# THE PRIVATE SECTOR STRATEGY FOR RDO/CARIBBEAN

Final Report

*Bureau for Private Enterprise*
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## GLOSSARY OF ACRONYMS

| | |
|---|---|
| CAIC | Caribbean Association of Industry and Commerce |
| CATCO | Caribbean Agricultural Trading Company |
| CBI | Caribbean Basin Initiative |
| CDB | Caribbean Development Bank |
| CFSC | Caribbean Financial Services Corporation |
| CTRC | Caribbean Tourism Research and Development Centre |
| DFC | Development Finance Corporation |
| EC | Eastern Caribbean |
| HIAMP | High Impact Agriculture Management Program |
| IDC | Industrial Development Corporation |
| IFC | International Finance Corporation |
| NDF | National Development Foundation |
| OECS | Organisation of Eastern Caribbean States |
| OPIC | Overseas Private Investment Corporation |
| SEA/P | Small Enterprise Assistance Program |
| UWI | University of the West Indies |
| WINBAN | Windward Islands Banana Association |
| WISCO | West Indies Shipping Corporation |

# CHAPTER I

# EXECUTIVE SUMMARY

## INTRODUCTION

The Organisation of Eastern Caribbean States comprises the independent island nations of Antigua & Barbuda, Dominica, Grenada, St. Kitts & Nevis, St. Lucia and St. Vincent & The Grenadines together with the Crown Colony of Montserrat. The islands range in size from the largest, Dominica, which is 290 square miles to the smallest which is Montserrat at 39 square miles.

The small size of the countries individually and of the region as a whole presents unique challenges to the development of private sector activity. USAID has been successful in the past in developing comprehensive programs to address the private sector needs of the region. Even though some programs have been flawed and others have failed, USAID is credited with significant achievements especially in terms of the creation and strengthening of national and regional private sector organizations. These organizations have been instrumental in conducting valuable research and in providing emergent businesses with access to missing resources, skills and finance. The private sector organizations have begun to create a new awareness in the region of the role and functioning of the private sector and to address the very real problems associated with the development of export earnings. USAID's programs have also resulted in more structured and coordinated activities aimed at attracting new foreign investment.

The purpose of this report is to provide a sound basis for leveraging the successes of the past and carrying the development effort forward into the 1990's.

## SECTORAL ANALYSIS

Chapter II discusses the recent performance of the principal private sector activities in the region which are tourism, agriculture and manufacturing. Whilst each of the countries has recorded steady growth in recent years, tourism has consistently grown at a faster pace than other sectors, even though it is not the largest contributor to total national income. With the exception of Antigua and Montserrat, agriculture continues to be a major force in the region's economy. Although the rate of growth in agriculture matches that of total national income, its contribution to national income has tended to decline as the economies diversify, particularly into tourism. Manufacturing is a relatively new sector to the region and contributes less to national income than either tourism or agriculture. The rate of growth in manufacturing has not kept pace with other sectors.

## BUSINESS CLIMATE PROFILES

Chapter III provides the reader with some factual background to the business climate in each of the OECS countries. The data is not rigorous but complements the many published accounts (OECS Secretariat, CDB,



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Caribbean/Central American Action etc) with some more succinct and unbiased assessments.

## CONSTRAINTS TO PRIVATE SECTOR DEVELOPMENT

The results of more than 80 personal interviews with public and private sector representatives are organized in chapter IV into an assessment of the constraints facing future growth of the private sector.

Many problems and constraints face private sector development in the OECS countries. They range from those which are common throughout the world - finance, collateral security, bad government policy - to those which are unique to the West Indies - small scale, novelty of private enterprise experience, social structure. Key constraints relate to finance, the shortage of business and market skills and the creation of an environment conducive to new investment (both local and foreign) and to business development.

The constraints identified are complex and interwoven so that they need to be addressed comprehensively and simultaneously.

## RECOMMENDED STRATEGY

Chapter V presents the recommended strategy for USAID's future private sector development programs. The strategy is summarized in table I-1. The key objectives are:

- Improve the general business and investment climate so that business itself will establish priorities and determine what activities should be developed, not the governments or international agencies. The emergence of a robust business climate will serve to attract investment (both local and foreign) far more effectively than contrived conditions.
- Be flexible and responsive to changing circumstances by developing a strategy which places emphasis on many small scale activities rather than few large scale activities.
- Develop a baseline strategy which can respond to changes in funding levels.

The strategy for accomplishing these objectives are presented in terms of the three major sectors of activity plus the services sector which acts in a supporting role to the other sectors. In overall terms, the strategy statement runs as follows.

- The region possesses a natural comparative advantage in the tourism sector which will be leveraged for its direct economic impacts in terms of foreign exchange, national income and employment generation.



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Table I - 1

# USAID RDO/C - PRIVATE SECTOR STRATEGY

| | | | | |
|---|---|---|---|---|
| **OBJECTIVES** | Baseline strategy able to respond to changing funding levels | IMPROVE GENERAL BUSINESS CLIMATE | | Flexible and responsive by focussing on small scale activities |
| **STRATEGY** | TOURISM<br>Promote growth | AGRICULTURE<br>Promote channels of distribution to discipline supply side | MANUFACTURING<br>Seek solutions to constraints and foster implementation | SERVICES<br>Monitor growth in response to other sectors |
| **PROGRAM COMPONENTS** | TRAINING AND TECHNICAL ASSISTANCE | PUBLIC POLICY DIALOGUE | | FINANCE |

- As a result of promoting growth in the tourism sector, first level impacts will be felt in the services and agriculture sectors which stand to benefit from the expanded local market for direct consumption by visitors. This impact will be strengthened as much as possible.

- But agriculture and especially manufacturing must depend on other prescriptions for growth than simply being carried along by growth in tourism. Therefore, specific program components will provide the means to address the many constraints to growth in these sectors which tourism alone will not resolve, particularly those constraints related to intra-regional trade within both the OECS and wider CARICOM.

Therefore, the strategy for each sector is as follows.

TOURISM
The strategy will be to promote planned and accelerated growth focussed on the accommodation sector but also paying attention to the development of ancillary supports.

AGRICULTURE
The strategy is to encourage diversification into food crops by facilitating the emergence of strong channels of distribution and to impose discipline on the supply side.

MANUFACTURING
The strategy is to search for and to facilitate the implementation of solutions to the many constraints to the sector, and to facilitate the emergence or expansion of those industries which can be viable producing products for direct consumption by an expanded visitor market and an expanded accommodation sector.

SERVICES
The strategy for the service sector will be to simply monitor its growth in response to the other sectors and intervene only if the response is so sluggish that it begins to impact negatively on the growth of the other sectors, especially tourism.

The objectives will be accomplished and the strategy implemented through a broad range of activities which are grouped under the headings of:

- Public policy dialogue
- Training
- Finance

Public policy dialogue will enable the public and private sectors to work together in search of solutions to many of the constraints imposed by the



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prevailing business climate such as fiscal policy, freight facilitation, tourism development planning, investment promotion and gaps in enterprise financing. Training and technical assistance will continue and develop existing efforts to improve the range of business and management skills in government and the private sector as well as the values and work skills of the labor force, while simultaneously enhancing the general understanding of the role and functioning of the private sector. In the area of finance, efforts will be made to meet the need for equity and loan financing through the mobilization of local money into productive investment, enabling existing resources to be accessed by a broader range of businesses and developing new concepts for combating the high perceived risk of new enterprise investment.

The recommended strategy and activities to accomplish the objectives are neither especially new nor creative. They recognize that change in the constraints takes time for consensus building and the acquisition of new skills and new ways of thinking. A major change of direction would be inappropriate at this time when existing activities are beginning to take hold. The recommended strategy is a solid conservative approach which emphasizes consolidation, quality and impact rather than proposing an entire new approach.

# CHAPTER II

# SECTORAL ANALYSIS

## INTRODUCTION

This chapter provides an overview of the major components of the private sector of the economies of the OECS countries, namely tourism, agriculture and manufacturing. The economic impact of each of the sectors is shown, as well as a description of each sector in terms of general characteristics and trends. The treatment of each sector is not rigorous but provides the reader with a quick background understanding of the performance of each sector. Table II-1 summarizes the GDP performance of the OECS countries in 1986.

Table II-1
Summary of GDP Performance

| | ANT | DOM | GRE | MON | STK | STL | STV |
|---|---|---|---|---|---|---|---|
| 1986 total GDP at factor cost in current prices ($ECmil) | $537.2 | $243.5 | $279.2 | (1) $88.6 | $183.4 | $426.6 | $255.4 |
| Compound annual rate of growth in GDP 1980-86 (%) | 13.1 | 9.2 | 8.9 | 9.0 | 10.0 | 8.3 | 11.7 |
| % contribution to GDP in 1986:- | | | | | | | |
| Hotels & restaurants | 15.1 | 1.5 | 6.7 | 4.2 | 4.5 | 6.8 | 2.2 |
| Agriculture | 4.6 | 29.7 | 18.2 | 4.8 | 9.5 | 16.6 | 17.9 |
| Manufacturing | 4.0 | 8.8 | 4.8 | 5.8 | 12.9 | 7.7 | 9.3 |
| Construction | 9.4 | 5.1 | 8.4 | 8.0 | 9.1 | 7.5 | 9.2 |
| W/sale & retail | 9.8 | 9.7 | 13.3 | 14.9 | 14.4 | 15.2 | 11.9 |
| Government servs. | 16.7 | 22.4 | 20.3 | 9.3 | 22.6 | 21.6 | 20.1 |
| Other sectors | 40.4 | 22.8 | 28.3 | 53.0 | 27.0 | 24.6 | 29.4 |

(1) - 1985

ANT - Antigua and Barbuda
DOM - Dominica
GRE - Grenada
MON - Montserrat
STK -St. Kitts and Nevis
STL - St. Lucia
STV - St. Vincent & The Grenadines

Source: OECS Secretariat

In summary, the findings of this chapter are as follows.

- TOURISM has recorded significant growth in recent years and although it remains secondary to agriculture in all countries except Antigua, it has shown a higher growth rate than most other sectors in all countries.



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- AGRICULTURE has remained stable in all countries except Antigua where it has declined significantly. Agriculture continues to be a major force in the economies of the OECS but has not exhibited any significant growth trend.

- MANUFACTURING is the weakest of the three sectors, being a relatively new sector in all of the countries. The growth rate in manufacturing is well below the overall rate of growth in total GDP.

## TOURISM

Over the last decade, tourism has increased in importance for the OECS countries as it has for most of the Caribbean region. In 1986 the "Hotels & restaurants" sector contributed 7.5% to the total GDP of the OECS region. Since 1983 this contribution has grown at a compound annual rate of 18.4% compared with total GDP growth of 10.8% during the same period and it can be expected to continue to grow. Tables II-2 and II-3 show the trend of GDP contribution.

Table II-2
Contribution to GDP by "Hotels & restaurants"
in current dollars ($ EC mil)

| | 1983 | 1984 | 1985 | 1986 | CAGR |
|---|---|---|---|---|---|
| Antigua and Barbuda | $45.5 | $58.7 | $73.5 | $81.0 | 21.2% |
| Dominica | 1.9 | 2.2 | 2.6 | 3.5 | 22.6% |
| Grenada | 9.2 | 11.7 | 15.3 | 18.8 | 26.9% |
| Montserrat | 3.0 | 3.2 | 3.7 | 4.2 | 11.9% |
| St. Kitts and Nevis | 4.4 | 5.2 | 6.1 | 8.3 | 23.6% |
| St. Lucia | 22.2 | 24.8 | 26.5 | 29.1 | 9.4% |
| St. Vincent | 4.5 | 4.6 | 5.0 | 5.6 | 7.6% |
| Total contribution (OECS) | $90.7 | $110.4 | $132.7 | $150.5 | 18.4% |
| Total GDP (OECS) | $1,482.4 | $1,646.3 | $1,813.1 | $2,013.9 | 10.8% |
| Contribution as a % of Total | 6.1% | 6.7% | 7.3% | 7.5% | |

CAGR = Compound annual growth rate

Source: OECS Secretariat



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Table II-3
Contribution of "Hotels & restaurants" to GDP
as a percentage of total GDP

| | 1983 | 1984 | 1985 | 1986 |
|---|---|---|---|---|
| Antigua and Barbuda | 12.8% | 14.5% | 15.8% | 15.1% |
| Dominica | 1.0% | 1.1% | 1.2% | 1.5% |
| Grenada | 4.5% | 5.2% | 6.2% | 6.7% |
| Montserrat | 3.9% | 3.9% | 4.2% | 4.2% |
| St. Kitts and Nevis | 3.2% | 3.3% | 3.6% | 4.5% |
| St. Lucia | 6.9% | 7.0% | 6.8% | 6.8% |
| St. Vincent and the Grenadines | 2.2% | 2.1% | 2.1% | 2.2% |
| Total OECS | 6.1% | 6.7% | 7.3% | 7.5% |

Source: OECS Secretariat

It must be recognized, however, that the income generation of hotels and restaurants represent only a portion, albeit a large portion, of the total income contribution of tourism. Direct impacts in other sectors arise through visitor consumption of goods and services such as water sports, ground tours and transport, attractions and activities, souvenirs, duty free shopping and others. There is no accepted multiplier to determine the total contribution of tourism and any such multiplier would vary from country to country. However, CTRC estimates that in general in the Caribbean only 70% to 75% of total visitor expenditure relates to the hotel and restaurant sector. This implies that tourism's total contribution to GDP might be closer to 10%. Although this does not yet compare to the 14% contributed by agriculture, tourism currently offers an important and as yet only partially exploited opportunity for the economies of the OECS.

The picture at the regional level disguises some important differences between individual countries. In Antigua tourism has already replaced agriculture as the leading sector of the economy. In fact the economy of Antigua rests almost exclusively on the success of its tourism sector as shown by its contribution to total GDP of 15.1%, double that of any other OECS country. Conversely, in Dominica and St. Vincent tourism contributes very little to GDP. Dominica lacks beach front sites for hotel development and this requires development of a different style of tourism product from the Caribbean model of sun and sand. There are, however, many beautiful inland areas and with carefully targeted marketing campaigns, "green tourism" could be established. However, Dominica requires guidance and counsel on how to accomplish its goals in a region in which its style of tourism will be almost unique.

St. Vincent is more fortunately endowed but so far has not chosen to emphasize tourism in its development plans and is somewhat constrained by poor air access and inadequate air port facilities. In terms of growth since 1983, St.



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Vincent should have been better placed than Dominica but in fact records one of the lowest growth rates.

Whilst St. Lucia's tourism sector contributes a slightly higher than average 6.8% of total GDP, it has experienced one of the lowest growth rates since 1983 which, like St. Vincent, suggests that it may suffer not so much from inability to grow tourism but rather from a failure to emphasize tourism in its development plans.

Table II-4 presents recent experience of foreign exchange earnings by the tourism sector in the region. This has increased consistently and by a rate of 18.1% since 1980, and in 1987 reached US$ 411 million. The significance of this rate of growth is shown in table II-5. The OECS has substantially increased its market share of total Caribbean visitor expenditure from 3.6% in 1980 to 6.2% in 1987, a remarkable achievement.

Table II-4
Visitor Expenditure in current dollars (US$ million)

| | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 p | CAGR % |
|---|---|---|---|---|---|---|---|---|---|
| Antigua and Barbuda | 47 | 49 | 59 | 77 | 110 | 133 | 156 | 187 | 21.8 |
| Dominica | 2 | 3 | 4 | 7 | 9 | 9 | 11 | 13 | 30.7 |
| Grenada | 15 | 17 | 17 | 19 | 23 | 32 | 40 | 42 | 15.8 |
| Montserrat | 4 | 5 | 6 | 6 | 7 | 8 | 8 | 9 | 12.3 |
| St. Kitts and Nevis | 13 | 16 | 17 | 19 | 24 | 31 | 38 | 47 | 20.2 |
| St. Lucia | 33 | 29 | 32 | 40 | 42 | 56 | 73 | 78 | 13.1 |
| St. Vincent & the Grenadines | 14 | 15 | 16 | 17 | 19 | 23 | 29 | 35 | 14.0 |
| Total | 128 | 134 | 151 | 184 | 233 | 291 | 355 | 411 | 18.1 |
| Annual Growth (%) | | +4.7 | +12.7 | +21.9 | +26.6 | +24.9 | +22.0 | +15.8 | |

p - projected figures
CAGR = Compound annual growth rate

Source: Caribbean Tourism Research Centre

Table II-5

Caribbean Market Share of Visitor Expenditure (%)

| | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 p |
|---|---|---|---|---|---|---|---|---|
| Antigua and Barbuda | 1.3 | 1.3 | 1.4 | 1.8 | 2.4 | 2.6 | 2.7 | 2.8 |
| Dominica | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Grenada | 0.4 | 0.4 | 0.4 | 0.4 | 0.5 | 0.6 | 0.7 | 0.6 |
| Montserrat | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.1 | 0.1 |
| St. Kitts and Nevis | 0.4 | 0.4 | 0.4 | 0.4 | 0.5 | 0.6 | 0.7 | 0.7 |
| St. Lucia | 0.9 | 0.8 | 0.8 | 0.9 | 0.9 | 1.1 | 1.3 | 1.2 |
| St. Vincent | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.5 | 0.5 | 0.5 |
| Total | 3.6 | 3.5 | 3.7 | 4.2 | 5.1 | 5.7 | 6.2 | 6.2 |

p - projected figures
Source: Caribbean Tourism Research Centre

The ultimate impact of these foreign exchange earnings is subject to a number of constraints and factors which diminish their magnitude and others which may serve to enhance them. National income generation is equal to the gross receipts multiplied by a multiplier factor which takes into account both the leakages of earnings out of the country and the linkages of tourism to other sectors of the economy. CTRC estimates that visitor expenditure accounts for approximately 40% of national income.

Stay over visitor arrivals have increased at a rate of 6.7 % annually between 1980 and 1987, from 324,000 in 1980 to an estimated 511,000 in 1987 (table II-6). During that period, declines were experienced in 1981 and 1982 at the time of the world recession, but consistent increases have been recorded every year since then in each of the OECS countries. The compound annual growth rate between 1983 and 1987 is 11.3%.

As well, as shown in table II-7, the OECS is growing, in terms of arrivals, at a faster pace than the rest of the Caribbean. The OECS has increased market share of stay over arrivals from 4.7% in 1980 to 5.3% in 1987. This increase in market share is less than the increase in market share of total visitor expenditure (3.6% to 6.2% in the same period) implying that the region has succeeded in attracting a visitor who typically spends more than visitors to other Caribbean countries.

According to EIU (Economist Intelligence Unit) forecasts, world travel is expected to increase at a rate of 5.8% p.a. until 1991 and then at a rate of 4.4% in the years following. The experience of the wider Caribbean and of the OECS suggests that the region stands to share at least the same forecast rate of growth, and potentially substantially higher.

Table II-6
Stay over Arrivals (thousands)

| | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 p | CAGR % |
|---|---|---|---|---|---|---|---|---|---|
| Antigua and Barbuda | 102 | 100 | 102 | 117 | 145 | 156 | 166 | *177 | 8.2 |
| Dominica | 14 | 16 | 19 | 20 | 22 | 22 | 24 | 27 | 9.8 |
| Grenada | 29 | 25 | 23 | 33 | 40 | 52 | 57 | 57 | 10.1 |
| Montserrat | 16 | 16 | 15 | 14 | 16 | 17 | 16 | 17 | 0.9 |
| St. Kitts and Nevis | 33 | 36 | 35 | 34 | 40 | 46 | 55 | 65 | 10.2 |
| St. Lucia | 80 | 69 | 70 | 78 | 86 | 95 | 112 | 123 | 6.3 |
| St. Vincent | 50 | 45 | 37 | 38 | 39 | 42 | 42 | 46 | -1.2 |
| Total | 324 | 307 | 301 | 333 | 388 | 429 | 472 | 511 | 6.7 |
| Annual Growth (%) | | -5.2 | -2.0 | 10.6 | 16.5 | 10.6 | 10.0 | 8.3 | |

* - estimate
p - projected figures
CAGR = Compound annual growth rate
Source: Caribbean Tourism Research Centre

Table II-7
Caribbean Market Share of Stay over Arrivals (%)

| | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | p 198 |
|---|---|---|---|---|---|---|---|---|
| Antigua and Barbuda | 1.5 | 1.5 | 1.5 | 1.6 | 1.9 | 2.0 | 2.0 | *1.8 |
| Dominica | 0.2 | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Grenada | 0.4 | 0.4 | 0.3 | 0.5 | 0.5 | 0.7 | 0.7 | 0.6 |
| Montserrat | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| St. Kitts and Nevis | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.6 | 0.6 | 0.7 |
| St. Lucia | 1.2 | 1.0 | 1.0 | 1.1 | 1.1 | 1.2 | 1.3 | 1.3 |
| St. Vincent | 0.7 | 0.7 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Total | 4.7 | 4.6 | 4.3 | 4.6 | 5.1 | 5.4 | 5.6 | 5.3 |

* - estimate
p - projected figures

Source: Caribbean Tourism Research Centre

The two principal source markets for OECS stay over visitors are shown in table II-8 to be the USA and the Caribbean itself. The latter strength is due in part to the selection of the OECS countries by other Caribbean nationals for vacations close to home, but also in large measure to commercial traffic. With the



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exception of Antigua and St. Lucia, all of the countries have fewer than 2,000 hotel rooms. As a result, commercial and diplomatic visitors to these countries represent a much higher percentage than in countries with a larger room stock. In Antigua and St. Lucia, the dependence on the Caribbean market is the lowest. The theory is that as room stock and visitation grows, commercial Caribbean traffic remains stable and so becomes a less significant factor.

