeply declined to 6,810.

The present period has certain demographic features which planners and donors need note. Because of earlier high fertility the numbers of persons in the labor force is growing and will continue to grow throughout the CDSS planning period. During the next five years some 10,000 persons will be added to the total labor force.

Women comprise some 52% of the adult population of Antigua/Barbuda. Nearly 43% of the employed labor force are women and they are disproportionately found in the tourism and manufacturing sectors. A high percentage of families in Antigua, as in the rest of the Commonwealth Caribbean, are headed by women (50%). In addition Antigua/Barbuda has a very high teenage pregnancy rate of 32%. The problem is all the more serious as it is a problem of multiple child births, over one-third of all second births are occurring to girls 15-19. Unemployment is very high among these young women.

Quality of life indicators in Antigua/Barbuda are high by third world standards. Average income based on GNP per capita is approxiately US$2,000. Literacy is around 90%. Health indicators are also above average although, as with other OECS states, Antigua has a growing problem with respect to public health and sanitation due to inadequate sewerage disposal systems. Continuing problems with pure and reliable water supply are also negatively affecting quality of life.

C. Composition of the Labor Force and Unemployment Issues

The transformation of the Antiguan economy away from sugar monoculture to a services driven economy is reflected in the sectoral composition of the labor force for 1946 and 1983. In 1946 over 46% of the labor force was employed in agriculture, almost entirely in sugar production. By 1983 this has been reduced to about 9% and nearly all is in domestic agriculture principally truck farming and livestock. Manufacturing excluding the refinery of sugar and the distillery was practically non-existent. Services, both public and private, employed around 30% of the labor force in 1946. By 1983 over 60% of the labor force was employed in services, including 23% in tourism and trade.

The Government of Antigua/Barbuda is the largest employer employing over 30% of the labor force. This has been a continuing trend rising from 27% in 1978. The number of non-established workers increased by a third in 1980 and continued to rise until in 1983, their share of total public sector employment is 50% as compared to 40% in 1979. The Government's policy on being an employer of last resort is predicated on its trade union ethos, with the Prime Minister in particular extremely sensitive to questions of equity and the political problems of unemployment in an island which has neither unemployment benefits nor much subsistence agriculture. However, increasing fiscal pressures forced the Government to institute a hiring freeze in 1983, and for FY 1986 to begin reducing the non-established workers through attrition.

As there will be continuous significant increases in labor force numbers throughout the planning period, the Government's policy with respect to employment means that healthy growth in the manufacturing and tourism sectors is necessary in order to ensure that unemployment does not rise to intolerable levels. It is estimated that the total labor force will grow by close to 5,000 in the next five years.

At least 600 new jobs should be created in manufacturing. If the Government is more successful in its investment search operations and in working with the local private sector to expand its manufacturing potential, the numbers could be significantly higher. Agriculture should continue to experience a modest growth in employment of some 2% per annum and is not expected to grow proportionately as as percentage of the employed labor force.

Without accurate data on population trends it is difficult to make sophisticated projections or engage in serious manpower planning. However, this is becoming even more necessary in Antigua, especially in light of the large numbers of new labor force entrants and the serious lack of skills in critical sectoral areas. What cannot be ascertained at the moment is what percentage of the new labor force will be native Antiguans and what percentage will be West Indians emigrating from the neighboring islands, particularly Dominica. Our calculations do not account for in-migration and there are no estimates available to make projections.

The large numbers of Dominicans estimated to be presently employed in manufacturing, and smaller numbers in tourist related activities raises the issue of what is the unemployment tolerance threshold? Of the 20% unemployed, it is estimated that 10% are either unemployable, or prefer unemployement to present employment options. If the Government continues its freeze on non-established workers and Dominicans continue to seek factory work in the manufacturing sector, it means that tourism, other services and construction will have to fill the gap. As tourism and manufacturing expand, however, new employment options for small businesses should be created. As Antiguans aspire to self-employment this is an area requiring more attention to training needs.

The same concerns arise when under and unemployment among female heads of household are examined. In the case of teenage mothers who are responsible for over 60% of all first births, over 76% do not have gainful employment. While a simple increase in jobs available will not lead directly to a reduction in adolescent fertility, it will go a long way to redressing an important component of the poverty cycle affecting significantly high percentages of families headed by women in Antigua. More attention needs to be given to the relationships which exist between employment opportunities, skills training and family planning information and programs.