Table II-8
Stay over Arrivals by country of origin for 1987 (%)

| | USA | Can | UK | Eur | Cbn | Other |
|---|---|---|---|---|---|---|
| Antigua and Barbuda | 52.9 | 8.2 | 11.4 | 9.8 | 15.3 | 2.4 |
| Dominica | 21.2 | 6.3 | 10.4 | 11.1 | 41.4 | 9.6 |
| Grenada | 24.2 | 5.6 | 12.2 | 10.2 | 43.1 | 4.7 |
| Montserrat | 39.4 | 9.8 | 8.8 | 2.7 | 32.9 | 6.4 |
| St. Kitts and Nevis | 41.8 | 15.9 | 6.3 | 1.4 | 25.0 | 9.6 |
| St. Lucia | 30.6 | 11.4 | 21.1 | 13.5 | 21.6 | 1.8 |
| St. Vincent and The Grenadines | 28.0 | 8.8 | 12.1 | 10.9 | 38.2 | 2.0 |

Source: Caribbean Tourism Research Centre

Table II-9 shows that the trend in stay over arrivals for the region as a whole is for increasing reliance on the USA market and, to a lesser extent and more recently with the decline in the US dollar, the UK and Europe markets. Canada's performance has been unexceptional, perhaps due in part to a lack of attention to the market in terms of marketing and promotion.

Table II-9
Market Mix for the OECS as a Region (%)

| | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 |
|---|---|---|---|---|---|---|---|---|
| USA | 29.1 | 27.8 | 28.7 | 33.0 | 37.0 | 35.8 | 37.9 | 38.5 |
| Canada | 10.9 | 10.5 | 11.3 | 9.0 | 9.8 | 10.2 | 10.2 | 9.9 |
| UK | 13.0 | 14.0 | 13.3 | 13.5 | 12.4 | 12.5 | 12.6 | 13.2 |
| Other Europe | 12.0 | 10.6 | 9.6 | 8.0 | 6.9 | 8.2 | 7.7 | 9.5 |
| Caribbean | 24.9 | 26.5 | 27.6 | 27.8 | 25.9 | 26.1 | 24.1 | 21.9 |
| Other | 10.1 | 10.5 | 9.5 | 8.8 | 7.9 | 7.2 | 7.4 | 7.0 |

Source: Caribbean Tourism Research Centre

However, stay over arrival numbers should not be taken alone to measure the value of tourism and its trends. Length of stay and average expenditure are key



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factors. Whilst expenditure levels have been explained previously, average length of stay is shown in table II-10.

Table II-10
<u>Average Length of Stay in days</u>

| | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 |
|---|---|---|---|---|---|---|---|
| Antigua and Barbuda | 7.5 | 7.2 | 7.0 | 7.0 | 7.0 | n/a | n/a |
| Dominica | 7.8 | 8.2 | 8.2 | 9.5 | 10.7 | 11.9 | 10.9 |
| Grenada | n/a | n/a | n/a | 8.5 | 8.5 | 8.5 | 9.1 |
| Montserrat | 8.0 | 7.5 | 8.0 | 8.1 | 8.0 | 8.1 | n/a |
| St. Kitts and Nevis | 8.6 | 8.6 | 9.6 | 9.9 | 9.9 | 9.0 | 9.0 |
| St. Lucia | 10.0 | n/a | n/a | 10.2 | 10.4 | 10 | n/a |
| St. Vincent & The Grenadines | 7.0 | 9.0 | 8.0 | n/a | n/a | 9.4 | 9.4 |

Source: Caribbean Tourism Research Centre

Although the information is rather sketchy, it does suggest that average length of stay in the OECS has remained at a higher level than is typical of many other Caribbean countries (Bahamas - 5.9 days, Puerto Rico - 3.0 days, Aruba - 7.0 days). This may be taken in part as being due to the longer travel time required to reach the destinations which is a recognized factor in determining length of stay. The best serviced country in terms of air access, Antigua, records the shortest average. Future growth in tourism visitation in the OECS is likely to carry with it a reduction in length of stay, but since all increases are incremental, the growth is still valuable.

Like stay over arrivals, cruise passenger arrivals (table II-11) declined during the recession years of 1981 to 1983 and have increased steadily and significantly since then. In 1987, cruise passenger arrivals were at a level which was equal to stay over arrivals. Although cruise ship passengers do not have as great an impact as stay over guests because of their short visits, they are important in that they provide additional foreign exchange earnings and present a market opportunity to encourage their return as hotel guests. Also like stay over visitors, the OECS market share of Caribbean cruise traffic has increased steadily in recent years as shown in table II-12.



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Table II-11
Cruise Passenger Arrivals (thousands)

| | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | CAGR |
|---|---|---|---|---|---|---|---|---|---|
| Antigua and Barbuda | 127 | 133 | 67 | 52 | 67 | 101 | 122 | 153 | 2.7 |
| Dominica | 7 | 6 | 2 | 6 | 3 | 7 | 12 | 12 | 8.0 |
| Grenada | 146 | 78 | 62 | 50 | 34 | 91 | 114 | 127 | -2.0 |
| Montserrat | 4 | 5 | 9 | 4 | 4 | 7 | 9 | 10 | 14.0 |
| St. Kitts and Nevis | 6 | 11 | 11 | 23 | 34 | 32 | 27 | 31 | 26.4 |
| St. Lucia | 59 | 19 | 34 | 33 | 37 | 55 | 59 | 84 | 5.2 |
| St. Vincent | 33 | 33 | 29 | 34 | 64 | 34 | 38 | 66 | 10.4 |
| Total | 382 | 285 | 214 | 202 | 243 | 327 | 381 | 483 | 3.4 |
| Annual Growth | | -34.0 | -33.2 | -5.9 | 16.9 | 25.7 | 14.2 | 21.1 | |
| Cruise passengers as a % of total arrivals | | 54% | 48% | 42% | 38% | 39% | 43% | 45% | 51% |

CAGR = Compound annual growth rate

Source: Caribbean Tourism Research Centre

Table II-12
Market Share of Cruise Passenger Arrivals (%)

| | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 |
|---|---|---|---|---|---|---|---|---|
| Antigua and Barbuda | 3.5 | 3.9 | 2.0 | 1.5 | 1.9 | 2.4 | 2.4 | 2.7 |
| Dominica | 0.2 | 0.2 | 0.1 | 0.2 | 0.1 | 0.2 | 0.2 | 0.2 |
| Grenada | 4.0 | 2.3 | 1.9 | 1.5 | 1.0 | 2.2 | 2.3 | 2.3 |
| Montserrat | 0.1 | 0.1 | 0.3 | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 |
| St. Kitts and Nevis | 0.2 | 0.3 | 0.3 | 0.7 | 1.0 | 0.8 | 0.5 | 0.6 |
| St. Lucia | 1.6 | 0.6 | 1.0 | 1.0 | 1.0 | 1.3 | 1.2 | 1.5 |
| St. Vincent | 0.9 | 1.0 | 0.9 | 1.0 | 1.8 | 0.8 | 0.8 | 1.2 |
| Total | 10.5 | 8.4 | 6.4 | 6.0 | 6.8 | 7.9 | 7.6 | 8.6 |

Source: Caribbean Tourism Research Centre

Tourist arrivals for the region vary significantly throughout the year (table II-13), December to March being the high season, with another smaller peak occurring in July and August. This seasonality of the sector creates substantial management and financial difficulties for the hotel industry. Close to maximum occupancies in the high winter season are offset by very low occupancies in the summer. Hotels often close for several weeks at a time and employees are laid



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off. Even though closed, the high level of fixed charges which characterizes the hotel industry (amortization, interest etc) must still be covered.

Table II-13
Monthly Arrivals as a percentage of Annual arrivals
(average for the years 1985-1987)

| | ANT | DOM | GRE | MON | STK | STL | STV | OECS |
|---|---|---|---|---|---|---|---|---|
| January | 10.4 | 6.9 | 8.5 | 10.4 | 8.5 | 18.1 | 8.6 | 10.8 |
| February | 10.7 | 10.4 | 6.9 | 9.2 | 8.6 | 15.8 | 7.9 | 10.3 |
| March | 11.3 | 7.8 | 8.1 | 10.3 | 8.8 | 14.1 | 8.8 | 10.5 |
| April | 9.7 | 7.2 | 7.3 | 8.5 | 8.7 | 10.4 | 7.6 | 9.0 |
| May | 7.2 | 6.8 | 5.9 | 8.5 | 7.0 | 2.4 | 5.9 | 6.1 |
| June | 6.0 | 7.1 | 6.8 | 7.3 | 7.0 | 2.7 | 11.4 | 6.4 |
| July | 8.2 | 8.5 | 11.2 | 8.0 | 9.0 | 3.9 | 10.9 | 8.3 |
| August | 7.4 | 13.3 | 15.9 | 8.9 | 8.8 | 2.3 | 9.9 | 8.5 |
| September | 4.6 | 8.3 | 5.5 | 4.9 | 5.8 | 1.6 | 4.9 | 4.6 |
| October | 6.2 | 7.1 | 5.8 | 5.4 | 6.2 | 6.2 | 5.7 | 6.1 |
| November | 8.3 | 7.3 | 7.1 | 6.6 | 7.9 | 9.6 | 6.9 | 8.0 |
| December | 10.0 | 9.2 | 11.1 | 12.1 | 13.7 | 12.9 | 11.5 | 11.4 |

Source: Caribbean Tourism Research Centre

The peak summer months of July and August represent the time when nationals living abroad return during school summer vacations to visit their friends and relatives. Many of these VFR travellers do not stay in commercial accommodation establishments and although they do incur expenditure on other goods and services, the hotel industry does not benefit.

The accommodation sector in the OECS is characterized by a few large, international hotels and many small hotels and guest houses. As table II-14 indicates, there are few hotels with over 100 rooms (only 28% of the total number of hotels) and most of these are concentrated in the islands of Antigua and St. Lucia. The 23% of room stock contained in hotels with over 100 rooms in St Kitts and in Grenada represents only 1 hotel on each island. Most of the tourism plant (number of properties rather than number of rooms) is locally owned and often owner operated, although more recently there has been an increase in foreign ownership especially in the larger properties.



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Table II-14
Distribution of tourist accommodation by size (1987)

| | Number of rooms in hotels with 100+ rooms | Percentage of rooms in hotels with 100+ rooms |
|---|---|---|
| Antigua and Barbuda | 919 | 35 % |
| Dominica | 0 | 0 |
| Grenada | 186 | 23 |
| Montserrat | 0 | 0 |
| St. Kitts and Nevis | 250 | 23 |
| St. Lucia | 1,072 | 43 |
| St. Vincent and The Grenadines | 0 | 0 |
| Total | 2,427 | 28 % |

Source: Caribbean Tourism Research Centre

As an indicator of investment in tourism, table II-15 shows the increase in hotel room stock over the past 5 years. Combining these figures with construction costs, which for a hotel in the Caribbean range between US$50,000 and US$100,000 per room, indicates that there has been substantial investment in the tourism sector, especially in Antigua and St. Lucia.

Table II-15
Number of rooms for tourist accommodation - 1987
(hotels, apartments and guest houses)

| | 1983 | 1984 | 1985 | 1986 | 1987 |
|---|---|---|---|---|---|
| Antigua and Barbuda | 1,969 | 1,931 | 1,931 | 2,419 | 2,604 |
| Dominica | 280 | 343 | 405 | 405 | 405 |
| Grenada | 588 | 578 | 600 | 643 | 822 |
| Montserrat | 260 | 279 | 233 | 236 | 236 |
| St. Kitts and Nevis | 706 | 707 | 780 | 1,100 | 1,100 |
| St. Lucia | 1,442 | 1,705 | 1,735 | 2,003 | 2,003 |
| St. Vincent and the Grenadines | 527 | 695 | 987 | 985 | 985 |
| Total OECS | 5,772 | 6,238 | 6,671 | 7,791 | 8,652 |
| % change | | 8.1% | 6.9% | 16.8% | 11.1% |

* Estimate

Source: Caribbean Tourism Research Centre



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A concern that there is little US investment in tourism in the Caribbean was raised by Mr. James Holtaway, director of USAID and, on enquiry, this view was shared by the Caribbean Hotel Association. The figures in table II-16 were obtained from the US Department of Commerce, Bureau of Economic Affairs and show that investment in the region by US firms is, in fact, growing substantially. As there is no comparison to investment from the rest of the world, the proportion of total investment in the accommodation sector in the region represented by these figures is unknown. Also, whilst money to finance developments may originate outside the USA, it is still possible that it represents capital controlled by US .nterests.

Table II-16

U.S. Direct Investment Position Abroad in the Lodging industry (US$ mil)

| | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 |
|---|---|---|---|---|---|---|
| For selected Caribbean Countries (1) | 22 | 14 | 26 | 60 | 68 | 88 |
| Total for all foreign investment | 493 | 446 | 462 | 548 | 600 | 789 |

(1) The countries covered include The Bahamas, Jamaica, Barbados, Aruba, Dominican Republic, French West Indies and the OECS.

Source: US Department of Commerce

Accurate statistics of employment in tourism are not available, so a quantitative analysis has not been possible. However, it is estimated that a hotel in the Caribbean employs between 0.9 and 1.1 persons per available room. Thus the number of jobs currently provided by the hotel sector in the OECS probably approximates 8,652 or roughly 4% of the labour force. To arrive at a figure for tourism as a whole, employment provided directly by all of the other tourism activities (restaurants, tourist attractions, taxi services, ground tour operators, shopping etc.) or supported by demand created by the tourism sector should be considered.

Reliable information on planned new accommodation projects is not available. However, there is activity in each of the islands with Antigua appearing to be well in the lead. In St. Lucia, projects which would provide an additional 1,000 rooms over the next 3 years are already being seriously promoted. In Dominica, the Fort Young hotel reopens for the 1989 winter season after refurbishment and repair of hurricane damage. In Grenada, a number of new projects totalling some 500+ rooms are on the drawing board but appear to be stalled due to delay in establishing financing plans. Three new projects in St. Kitts will provide an additional 800 rooms. Only in St. Vincent and Montserrat is there no immediate evidence of new development in the pipeline.



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## AGRICULTURE

All of the islands of the OECS have an agricultural tradition. The islands were originally colonized and then fought over, changing hands many times, because of the wealth that their rich soils and generous climates promised.

Agriculture is still one of the most dominant economic sectors in the OECS, contributing over 14% to the region's GDP in 1986 (table II-17), although growing in recent years at a rate slightly below the growth rate for total GDP. The importance of the sector does vary among islands, however, as can be illustrated by a comparison between Dominica and Antigua. In Dominica, agriculture contributed almost 30% of the island's GDP for 1986, whilst in Antigua the contribution to GDP was only 4.6% (table II-18).

Table II-17
Contribution to GDP by agriculture in current dollars ($ EC mil)

| | 1983 | 1984 | 1985 | 1986 | CAGR |
|---|---|---|---|---|---|
| Antigua | 21.8 | 19.3 | 23.2 | 24.6 | 4.1% |
| Dominica | 52.5 | 56.8 | 62.4 | 72.3 | 11.3% |
| Grenada | 41.3 | 44.9 | 44.2 | 50.9 | 7.2% |
| Montserrat | 3.3 | 4.0 | 4.3 | 4.8 | 13.3% |
| St. Kitts and Nevis | 16.2 | 19.7 | 17.0 | 17.4 | 2.4% |
| St. Lucia | 42.3 | 46.2 | 58.3 | 70.7 | 18.7% |
| St. Vincent | 35.5 | 39.2 | 44.1 | 45.7 | 8.8% |
| Total contribution (OECS) | 212.9 | 230.1 | 253.5 | 286.4 | 10.4% |
| Total GDP (OECS) | 1,482.4 | 1,646.3 | 1,813.1 | 2,013.9 | 10.8% |
| Contribution as a % of Total | 14.4% | 14.0% | 14.0% | 14.2% | |

Source: OECS Secretariat



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Table II-18
Contribution of agriculture to GDP as a percentage of total GDP

| | 1983 | 1984 | 1985 | 1986 |
|---|---|---|---|---|
| Antigua | 6.1% | 4.8% | 5.0% | 4.6% |
| Dominica | 29.0% | 28.1% | 28.2% | 29.7% |
| Grenada | 20.2% | 20.1% | 18.0% | 18.2% |
| Montserrat | 4.2% | 4.7% | 4.9% | 4.8% |
| St. Kitts and Nevis | 11.9% | 12.5% | 10.2% | 9.5% |
| St. Lucia | 13.1% | 13.1% | 15.0% | 16.6% |
| St. Vincent | 17.4% | 17.5% | 18.6% | 17.9% |
| Total OECS | 14.4% | 14.0% | 14.0% | 14.2% |

Source: OECS Secretariat

Dependence on agriculture has remained fairly stable, decreasing slightly from 14.4% of total GDP in 1983 to 14.2% in 1986 (table II-18). St. Lucia, Montserrat and Dominica experienced the highest growth.

There is little in the way of current employment statistics for the countries of the OECS. It is thought, however, that agriculture accounts for between 25% to 40% of the region's economically active labour force.

As is indicated in table II-19, the main crop grown in the region is bananas. Other major crops include citrus and other fruit, coconut, cocoa and spices. Figures for the production of root crops and vegetables were not available for 1984, although in 1982 production was 45,909 and 7,028 long tons respectively. Because of the difficulty of collection of such figures, the accuracy of the table may be questionable, but it provides an aid to understanding the agriculture sector in the region.

Table II-19
Agricultural production for 1984 in the OECS (Montserrat excluded)
(long tons)

| | Total | ANT | DOM | GRE | STK | STL | STV |
|---|---|---|---|---|---|---|---|
| Banana | 210,319 | 623 | 34,354 | 13,971 | 49 | 129,570 | 31,752 |
| Citrus | 20,711 | 0 | 14,997 | 3,435 | 0 | 1,724 | 555 |
| Coconut | 11,003 | 1,238 | 2,291 | 441 | 0 | 8,271 | 4,696 |
| Plantain | 7,185 | 0 | 1,379 | 523 | 2 | 3,393 | 1,988 |
| Other fruit | 5,098 | 213 | 0 | 3,298 | 0 | 1,578 | 0 |
| Nutmeg | 3,122 | 0 | 0 | 3,035 | 0 | 30 | 57 |
| Cocoa | 3,042 | 0 | 439 | 2,492 | 0 | 111 | 0 |
| Ginger | 422 | 32 | 0 | 8 | 0 | 252 | 130 |
| Coffee | 194 | 0 | 153 | 0 | 5 | 36 | 0 |

Source: Canadian International Development Association



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Most of the arable land in the OECS is broken into small plots. Table II-20 shows that 94% of the farms cultivate less than 10 acres of land. With the exception of St. Kitts, this is further complicated by the fact that many farms are divided into several sub plots because of broken terrain.

Table II-20
Number and size distribution of farms in the OECS

| | Total | Distribution of farms (%) | | | |
|---|---|---|---|---|---|
| | Farms | ≤ 1ac | 1-10ac | 10-50ac | ≥ 50ac |
| Antigua | 1,998 | 55 | 41 | 1 | 3 |
| St. Kitts | 2,036 | 58 | 38 | 1 | 3 |
| Dominica | 1,921 | 26 | 63 | 9 | 2 |
| Grenada | 5,959 | 49 | 47 | 3 | 1 |
| St. Lucia | 4,730 | 45 | 47 | 7 | 1 |
| St. Vincent | 3,032 | 43 | 54 | 3 | 0 |
| Total/Average | 20,217 | 46 | 48 | 4 | 2 |

Source: Canadian International Development Association

The majority of farms in the OECS are owned by local farmers. Most farmers have a heritage of farming and many farms have been handed down through several generations. This contributes to the small size of farms, because on a farmer's death, his farm is often divided and a portion bequeathed to each of his children.

With the exception of bananas and nutmeg, most agricultural produce is traded within the region. The worldwide demand for nutmeg is supplied primarily by Indonesia and Grenada, Indonesia supplying 75%. Bananas, the most important export crop of the OECS, are sold to the U.K. under preferential terms which may be affected by the "Free" European market planned for 1992. Marketing cooperatives exist in each of the banana growing countries and these are linked to a regional organization, WINBAN. These organizations provide marketing and a range of other services including provision of fertilizers, transfer of technology and transportation of fruit from rural depots to the ports.

## MANUFACTURING

Manufacturing is a relatively new sector in the OECS. The main industries currently existing in the OECS countries include apparel, chemicals, flour and animal feed, aerated drinks, paint, electrical goods, cigarettes and coconut products including soap. There are also various assembly type operations where all of the inputs, except for labor and power, are imported. With the exception of these assembly type operations, which export finished goods to the US under s807 of the US Tariff Schedule and similar schemes, the sector primarily produces goods for local consumption, with some of the larger companies exporting to other islands in the Caribbean.

Dependence on manufacturing in the region has actually declined slightly since 1983, when it contributed 8.0% to GDP: in 1986 it only contributed 7.2%. St. Kitts has established the strongest track record in manufacturing in the region with the highest growth rate (10.4%) approaching that of total GDP and the highest total contribution to GDP of 12.9% in 1986.

Table II-21
Contribution to GDP by manufacturing in current dollars ($ EC m)

| | 1983 | 1984 | 1985 | 1986 | CAGR |
|---|---|---|---|---|---|
| Antigua and Barbuda | 17.6 | 19.3 | 20.3 | 21.5 | 6.9% |
| Dominica | 16.6 | 16.2 | 19.2 | 21.5 | 9.0% |
| Grenada | 10.5 | 9.8 | 12.5 | 13.3 | 8.2% |
| Montserrat | 5.3 | 5.6 | 5.1 | 6.5 | 7.0% |
| St. Kitts and Nevis | 17.6 | 22.6 | 21.9 | 23.7 | 10.4% |
| St. Lucia | 30.2 | 31.1 | 33.0 | 34.0 | 4.0% |
| St. Vincent | 21.3 | 27.7 | 26.3 | 23.7 | 3.6% |
| Total contribution (OECS) | 119.1 | 132.3 | 138.3 | 144.2 | 6.6% |
| Total GDP (OECS) | $1,482.4 | $1,646.3 | $1,813.1 | $2,013.9 | 10.8% |
| Contribution as a % of Total | 8.0% | 8.0% | 7.6% | 7.2% | |

Source: OECS Secretariat

Table II-22
Contribution of manufacturing to GDP as a percentage of total GDP

| | 1983 | 1984 | 1985 | 1986 |
|---|---|---|---|---|
| Antigua and Barbuda | 4.9% | 4.8% | 4.4% | 4.0% |
| Dominica | 9.2% | 8.0% | 8.7% | 8.8% |
| Grenada | 5.1% | 4.4% | 5.1% | 4.8% |
| Montserrat | 6.9% | 6.7% | 5.8% | 5.8% |
| St. Kitts and Nevis | 12.9% | 14.4% | 13.2% | 12.9% |
| St. Lucia | 9.3% | 8.8% | 8.5% | 7.7% |
| St. Vincent and the Grenadines | 10.4% | 12.4% | 11.1% | 9.3% |
| Total OECS | 8.0% | 8.0% | 7.6% | 7.2% |

Source: OECS Secretariat

# CHAPTER III

# BUSINESS CLIMATE PROFILES

# ANTIGUA AND BARBUDA

# BUSINESS CLIMATE PROFILE

## INDUSTRIAL DEVELOPMENT POLICY - PRIORITY AREAS

Tourism is the primary focus of government development plans. Other aspects of the plan will include light manufacturing and agribusiness primarily in support of the tourism and real estate development activities.

Labor availability problems are a concern in the agriculture and manufacturing sectors. Antigua has many guest workers, particularly in the construction sectors. There is little overall development planning, but government will capitalize on any opportunity which presents itself.

## COMPANY FORMATION REGULATIONS

The process to form and register a company takes from 2-6 weeks and requires a lawyer. The cost is in the region of EC$1,500 plus stamp duty based on capitalization.

## FOREIGN INVESTMENT INCENTIVES

Exporters have preferential or duty free access to markets under Lome, CBI, CARIBCAN and CARICOM.

Manufacturing incentives include duty free import of equipment and raw material for all companies qualifying for tax holidays. Tax holidays of from 10-15 years are based on value added.

Additional incentives may be provided for industries that provide significant foreign exchange earnings or high local value added.

Hotels may qualify for a 5 year tax holiday providing exemption from corporation and dividend taxes as well as import duties on capital costs and operating supplies. Also, the capital cost of the property can be amortized over a period of 5 years after the expiration of the tax holiday.

Antigua has not signed a tax information exchange agreement with the US so as to gain access to Puerto Rico's s936 programs.

## EXPORT INCENTIVE PROGRAMS

No specific programs.



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## FOREIGN EXCHANGE REGULATIONS - REPATRIATION OF PROFITS AND DIVIDENDS

Repatriation of all profits, dividends and imported capital for industries with foreign investment is allowed without restriction for approved enterprise. As an additional incentive, the government often exempts foreign investors from the 1% levy on outward transfers. Unless exempted, withholding taxes are imposed at 10% on payments of interest and 25% on royalties and management fees.

Application must be made to repatriate, but it is usually not a difficult process although it can take a fair amount of time.

## CORPORATE AND PERSONAL TAXES

Corporations pay taxes at a flat rate of 40%

There are no personal taxes for citizens or foreigners. A property tax exists but is not thought to be high.

## IMPORT REGIME - DUTIES, TAXES, LICENSES, FREE ZONES

Taxes on imports are not considered to be any worse than other OECS countries. Generally within the region, there are no import duties on CARICOM goods. Consumption taxes are charged and vary from from country to country. Exemptions for exporters are not difficult to obtain from the government.

Licenses are required for many imports, lists are provided by the Ministry of Finance.

No export processing zone was discussed as being developed or planned.

## EXPORT REGIME - LICENSES

There are currently no government impositions causing any comments.

## PRICE AND CREDIT CONTROLS

None discussed or discovered. Local currency money supply no constraint to credit, although in the past foreign exchange has occasionally been in short supply. US dollars are freely used within the economy and many prices are posted in US dollars.



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## LABOR FORCE - SIZE, SKILL LEVEL AVAILABILITY, LITERACY

Labor is becoming a constraint in Antigua, especially in agriculture and garment industries. Total available work force is around 40,000 people. Work attitude is a major problem with many people preferring the hotel sector even if it means working only 6 months a year. Literacy is considered no problem.

Highly skilled workers are in short supply, primarily due to the low wage scale. An example is the low pay offered to linesmen by the power company which can not recruit or retain skilled persons.

## COMPENSATION - MINIMUM WAGE, AVERAGE WAGES

There is a minimum wage which is virtually ignored in that everyone is paid substantially higher. Average manufacturing wage is about $1.35 US per hour with office staff around $2.50.

## LABOR UNIONS - PREVALENCE, FREQUENCY OF STRIKES, MAJOR UNIONS

Labor unions exist but are not as strong as in other OECS countries. The major union is the Antigua Trades and Labour Union and the Antigua Workers Union.

Strikes are relatively infrequent and there is an Industrial Court Act which prescribes arbitration procedures. Labor relations are described as harmonious.

## ELECTRICITY - VOLTAGES, RELIABILITY, IMPROVEMENTS IN PROGRESS

Power supply is irregular and availability is considered a major constraint. Government is aware of the problem and planning for remedial action is at an early stage. Backup generators exist in almost all establishments (there are no import duties on generator sets). 100% of power is supplied from diesel. Additional generating plant is needed as well as skilled personnel in maintenance and transmission. Voltage is 110 or 220 volts at 60 cycles and costs about 13 cents US/kwh.

## COMMUNICATIONS

Phones service is erratic and installation of new lines is difficult and the wait is lengthy. International direct dialling is available. The phone system has improved in quality over the last few years, but continued improvement will be slow.

## WATER AND WASTE DISPOSAL

Water is clean and potable but in short supply during the dry season (December through June). Most hotels and manufacturers have water storage capacity on site. No common sewage treatment and disposal system currently exists except in St. John's and this is considered inadequate.

## TRANSPORTATION - PORT FACILITIES, AIR AND SEA CONNECTIONS

Port facilities at St. Johns are considered excellent. Container facilities exist and drafts of up to 50 feet can be handled. The port provides good shelter during storms. Sea connections to Puerto Rico are available twice a week (containerized) and fairly good connections to Europe Canada and the USA are also available.

Air connections are good both to the US and Europe and throughout the rest of the Caribbean. Antigua is home base and a major hub for the regional air carrier LIAT. Air service is offered by American Airlines, Eastern, British Airways, BWIA, Air Canada and Lufthansa.

Air cargo is somewhat of a problem for shipping within the region, but better than most islands. Cargo to the US is no problem but the cost can run as high as $1/pound.

## BANKING SYSTEM

Major banks include, Barclays, Royal Bank of Canada, The Bank of Nova Scotia, Canadian Imperial Bank, Antigua Commercial Bank, Bank of Antigua, the Swiss American National Bank of Antigua, and the Antigua Development Bank.

## INDUSTRIAL ESTATES - FACILITIES AND AVAILABILITY

Industrial estates are owned by the Industrial Development Board. Space is built on demand rather than for inventory. Many consider the availability of space a major problem. Annual rent is currently $2.30 to 2.60 US/sq ft. There are 3 parks in Antigua

## BUSINESS SUPPORT ORGANIZATIONS

Antigua Employers Federation
Antigua Chamber of Commerce
Manufacturers Association
Antigua Hotel Association
Industrial Development Board
Antigua Development Bank
National Development Foundation
Antigua & Barbuda Development Bank

# DOMINICA

# BUSINESS CLIMATE PROFILE

## INDUSTRIAL DEVELOPMENT POLICY - PRIORITY AREAS

Government is intent upon pursuing a diversified economy with agribusiness as the focus but which will include light manufacturing and tourism. Traditional agriculture continues to dominate the economy, but non-traditional fruits and vegetables are growing in importance. The government is determined for tourism to play a larger role, but is limited due to infrastructure (airport facilities, 400 visitor rooms). Labor availability problems are a concern in the agriculture sector. There is an overall development plan, but government will capitalize on any opportunity which presents itself.

## COMPANY FORMATION REGULATIONS

The process to form and register a company takes from 2-4 weeks, requires a lawyer and is meant to be fairly easy due to some changes in the laws regarding regulation of companies. The cost is approximately EC$200 to $1,500. One problem is legislation which passed in May defining any company that had as little as one share owned by a foreigner or owned any shares in a foreign owned corporation as a foreign corporation. Any foreign corporation has to get permission and licenses from the government to carry on many forms of business activity. No aspects of this legislation has been enforced as yet, but it is of concern to many businessmen in Dominica. This legislation is being reviewed as almost all of Dominica's medium to large companies would now be reclassified as foreign.

## FOREIGN INVESTMENT INCENTIVES

Exporters have preferential or duty free access to markets under Lome, CBI, CARIBCAN and CARICOM.

Manufacturing incentives include duty free import of equipment and raw material for all companies qualifying for tax holidays, including hotels. The tax holiday provides exemption from corporation, income, dividend, sales and withholding taxes as well as import duties on capital costs and operating supplies and exemption from import licensing. Tax holidays of from 10-15 years are based on value added ( 50% or more is 15 years, 10-25% is 10 years). Employers are allowed to pay 75% of the minimum wage for the first 6 months of plant operation to offset the cost of training for labor. Government will consider requests for training grants, but they are not automatic.

A tax information exchange agreement exists with the US which allows access to the Puerto Rico 936 funds.

## EXPORT INCENTIVE PROGRAMS

There are none at present , but government is studying a tax incentive scheme.

## FOREIGN EXCHANGE REGULATIONS - REPATRIATION OF PROFITS AND DIVIDENDS

Repatriation of all or a high proportion of profits for enclave industries is allowed. Industries with foreign investment are allowed to repatriate but it is encouraged to reinvest some profits back into Dominica.

Application must be made to repatriate, but it is usually not a difficult process although it can take a fair amount of time. Unless exempted, withholding tax is imposed at 15% on payments of interest and management fees.

## CORPORATE AND PERSONAL TAXES

Corporations pay a flat rate of 35% There is no capital gains tax. A double taxation treaty exists with the US.

Personal tax rates range up to 45% for incomes over $19,000 US. Property tax is 20% for vacant land and 5% for residential. Foreigners are subject to the same tax.

## IMPORT REGIME - DUTIES, TAXES, LICENSES, FREE ZONES

Taxes on imports are not considered to be any worse than other OECS countries. Generally within the region, there are no import duties on CARICOM goods. Consumption taxes are charged and vary from from country to country. Exemptions for exporters are not difficult to obtain from the government.

Licenses are required for many imports, lists are provided by the Ministry of Finance.

An industrial park is located near to Canefield and there are plans to establish an export processing in conjunction with it as well as a similar facility close to Melville Hall airport.

## EXPORT REGIME - LICENSES

There are currently no government impositions causing any comments.

## PRICE AND CREDIT CONTROLS

None discussed or discovered. Local currency money supply no constraint to credit, although in the past foreign exchange has occasionally been in short supply.

## LABOR FORCE - SIZE, SKILL LEVEL AVAILABILITY, LITERACY

Labor is becoming a constraint in Dominica, especially in agriculture. A shortage of skilled repair and service personnel for all types of appliances, machines, utilities etc. exists. Total available work force is around 40,000 people. Work attitude is a problem as is keeping good personnel due to the ease with which they can leave. Literacy is considered no problem.

## COMPENSATION - AVERAGE WAGES

Average manufacturing wage is about $1 US per hour. Agriculture field hand is about 80 cents US.

## LABOR UNIONS - PREVALENCE, FREQUENCY OF STRIKES, MAJOR UNIONS

Labor unions are strong in Dominica. The major union is the Waterfront and Allied Workers Union with 5000 members and the Dominica Amalgamated Workers Union with 3500 members.

Strikes are relatively infrequent.

## ELECTRICITY - VOLTAGES, RELIABILITY, IMPROVEMENTS IN PROGRESS

Power supply is fairly regular. Backup generators are not very common. 75% of power is supplied from hydroelectric with the balance from diesel. Additional generating plant is being planned which will improve the reliability of the system, allow more widespread use of electricity and help to lower the cost ( power averages around 12 cents US/kwh) Voltage is 220 volts at 50 cycles.

## COMMUNICATIONS

All of the island is served by phone which is acceptable (6000 phones). Links with St. Lucia for external communications exist. International direct dialling is available.

## WATER AND WASTE DISPOSAL

Water is clean and reliable. No common sewage treatment and disposal system currently exist.

## TRANSPORTATION - PORT FACILITIES, AIR AND SEA CONNECTIONS

Port facilities are adequate, existing at Roseau and Portsmouth. Container facilities exist and drafts of up to 30 feet can be handled. No harbor exists to protect ships from storms. Sea connections to Puerto Rico twice a week (containerized) and fairly good connections to the French islands exist. The Geest boats provide some transport between islands. The government has plans to upgrade port facilities so as to be able to handle more ships.

The 2 airports' lengths are a major problem with Melville Hall the longest at 3500 feet. Plans to expand are being considered. Air service is a problem with LIAT providing the major links to the other islands with 4-5 flights a day. Cargo is provided by CARICARGO, Seagreen and Air Carib, mostly on a charter basis.

## BANKING SYSTEM

Major banks include, Barclays, Royal Bank of Canada, Banque Francaise Commerciale, National Commercial and Development Bank and the Dominica Agricultural, Industrial and Development Bank.

## INDUSTRIAL ESTATES - FACILITIES AND AVAILABILITY

Industrial estates are owned by the government with space built on demand rather than for inventory, although they claim to have 20,000 sq ft in reserve. Many consider the availability of space a major problem. Annual rent is currently $2 US/sq ft. There are a number of industrial parks with a total of over 100,000 sq ft.

## BUSINESS SUPPORT ORGANIZATIONS

Chamber of Industry and Commerce
Ministry of Finance, Economic Planning Unit
Permanent Secretary for Industry, Agriculture and Tourism
National Development Foundation
Industrial Development Corporation
Dominica Export and Import Agency
Agricultural, Industrial and Development Bank



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# GRENADA

# BUSINESS CLIMATE PROFILE

## INDUSTRIAL DEVELOPMENT POLICY - PRIORITY AREAS

Government objectives seem to be to expand all sectors of the economy. There does not seem to be any prioritization of areas in the development policy. In the tourism industry the objective is to expand facilities that cater to up-market visitors, and to develop linkages between tourism and agriculture. In agriculture it is to expand the traditional crops of nutmeg, cocoa and bananas as well as to diversify into other food crops. In manufacturing it is the promotion of light, "clean" industries that are labour intensive. Although tourism was identified as a necessary area of development, the government appears more oriented toward agriculture.

## COMPANY FORMATION REGULATIONS

The formation of a company requires that documents of incorporation are filed with the registrar. The preparation of these documents takes 2 to 3 weeks and actual registration takes 1 day. Cost of incorporation is approximately EC$450, and legal fees for preparation of documents average EC$3,550

## FOREIGN INVESTMENT INCENTIVES

Hotels and restaurants
A 10 year tax holiday is available to hotels and restaurants. This provides exemptions from corporation tax, property tax, value added tax and tax on the importation of both capital and operating items. Additionally, a hotel or restaurant is exempt from having to obtain import licences for operating supplies and capital goods.

Industry
Manufacturing companies are eligible for a 10 to 15 year tax holiday providing exemption from duties and taxes on importation of operating and capital items. The holiday also guarantees a waiver of the Business Levy (see below), VAT (Value Added Tax) on raw materials and other taxes on company income. The length of the tax holiday depends on the value added locally by a company. Enclave enterprises or enterprises for which local value added is at least 50% are eligible for a 15 year holiday; enterprises for which local value added is between 25% and 50% are eligible for a 12 year holiday and enterprises for which local value added is between 10% and 25% are eligible for a 10 year holiday.

Access to export markets under CBI, CARICOM, CARIBCAN and Lome are possible. Also, a tax information exchange agreement was signed to provide access to Puerto Rico s936 funds and projects.

## EXPORT INCENTIVE PROGRAMS

None.

## FOREIGN EXCHANGE REGULATIONS - REPATRIATION OF PROFITS AND DIVIDENDS

There are no restrictions on foreign exchange for the payment of principal and interest on foreign borrowings, purchase of goods and services overseas or payment of salaries to non nationals. There are also no restrictions on repatriation of profits or payment of management fees and royalties, once all relevant taxes have been remitted to Government. Applications must be made for the purchase of all foreign exchange but generally, once sound business reasons are given, these are approved . There is, however, a foreign exchange tax of 5%.

## CORPORATE TAXES

Local companies are subject to a "business levy" which is equal to the greater of 35.33 % of net profits or 2.5% of gross revenue. This levy has not, as yet, been collected from the agriculture sector, because of the resistance of the farmers. Foreign companies are taxed at a rate of 35.33% of net profits. The 2.5% of gross option does not apply since it is not compatible with tax systems in other countries and therefore would render double taxation treaties ineffective. A US company, for example, would not be eligible for relief from a levy on gross earnings.

The Government also imposes indirect taxation in the form of VAT (Value Added Tax). A 20% VAT must be paid at the port for all imports, an additional 5% VAT is due at the wholesale level and another 5% at the retail level. There is also a 10% VAT which is imposed on all food and beverages served in hotels and restaurants as well as on hotel room rates.

## IMPORT REGIME - DUTIES, LICENCES

Taxes on imports are not considered to be any worse than other OECS countries. Generally within the region, there are no import duties on CARICOM goods. Value added tax of 20% is charged on CARICOM and extra-regional goods. An additional surcharge (10%) is imposed on extra regional goods. Licences are required for the importation of certain goods, but this is not considered a serious issue by business.



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## EXPORT REGIME - LICENCES

Licences are required for the exportation of very few items and is not considered an issue. There are no export duties.

## PRICE AND CREDIT CONTROLS

There are price controls on certain basic necessities.

## LABOUR FORCE - SIZE, SKILL LEVEL AVAILABILITY, LITERACY

The unemployment rate is estimated to be 25%. The majority of the labour force is unskilled. Many people have a very basic level of education and some are uneducated.

## COMPENSATION - MINIMUM WAGE, AVERAGE WAGES

The average wage for a hotel employee is EC$400 per month (US$148). The average wage in manufacturing is EC$15 - $18 per day (US$6). The minimum daily wage for agricultural workers is EC$15 for males and $13.50 for females.

Compensation is very low, in fact, in some of the rural areas. The high cost of transportation means the difference between employment and unemployment is quite small. One example is an employee in the manufacturing sector. This employee earned EC$15 per day (approx. equal to US$5.50) and paid $4 for transportation and $3 for lunch. He was then left with $8 from which NIS had to be deducted. Additionally,a portion of of his salary had to be used to buy work clothes and other things needed by members of the work force.

## LABOR UNIONS - PREVALENCE, FREQUENCY OF STRIKES, MAJOR UNIONS

Labour unions were not mentioned as a concern except in the case of the sea port. The port workers are members of a very strong union which demands wages that are becoming prohibitive, especially with regard to overtime.

## ELECTRICITY - VOLTAGES, RELIABILITY, IMPROVEMENTS IN PROGRESS

Electricity is generated using diesel. The current is 220/240 Volt, 3 phase, 50 Cycles. There are frequent power outages and many hotels install back up generators.



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## COMMUNICATIONS

The telephone system has the capacity to cater to the islands current needs. International direct dialling, however, is only available to some homes and businesses.

## WATER AND WASTE DISPOSAL

Rainfall in Grenada is enough to supply the island with water on a year round basis. However, the catchment areas and treatment plants are not adequate and the water becomes cloudy. Hotels often install backup facilities in order to have clear water all year.

## TRANSPORTATION - PORT FACILITIES, AIR AND SEA CONNECTIONS

Airport
Point Salines International Airport has a runway length of 9,000 feet. It currently accommodates aircraft up to the size of a Boeing 747. It has night landing capabilities but cannot accommodate aircraft when visibility is poor. This Airport has replaced the older Grenville Airstrip which has a runway length of 748 feet. There is also a small airfield on Grenada's island of Carriacou which services light aircraft.

Direct air service is provided weekly to the UK (British Airways), 2 or 3 times per week to New York and daily to Miami (BWIA).

Sea Port - St. George's has a sheltered natural harbor with a maximum depth of 28 feet. There is an 800 foot pier with berth space for 2 to 3 vessels. The port has reasonably modern facilities but is too small to accommodate current levels of traffic. In 1987 traffic averaged 96 ships per month, or 3 to 4 ships per day. The size of the pier also restricts the size of ship, and goods must sometimes be transshipped in Barbados or St. Lucia. A great deal of cruise business has been lost because of the unacceptable situation where cruise liners often have to wait on cargo ships.