D. Issues Confronting the Present Education System

The educational system in Antigua/Barbuda is affected by a number of constraints which need to be addressed urgently. These constraints are remediable and their continued existence is all the more distressing given Antigua/Barbuda's positive demographic profile which demonstrates that the under 15 age group is dwindling from 32% of the

population in 1980 to 28% in 1990. Therefore, Antigua unlike a number of other OECS, and most third world countries, does not have to address the problem of providing capital stock in school facilities for ever larger numbers of school age children. Instead, Antigua can concentrate on providing quality education, improving school facilities and designing training programs to meet the economy's changing manpower needs.

However, at the moment the quality and direction of education are not fulfilling these needs. Part of the problem lies in funding. Although Government allocations for education are a reasonable percentage of the budget, about 13%, over 60% of this is absorbed in personal emoluments. There is virtually no maintenance, and educational facilities lack critical supplies and furnishings.

Although vocational and technical training has been introduced at the junior secondary level most educators argue that the training is not commensurate with Antigua's manpower needs. While there are courses on home economics, there are no courses related to tourism services, and most trades courses are limited to very elementary metal and woodwork. There are few apprenticeship opportunities for youth.

While Antigua State College offers courses in hotel training, carpentry, masonry, plumbing, mechanics, electrical installation, refrigeration and commercial studies, the focus of the primary educational system is on the passing of examinations. The hierarchical system quickly weeds out the less academically inclined who are relegated to ineffective vocational education at the junior secondary level. Only 8% of the secondary age students passed the London General Certificate Examination in 1983. As passage of these examinations is a requirement for entry into Antigua State College, the majority of Antiguan students are ineligible for job related vocational education offered by the College.

Although there are a number of non-formal and continuing education programs sponsored by non-governmental organizations and the AID-OAS Non-Formal Skills Training Project, there is a need for Government policy on, and coordination of, non-formal education. There is also a need for better collaboration with the private sector in assessing manpower needs and the training modules to be introduced. The recent introduction of the AID-OAS Project is an opportunity to do this. As the Project is being administered by the Ministry of Economic Development there is scope for this to occur in conjunction with overall sectoral planning.

III. Institutional Analysis

A. Public Sector Overview

Many of the institutional constraints and problems of Antigua/Barbuda are held in common with all mini-states and certainly with the other OECS countries. Although the problems are often similar, certain constraints are more dominant in some countries. In Antigua/Barbuda the virtual one-party state has exacerbated the factors

of public management which tend to be overly centralized, personalistic and patronage driven. Civil servants are placed in difficult and awkward situations in a small, highly partisan political environment. Conflict between ministers and permanent secretaries is almost endemic in island states where most decision-making has devolved on ministries and where there is competition for scarce public resources. In many instances permanent secretaries cease being viewed as the chief administrative officers and are seen merely as rubber stampers for Government policy makers.

Partisanship also exacerbates the constraint of lack of skilled management and technical personnel. One sees both large numbers of public servants who are largely unskilled but whose loyalty to the ruling party is unquestioned, in conjunction with a paucity of skilled technocrats at the highest levels. In Antigua, practically every ministry evidences serious vacancies in the upper technocratic levels.

Additional institutional constraints are the outcome of budgetary problems and bureaucratic inertia. Public officials have yet to see the wisdom in adopting modern management practices including the development of modern data collection and systems. The accounting and output procedures are cumbersome affecting productivity and ultimately the high costs of public sector programs.

Further problems are the outcome of little overall planning and inter-ministerial liaising. Few decision-makers have a macro view of the economy and society, let alone of the public sector. Formal mechanisms for liaising are few, and ministerial attitudes akin to "personal fiefdoms" preclude much informal liaising and interaction.

Some of these constraints could be resolved by training programs for public servants. However, opportunities for in-service training are limited. As the EC countries are too small to set up their own in-house training, AID has been funding a regional program through the Economic Secretariat of the OECS. While contributing to training needs, longer term solutions need to be found. Further, neither Antigua nor any other OECS state has a public service institute, a national institute of public management or an executive training center. The most available is a diploma program in public management from the University of the West Indies. This, however, is not the normal career path for public sector managers. In Antigua, minimal resources are allocated to internal training. Lack of adequate training facilities restricts training activities and there is no authorized training policy.

Analysis of specific ministerial constraints follows:

1. <u>Ministry of Economic Development</u>

This Ministry actually comprises External Affairs, Economic Development and Planning, Tourism and Energy. This portfolio is controlled by the Deputy Prime Minister with the assistance of two other Ministers. The scope of this Ministry is wide and covers not only all foreign relations, but planning and management functions and most major sectors of the economy, including the Industrial Development Board.