## BANKING SYSTEM - MAJOR BANKS, RESTRICTIONS ON LOCAL BORROWING

The banking system is quite modern with both international and local banks. The major banks are Barclays Bank, Bank of Nova Scotia, National Commercial Bank, Grenada Bank of Commerce and the Cooperative Bank.

## INDUSTRIAL ESTATES AND FREE ZONES - FACILITIES AND SPACE AVAILABILITY

Frequente Industrial Park is the main industrial area. Factory space costs EC$7 per square foot according to the Grenada Development Bank. Currently there is little factory space available and many consider this a major problem. Another industrial park is planned in the north east near to Pearls Airport. It is planned that the airport would be revived and used for cargo.

## BUSINESS SUPPORT ORGANIZATIONS

Grenada Industrial Development Corporation
Chamber of Industry and Commerce
Development Bank
National Development Foundation of Grenada
Grenada Nutmeg Association
Grenada Banana Cooperative Society
Grenada Cocoa Association
Employers' Federation
Hotel Association
Grenada Marketing and National Importing Board
Technical and Vocational Institute

# MONTSERRAT

# BUSINESS CLIMATE PROFILE

## INDUSTRIAL DEVELOPMENT POLICY - PRIORITY AREAS

Government is intent upon pursuing a diversified economy which includes the offshore financial sector, agribusiness, light manufacturing and tourism. Tourism seems to have the priority but is limited due to infrastructure (airport facilities, 200 visitor rooms). Labor availability problems are a concern in the other sectors. There is a plan, but government will capitalize on any opportunity which presents itself.

## COMPANY FORMATION REGULATIONS

The process to form and register a company takes about 3 weeks, requires a lawyer and is fairly easy due to the fair number of offshore banks and finance related companies that exist. Regulations have been changed in the last few years and are considerably easier than previously.

## FOREIGN INVESTMENT INCENTIVES

Exporters have preferential or duty free access to markets under Lome, CBI, CARIBCAN and CARICOM.

Manufacturing incentives include duty free import of equipment and raw material upon obtaining a license (it is not automatic with granting of tax holidays, but apparently not difficult to obtain). Tax holidays of from 10-15 years based on value added (50% or more is 15 years, 10-25% is 10 years). Government will consider requests for training grants, but they are not automatic.

Hotels may qualify for a tax holiday up to 10 years providing exemption from corporation, income, dividend and withholding taxes as well as from import duties on capital items and operating supplies.

A tax information exchange agreement has not been signed with the US to allow access to the Puerto Rico 936 funds.

## EXPORT INCENTIVE PROGRAMS

Businesses not granted tax holidays are entitled to a tax rebate on extra-OECS exports of up to 50% on percentage of profits attributable to exports.



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## FOREIGN EXCHANGE REGULATIONS - REPATRIATION OF PROFITS AND DIVIDENDS

No restrictions exist on repatriation of dividends, profits and registered capital. Application must be made but it is usually a simple and speedy process. Unless exempted, withholding taxes are imposed at 15% on payments of dividends and at 20% in the case of interest, royalties, management fees and commissions.

## CORPORATE AND PERSONAL TAXES

Corporations pay taxes at a flat rate of 40%, offshore companies are taxed at a rate of 20% There is no capital gains tax. A double taxation treaty exists with the US.

Personal taxes range up to 30% over $7500 US. Property tax is 20% for vacant land and 5% if developed. Foreigners are subject to the same tax.

## IMPORT REGIME - DUTIES, TAXES, LICENSES, FREE ZONES

Duties are not considered to be any worse than other OECS countries. Exemptions for foreign investors are not difficult to obtain from the government. Licenses are not required for many things.

No free zone space was discussed or is being currently considered by government.

## EXPORT REGIME - LICENSES

No government impositions causing any comments.

## PRICE AND CREDIT CONTROLS

None discussed or discovered. Money supply no constraint to credit.

## LABOR FORCE - SIZE, SKILL LEVEL AVAILABILITY, LITERACY

Labor is a major constraint in Montserrat, especially in agriculture and garment industries. A tremendous shortage of skilled repair and service personnel for all types of appliances, machines, utilities etc exists. Total available work force is under 6,000 people.

## COMPENSATION - MINIMUM WAGE, AVERAGE WAGES

There is no minimum wage. Average manufacturing wage is about $1 US per hour.

## LABOR UNIONS - PREVALENCE, FREQUENCY OF STRIKES, MAJOR UNIONS

Labor unions are strong in Montserrat. The major union is the Montserrat-Allied Workers Union with 980 members and the Montserrat Seaman's and Waterfront Workers Union with 120 members. The leading garment manufacturer was shut down in large part by strikes to its operations. Although this may be an isolated incident upon which much attention is focussed due to the small size of the country, other manufacturers indicate a higher level of concern than was evident in other OECS countries.

## ELECTRICITY - VOLTAGES, RELIABILITY, IMPROVEMENTS IN PROGRESS

Power supply is fairly regular. Backup generators are not very common. Voltage is 220 at 50 cycles.

## COMMUNICATIONS

All of the island is served by phone which is considered good. International direct dialling is available.

## WATER AND WASTE DISPOSAL

Water is clean and reliable. No common sewage treatment and disposal system exists.

## TRANSPORTATION - PORT FACILITIES, AIR AND SEA CONNECTIONS

Port facilities are barely adequate. There is no harbor to protect ships from storms. There are sea connections to Puerto Rico twice a week (containerized) and fairly good connections to Antigua by island schooner. The airport is a major problem at less than 4000 feet. Plans to expand being considered. Air service is major problem with collapse of Montserrat Air Services. LIAT is the only scheduled carrier and it is considered unreliable by locals with little cargo capacity.

## BANKING SYSTEM

Major banks include Barclays, Royal Bank of Canada, First American Bank, Bank of Montserrat and a building society. Foreign companies may borrow money from local institutions.

## INDUSTRIAL ESTATES - FACILITIES AND AVAILABILITY

Industrial estates are owned by the government with space built on demand rather than for inventory. Many consider this a major problem. Annual rent is currently $1.40 US/sq ft. There is one industrial park close to Plymouth with a total of around 100,000 sq ft.

## BUSINESS SUPPORT ORGANIZATIONS

Chamber of Commerce
Ministry of Finance, Economic Planning Unit
Permanent Secretary for Development
Development Finance Corporation



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# ST. KITTS AND NEVIS

# BUSINESS CLIMATE PROFILE

## INDUSTRIAL DEVELOPMENT POLICY - PRIORITY AREAS

Government is intent upon pursuing a diversified economy with tourism as the major growth area, but which will include light manufacturing and agribusiness. Traditional agriculture and trading continues to dominate the economy, but light manufacturing and electronic assembly are gaining in importance. The government plan is for tourism to play a larger role, but is limited due to suitable sites (which will change with the new south coast road). Labor availability problems are a concern in the agriculture and garment sectors. There is an overall development plan, but government will capitalize on any opportunity which presents itself.

## COMPANY FORMATION REGULATIONS

The process to form and register a company takes from 2-4 weeks, requires a lawyer and is meant to be fairly easy due to some changes in the laws regarding regulation of companies.

## FOREIGN INVESTMENT INCENTIVES

Exporters have preferential or duty free access to markets under Lome, CBI, CARIBCAN and CARICOM.

Manufacturing incentives include duty free import of equipment and raw material for all companies qualifying for tax holidays. Tax holidays of from 10-15 years are based on value added ( 50% or more is 15 years, 10-25% is 10 years). Training programs are available for the electronics and garment industry.

Hotels can receive tax relief for ten years if they are over 10 rooms. The relief extends to corporation, income and dividend taxes as well as import duties on capital items and operating supplies. Similarly, duty free concessions for use in construction and equipping of the hotel are available.

A tax information exchange agreement with the US has not been signed to allow access to the Puerto Rico 936 funds.

## EXPORT INCENTIVE PROGRAMS

At the end of the tax holiday period an export allowance is available for companies with export profits. This rebate of income taxes based on export profits can be as much as 50%

## FOREIGN EXCHANGE REGULATIONS - REPATRIATION OF PROFITS AND DIVIDENDS

Repatriation of all profits, dividends and imported capital for industries with foreign investment is allowed, but reinvestment of some profits back into St. Kitts and Nevis is encouraged.

Application must be made to repatriate, but it is usually not a difficult process although it can take a fair amount of time. Unless exempted, withholding tax is imposed at 10% on payments of royalties and management fees.

## CORPORATE AND PERSONAL TAXES

Corporations pay taxes at a flat rate of 50% There is no capital gains tax.

There are no personal taxes for citizens. Foreigners pay a tax of 30% Property tax is based upon the acreage for vacant land and 5% of the annual rental value for houses. Foreigners are subject to the same tax.

## IMPORT REGIME - DUTIES, TAXES, LICENSES, FREE ZONES

Duties are not considered to be any worse than other OECS countries. Exemptions for foreign investors are not difficult to obtain from the government.

Licenses are required for many imports and lists are provided by the government.

An export processing zone is being developed near the Golden Rock airport.

## EXPORT REGIME - LICENSES

There are currently no government impositions causing any comments.

## PRICE AND CREDIT CONTROLS

None discussed or discovered. Local currency money supply is no constraint to credit, although in the past foreign exchange has occasionally been in short supply.

## LABOR FORCE - SIZE, SKILL LEVEL AVAILABILITY, LITERACY

Labor is becoming a constraint in St. Kitts and Nevis, especially in the agriculture and garment industries. Total available work force is around 20,000 people. Keeping good personnel is a problem due to the ease with which they can leave. Literacy is considered no problem.

## COMPENSATION - MINIMUM WAGE, AVERAGE WAGES

There is a minimum wage which covers domestic servants and store employees only. Average manufacturing wage is about 90 cents US per hour.

## LABOR UNIONS - PREVALENCE, FREQUENCY OF STRIKES, MAJOR UNIONS

Labor unions exist but are not as strong as in most other OECS countries. The major union is the St. Kitts and Nevis Trades and Labour Union with 2800 members.

Strikes are relatively infrequent.

## ELECTRICITY - VOLTAGES, RELIABILITY, IMPROVEMENTS IN PROGRESS

Power supply is fairly regular. Backup generators are not very common. 100% of power is supplied from diesel. Additional generating plant is needed as well as skilled personnel in maintenance and transmission. Voltage is 220 volts at 50 cycles and costs about 13 cents US/kwh.

## COMMUNICATIONS

All of the island is served by phone which is of good quality (2800 phones). Links with Antigua for external communications exist. International direct dialling is available.

## WATER AND WASTE DISPOSAL

Water is clean and reliable. No common sewage treatment and disposal system currently exist.

## TRANSPORTATION - PORT FACILITIES, AIR AND SEA CONNECTIONS

Port facilities are considered good, existing at Basseterre. Container facilities exist and drafts of up to 30 feet can be handled. A roll-on, roll-off facility exists. No harbor exists to protect ships from storms. Sea connections to Puerto Rico twice a week (containerized) and fairly good connections to Antigua and St. Maarten exist. Good shipping connections exist to Europe Canada and the USA.

The Golden Rock airport is 8000 ft and the Nevis airport is 2500 ft. Air service is good and improving with service from LIAT, Pan Am, American and BWIA. A number of small carriers provide links to the other islands. Cargo is somewhat of a problem, but better than most islands.

## BANKING SYSTEM

Major banks include, Barclays, Royal Bank of Canada, The Bank of Nova Scotia, St. Kitts-Nevis National Bank and the Development Bank of St. Kitts and Nevis.

## INDUSTRIAL ESTATES - FACILITIES AND AVAILABILITY

Industrial estates are owned by the Development Bank with space built on demand rather than for inventory, although they claim to have some space in reserve. Many consider the availability of space a major problem. Annual rent is currently $1.90 to 2.65 US/sq ft according to the Development Bank. There are 2 parks in St. Kitts and one in Nevis.

## BUSINESS SUPPORT ORGANIZATIONS

St. Kitts and Nevis Employers Federation
Chamber of Industry and Commerce
Ministry of Finance, Economic Planning Division
National Development Foundation
Permanent Secretary, Ministry of Development
Investment Promotion Agency
Development Bank of St. Kitts & Nevis



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## ST. LUCIA

## BUSINESS CLIMATE PROFILE

### INDUSTRIAL DEVELOPMENT POLICY - PRIORITY AREAS

Government objectives appear to be agricultural diversification, tourism, small and micro enterprise, s807 type assembly operations and data entry. There is little overall development planning, but government will capitalize on any opportunity which presents itself.

### COMPANY FORMATION REGULATIONS

The process of registering a company takes approximately 2 weeks and the costs depend on the amount of capitalization. Stamp duty ranges from EC$230 to EC$2,000, while legal fees start at EC$1,500. Although it is not essential to employ the services of a lawyer, usually one is used.

### FOREIGN INVESTMENT INCENTIVES

Hotels - A 10 year tax holiday is offered providing exemption from corporate tax, dividend tax and import taxes on capital items for construction and major redevelopment. Accelerated depreciation on buildings etc. is provided over a 7 year write off period.

Industry - A tax holiday varying from 10 to 15 years is offered depending on the amount of local value added. Enclave enterprises are granted the maximum holiday of 15 years. Duty free entry of machinery, equipment, raw materials and spare parts is also granted. For projects which do not qualify for a tax holiday, an export allowance is available in the form of a tax rebate ranging from 25% to 50% of the tax on export profits depending on the proportion of export profits compared to total profits.

Exporters enjoy preferential and duty free access to export markets under preferential trade agreements provided by CBI, CARIBCAN and Lome. Also, the prerequisite tax information exchange agreement has been signed to provide access to Puerto Rico's s936 funds and projects, although the implementing legislation has not yet been passed.

### EXPORT INCENTIVE PROGRAMS

For projects which do not qualify for a tax holiday, an export allowance is available in the form of a tax rebate ranging from 25% to 50% of the tax on export profits depending on the proportion of export profits compared to total profits.



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## FOREIGN EXCHANGE REGULATIONS - REPATRIATION OF PROFITS AND DIVIDENDS

There is no restriction on repatriation of profits, purchase of goods overseas, payment of principal and interest on foreign borrowings and payment of salaries overseas, other than the need for formal application which is normally expected to be granted if there is a sound business reason. A 25% withholding tax applies to purchase of services overseas, payment of management fees and royalties.

## CORPORATE AND PERSONAL TAXES

Corporations pay tax on profits at the rate of 45%. There is no capital gains tax. Corporations can normally amortize buildings over 20 years and other equipment over 5 to 10 years. Corporations pay tax on dividend income. There is a proposal to reduce corporate tax to 35% as well as personal tax rates (from 50% to 33.3%) and to increase indirect taxes. Whilst the process of increasing indirect taxes has begun, direct taxes have not yet been reduced.

Double tax agreements exist with USA, Canada, UK, Switzerland, Norway, Sweden and Denmark.

## IMPORT REGIME - DUTIES, TAXES, LICENSES, FREE ZONES

Taxes on imports are not considered to be any worse than other OECS countries. Generally within the region, there are no import duties on CARICOM goods. Consumption taxes are charged and vary from from country to country. Consumption taxes are considered to be high as a result of the policy to deemphasize direct tax in favour of indirect forms. Licensing is not considered to present any obstacles to trade even though there are some negative listed and controlled items. The private sector does not express any concern that import licensing requirements and negative listing has imposed unacceptable restrictions on their activities.

Free zone space is available at Hewanorra and Vieux Fort in the south of the island close to the international air port. No special services are provided in industrial parks. Land is more readily available than factory space. The St. Lucia National Development Corporation builds factory space to demand rather than carrying an inventory.

## EXPORT REGIME - LICENSES

None.



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## PRICE AND CREDIT CONTROLS

There is almost no interference in the private sector by government. Price controls apply only to a few items - mostly agriculture imports. Money supply policy has not been identified as being a constraint to availability of credit. Consumer credit is readily available and the banking system is liquid, suffering more from a dearth of bankable investment projects.

## LABOR FORCE - SIZE, SKILL LEVEL AVAILABILITY, LITERACY

The labor force considered ample with an estimated 20% unemployment. St. Lucia has to be viewed as a dual language (English/Creole) situation. Low skill, high volume employment opportunities (garments, data entry) seem to cater to females but have not been successful in significantly reducing male unemployment.

## COMPENSATION - MINIMUM WAGE, AVERAGE WAGES, REDUNDANCY

Labor costs are considered modest by regional standards. Average wage runs approximately 90¢ per hour for unskilled labor and $1.80 per hour for experienced labor. The statutory minimum wage is so low that nobody pays it or even remembers what it is - in fact the minimum wage rate ranges from EC$2 to EC$9. Severance law provides for payment of such low compensation that few employers adopt the minimum. The law provides for compensation of between one to three weeks pay depending on length of service (8 years service is required for the three weeks entitlement) and the pay rate is the lower of actual pay or a rate ranging from EC$100 to EC$300 again depending on length of service (the $300 rate being available only to those with 8 years service). After 8 years service, the maximum compensation provided by law is therefore EC$900 (approx. US$333).

## LABOR UNIONS - PREVALENCE, FREQUENCY OF STRIKES, MAJOR UNIONS

Labor relations are in good shape with no recent history of labor unrest, strikes or industrial disputes. Restrictive labor practices are not generally imposed. Recent union wage negotiations have been settled amicably.

## ELECTRICITY - VOLTAGES, RELIABILITY, IMPROVEMENTS IN PROGRESS

There are frequent power outages. Hotels install back up generators. The island's power is diesel generated and a new generator plant contract has recently been awarded. The island supply is 240 volt single phase, 416 volt three phase, frequency of 50 hertz.

## COMMUNICATIONS

The island's telephone system has the capacity to serve 100% of the island's current needs. International direct dialing is available to all consumers. A new earth station is planned to support the data entry industry.

## WATER AND WASTE DISPOSAL

Water supply becomes unreliable in the dry season. Hotels install back up storage facilities. There is no common sewage treatment and disposal system. Surface water drainage problems in Castries are now being addressed.

## TRANSPORTATION - PORT FACILITIES, AIR AND SEA CONNECTIONS

Vigie (Castries) - 5,700 ft. runway capable of handling aircraft up to an Avro - night landing facilities available.

Hewanorra (Vieux Fort) - 7,000 ft. runway capable of handling aircraft up to Boeing 747 - night landing facilities available.

Pointe Seraphin cruise terminal is a popular success. Port services are inefficient but so far effective in meeting the island's immediate needs. Port charges are lower than some regional ports and St. Lucia has picked up transshipment business from Barbados due to its lower cost structure.

Air cargo is a problem since there are no cargo-only flights, only spare capacity on scheduled service after passengers and baggage have first been accommodated.

St. Lucia airports are currently served by BWIA (Miami daily, Toronto, London and Frankfurt twice weekly), American (Puerto Rico daily), British Airways (London and Frankfurt 3 times weekly), Air Canada (Toronto once weekly), Liat, Air Antilles/Pegasus, and Gulf Air.

## BANKING SYSTEM - MAJOR BANKS, RESTRICTIONS ON LOCAL BORROWING

Commercial banks are Bank of Nova Scotia - 2 branches, Barclays - 5, Canadian Imperial - 1, National Commercial - 2, Royal Bank of Canada - 2.

Other financial institutions include the Housing Development Bank, St. Lucia Cooperative Bank and St. Lucia Development Bank.



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Foreign investors may borrow up to 50% of project capital locally subject to government approval.

## INDUSTRIAL ESTATES AND FREE ZONES - FACILITIES AND SPACE AVAILABILITY

Fee zone space is available at Hewanorra and Vieux Fort. No special services are provided in the island's industrial parks. Land is more readily available than factory space and many consider this a major problem. . The St. Lucia National Development Corporation tends to build factory space to demand rather than to carry an inventory. Land at Vieux Fort costs approx EC$2.75 psf. Leases of land are available at 10% of the cost of the land p.a.

## BUSINESS SUPPORT ORGANIZATIONS

Chamber of Commerce and Industry
Development Bank
National Research and Development Foundation
Banana Grower's Association
Employers' Federation
Hotel and Tourist Association
Manufacturer's Association
Marketing Board - gov't owned - agricultural produce
National Development Corporation
Tourist Board
Community College

# ST. VINCENT AND THE GRENADINES

# BUSINESS CLIMATE PROFILE

## INDUSTRIAL DEVELOPMENT POLICY - PRIORITY AREAS

The Government's current objectives are to promote export-oriented production, employment generating activities and import-substitution industries. Diversification of agriculture and expansion of manufacturing are key strategy elements in the accomplishment of these objectives.

## COMPANY FORMATION REGULATIONS

Incorporation requires that the Memorandum, Articles of Association and a Statutory Declaration of Compliance (which must be signed by a lawyer) are filed with the registrar. The process takes between 1 and 3 weeks. The cost of incorporation is approximately EC$250 for EC$10,000 of authorized share capital or EC$3,000 for EC$1,000,000.

## FOREIGN INVESTMENT INCENTIVES

### Hotels

The tax holiday for hotels varies in length depending on the size of a hotel. A 5 to 20 room hotel is eligible for a 10 year holiday, a 21 to 34 room hotel may be granted 12 years and a hotel with 35 rooms or more may be granted up to 15 years. The holiday exempts hotels from corporation tax, dividend tax and import duties on capital items as well as certain operating goods. The hotel is permitted to claim a capital allowance in respect of any capital expenditure incurred in order to earn income. Such capital allowances may be used to create or increase losses for tax purposes. Losses incurred during a holiday as well as any unrelieved capital costs may be carried forward and used against profits earned after the tax holiday.