The Ministry of Economic Development is administered by a Permanent Secretary; External Affairs is separately administered. This Ministry has three departments - planning, industrial development and tourism. There are widespread vacancies throughout each of these departments and much administration is actually done by the three Ministers. For example, an IDC exists on paper, but actually only a Board has been constituted and there is no Executive Secretary. The Tourism Department is also without a Director and the small staff of tourism officers are thereby constrained to provide the direction needed to Antigua's most significant economic sector. The personnel and management problems reflected in this Ministry are among the most serious affecting the public sector investment program of Antigua/Barbuda.

2. Ministry of Finance

The Ministry of Finance in Antigua has responsibility for all public sector finance and investment. The Ministry includes a number of departments including the Treasury, Inland Revenue, the Post Office, Customs and Excise, Property Valuations Division, Statistics Division, and Social Security. Like the Ministry of Economic Development the Ministry is very short staffed. The Financial Secretary and Budget Director are one and the same person. The Financial Secretary and Permanent Secretary are assisted by a few retired civil servants and a small junior staff. Although there is personal liaising between Economic Development and Finance, the present system does not allow for departmental planning, analysis of alternatives, and resource utilization. The budgetary process has become a stop-gap revenue technique and cashflow juggling operation. Antigua is the only OECS state where the Prime Minister is not also the Minister of Finance. In small mini-states the double portfolio has proven to be effective as the Prime Minister has overall responsiblity for macro development issues. In Antigua, while the present system allows for checks and balances, financial management is made more difficult by the numbers of channels through which expenditure must pass before being implemented.

3. Ministry of Agriculture, Lands and Fisheries

The Ministry of Agriculture, Lands and Fisheries has suffered over the years from the transition problems associated with the closure of the sugar industry and the assumption by Government of most of the arable acreage of the island, without provision for its disposal to the private sector. The agricultural sector in Antigua is presently small in acreage, employment and production. The Ministry is also hamstrung by Government indecision with respect to funding the resuscitation of the sugar/ethonol industry versus the need for funding research and extension programs in domestic crops such as the Antigua Black Pineapple, various legumes, truck farming and livestock and fisheries programs. Evidence of Government indecision is reflected in the lapsing of the Agricultural Development Corporation (ADC) which had responsiblity for administering land formerly under cane and for providing land preparation and cultivation services to farmers. This

lapse of funding and personnel to the ADC has not been followed by additional funding to the Agriculture Department of the Ministry. Part of the problem facing the Agriculture Department is an outcome of the Antigua/Barbuda debt situation whereby the Caribbean Development Bank has refused to underwrite a number of projects, many in agriculture, because of the Government's inability to service its debts to the Bank.

However, although suffering from a number of constraints including lack of funding, shortage of skilled personnel and the physical barriers of a dispersed Ministry with the Permanent Secretary located in town and the Agricultural Department located in the outskirts at Dunbars, there have been a number of recent steps taken. Reorganization plans include the formation of a National Agriculture Planning Committee, a result of the successful implementation of AID's CAEP Project and a desire to formally liaise with CARDI. The Ministry also intends to establish its own Planning Unit to do project preparation, monitoring and evaluation. Additionally there are reorganization plans to streamline the Ministry, strengthening the Director of Agriculture's administration of research and development and expanding Extension's role in information and education. Still needed, however, is a plan for resolving the spatial problems of a Ministry spread out over several different locations, exacerbating coordination and planning constraints.

4. Ministry of Communications and Public Works

The Public Works Department (PWD) in Antigua exemplifies in very visible manner most of the institutional problems of the public sector of Antigua. In an overly centralized environment Public Works becomes the extreme, with all maintenance of roads, schools, health clinics and all Government buildings under its purview. Public Works is expected to handle not only major repairs but minor repairs as well. There is virtually no preventive maintenance. Bureaucratic procedures are cumbersome and it is expected that minor repairs will develop into major items of expenditure before PWD will be able to attend to them. Costs for maintaining Government stock are constantly escalating, while PWD's efficiency appears to be eroding.

The Ministry admits to having serious personnel problems, both in terms of job performance and also high turnover rates occasioned by the better pay offered in the private sector for even partially trained artisans. Public Works is in dire need of major reorganization, devolution of maintenance responsibilities and the introduction of modern management practices and training programs for supervisors, foremen and skilled labor.