### Industry

Manufacturing companies are eligible for a tax holiday of between 10 and 15 years which provides exemption from corporation tax. Dividends paid by a corporation enjoying a tax holiday are exempt from personal income taxes. Government may also grant duty free importation of capital and operating items for the duration of a tax holiday. The length of a tax holiday depends on the category in which a business falls. Enterprises for which local value added is at least 50%, enclave enterprises and capital intensive enterprises (where capital investment is over US$9.25 mil) are eligible for a 15 year holiday; enterprises for which local value added is between 25% and 50% are eligible for a 12 year holiday and enterprises for which local value added is between 10% and 25% are eligible for a 10 year holiday.

Preferential or duty free access to export markets under CBI, CARICOM, CARIBCAN and Lome is possible. A tax information exchange agreement has not been signed to provide access to Puerto Rico s936 funds and projects.

## EXPORT INCENTIVE PROGRAMS

None.

## FOREIGN EXCHANGE REGULATIONS - REPATRIATION OF PROFITS AND DIVIDENDS

There are no restrictions on foreign exchange for repatriation of profits, payment of principal and interest on foreign borrowings, purchase of goods and services, or payment of management fees and royalties. Formal applications must be made for the purchase of all foreign exchange but these are normally approved once a sound business reason is given. A 15% withholding tax applies to profits repatriated (applicable only after the end of a tax holiday) and a 20 % withholding tax applies to management fees and royalties.

## CORPORATE TAXES

Companies manufacturing goods for domestic and OECS markets are taxed at a rate of 35%; companies manufacturing goods for the CARICOM market are taxed at a rate of 30%; companies manufacturing goods for the extra CARICOM market are taxed at a rate of 25% and all other companies are subject to tax at a rate of 45%.

## IMPORT REGIME - DUTIES, TAXES, LICENCES, FREE ZONES

Import duties are comparable to the other East Caribbean Common Market countries. Licences are required to import certain goods into St. Vincent but this is not considered an issue.

## EXPORT REGIME - LICENCES, DUTIES

Licences are required to export most food items. Licences are free of charge and are just a formality. This is not considered an issue. There are, however, export duties on certain traditional agricultural items. Bananas, for example, attract a 3% tax. An exporter of coconuts is charged 5¢ per nut.

## PRICE AND CREDIT CONTROLS

There are price controls on certain basic food items, motor vehicle parts and medical supplies. This does not seem to be an issue however.

## LABOUR FORCE - SIZE, SKILL LEVEL AVAILABILITY, LITERACY

Although a population census has not been carried out recently, it is estimated that the rate of unemployment is at least 20% and could be as high as 40%. The majority of the labour force is unskilled. Many people have a very basic level of education and some are uneducated.

## COMPENSATION - MINIMUM WAGE, AVERAGE WAGES

Compensation is very low. Minimum wage rates for industrial workers are EC$13.52 and EC$10.40 for males and females respectively. For agricultural workers corresponding wage rates are EC$10.40 and EC$7.80. These rates were set in 1982, however and are generally lower than current rates.

## LABOR UNIONS - PREVALENCE, FREQUENCY OF STRIKES

Labour unions are quite active and are involved in training and other programs to help in the development of the labor force. There is no legal compulsion for an enterprise to be unionized and there was no indication that unions pose a problem in St. Vincent. About 30% of the work force is unionized.

## ELECTRICITY - VOLTAGES, RELIABILITY, IMPROVEMENTS IN PROGRESS

Electricity is generated using diesel. The current is 240/400 Volt, 3 phase, 50 Cycles. There are frequent power outages and many hotels install back up generators. Government is concerned with the reliability of supply and is trying to correct the problem.

## COMMUNICATIONS

The telephone system covers most of the St. Vincent area and the larger islands of the Grenadines. International direct dialling is only available to a limited number of subscribers, but work is currently in progress to provide all subscribers with direct dialling capabilities.

## WATER AND WASTE DISPOSAL

St. Vincent has abundant rainfall and the water system adequately supplies the island's needs on a year round basis.

## TRANSPORTATION - PORT FACILITIES, AIR AND SEA CONNECTIONS

Airport - The airport has a runway length of 4,650 feet and can accommodate aircraft up to the size of an Avro 748. The airport is served by Liat and other light aircraft.

Sea Port - Kingstown has a natural harbor. There is a 900 foot pier with berth space for 2 to 3 vessels. The a maximum depth of the approach channel is 27 feet . The size of the port, although small is able to handle the current level of traffic, which at present is usually a maximum of 2 ships per day. The facilities at the port need upgrading, however.

## BANKING SYSTEM - MAJOR BANKS, RESTRICTIONS ON LOCAL BORROWING

The banking system is quite modern with both international and local banks. The major banks are Barclays Bank, Canadian Imperial Bank of Commerce, Caribbean Banking Corporation, St. Vincent Cooperative Bank, Bank of Nova Scotia, National Commercial Bank of St. Vincent and St. Vincent Agriculture Credit and Loan Bank

## INDUSTRIAL ESTATES AND FREE ZONES - FACILITIES AND SPACE AVAILABILITY

Campden Park is the only industrial park. Factory space costs between US$2.50 and $3 per square foot according to government sources, confirmed by the Chamber of Commerce. Currently there is little factory space available but there is also little demand for additional space. However, many consider this a major problem. Another industrial park is planned on the windward side of the island at Diamond.

## BUSINESS SUPPORT ORGANIZATIONS

The Development Corporation
Chamber of Commerce
National Development Foundation
Banana Growers Association
Employers' Federation
Hotel Association
Technical and Vocational Institute
National Commercial Bank

# CHAPTER IV

# CONSTRAINTS TO PRIVATE SECTOR DEVELOPMENT

# INTRODUCTION

## Purpose

This chapter identifies the conditions prevailing in the OECS countries which are serving to inhibit or constrain growth in private sector activity. It provides knowledge of the issues and problems to which a successful private sector strategy should seek solutions and the manner in which the constraints will themselves serve to influence the success or failure of particular components of an action plan. It facilitates an understanding of how the various constraints interact with each other, how the impact of remedial action in one area is dependent upon action in another and how areas for priority attention may be determined. This chapter also provides a framework for judging the relevance and potential impact of existing and proposed new AID programs.

## Method

This chapter has been compiled from the results of more than 80 personal interviews conducted by Arthur Young with public and private sector representatives throughout the OECS sub region. Persons interviewed were drawn from the commercial and development banking sectors, large, medium and small size enterprises in tourism, manufacturing and agribusiness, key government ministries and departments and private sector organizations. It also draws on the accumulated experience of the consultants who have lived and worked in the region for more than a decade providing professional advice and services to private investors and participating in the business life of the region. AID adopted this approach in order that the description of constraints and opportunities should be candid and informed, rather than perpetuate any pre-conceived assessments or biases that might exist within AID or among advisors not so personally attuned to the business environment and life of the region.

## Results

Many problems and constraints face private sector development in the OECS countries. They range from those which are common throughout the world - finance, collateral security, bad government policy - to those which are unique to the West Indies - small scale, novelty of private enterprise experience, social structure. Key constraints relate to finance, the shortage of business and market skills and the creation of an environment conducive to new investment (both local and foreign) and to business development.

In view of the complex nature of the subject of this chapter, its findings are presented in a sequence that facilitates an understanding of each topic by building the picture in a methodical fashion. The sequence in which topics are presented does not therefore indicate any order of assumed priority or importance. To assist the reader in comprehending the range and relative severity of constraints, the matrix in table IV-1 has been assembled. The purpose of the matrix is not to define all of the problems facing the private sector, but to concisely describe those most frequently identified as significant during the consultants' interviews.

### Description of chapter

The remainder of this chapter expands upon the constraints outlined in the matrix in table IV-1. Although not rigorous in nature, the various points attempt to explain how and why the constraint is a constraint. A number of examples have been included where they are available and serve to illustrate the points. The description of constraints is gathered under the following major headings.

- Constraints inherent in the general business environment.
- Constraints to the expansion of local investment.
- Constraints to the growth of foreign investment.
- Constraints related to infrastructure and labor.
- Constraints related to tourism, manufacturing and agriculture.
- Constraints related to public policy.

The discussion of the various constraints necessarily touches upon the opportunities which exist for private sector growth as well as the opportunities which exist for growth to be achieved by eliminating or diminishing the impact of the constraints. In addition, the sectoral analysis presented in chapter II discusses recent past performance and current growth trends and prospects in the principal sectors of tourism, manufacturing and agriculture. Therefore a separate treatment of opportunities is not provided in this chapter. Chapter V presents the consultants' recommendations for USAID interventions and a fuller treatment of opportunities to be derived from correction of constraints is provided in that chapter in support of the recommendations. Finally, this chapter presents under a separate heading an assessment of comments made to the consultants in respect of AID's approach to earlier private sector development programs and identifies actions which USAID might address internally in order to maximize the impact of its programs.

## GENERAL BUSINESS ENVIRONMENT

### The size of the markets and communities.

The small size of the OECS markets and societies taken individually, and even as a sub region, presents formidable constraints to private sector development. The small scale of OECS and even the wider CARICOM markets prevents the

Table IV-1

## MATRIX OF SIGNIFICANCE OF PRIVATE SECTOR CONSTRAINTS

SCALE OF 1 = HARDLY SIGNIFICANT TO 5 = VERY SIGNIFICANT

| Constraint area | Antigua | Dominica | Grenada | Montserrat | St. Kitts | St. Lucia | St. Vincent |
|---|---|---|---|---|---|---|---|
| **GENERAL CONSTRAINTS** | | | | | | | |
| Stigma of failure | 4 | 5 | 5 | 5 | 5 | 4 | 5 |
| Small market size | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Small society | 3 | 3 | 3 | 4 | 4 | 3 | 3 |
| Complacency of large business | 4 | 5 | 5 | 3 | 4 | 4 | 5 |
| Complacency of farmers | 4 | 3 | 5 | 4 | 3 | 4 | 5 |
| Attitude to foreign investment | 3 | 3 | 3 | 2 | 3 | 3 | 2 |
| Rationalisation/modernisation of laws | 2 | 2 | 3 | 2 | 3 | 3 | 3 |
| Strength of private sector organisations | 4 | 3 | 2 | 3 | 2 | 3 | 4 |
| **BUSINESS SKILLS** | | | | | | | |
| Basic management skills | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Middle management skills | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Senior management development | 4 | 5 | 5 | 5 | 4 | 4 | 5 |
| Marketing & merchandising | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Financial management | 3 | 4 | 5 | 4 | 3 | 4 | 5 |
| Business planning | 3 | 4 | 5 | 5 | 4 | 4 | 5 |
| Strategic planning | 5 | 5 | 5 | 5 | 5 | 4 | 5 |
| Quality control/product design | 5 | 5 | 5 | 5 | 4 | 4 | 5 |
| Production/materials management | 4 | 4 | 4 | 5 | 4 | 4 | 4 |
| **FINANCE** | | | | | | | |
| Debt financing | 2 | 3 | 3 | 3 | 2 | 2 | 3 |
| Equity/venture capital | 4 | 5 | 5 | 4 | 3 | 4 | 5 |
| Working capital | 4 | 4 | 4 | 4 | 3 | 4 | 4 |
| Security of debt | 3 | 4 | 4 | 3 | 3 | 3 | 3 |
| Bankable projects | 4 | 5 | 5 | 4 | 4 | 4 | 5 |

Table IV-1

## MATRIX OF SIGNIFICANCE OF PRIVATE SECTOR CONSTRAINTS

SCALE OF 1 = HARDLY SIGNIFICANT TO 5 = VERY SIGNIFICANT

| Constraint area | Antigua | Dominica | Grenada | Montserrat | St. Kitts | St. Lucia | St. Vincent |
|---|---|---|---|---|---|---|---|
| **INFRASTRUCTURE/TRANSPORTATION** | | | | | | | |
| Electricity - availability | 5 | 3 | 3 | 3 | 3 | 3 | 3 |
| Electricity - cost | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Water | 4 | 1 | 3 | 2 | 2 | 2 | 1 |
| Telecommunications | 4 | 2 | 3 | 2 | 3 | 2 | 3 |
| Roads | 2 | 2 | 2 | 3 | 3 | 2 | 4 |
| Air port | 2 | 5 | 1 | 5 | 3 | 2 | 5 |
| Sea port | 1 | 4 | 4 | 3 | 3 | 2 | 2 |
| Waste disposal | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Factory shell availability | 3 | 4 | 4 | 3 | 4 | 3 | 4 |
| Air transport - availability | 1 | 4 | 5 | 5 | 2 | 2 | 5 |
| Air transport - cost | 3 | 3 | 3 | 4 | 3 | 3 | 3 |
| Sea transport - availability OECS/CARICOM | 4 | 3 | 3 | 4 | 4 | 3 | 3 |
| Sea transport - availability extra-regional | 3 | 3 | 3 | 3 | 2 | 2 | 3 |
| Sea transport - cost | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| **LABOR** | | | | | | | |
| Work ethic | 4 | 4 | 5 | 4 | 4 | 4 | 5 |
| Availability of unskilled labor | 4 | 2 | 1 | 4 | 4 | 2 | 1 |
| Availability of skilled labor | 3 | 4 | 4 | 3 | 3 | 3 | 4 |
| Cost | 4 | 3 | 2 | 4 | 3 | 2 | 2 |
| Education | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Labor practices | 2 | 2 | 2 | 3 | 2 | 2 | 2 |
| Labor relations | 2 | 3 | 2 | 3 | 2 | 1 | 1 |
| **GOVERNMENT/PUBLIC POLICY** | | | | | | | |
| Inefficiency | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| Policies toward private sector | 1 | 3 | 3 | 3 | 2 | 3 | 4 |
| Understanding of private sector | 3 | 4 | 3 | 3 | 3 | 4 | 4 |
| Taxation | 2 | 3 | 3 | 3 | 2 | 2 | 3 |
| Incentives | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Rationalization of OECS trade | 2 | 4 | 3 | 2 | 3 | 3 | 3 |
| Foreign exchange control | 3 | 4 | 3 | 2 | 3 | 2 | 3 |
| Investment promotion | 3 | 4 | 4 | 3 | 2 | 3 | 4 |
| Tourism planning | 4 | 2 | 3 | 1 | 3 | 4 | 3 |

establishment of business activities that can compete with large scale extra-regional producers on the basis of intra regional markets only. The ability to export both within the region and extra regionally becomes imperative to sustain almost every business activity other than personal services and micro enterprises, not merely to generate foreign currency earnings. However, with these small markets, the scale necessary to produce almost anything in a cost effective manner is difficult to accomplish and so exported goods tend to be uncompetitive (price, channels of distribution etc.) for enterprises initially premised on the basis of regional or national markets.

Further, the OECS countries are very small societies. Personal and family relationships are closely woven and there is little of consequence that occurs without rapidly becoming the subject of public knowledge and discussion. Personalities and minor events assume enormous proportions. Personal opinions and actions as well as business activity come under the most searching scrutiny. Responsibility for an action that is rejected by the society brands the individual for life in an environment from which there may be no escape short of emigration.

Business decisions, and especially risk taking, are made against this background. The price of innovation and entrepreneurship is the risk of failure. Even in developed countries, the failure rate among new business start ups is high. The stigma of failure in the OECS communities is so great in terms of standing and respect in the community, that even (perhaps especially) the most stable and secure individuals tend to act only after extensive reflection and analysis. Winners rapidly become heroes, but losers are shown little mercy and may not be allowed a second chance. The potential long term personal consequences of business decisions distorts the "normal" operation of market forces and commercial activity.

As well, in the relatively unsophisticated societies of the OECS, self employment as a desirable and achievable goal is a new concept. Peoples' understanding of the responsibilities, costs and benefits of private sector enterprise is limited. The encouragement of private sector growth through the emergence of a substantial entrepreneurial class is a goal constrained by the time required for new concepts and ways of thinking to be embraced and become entrenched in society.

## The complacency of established enterprises.

In each of the OECS countries, the business community is dominated by a small number of relatively large, established companies, usually merchants. These established companies tend to be family owned and managed. They control significant shares of capital and managerial resources and their owners tend to be also the pillars of society. However, these companies have not been active in the development of non-traditional enterprises even though they are strategically better equipped and positioned to do so than any other private sector group. Their failure to venture away from traditional activities caused one



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development banker in frustration to describe his country as "a nation of margin gatherers". The reasons advanced for the lack of innovation are:

- New ventures would stretch limited management resources too thinly and jeopardize even the established activities. (In at least one instance, this particular reasoning was even applied to joint venture prospects.)
- Shortage of available working capital.
- Promotion of managers who are not family members would jeopardize the family control and ownership.
- Promotion of managers who are not family members or promotion of joint venture partnerships might expose "family secrets" and practices such as those designed to shelter the family owners from taxation and to provide other benefits of a non-commercial nature.
- There is little motivation to enter ventures seen as unacceptably high risk when traditional activities are yielding a satisfactory income for the investors and management. One of the elements of risk is the adverse consequences for social status and standing in the event of failure discussed previously.

Executives of these enterprises had no answer when asked directly if, with their unused lines of credit and control of significant management resources as well as political and private influence, they are unwilling to enter new ventures, why then should anybody else take the risk. The apparent complacency of this group points up the need to strengthen the private sector organizations of the OECS so as to ensure that the small and micro enterprise sectors are fully represented, are given a chance to grow and to have access to the training and resources to allow them to enter new areas.

Even though there is some indication of these established companies beginning to make new investment in relatively "safe" ventures such as real estate, they can not be regarded as a force for growth and diversification unless they can be motivated into doing so. A few companies are beginning to move in St. Kitts (O.D. Brisbane & Sons, St. Kitts Trading & Development Co.), while St. Vincent Flour Mills is moving into shrimp farming. There is significant peer pressure among these enterprises which crosses national boundaries and which has the potential to generate a "follow the leader" effect if one or two of these enterprises can be persuaded to enter new ventures.

## Constraints to agricultural diversification

With the exception of Antigua, each of the countries has a strong agriculture sector founded on traditional crops such as sugar (St. Kitts), bananas (Grenada, St. Lucia, St. Vincent and Dominica), nutmeg and cocoa (Grenada), coconuts

(Dominica), sea island cotton (Montserrat). In each case, the farmers have little motivation to diversify into "new" food crops for the following reasons.

- They have a highly organized and guaranteed market for their produce and recognize no equally strong market in alternative crops.
- They enjoy a guaranteed price for the crop.
- They enjoy free agricultural extension and other advisory services.
- They are provided with fertilizers and sprays. In St. Vincent and Dominica, their banana crop is even sprayed by light aircraft.
- They have generations of experience in growing and cultivating.
- They are enjoying substantial and stable incomes, sometimes (St. Lucia) complemented by tax exemptions not just on the income but also on vehicles.

In many ways, agricultural diversification is constrained by the same complacency which characterizes the established merchant class. The small farmers who do grow food crops are also regarded as opportunistic and undisciplined in terms of business dealings. There is more than one example of a farmer or group of farmers who contracted to supply a food crop to a buyer, but sold to another at harvest time for a better price. In Dominica a small passion fruit industry has been trying to get off the ground for four years. A number of small farmers were convinced to raise passion fruit and guaranteed 50 cents a pound. When the fruit was harvested, local hucksters were offering $1 and were sold the fruit. At the next harvest, the factory would not accept the fruit, the price dropped to 25 cents and the small farmers consider they have been wronged.

In Grenada, farmers were guaranteed $100 per bag for eddoes by a UK based buyer. At harvest time the local price rose to $120, the crop was sold elsewhere and the UK market folded. Subsequently, the market price dropped to $60 and farmers returned to the UK buyer expecting the $100 price to be made available again.

The farming community tends also to distrust "middle men" who act as distributors. The farmers will seek to circumvent the distributor and secure his margin for themselves. This attitude tends to be driven by a lack of understanding of the value provided by the distributor. The result is absence of discipline on both the supply and demand sides resulting in a highly volatile market lurching from shortage to glut with price structures to match. In these circumstances, the activities of public sector marketing corporations, which should serve to control imports to complement local supply and demand, in fact often contribute to the turmoil of the market.

The individuals who have diversified into vegetable and other crops often tend to be small farmers and those who are new to agriculture. Risk is perceived to be high without all the supports in terms of inputs and markets enjoyed by the traditional crops. The need to get some of the larger farmers involved in non-traditional crops as a way to give stability to supply and enforce some discipline was noted. The reasons given for the unreliability of the small farmer include a lack of education about how markets work and how to practice business; the newness of the concept of growing fruits and vegetables for sale rather than the more traditional kitchen gardens where some is sold and some is consumed by the family; the lack of reliable and disciplined repeat markets where the cost of failure to keep to a contract would be sufficiently high to enforce compliance.

**The banking system.**

In all of the OECS countries without exception, the commercial banking systems are highly liquid. With the exception of micro enterprises financed through the NDF's, the development banks have experienced slow growth in their portfolios indicating that they also find difficulty in identifying new investment opportunities to absorb the available funds. The problem, say the bankers, is a dearth of bankable projects and the reasons identified are as follows.

- Many entrepreneurs with a viable project do not possess the general business skills necessary to secure the confidence of the banking community. While the project and business plan may be good, bankers do not believe the manager has the requisite skills, experience or discipline to make the project a success.

- In particular, applicants for new venture loans are generally incapable of preparing credible business plans or, if they have obtained professional assistance in preparing a business plan, do not demonstrate the skills necessary to implement or comply with it. Some typical examples:

  In Grenada, one applicant presented a bank manager with an envelope full of receipts and invoices to represent the proposed business plan.

  In another case, a loan was granted for construction of a 2 storey building to house a new restaurant business. On his return from vacation the bank manager discovered a 3 storey building in progress which had been started on the entrepreneur's advice from a friend that it would be a more efficient and profitable use of the land. No consideration had been given to the fact that there was only sufficient funding available for 2 storeys. The project failed as a result of too great a debt burden.

- Many projects have been convincing in terms of production capability but the ability to undertake merchandising and marketing activities is absent or extremely weak. Again, this reflects the weakness and limited range of management skills.

- There is a general difficulty in identifying security for loans. In Dominica, for example, the development bank requires between 133% and 150% security on any loan. Even if that requirement can be met, it means that there is nothing left over to offer as security for a commercial bank loan for working capital, the development bank typically taking a fixed and floating charge over all of the enterprise's assets.

- The small size, or total absence, of a market for specialist equipment offered as security for some loan applications may result in the security offered being valued as worthless.

- Some bankers mentioned their experience with inappropriate priorities demonstrated by their clients. Cash management skills being rather weak, temporary positive cash flows might be very quickly used "to purchase luxuries such as expensive cars rather than to improve financial management with a $10,000 computer" or otherwise reinvested in the future growth or financial stability of the enterprise. This is the result of misplaced values or inability to plan for the future, but is not related to or encouraged by the tax structure.

Whilst the difficulties faced by the banking community in approving new loans are valid, the following criticisms are leveled against them.

- The commercial banks are accused of complacency in their reliance on traditional short term consumer lending. They have little incentive to become involved in areas where they have less expertise. The exceptions tend to be local banks with strong leadership and, perhaps, a greater depth of understanding of the personalities involved in a project ("lend to the person, not the project" as one banker puts it).

- The policies of the majority foreign owned banks are determined abroad with sectoral portfolio targets and loan policies that are relatively inflexible. One company executive in St. Lucia believes that it is essential for the chambers of commerce to prepare strategies for consultation with the headquarters personnel of the banks since he sees no indication of any change occurring on the strength of the local management's authority.

The fact of surplus liquidity coupled with the potential for increased competition from other sources - CFSC, development banks - should tend to encourage the commercial banks to liberalize their approach to portfolio management and project evaluation, although there is precious little evidence of this happening yet. Some banks have begun home mortgage loans in recent years. This is seen as a major step away from the syndrome of "can't make long term loans with short term deposits". Also, the credit guarantee program with the NDF micro business sector should begin to introduce a whole new class of business to the banks, many of whom will stay on as clients as they prove their businesses.



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## EXPANSION OF LOCAL INVESTMENT.

The conclusion is that, aside from motivating the established merchant businesses, the future for new local investment lies with individuals possessing some special expertise or confidence in a business venture but unable to implement their project from their own resources or within the constraints of the existing business environment. Specifically, they lack business skills and access to the capital required.

### Business skills.

The shortage of business skills presents one of the most formidable constraints to private sector development in the region. This shortage exists to some degree in almost all private sector enterprises in the OECS countries. Even the large established companies cite it as a reason for their unwillingness to enter into new ventures. There is a universal call for more training opportunities at all levels from youth training programs, to the business support services of the NDF's, to the executive seminars conducted for senior executives. Specifically, the priority areas identified were as follows.

- Basic management skills. This is a priority area for micro enterprises. A retailer of handicraft items and another of furniture found that the manufacturers would interrupt commercial orders to make some special items for a friend or family member. Micro entrepreneurs tend not to place any value on their time, only on materials.

- Middle management skills. This is a priority to enable senior executives of established enterprises to delegate routine functions and promote confidence in their ability to expand into non-traditional ventures.

- Senior management skills such as strategic planning to expand the range of vision of executives in terms of what they might seek to accomplish by leveraging their available resources.

- Merchandising and marketing. This was considered by all to be one of the single most significant and important constraints. Little innovation is shown in presenting even familiar products in new and exciting ways that will make them attractive to both the local market as well as tourists if not for physical export. An example of what can be achieved is the CSR (Cane Spirit Rothschild) clear spirit produced in St. Kitts from sugar which is gaining acceptance as a "status drink" competing successfully in that respect even with "Black Label" whiskies.

- Financial management and business planning. There is the problem here that some businesses may resist proper record keeping because they find it convenient to muddy the waters of their business performance so as to minimize exposure to tax liabilities and other regulatory impositions. The danger is that in the process the business may have no accurate measure of product or service costs, nor any basis for demonstrating compliance with targets agreed with financial institutions.

- Production and materials management. Scheduling of production runs and staffing to meet contractual obligations, avoiding stock outs of raw materials or finished goods and avoiding over-production are significant management problems given the volatile markets for most manufactured products and the uncertainties of shipping of both raw materials and finished goods.

- Product design and quality control are cited as weaknesses of manufactured goods. Small manufacturers especially tend to be motivated by values that are not relevant to the market. A shop in St. Lucia selling locally made items to cruise ship passengers finds it impossible to persuade the manufacturers to change product design even marginally to better suit the demands of the buyers. The manufacturers are unwilling to compromise their own design taste.

Supplementing the skills of the entrepreneur with services provided through NDF's, development banks and other organizations and programs is only part of the solution. Peace Corps volunteers and accounting firms (if affordable) may be able to provide invaluable temporary support, but bankable projects need to demonstrate the ability to follow through on an ongoing basis. <u>The need is for the entrepreneurs to acquire the skills themselves</u>. Procrustean solutions are unlikely to be effective. Didactic training has to be supplemented by follow up to enable the entrepreneurs to implement new concepts in their own business settings.

**Access to capital.**

Access to working capital is perhaps the single most significant financing constraint. When it is possible to find the money for equipment by offering the equipment itself as security, there is often nothing left over to support a further loan application. The new export credit guarantee scheme of the East Caribbean Central Bank may make working capital more readily available for some manufacturers, but few potential beneficiaries are yet either aware of or understand the value of the scheme or how to make use of it. In Dominica, the NDF, after months of trying, has finally obtained permission to set up a working capital fund, but with only US$50,000 it can only be regarded as an experiment.

Outside of the established business houses, local investors lack equity and collateral to support loan applications. The shortage of equity leads in some cases to cutting corners of projects, resulting in inefficient operations, inattention to quality standards and long term competitive disadvantage. There is much talk, but little understanding, of venture capital which is hardly available to a new entrepreneur at all. People with cash are rarely willing to invest in an unproven concept or, worse yet, an unproven manager. Lack of equity both thwarts new project development and also limits the willingness of banks to lend to a project.

CFSC is not widely known and its more liberal approach to project financing might benefit from greater publicity of its services and achievements, as well as from increased loan limits. Debt financing is also constrained by the inability to prepare and sustain credible business plans as previously discussed. Development banks tend to focus on new projects and start ups since their policies and loan sources do not enable or encourage them to become involved with refinancing or debt consolidation options associated with potential diversification or expansion of existing enterprises.

The general constraint of shortage of equity and of loan capital is not directly impacted by tax or other government policies. There is the potential to utilize tax and other policies to encourage mobilization of savings into productive investment, but there is no evidence that existing policies contrive to make unproductive deposits more attractive.

### Stigma of failure.

This constraint bears repeating because of its deterrent effect on mobilizing local investment in unproven enterprises. In the small communities of the OECS countries, it does not require the resources of a Dun & Bradstreet to permit the community to discover the credit history of any individual. Fear of social rejection is compounded by concern for the welfare and security of family when development banks or commercial banks demand personal guarantees in support of loan applications. Unfortunately this most affects the medium size businesses which are the most capable of growth and expansion. The one man entrepreneur will likely still go forward as he often has little to lose in the eyes of the community. It is those most capable who suffer most from this constraint.

### The role of micro/small enterprise.

Micro enterprise is regarded by the commercial banks and more established businesses as politically expedient but as having very little real economic impact; it is a means to an end rather than an end in itself. The NDF's are clearly enthusiastically committed to their clients - in St. Lucia more than EC$1.3m has been disbursed since 1984 in 200 loans creating 1.8 jobs per loan. They perceive that by enabling a client to run a business, one of the greatest accomplishments is the pride that it generates not only for the client but for the family and circle of friends. It promotes self respect and the belief that other ambitions, previously thought to be unrealistic, may also be achievable. In a society in which education has not yet succeeded in broadening the range of ambition and the vision of what can be achieved, this infusion of belief in the art of the possible is a significant accomplishment.

Micro enterprise also provides a relatively low risk opportunity for the entrepreneurs to acquire some basic business skills through practical experience. However, even the NDF's acknowledge the difficulty of graduating their clients so that they can function without continuous subsidy. Significant expansion of NDF activity depends in part on provision of factory space to accommodate those enterprises which begin to grow as well as to facilitate the delivery of mentoring and other business services. However, they acknowledge that their clients can not afford to pay commercial rents for the facility.

Whilst the NDF's are seen to be winners in helping businesses start, there are few programs for ongoing small and medium sized businesses. This group seems to fall into the cracks between the NDF's and CFSC, with many aspects of the SEA/P seen to have little benefit to these companies. Part of this is due to lack of knowledge about SEA/P and the slow start up of some of its components and part due to the 25% cost sharing requirement by the company for obtaining technical assistance. It is felt to be too high by many people.

There was a lack of understanding that business failure should be recognized as a natural component of risk taking, innovation and entrepreneurship. Development agencies should not prolong the process through subsidized means. This ties into the overall lack of understanding of the role and responsibilities of private sector activities by large and small businesses, the banks and governments.

## EXPANSION OF FOREIGN INVESTMENT

Foreign investment in the OECS has typically consisted of the traditional form in which the foreign investor owns a controlling, usually 100%, interest in the venture. Whilst there are significant rewards to be derived from the further promotion of foreign investment, it has had a mixed record in some countries, particularly the Leewards. This has left a bad taste which the governments must continually seek to overcome. Accusations (true or false) leveled against foreign investment include:

- Foreigners are given privileges and concessions not available to local investors. In a similar vein, one local manufacturer in St. Lucia had been granted fiscal incentives to produce appliances only to discover shortly afterwards that a foreign investor was granted the same incentive for the same product in direct competition with him. The complaint is "Everything for the foreigner, nothing for us".

- Foreign investors are often better placed than local investors to produce a competitively priced and higher quality product or service and are better equipped to bring it to market so that they appear to have an "unfair" advantage.

- Foreigners make poor corporate citizens, arriving suddenly and demanding priority access to scarce resources, then leaving just as suddenly when it suits them to do so, not always for what are deemed valid reasons. The foreign investor who departs at the expiration of the tax holiday is a case in point.

- Some loss of control to foreigners over internal economic activity creates tension. The president of one chamber of commerce says in this regard that "the region has been exporting its capital since Columbus".

- Some foreigners are granted permission to establish a business in an approved sector such as manufacturing and the investor then sets up another business such as a retail or merchant enterprise in competition with what locals consider to be activities reserved for them.

- Foreign enterprises are characterized as typically low tech businesses designed to exploit low skilled labor and providing unattractive jobs at low rates.

- Low tech enterprises such as garments and electronics assembly are viewed as providing jobs mainly for females, only few opportunities being provided for male employment.

On the other hand, the advantages of foreign investment are also recognized. These include:

- Larger scale investment than local investors could sustain.

- Employment generation, foreign exchange earnings etc.

- Technology and skills transfer.

- Management skills training ground.

- Demonstration effect for local investors.

- Management expertise and marketing experience and access.

In St. Kitts, Montserrat and Antigua, the view was expressed that further significant foreign investment in enclave industries such as garments could not be sustained due to shortage of labor. Whilst there is not yet full employment, some unemployed would prefer to remain unemployed than to take the low skill employment offered. There is already evidence of imported labor in some countries. In some cases, the countries are looking to change the role of foreign investment to "upgrading" the quality of employment by replacing existing low tech industries with more attractive opportunities. However, there is no evidence of detailed planning to achieve this goal.

Where foreign investment is sought, the promotion efforts are generally initiated by governments rather than the private sector and have tended to focus on tax reliefs and preferential market access. Some assembly operations attracted by



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the preferential access to US markets provided by s807 of the US Tariff Schedule have been successfully promoted. In other cases, investment promotion efforts have not been uniformly successful. This may be due in part to the fact that tax reliefs, on which much emphasis is placed, probably do not play a significant role in the foreign investment decision.

A reassessment of the incentives offered to attract foreign investment appears necessary and the opportunity might be taken to rationalize the incentives throughout the OECS. The expressed need to compete for foreign investment with other countries (the rest of the Caricom region, the Dominican Republic, the Far East) must be tempered by consideration of the cost of that competition.

Foreign investment promotion is currently government led and based on tax reliefs and other concessions. Instead, success with foreign investment promotion should rest on identifying and expanding the genuine advantages of the region as opposed to artificial concessions and on the correction of negative perceptions on the part of potential investors (which can be created by the regulatory activities of government). It is seen by many that correcting the negatives (bureaucracy, unreasonable tax rates, transportation constraints) and accentuating the positives (nice place to live) will do more to attract foreign investment than will a whole set of legislated fiscal incentives. This aspect is revisited in a later paragraph.

## INFRASTRUCTURE AND LABOR

### Roads, water, electricity, communications, waste disposal.

There is general acceptance of the status quo even though the reliability/availability of utilities is not considered ideal anywhere. The worst case is Antigua, but even there it has not put much of a brake on economic activity. In every country, back up electrical generators are considered normal, water tanks are common in hotels and people (both nationals and foreign investors after they have set up operations) are prepared to suffer with the phones. The high cost of electricity is viewed as a constraint throughout the region. In most countries, the USAID road schemes have been effective but there will soon be a need for maintenance.

Any shortcomings in these areas are more likely to be of concern in attracting new foreign investment than in encouraging local investment or in maintaining existing business activity.

### Air and sea transport.

Airport facilities are a major constraint in St. Vincent, Montserrat and Dominica, with small runways and few carriers. Dominica also suffers sea port facility problems. Elsewhere, problems are more related to capacity and stability of supply than to physical facilities at this time.

Sea transport of cargo between islands within the region is a far greater constraint than transport of cargo to destinations outside the region. WISCO (a regional public sector marine shipping company) suffers from competition with carriers whose main business is carrying goods to North America and Europe. WISCO is also seen as expensive relative to the small schooners although it runs a more regular schedule. It is easier and cheaper to send sea cargo to Puerto Rico than it is to a destination within the region. Whilst containerized cargo can be transshipped through Puerto Rico to another regional destination, it is much more difficult to accomplish with break bulk or perishable cargo.

Although many large carriers (Geest, Hapag-Lloyd, Tecmarine, Bernuth etc) pass through the islands, they primarily carry freight in and out of the region. Geest will carry inter-island freight but does not stop at all islands, currently does not carry other perishable products (fruits and vegetables) than the bananas that are the primary reason for visiting the region and can be expensive for non-containerized products. The inter-island schooners are considered costly and often do not run on regular schedules. An exception might be the Stella S which runs from Dominica to Barbados carrying fruit and vegetables.

The development of St. Lucia as a transshipment point for extra-regional goods has helped transport among the leeward islands. This business has been taken away from Barbados almost solely on the basis of much lower port charges. The result has been some more regional traffic as these extra-regional shipments are broken down for re-shipment elsewhere in the region.

CARICARGO (a public sector regional air cargo carrier), while offering lower rates than other commercial airlines, suffers from tremendous inefficiency and unbalanced routes. Southbound freight stacks up in Miami and New York while planes fly empty northbound. Maintenance and scheduling problems with the 2 aircraft cause them to be very unreliable. No manufacturer spoken to will deal with them, preferring to pay twice the price and ensure that the cargo gets to its destination.

Regional air freight suffers from the equipment used by the regional carrier LIAT which maximizes passenger capacity at the expense of cargo. This creates a dilemma in that passenger capacity is essential for tourism in those countries (St. Vincent, Dominica, Montserrat) which are poorly served, if at all, by other major destination carriers. LIAT appears to be operating close to capacity so that cargo-only flights are difficult to accommodate. Any unscheduled maintenance also places severe pressure on the scheduled flights. Most electronics manufacturers in Montserrat and Dominica charter planes for exporting products but it is considered expensive.

Other commercial carriers primarily carry freight in and out of the region, but are considered expensive, up to US$1 per pound. These carriers also put a priority on people and baggage so that freight sometimes is delayed, especially in the high tourist season.

In relation to both air and sea cargo as well as air passenger traffic, there is a chicken and egg situation. If there were greater demand, the carriers would respond with increased supply to formerly unprofitable routes. However, investment in increased industrial activity and hotel development can not be widely encouraged unless it is possible to demonstrate how to ship products and receive visitors. This is particularly true for the small island freighters where demand for their services fluctuates widely. They are like the small farmers and will normally go where demand is highest rather than stay with a disciplined schedule. This creates problems for long term planning by manufacturers.

**Factory space.**

Ready availability of factory space was cited by many people as a major constraint to attracting foreign investment. In all countries, construction of factory space has tended to be undertaken on demand rather than to have space inventoried for immediate occupancy. Only when immediate needs are for space less than the economic size of a single factory shell is there a temporary and small inventory. Specific examples were given in Dominica (electronics) and Montserrat (garments) of foreign companies which wanted to set up operations in 30 to 60 days to capture some rapidly emerging market trend. In both cases no space was available and both potential investors moved outside of the OECS region. It might be suggested that such investors would close down just as rapidly when the perceived market advantage dissipated, but they may also stay given a favorable investment climate. The need to have space readily available is emphasized repeatedly throughout the region.

It is estimated, in Dominica for example, that the total time from beginning negotiations to completion of a new factory shell is in the region of 12 to 18 months. Much of this was due to the perceived difficulty of working with the Caribbean Development Bank to access funds under the Employment Investment Program. Both the length of time to negotiate the project and the necessity of complying with standardized, but not necessarily appropriate, construction methods affected the length of time to construct facilities. In general, rents for government owned factory space are charged at subsidized rates, although there is no consistent regional policy or practice in this respect. As well, collection efforts are not always applied as rigorously as they would be in a commercial setting. Although there is no complaint about the cost of factory space (except in the micro sector), there is some concern that other countries outside the region are offering cheaper or even free space.

**Labor**

As regards cost, the state of labor relations and labor practices, there are generally only isolated complaints. Cost becomes a concern only in relation to the region's competitiveness with other regions of the world.

While there is a general problem related to the availability of skilled labor and of skills training opportunities, the availability of unskilled labor produces mixed comments.

Antigua - Shortage of unskilled labor and evidence of imported labor to fill low quality positions. Some unemployed Antiguans would prefer to remain unemployed or seasonally employed in a "quality" job such as in the hotel industry than to accept low quality employment offered in low tech industries or agriculture.

Dominica - Shortage of unskilled labor and a reluctance to accept employment in agriculture (although self employment in agriculture is acceptable).

Grenada, St. Lucia and St. Vincent - No shortage of unskilled labor but a reluctance to accept employment in agriculture.

Montserrat and St. Kitts - Unskilled labor is in short supply, the absolute supply of people being diminished by the continuing problem of emigration.

The work ethic and attitude is of regional concern, but it is important to understand that the comment is related not to laziness or mischief, but rather to the absence of work related training and values and the ability to apply knowledge to a variety of real life situations. In St. Lucia on banana cutting day, children are expected to help the family with the crop and do not attend school. Such training must inevitably diminish the acquisition of values and discipline appropriate to the work place. The USAID youth training program is seen as having been successful not only in political terms but also in that it produced people who could work, in terms both of functional skills as well as in their grasp of behavior norms expected in a work place. However, school leavers generally have almost no idea about how businesses operate and there is a need for more business related curricula in the schools.

Finally, dual language considerations apply where strong dialect is spoken and especially in St. Lucia where Creole is a mother tongue.

## SECTOR SPECIFIC CONSTRAINTS

### Constraints related to tourism

There is general acceptance that tourism has a major role to play in economic development. This enthusiasm is qualified in Dominica by the recognition that its natural resources require that it develop a particular style of tourism in quite sharp contrast to the typical Caribbean sun and sand model. With the possible exception of Antigua, every country qualifies their commitment to tourism with the determination to pursue diversified economies.

Tourism offers potential rewards in terms of employment, foreign exchange earnings, national income and government revenues. Achievement of the rewards depends upon finding solutions to a number of constraining factors.

- Growth of tourism traffic depends upon expansion of the accommodation sector. Since that expansion requires large amounts of capital, it is likely to depend primarily upon foreign investment for the attraction of which a successful and reliable recipe has yet to emerge.

- Growth of tourism traffic also depends upon the creation of demand through comprehensive marketing and promotional efforts, which must be supported by sufficient volume of air traffic to the country. This in turn depends upon adequate airport facilities as well as frequent scheduled air service to the major market areas for Caribbean tourism - the USA, Canada, UK and Europe. A number of OECS countries do not yet enjoy these facilities.

- Delivery of an acceptable tourism product depends on the availability of a comprehensive infrastructure - potable water, telecommunications, electricity and waste disposal for the protection of the environment. Whilst infrastructure may be adequate though not ideal for present demands, substantial growth in the accommodation sector places very large incremental demands on the resources which they may not be able to meet from current expansion plans.

- The extent of the economic benefits of tourism development depends upon the degree to which the foreign exchange earnings can be remitted to and retained in the country and leakages minimized. This implies maximizing linkages to other economic sectors especially industry and agriculture. There is no consensus, however, as to how the linkages between tourism and other sectors can be strengthened. Based on the experience of more touristically developed Caribbean countries, tourism related services which require less organization, expertise, capital and other resources to establish, such as water sports, handicrafts, restaurants, taxis, ground tours etc., commonly develop from local investment without the requirement of significant support and encouragement once the demand from visitors is established.