5. Antigua Public Utilities Authority (APUA)

The Antigua Public Utilities Authority (APUA) is a statutory body established in 1973 to provide the island with water, electricity and telephone service. It is a semi-autonomous body operating under the supervision of the Minister of Public Utilities and Communications. There are a number of problems in combining three critical utilities in one statutory body, particularly when the Corporation operates almost independently of Government fiscal control.

The institution suffers from serious institutional constraints which have resulted in inefficient provision of essential services. Firstly, the corporation is critically short of staff, particularly engineers in the water and electricity departments, but also in the accounting section which services the entire corporate entity. Staff problems are correlated to budgetary problems. The APUA does not offer competitive salaries and the majority of technical staff are not of the highest technical caliber. Secondly, related to the Government's fiscal constraints and compounded by APUA's own inefficiency and lack of good management systems, the corporation operates at a loss. There is little control over billings and accounts receivable. The Government itself is the largest delinquent. Thirdly, these revenue problems have resulted in substantial external debt obligations negatively affecting the utility's ability to make necessary capital investments in improved transmission lines, desalination plants, and expanded telephone service. Fourthly, a factor which became very critical during the drought, is APUA's serious negligence of maintenance resulting in deterioration of existing services. System losses are also related to lack of maintenance systems in the three departments.

The institutional constraints affecting APUA are obviously some of the most serious affecting the development of Antigua/Barbuda as they impact directly on the important economic sectors of manufacturing and tourism. Solutions to these institutional constraints could include completing APUA's reorganization into three separate bodies, the development of maintenance and repair systems, and better management of APUA's accounting systems. Long-term solutions also need to be found to the problems of recruitment of trained personnel at attractive salaries, and the expansion of the utility's capital stock keeping pace with changes in technology.

ANTIGUA
OTHER DONOR ASSISTANCE

I. British Development Division

A. Ongoing
Factory Shell Extension
Urlings School
Courthouse Rehabilitation
Legislative Building
Printery

B. Proposed
Airport Navigation Equipment
Secondary School, Jennings
Government Workshop Extension

II. Caribbean Development Bank

A. Ongoing
Fishing Industry Development
Line of Credit/Equity Investment
Student Loan II

B. Proposed
Small Scale Sugar Development
Fisheries Industry Development
Livestock Industry Development
Small Farmer Irrigation
Industrial Estate Development
Fort James Leisure Center
Student Loans III

III. Canadian International Development Agency

A. Ongoing
Airport Terminal Building
Port Cargo Handling Equipment

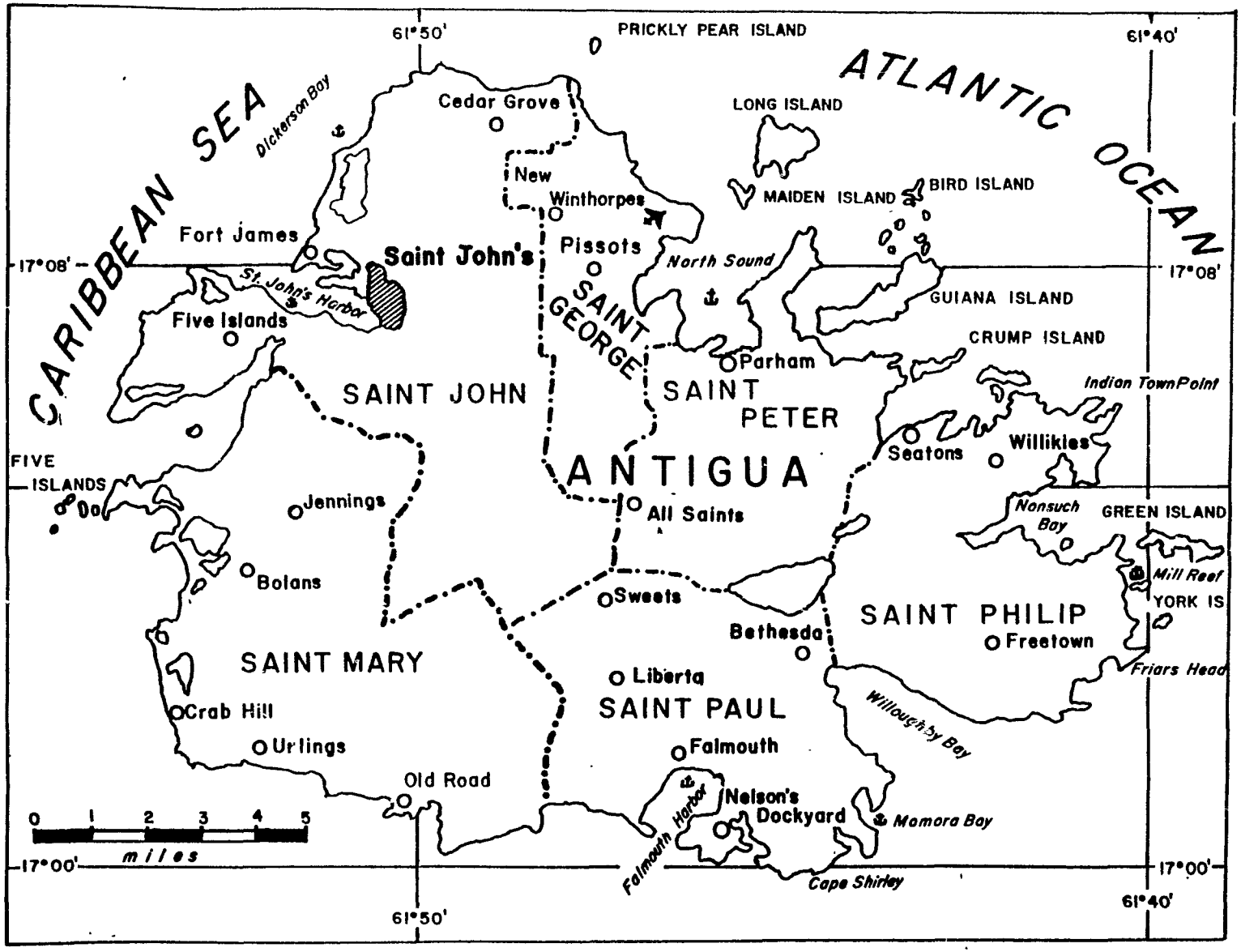
B. Proposed
English Harbor Infrastructure Development