The capital required to create a single job in the accommodation sector is extremely high compared with other sectors such as manufacturing. The absence of a comprehensive plan to justify and support the expenditure of significant levels of capital in tourism ventures is a major constraint to growth of the sector. There is no clear position in respect of the future strategy for tourism development in the different countries. A pre-requisite for tourism development is tourism master planning at the national and even regional level which must address issues such as:

- Project identification, investment promotion and incentives.
- Marketing and promotion.



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- Market research.
- Product development.
- The administration of tourism.
- Air access and aviation policy.
- Cruise industry policy.
- Infrastructure planning and development.
- Taxation policies.
- Channels of distribution.
- Foreign exchange retention strategies.
- Foreign ownership policies and regulations.
- Environmental planning.

In the absence of a public/private sector consensus on the directions to be taken and the responsibilities to be discharged by each group, tourism development remains haphazard, potentially high cost and low benefit.

The constraints mentioned by the hospitality and tourism sector in the region include the following, not all of which are experienced in all countries.

- The control exerted by tour operators and travel wholesalers who demand deep discounting of room rates.

- The need for a reservation system to allow hotels to place unsold room inventory at the disposal of retail travel agents through tho computerized airline reservation systems. Technological innovation such as this is already a major force in the expansion of the tourism sector in the sophisticated markets from which the region derives most of its visitors.

- The impact of the seasonal pattern of tourism visitation and revenue generation.

- The ownership of appropriate beach front sites by persons unwilling to sell or develop them for tourism purposes.

- The need for enhanced training facilities for employees at all levels so as to be able to deliver international standards of service.

- The imposition of import licensing and negative listing which gives protection to poor quality and high priced products which, although acceptable for local consumption, may not be of a sufficiently high standard for sophisticated travellers who expect what they are accustomed to at home.

- The imposition of high levels of duty and consumption taxes on consumables which are classified as luxuries in relation to their consumption by the local populace, but which are necessities for international class hotels.

- Low financial returns caused by excessive levels of taxation and high costs of construction and utilities which in turn prevent the maintenance of adequate reserves for ongoing replacement and refurbishment and renovations. Weak financial performance constrains access to long term finance for construction and refurbishment. The absence of a capital market to invest cash reserves for future refurbishment would also apply if in fact the hotel industry were able to generate acceptable returns on investment.

- The inadequate funding of the promotional efforts of national tourism organizations.

- Restrictions placed on the granting of work permits.

- Shortage of seat capacity on direct air routes from existing and potential new major markets. Whilst scheduled air carriers await evidence of increased demand before supporting new international direct routes, potential hotel development is constrained by concern over how to transport guests to the country from the major source markets.

- Poor quality service by immigration and customs officials at airports leading to passenger delays and negative assessment of the welcome afforded to visitors.

- An urgent need for enhanced public/private sector consultation and cooperation in planning for the development of the tourism sector.

One of the opportunities frequently associated with tourism is that it increases the size of the domestic market for products of other sectors. Moreover, the incremental demand is export oriented in that the visitors purchase goods and services with "hard" currencies. Constraints related to the strengthening of linkages between tourism and other sectors are considered in the following paragraphs.

### Constraints related to manufacturing

Given the small size of domestic markets, many people feel that some form of rationalization of manufacturing is needed within the OECS to allow industries of economically viable scale to be established. Even though many people are strongly opposed to any government involvement in business decisions, nevertheless there is a strong feeling that within the region more discussion on trade agreements, taxes, incentives and manufacturing facilities needs to be undertaken before OECS trade can become a major force in private sector growth.

Some sort of rationalization or planning will have to occur if local industry and agriculture is to effectively exploit the "home based export market" which tourism represents. There is a tendency within the OECS to copy other successful industries (breweries, furniture, paper products, paint) in each country. This proliferation of facilities, which the small markets are unable to sustain in a cost efficient manner, leads to a poor utilization of resources and expensive competition among the OECS countries to attract new investment. Most manufacturing facilities are established on a scale which do not produce products competitive with those from outside the region (or even from Jamaica or Trinidad) and on top of that, most have excess capacity.

A good example is the Heineken brewery in St. Lucia, a local investment project. For 7 years the brewery was denied protection from imported substitutes through duties and as a result yielded no return to the investors, instead creating a drain on the other resources of the companies with which it is connected. As soon as protection was granted, the brewery began to show healthy returns, but still will not export its product in large volumes because it considers the margin on export pricing to be too low. Its present profitability is entirely dependent on the protected local market. Nonetheless, it is now leveraging its new profitability to finance an $18m expansion to enable it to produce Guinness and Red Stripe.

Although there is considerable disagreement within the region on how to rationalize industry, starting to talk more seriously about taxes, trade agreements etc. is a necessary first step to reduce the constraint of uncompetitive manufacturing facilities.

The accommodation sector consumes many items which could possibly be manufactured within the region. Examples are linens, pillows, blankets, mattresses, towels, furniture, chemicals, electrical fittings, lamp shades, drapes, plumbing fittings, paints, cutlery, crockery, kitchen equipment, air conditioners, fans, sun shades, sun tan creams, beach accessories, paper products, tiles and many more. However, many such industries will likely be found to require at least a regional market to sustain them. To discourage the emergence of more than one manufacturer in each product and to provide protection from extra-regional imports can lead to sloppy management and unacceptable price, quality and standards of customer service. If there is no such agreement, there is a tendency for countries to follow the leader and establish multiple plants in the same industry with the result that none of the players can be sustained. Part of the solution may lie in promoting s807 type operations in which the majority of the output is destined for an extra-regional market in the US or elsewhere.

Another constraint arises from the expressed reluctance of hoteliers, including local investors, to purchase local products. Given the same quality at the same price as imports, hoteliers may still opt for imports if they are not confident of the reliability of supplies or so as to sustain business practices which enable them to reserve funds overseas (e.g. through over-invoicing) or to minimize importation costs (e.g. through under-invoicing).

Complaints are also made that hoteliers are not aware of products that are already manufactured in the region. Many people blame the governments for not encouraging hotels to buy local. A frequently cited example is the Royal



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Antiguan Hotel which was constructed with funding from Italy to which the condition that the materials and fittings be purchased in Italy was attached without effective resistance from the government. The manufacturers are also to blame for not aggressively marketing and merchandising their products. The limitations of intra-regional cargo transport also hampers the ability of a single regional manufacturer to provide reliable supplies.

### Constraints related to agriculture.

The constraints related to promoting the cultivation of non traditional food crops have been fully discussed in an earlier section of his chapter. The constraint of inadequate intra-regional cargo transport is even more significant to the development of regional trade in perishable foodstuffs than it is to manufactured products.

Unlike the case of manufactured items, hoteliers express less concern with the quality and price of local fruit and vegetable produce when it is available. Their main difficulty is unreliability of supply. In terms of planning their purchasing, often the first the accommodation sector knows of the availability of a crop is when the farmer or a huckster drives into the hotel compound with the produce in the back of the truck or car. Their complaint is more one of reliability of supply which is due in part to the small nature of most of the farmers who are producing food crops.

The need to match the advantages of growing traditional crops in order to encourage agricultural diversification has already been discussed. In terms of the hotel industry, enhanced linkages to agriculture might be accomplished by the formation of a purchasing agency, possibly supported by the Hotel Association. The agency would have to guarantee in advance the quantity of a crop which it will purchase and agree to pay the best market price at harvest time. It might also be necessary to provide some inputs to the farmers, perhaps working capital. In order to be successful, the agency would have to be capable of imposing serious penalties on farmers who break contracts and so bring some discipline to the supply side.

## PUBLIC POLICY ISSUES

### Private sector intervention.

All countries felt that their governments are in favor of private sector activity. This position ranged from active promotion in Dominica and St. Lucia to laissez faire in Antigua. However, the actual degree of government intervention in the private sector varied and there appear to be opportunities for privatization in, for example, electricity generation and other public utilities, the dairies of St. Vincent and Antigua, the flour mill of St. Vincent, the national commercial bank of St. Lucia. If this could be accomplished in a fashion that encourages participation by a wide range of small investors, it would mobilize savings into



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productive investments rather than remaining in commercial bank deposits. This could result in the emergence of a small but valuable capital market based on the establishment of the first ever publicly held corporations. In the same connection, so long as the excess liquidity in the banking system is not utilized by the private sector for productive investment, it remains a temptation for use by the public sector to finance increased government activity in the private sector through state owned enterprises and para-statals. However, there has been little previous history of privatization in the Caribbean region and this is due in part to the absence of the political will and confidence to follow such a policy as well as to the conviction that the public sector must take a lead in establishing enterprises if the private sector is reluctant to do so.

**Tax policies and fiscal incentives.**

There is a general concern that taxation policies need to be overhauled and rationalized. The trend is to move away from direct towards indirect forms of taxation. In many cases, it was felt that the indirect forms had been imposed without the promised relief from direct forms, with the resulting complaint of over taxation.

There is widespread support among the private sector for a revision of tax policies so as to favor export industries and proposals to that effect are expected from CAIC. They will need to be mindful of GATT rules. There is an enigma in that the same manufacturers who clamor for tax exemption for exports deny that the hotel sector should be granted the same exemption even though hotels are exporters.

The role and structure of tax reliefs as investment incentives requires re-evaluation taking account of the separate impacts which they have in relation to local as opposed to foreign investment. The theory behind the offer of tax incentives is to achieve one or more of the following goals.

- To accelerate investment that would have occurred anyway but at a slower pace.
- To influence the type of new investment or its geographic location.
- To remove or compensate for barriers to private sector return on investment, or, alternatively, to permit the realization of a higher than normal return on investment.
- To diminish the impact of the potential investor's perception and assessment of risk in terms of both political risk and economic risk.

Appropriate tax incentives are seen as offering one means of motivating both the established local businesses as well as a new local entrepreneurial class to invest in new non-traditional areas of activity. However, those reliefs may not in fact play a significant role in foreign investment promotion. The de-emphasizing



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of direct taxation also serves to diminish the investment promotion value of reliefs from direct taxes. Instead, measures which reduce the cost of investment are seen as more valuable. There is also a need for some clear understanding of the rules for eligibility for various tax incentives, since discretionary approvals are often interpreted as discrimination. Tax provisions which discriminate against new forms of foreign investment such as management contracts, licensing agreements and franchising are seen as requiring review and modification.

**Investment promotion.**

The present approach to investment promotion receives quite severe criticism. A pillar of current thinking on investment promotion is the offer of tax reliefs. In the preceding section the view is recorded that such incentives may not be relevant to the promotion of foreign investment. For the local investor, who by definition has nowhere else to go, tax reliefs may be an effective means of channelling energies into preferred activities such as tourism or manufacturing for export or non traditional food crops. For the foreign investor, the investment decision process will often not reach the stage of detailed exploration of the pros and cons of tax reliefs if more readily apparent negative perceptions are recognized first. These negative perceptions are created in a wide variety of ways, of which some examples are:

- Complex administration, whereby the investor is obliged to prepare extensive documentation and to follow a complex process of application for business licenses, foreign exchange registration, land and share holding permissions etc.

- Discrimination and inconsistency in the way that rules and policies are applied in practice even if not imposed by law.

- The absence of bilateral investment treaties.

- Bureaucratic delays in obtaining rulings in relation to the proposed investment.

- The petty regulation involved in obtaining necessary permits or registering a company or registering to do business.

- Work permit availability and practices that delay or otherwise complicate the recruitment of management personnel and impose a penalty on the investor for the absence of local skills available for the position.

Professionals and others who have had dealings with potential investors indicate that local and especially foreign investment promotion should take as its starting point the elimination of constraints inherent in policies and practices which form the basis for negative perceptions of the country's investment climate. It should then move on to identify and respond to investor needs and concerns in each individual case. It may be that the central role currently played by the public sector in investment promotion through the IDC's would be more effective if shared with the private sector. Foreign executives of corporations with experience of the host country may be more convincing to their peers in proclaiming the virtues of the host country than the country's political directorate.

**Inefficiency of government departments.**

This is a very serious area of concern among the private sector. Complaints range from unnecessary delays in clearing goods through air and sea ports to petty regulation and long waits for government decisions. Part of the problem lies in the attitude of some government employees toward the private sector. A lack of understanding and appreciation of the role, structure and functioning of the private sector on the part of government officials is coupled with thinly disguised contempt for the sector as self interested exploiters of the nation's resources and people. Misguided public officials may see themselves as the protectors of the nation's interests and regard the private sector as their opponents. There are complaints as well that public officials do not appreciate the practical implications of their decisions due to lack of experience. An example given in St. Lucia is the promotion of construction, especially house building, and the simultaneous denial of permission to expand quarrying activity. Accusations are also levelled against public servants that they tend to be obstructive simply to promote their own self importance.

Training with respect to efficiency and private sector development is recommended not only for public officials but also for the officials of regional organizations which exert considerable influence over public sector attitudes and policy making. As one executive put it, "the regional institutions have become too bureaucratic and self serving". The Caribbean Development Bank is frequently singled out as one important example and the DFC's as close relatives of the CDB receive similar criticism. Their processing of projects needs to be speeded up and made more innovative. The St. Lucia Development Bank is considering a joint venture scheme in conjunction with the commercial banks, but the foreign commercial banks say they will not participate due to the inefficiency and "politicization" of both the Development Bank and the National Commercial Bank.

It is worth noting that an adversarial relationship between the public and private sectors, where it exists, is quickly recognized by potential foreign investors and tends to be interpreted as a major deterrent to investment.

It is also fair comment that the private sector tends to be poorly organized in its approaches to government. Strengthening of the private sector organizations so that they are more representative of the range of large and small interests and moderation of their demands to more sharply focussed requests which carry the commitment of their members and can be reasonably accomplished would assist in improving the working relationship with the public sector. So too would the establishment of a closer relationship in joint working groups to address longer term and policy issues.

**Modernization and rationalization of laws.**

The legal framework governing the functioning of the private sector tends to be outdated and fail to recognize modern business practice. Company law is one example. The most recent consolidation of company law is dated 1962 in Antigua and Montserrat, the oldest is a 1926 Act in St. Vincent. Law which recognizes the realities of modern business practice such as telephone meetings is needed. Regulatory laws involving obscure licenses may no longer be relevant and yet remain on the statute books. Tax law in particular consists of a long series of measures passed at budgets but has never been consolidated. It is difficult, even impossible, for the average business to obtain a copy of the tax laws and regulations as they currently stand. Laws providing for new forms of property ownership common in tourism developments such as time sharing, interval ownership and condominium ownership may not be established. There may be conflicts between different pieces of legislation, such as different definitions of a hotel in the investment incentive law, the hotel classification or registration law and the hotel licensing law. The powers and duties of statutory corporations embedded in their empowering legislation may not be updated to reflect the changing demands on the activities of the corporation. Inappropriate and outdated laws can serve to constrain and frustrate growth, efficiency, innovation and diversification in the private sector as well as para-statals.

## PERCEPTIONS OF USAID

The USAID program of private sector projects has been well received and credited with high scores for innovation and comprehensive identification of areas of need even though some projects have been flawed or have failed.

Some concerns arise in respect of the impact of USAID programs which may be improved by actions taken internally within the mission. These perceptions may or may not have any basis in fact.

- The rate of staff turnover within AID is too rapid. Officers do not stay long enough to see their projects through to their conclusions. New officers are inadequately informed about what has occurred before and spend much time going over old ground, relearning old lessons. AID might consider whether its orientation program for new officers fully equips them for their duties and ensures as far as possible that the accumulated experience of the mission is retained and passed on from outgoing officers. Sending poorly informed officers to meet with project contacts diminishes the impression of professionalism.



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- AID is too impatient. It expects programs to show positive results much too quickly and can dampen the enthusiasm of executing agencies by imposing reviews too early in the life of a project.

  AID should avoid rapid changes of direction. AID does not give programs the chance to succeed before deciding that a new emphasis might be more appropriate. Many programs require consensus building, education and adoption of new ways of thinking and acting which need time to establish.

- AID and individual project regulations are too inflexible and complex and inhibit the success of the projects. Project guidelines should recognize that some beneficiaries must be expected to fail if a broad range of businesses are to be reached. Otherwise, project managers will be reluctant to approve individual cases without the most exhaustive analysis.

  One small farmer wanted to buy irrigation equipment to raise winter vegetables for export. It was estimated that he would have to hire 1 - 2 persons to meet the reporting requirements of the HIAMP program and he gave up trying due to the red tape. Although HIAMP receives favorable comments for its provision of equity to projects, there are complaints that it is administration ridden.

  A project director is receiving dunning letters from a travel agent who had supplied travel to a beneficiary of the project and has not been paid for several months due to difficulties in complying with AID and project reimbursement rules.

- AID needs to broaden the range of persons in the region with whom it consults in order to understand how to set its priorities. There is a tendency to consult the same, quite small group of business "leaders" who are the very persons who are identified as being most unlikely to be a significant force in the development of new enterprises. Although this group is well informed about events and circumstances in their countries, there is the risk that they will influence AID activity into areas of benefit to their own traditional enterprises rather than into new, more productive endeavors.

- There is a need to broaden the range of businesses involved in AID programs and in private sector organizations. Too many small and medium sized businesses operate outside the mainstream of the private sector and do not benefit from AID programs. One of AID's primary goals should be to get the private sector to support CAIC and the local chambers and in turn get these organizations more involved with small business and in selling themselves to the public sector.

- AID needs to provide for stronger local participation from the earliest stages of project design and execution. Often success depends upon an intimate understanding of cultural and social forces which expatriates lack. Furthermore, some AID personnel are trained in other areas of the world where it is acceptable for programs to come "from above". In the West Indies, such an approach can not be successful.

- AID's in house reference materials are not adequately catalogued and indexed. Often some of the persons consulted by AID officials felt they knew more about AID programs and activities than the AID officers themselves.

- USAID needs to do a more thorough job of marketing itself, its programs and its achievements. There is a general perception that a high proportion of project funds are swallowed up by American (sic) consultants and institutions such as CDB, never to be seen again. Publication of disbursements, circulation of information about the internal structure and personnel changes and resources of the mission, publicizing consultations with local personnel and especially the identification of case histories of successful program beneficiaries would go a long way to dispelling some of the negative perceptions.

# CHAPTER V

# RECOMMENDED STRATEGY

## INTRODUCTION

This chapter outlines the recommendations for activities by the USAID Private Sector Office for the next five year planning period - 1990 to 1994. The chapter is comprised of three main sections.

- Objectives - which describes a set of objectives for the private sector strategy effort in that time frame.
- Strategy - which provides a framework and rationale for accomplishing those objectives.
- Program components - which describes the specific activities to be carried out under the strategy to achieve the stated objectives.

To assist the reader, table V-1 provides a quick visual review of the structure of the recommendations in this chapter.

This chapter describes a means for continuing the general improvement and strengthening in the private sector's well being throughout the region. The key role of USAID in strengthening the private sector is an accepted fact within the region. The key challenge to USAID will be to maintain the enthusiasm and progress made by the private sector into the next decade. The soundness and strength of the following objectives and strategy will play a large role in the continued development of the region's private sector.

The general approach to programming solutions recommended in this chapter are mostly not new or especially creative. They represent a solid conservative approach which emphasizes consolidation, quality and impact rather than proposing an entire new approach.

## OBJECTIVES

There are three key objectives of the Private Sector Strategy.

- Improve the general business and investment climate.
- Be flexible and responsive to changing circumstances by developing a strategy which places emphasis on many small scale activities rather than few large scale activities.
- Develop a baseline strategy which can respond to changes in funding levels.



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Table V - 1

# USAID RDO/C - PRIVATE SECTOR STRATEGY

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| **OBJECTIVES** | Baseline strategy able to respond to changing funding levels | IMPROVE GENERAL BUSINESS CLIMATE | | Flexible and responsive by focussing on small scale activities |
| **STRATEGY** | **TOURISM**<br>Promote growth | **AGRICULTURE**<br>Promote channels of distribution to discipline supply side | **MANUFACTURING**<br>Seek solutions to constraints and foster implementation | **SERVICES**<br>Monitor growth in response to other sectors |
| **PROGRAM COMPONENTS** | TRAINING AND TECHNICAL ASSISTANCE | PUBLIC POLICY DIALOGUE | | FINANCE |

**Objective 1 - Improve the general business climate.**

The central and pivotal objective is to create a robust private sector in the region by encouraging the creation of a business environment conducive to investment and economic growth. The development of such an environment will encourage investors, both local and foreign, to develop new business ideas, to take risks and contribute to overall economic growth. The objective will have the effect of removing many of the constraints and impediments to strong private sector growth and thereby provide an environment where business itself will decide what activities should be developed, not the government or international agencies.

The region currently suffers from the perception of a poor investment climate by foreign investors. Local businessmen are hampered by numerous constraints which all contribute to slow economic growth and maintenance of traditional types and scales of business activities. Inducing an improved business climate requires attention to be focussed on the following areas.

- Reducing constraints related to government inefficiency.

- Promoting the ability of the private sector to develop policy alternatives in partnership with government to ensure public policies have a private sector input and orientation. In general it is important to promote a balanced dialogue between the private sector and government to promote economic growth based on public/private sector respect, confidence and cooperation.

- Sustaining private sector institutions that can effectively influence governments, improve the business climate, encourage growth and help to improve the work ethic.

- Providing assistance to the private sector in developing "bankable" projects.

- Mobilizing local money for investment and working capital.

- Providing training and technical assistance for management and business skills as well as supervisory and vocational skills and pre-vocational training.