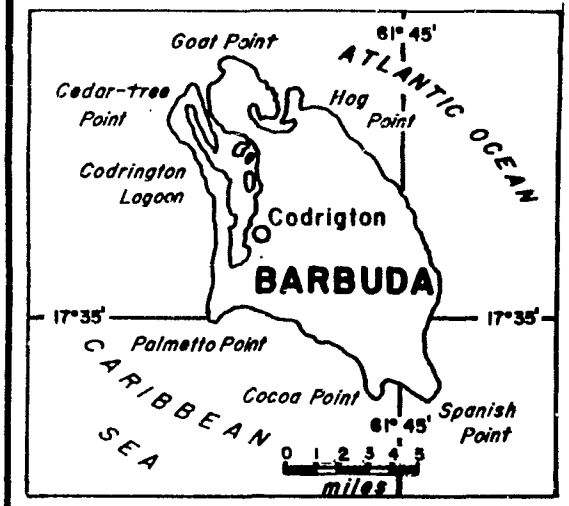
IV. European Economic Community/European Development Fund

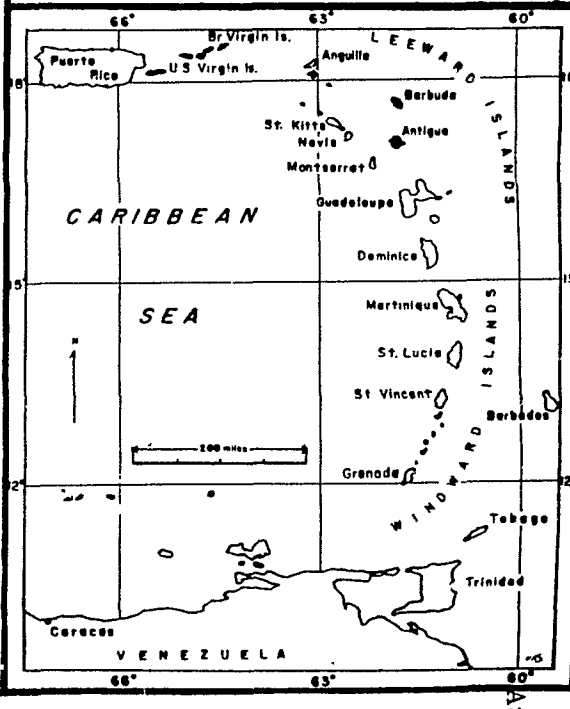
A. Ongoing
Livestock Development Phase I

B. Proposed
Livestock Development Phase II
Abattoir Construction

ANTIGUA & BARBUDA







Attachment E