Achievement of this objective would result in the strengthening of the private sector and its ability to deal with government on a more forceful and effective basis. Progress has been made towards this objective over the last 5 - 8 years. Although it may seem slow, the important process of improving the business climate needs to be continued.

### Objective 2 - Small scale projects

The second objective of the private sector program is more an internal objective. It is necessary to ensure that the changing USAID role in supporting the region's private sector activities is sustainable and is seen as effective in the region. While direct intervention has achieved much (particularly in the form of building institutions such as CFSC, the NDF's, a revitalized CAIC etc.), there is a need to continue to improve the climate for investment and business by leveraging the successes of earlier programs.

The constraints identified in Chapter IV combined with the budgetary realities of the coming years require a strategy that is as flexible and responsive as possible. Whilst the impact of programs may be explained in macro scale terms as in past years (strengthening national and regional institutions, fostering tourism sector development etc.), the activities which make them up should begin to be viewed and measured in terms of their impact at a more micro level. An example of what is meant is responding to the "here and now" training and technical assistance needs of a single business to enable it to capture some opportunity when it arises and before it passes in addition to the more usual planning for training in a particular management or vocational skill for a group of businesses which will be of assistance at some later date, but not specifically related to an immediate opportunity.

A major criticism of past USAID programs is that they suffered from an inflexibility which prevented them from being modified when something was shown to be ineffective. Therefore, programs will be broken down into many small components, each targeted at specific private sector constraint or opportunity areas, so that the impact of each activity can be measured promptly in real and practical terms (e.g. "How many enterprises have implemented the financial management skills of last month's seminar?" rather than "To what extent have export earnings increased in response to the export promotion efforts of the last 2 years?") and future activities modified to take advantage of the lessons learned in earlier stages of a program.

It is not intended that programs themselves should be small and numerous and so create an impossible AID management burden. Instead, activities will be grouped and executed through agencies such as CAIC. Providing an executing agency with multiple smaller objectives will also promote innovative approaches to project management on its part and encourage it with a sense of accomplishment which can be recognized at much more frequent intervals.

### Objective 3 - Baseline strategy responsive to changing funding levels

The third objective is to develop a new strategy which consists of a baseline set of activities but which is flexible and easily adaptable to changing funding levels so that the funds that are available from time to time can be utilized in the most effective manner. This is also more an internal objective and complements the second objective. By designing programs containing multiple smaller scale activities, they can be implemented or deferred, expanded or contracted rapidly in response to available funding without affecting the overall impact or thrust of the programs or requiring a major redesign effort.

## STRATEGY

The strategy used to achieve these objectives is straightforward. While the strategy does not directly address individual constraints described in chapter IV, it is focussed on providing the resources necessary to improving the business climate within the region. The strategy can most easily be described in terms of the four major business sectors within the region, namely tourism, agriculture, manufacturing and services. The strategy also complements the economic plans of the OECS countries (with the possible exception of Dominica) to emphasize tourism growth yet try and maintain diversified economies (with the possible exception of Antigua). In overall terms, the strategy statement runs as follows.

- The region possesses a natural comparative advantage in the tourism sector which will be leveraged for its direct economic impacts in terms of foreign exchange, national income and employment generation.

- As a result of promoting growth in the tourism sector, first level impacts will be felt in the services and agriculture sectors which stand to benefit from the expanded local market for direct consumption by visitors. This impact will be strengthened as much as possible.

- But agriculture and especially manufacturing must depend on other prescriptions for growth than simply being carried along by growth in tourism. Therefore, specific program components will provide the means to address the many constraints to growth in these sectors which tourism alone will not resolve, particularly those constraints related to intra-regional trade within both the OECS and wider CARICOM.

This approach to strategy definition differs somewhat from earlier private sector strategies for the OECS region which were explained in terms of foreign investment and extra-regional exports. Whilst these elements are retained in the recommended strategy (foreign investment is a key element of tourism development, for example), they are more implicit than explicit. This conforms with the first stated objective of the strategy whereby foreign investment can be expected to flow in response to the creation of a healthy business climate rather than through contrived efforts on the part of governments and development agencies.



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## Tourism

<u>The strategy in relation to tourism will be to promote planned and accelerated growth focussed on the accommodation sector but also paying attention to the development of ancillary supports.</u>

USAID should recognize the promotion of tourism as an important element of promoting and strengthening the private sector. It is a necessary but, on its own, not a sufficient element to achieving a well developed private sector. Although requiring significant capital investment to create a single job when compared with industry, tourism offers a more acceptable "quality" job and provides much needed foreign exchange. The strategy will also seek means of maximizing the retention of foreign exchange earnings within each country and the region. Tourism development also provides an impetus for development of infrastructural support which benefits local and visitor alike and contributes to the overall attractiveness of a country as a place to invest and to live.

Growth in the tourism sector is seen as the easiest to achieve given the region's relative competitive advantages in this area. Experience in more touristically developed countries of the Caribbean has shown that local investment responds well to increased local demand from visitors without the need for significant support mechanisms. The presence of significant numbers of visitors with a high propensity to consume local goods and services promotes the emergence of activities such as handicrafts, ground tours and transport, beach accessories, water sports, restaurants etc. These relatively small scale enterprises require less expertise and capital to establish than other manufactured goods. They are likely to be typical of many of the existing clients of the NDF's which have performed so successfully in recent years in relation to the micro sector. Tourism thus offers an opportunity to leverage the success of the NDF's and to develop an expanded local market which will permit their clients to proliferate and grow.

However, while tourism offers opportunities, it is not the economic panacea for all sectors that some would like to believe. Agriculture can be encouraged and assisted to respond to the expanded <u>local</u> market for food crops but will likely not do so without some additional inputs and support mechanisms. Manufacturing of products consumed directly by the visitors (e.g. beverages) can also be expected to emerge or expand in response to growth in the tourism sector. However, manufacturing of products not directly consumed by the visitors but rather by the accommodation sector (e.g. soaps, towels, linens, furniture, chemicals) faces many additional constraints (especially the constraint of small market size) which growth in tourism activity alone can not alleviate.

The strategy will be to focus on activities which will support tourism growth but not necessarily on tourism projects directly. For example money would not be provided to carry out a feasibility study on a new hotel complex. Money would be provided to help government and the private sector better plan the overall development of tourism with respect to issues such as land use management and environmental concerns which result in the economy being a better place to invest. Similarly, finance would not be provided for a new hotel, but rather for the businessman who will make furnishings or raise tomatos for the hotel.

## Agriculture

The strategy in relation to agriculture is to encourage diversification into food crops by facilitating the emergence of strong channels of distribution and to impose discipline on the supply side.

Agriculture has the potential of being directly impacted by growth in tourism in response to a significantly expanded local market and, potentially, organized demand.

The strategy continues the focus of moving the agriculture sector out of reliance on the traditional crops. This strategy focuses on supporting the private distributor/exporter of agricultural produce (or the agro-processor) and then depend on him to force the discipline onto the individual growers of the produce. This turns around many conventional programs which have tried to directly assist the small farmer. Supporting the so called middle-man and relying on him in part in conjunction with other activities to provide the inputs, supports and information to the producer (if in fact these things are needed) can go a long way towards implementing the reliability and quality of product that both the tourism and export markets require.

Alternatively, direct links could conceivably be built between the supply and demand sides which have the same attributes and effects and also avoid the need to depend on the emergence or development of the middle-man. However, the latter approach would require careful planning to take account of the importance of discipline in supply and demand which will be more difficult to establish when both sides of the equation are dealing in much smaller quantities. Direct supplier/buyer links will be impossible to establish on a regional basis and will probably be a relatively high risk approach even in the national setting.

Tourism will be of importance to the agriculture sector because of the need for non-traditional agricultural products and the historical reliance on imported supply. Also the ability to differentiate between local versus imported product is low, which makes many hoteliers indifferent to source of supply, unlike the situation in respect of manufactured goods in which there is a distinct preference for imports based on quality and variety. Thus, agriculture may be able to more effectively take advantage of growth in tourism than the manufacturing sector. Independent of this slight advantage, however, is the necessity to provide the agriculture sector the ability to stand on its own, especially with respect to intra-regional trade.



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The strategy and program components targeted at the agriculture sector should coordinate with and influence the development of strategies within the Agriculture Division of USAID.

### Manufacturing

The strategy in relation to the manufacturing sector is to search for and to facilitate the implementation of solutions to the many constraints to the sector, and to facilitate the emergence or expansion of those industries which can be viable producing products for direct consumption by an expanded visitor market and an expanded accommodation sector.

The impact of tourism growth will be much less on manufacturing than on agriculture. Thus the strategy focuses on seeking solutions to constraints to improvement in this sector and fostering their implementation. Manufacturing has to be grown for its own sake as a large contributor to employment and foreign exchange earnings and an important component of a diversified economy which can weather recession in other sectors. It can not hang onto the coat tails of tourism because tourism alone can not provide a sufficiently expanded market to sustain many manufacturing industries, a fact shown to be true in Barbados which has a visitor market supported by 7,000 hotel rooms compared with a total of 8,600 in the whole of the OECS region. This is not to suggest that efforts should not be made at targeting some portion of the tourism market. It is simply that reliance on tourism to sort out the difficulties being experienced by manufacturing is ill advised.

The strategy for manufacturing will be to focus on business skills development, especially marketing and merchandising, and labor skills development and to assist in the development of sources of equity and working capital. Improvement in the business climate through freight facilitation, review of taxes and fiscal incentives, remedial action in respect of government inefficiency and administration etc. will be far more helpful to the manufacturing sector than a strategy based directly on seeking foreign markets. Providing the manufacturing sector with the means to solve these constraints and so compete for foreign exchange earnings on more even terms in both regional and extra-regional markets on the basis of quality, price, customer service and reliability of supply will create a robust investment climate. In turn, the genuine advantages of the region thus created can be incorporated into a revised investment promotion strategy which does not rest upon contrived conditions and which will be more effective in attracting foreign investment.

### Services

The strategy for the service sector will be to simply monitor their growth in response to the other sectors and intervene only if the response is so sluggish that it begins to impact negatively on the growth of the other sectors, especially tourism.

This sector will benefit equally from the improvement in the business climate and can as well take advantage of training activities and policy development. It is assumed that this sector will respond readily to the opportunities presented by growth in the tourism sector (restaurants, water sports, ground tours and transport, activities and attractions, entertainment etc.) and will not require significant direct inputs and supports from the private sector strategy.

## PROGRAM COMPONENTS

The strategy will be accomplished by activities in three areas. Table V-2 shows how each of the proposed program areas relates to the constraints to private sector growth identified in chapter IV.

- Public policy dialogue
- Training
- Finance

These three areas provide the inputs required to improve the business climate. Central to this is continued activity in supporting and strengthening the private sector organizations. Public policy dialogue allows the private sector to have a greater input into the formulation of public policy as well as increases the contact and understanding between government and the private sector. The training will benefit all sectors of the economy, as well as the government and regional organizations, providing for a general uplifting of the ability of the region to effectively engage in trade and economic development. Finance is a key element to any sound business community and while significant strides have been made in providing finance for all types of business ventures, more effort is needed, especially in the areas of equity and working capital. These three program elements will allow the strategy to accommodate changes in funding levels, support existing institutions and areas identified as key to developing a better business climate, and allow a maximum amount of <u>local</u> input into the actual development of program activities.

In an era of reduced levels of support for private sector activities, programs must be carefully targeted and act to reinforce one another. Thus it is important to build programs from the ground up, first identifying the activities that must take place to support the strategy and objectives and only then building these activities into programs. As a result, the following paragraphs describe the activities identified as key to achieving the identified objectives and do not attempt to put them into complete programs. The extent to which each of the activities will be implemented will depend to a large extent on the degree of funding available from time to time. Thus, the activities may be implemented or deferred, expanded or contracted as appropriate without detracting from the overall achievement of the strategy and its objectives.



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Table V-2

## MATRIX OF RECOMMENDED PROGRAM COMPONENTS AND IMPACT ON CONSTRAINTS

| PROGRAM AREAS >>>>>> <br> Constraint area | PUBLIC POLICY DIALOGUE | TRAINING | FINANCE |
|---|---|---|---|
| **GENERAL CONSTRAINTS** | | | |
| Stigma of failure | | √ | |
| Small market size | | √ | |
| Small society | | | |
| Complacency of large business | √ | √ | |
| Complacency of farmers | √ | √ | |
| Attitude to foreign investment | √ | √ | |
| Rationalisation/modernisation of laws | √ | | |
| Strength of private sector organisations | √ | √ | √ |
| **BUSINESS SKILLS** | | | |
| Basic management skills | | √ | |
| Middle management skills | | √ | |
| Senior management development | √ | √ | |
| Marketing & merchandising | | √ | |
| Financial management | | √ | |
| Business planning | √ | √ | |
| Strategic planning | √ | √ | |
| Quality control/product design | | √ | |
| Production/materials management | | √ | |
| **FINANCE** | | | |
| Debt financing | √ | | √ |
| Equity/venture capital | √ | | √ |
| Working capital | √ | | √ |
| Security of debt | √ | | √ |
| Bankable projects | | √ | √ |

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Table V-2

**MATRIX OF RECOMMENDED PROGRAM COMPONENTS AND IMPACT ON CONSTRAINTS**

| PROGRAM AREAS >>>>>> <br> Constraint area | PUBLIC POLICY DIALOGUE | TRAINING | FINANCE |
|---|---|---|---|
| **INFRASTRUCTURE/TRANSPORTATION** | | | |
| Electricity - availability | √ | | |
| Electricity - cost | √ | | |
| Water | √ | | |
| Telecommunications | √ | | |
| Roads | √ | | |
| Air port | √ | | |
| Sea port | √ | | |
| Waste disposal | √ | | |
| Factory shell availability | √ | | |
| Air transport - availability | √ | | √ |
| Air transport - cost | √ | | |
| Sea transport - availability OECS/CARICOM | √ | | |
| Sea transport - availability extra-regional | √ | | |
| Sea transport - cost | √ | | |
| **LABOR** | | | |
| Work ethic | | √ | |
| Availability of unskilled labor | | | |
| Availability of skilled labor | | √ | |
| Cost | | | |
| Education | | √ | |
| Labor practices | | √ | |
| Labor relations | | √ | |
| **GOVERNMENT/PUBLIC POLICY** | | | |
| Inefficiency | √ | √ | |
| Policies toward private sector | √ | √ | |
| Understanding of private sector | √ | √ | |
| Taxation | √ | | |
| Incentives | √ | | |
| Rationalization of OECS trade | √ | | |
| Foreign exchange control | √ | | |
| Investment promotion | √ | | |
| Tourism planning | √ | | |

Similarly, the methods for evaluating these programs must support the need to expend funds effectively and to make the programs responsive to the changing needs of the business community. This suggests evaluation methods which allow frequent and simple use. The ability of the program elements to respond to either programming mistakes or to changes brought about by other factors (such as tourism master planning or some change in policy) will be key to the success of the overall strategy. This is even more true in a period of limited funding, where the option to attack a problem with lots of money is not available.

Many of the components described below are broader in nature than the simple heading under which they are listed. Clearly there are some program components that could be placed under additional headings. The reason for using only three headings is to maintain a focus and directness of the strategy - these are the main tools to accomplish the strategy.

## Public Policy Dialogue

1 The establishment of public/private sector councils in each country under a regional umbrella is necessary to guide the agenda for public policy research and to provide a forum for the exchange of information between the public and private sector. The following description of a possible structure and implementation is provided as a demonstration. However, it is intended that the councils should be flexible rather than rigid, informal rather than formal and the description is not intended to be hard and fast. The single most important element is balance between public and private sector participation and the commitment to get things done.

These councils will be formed at the instigation of CAIC and will overcome earlier difficulties encountered by similar efforts by providing the councils with access to funds to actually accomplish goals. However, no funds will be provided directly to the national councils in respect of their meetings etc. National councils will consist of the following representatives.

- President of the Chamber of Commerce
- President of the Manufacturer's Association
- President of the Hotel Association
- President of the Agricultural Association
- President of the Banker's Association
  (In cases where the associations do not exist or are fragmented, the sector representative would be selected by the president of the chamber of commerce.)
- Director of the NDF
- Permanent Secretary of the Ministry of Finance
- Permanent Secretary of the Ministry of Trade
- Permanent Secretary of the Ministry of Agriculture
- Permanent Secretary of the Ministry of Tourism
- Permanent Secretary of the Planning Division

(In cases where ministries are combined, other senior public sector representatives may be appointed to provide a balance between the public and private sectors.)
General manager of the DFC.

Not all these persons need be permanent members of the council. In fact, it would be appropriate to experiment with a smaller but still balanced group at first. Provided the smaller council proves effective on its own as smaller groups often do, the other representatives could be involved only in specific agenda items for which their expertise and influence is required.

The public sector representation consists of public sector management rather than the political directorate in order to promote the professionalism of the senior civil servants as well as to avoid reluctance to confront problems which have political implications but nonetheless require resolution.

The assembled council will elect a chair person. These chair persons will comprise the regional umbrella council which will also incorporate representatives of CDB, CAIC and the OECS secretariat. To the extent that the regional council should maintain the balance of public and private sector representation, some modification of this structure may be necessary.

The national councils will meet as often as they consider necessary and productive but not less than monthly. The regional umbrella council will meet quarterly (varying its venue within the region to maximize participation) and will serve to coordinate activities at the regional level and to leverage, inform and complement the experience of the complementary research and other activities of the CDB, OECS and CAIC. Attendance at regional council meetings will be enhanced if the travel costs can be funded under this program component.

Typical agenda items for the consideration and review of the groups will include the following.

- Tax policy
- Freight facilitation
- Investment promotion
- Post mortems of business failures to identify the reasons
- Identification of distribution mechanisms for agricultural produce
- Dialogue between the commercial and institutional banks to close the gaps in enterprise financing
- Privatization of state enterprises
- Tourism planning
- Investment promotion planning and the development of guidelines for pre-screening of potential foreign investors

These councils would have no funds of their own, but would be able to recommend research to be carried out in support of some policy area, which would be funded through CAIC. CAIC would not necessarily execute the research but rather contract some other specially qualified group or agency to carry out the work.

Although this program component is viewed as critical and pivotal to the accomplishment of the strategy and objectives, concerns do exist as to how it will differ from earlier endeavors of a similar nature which have not been uniformly successful. Firstly, the councils will have access to funds for research and studies, a missing element of earlier efforts in which there was no resource available to support and inform discussion which could not, therefore, bear fruit. Secondly, there is clearly expressed interest on the part of both public and private sectors in the potential for such an approach at this time.

The remaining program components under the heading of public policy dialogue may be viewed as subordinate to the formation of the national/regional council structure described in 1. Each of the following components may be regarded as part of the work of the national councils or the regional umbrella council and may be initiated and prioritized by the councils with guidance from USAID.

2 Initiate tourism master planning at the national, and possibly regional level (through the regional umbrella council described in 1), to provide a clear framework to guide the promotion of new investment in the accommodation sector and ensure that all ancillary support mechanisms are developed in harmony. The master planning process will be a joint public/private sector undertaking executed by independent consultants.

The rationale for tourism master planning is that the sector's promotion depends heavily on the generic activity at the national level. Therefore, it is necessary to develop guidelines to determine the evolution of the generic tourism product rather than to permit the establishment of conflicting styles of development. As an example, Barbados tourism suffers a total absence of image in the market place due largely to the diversity of its product which was allowed to develop without the benefit of such guidelines. Whilst diversity of product along some dimensions may be considered desirable, when it is allowed to go too far it prevents the establishment of clear perceptions in the market place and national promotion efforts are diluted to the point where they become ineffective. As well, tourism master planning can address issues such as the servitude/service and cultural invasion complaints before they materialize and accelerate the rate of growth in the sector with every participant pulling in the same direction.

A whole range of environmental and policy studies may result with some spill over into infrastructural projects to rectify environmental problems (sewers, land use planning) which may be developed and funded if money



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becomes available. Issues which will be addressed in tourism master plans include the following.

- Project identification, investment promotion and incentives.
- Marketing and promotion.
- Market research.
- Product development.
- The administration of tourism.
- Air access and aviation policy.
- Cruise industry policy.
- Infrastructure planning and development.
- Taxation policies.
- Channels of distribution.
- Foreign exchange retention strategies.
- Foreign ownership policies and regulations.
- Environmental planning.
- Land use planning.
- Public awareness of the benefits of tourism.
- Training as well as incorporation of tourism studies into school curricula.

3 Through the vehicle of the Caribbean Law Institute, laws governing commercial activities will be reviewed with a view to modernization, consolidation and facilitation of private sector activity.

4 One of the functions of the newly formed national councils will be to explore the opportunities for privatization as a vehicle for increased efficiency in operations as well as a vehicle for mobilizing local investment. This effort will be assisted by the provision of consulting services to evaluate the potential benefits either of privatizing specific entities or of privatization in a more general sense in the particular country setting. The objective will be to demonstrate the practical opportunities which exist so as to promote a favorable attitude to the subject among the political directorate.

5 The umbrella regional council will initiate a process of strategic planning and the development of an action plan with the objective of strengthening the linkages between the various financial institutions which make up the capital market of the region. The purpose will be to discover ways of making the financial institutions more responsive to the financing needs of the private sector and to impact positively on their policy guidelines. Part of the solution will lie in executive level training to broaden the range of vision of the financial community and promote innovation in portfolio management and financial instruments appropriate to individual projects.

6 The umbrella regional council will also initiate a policy planning project with the objective of facilitating intra-regional and CARICOM trade. This project will be executed by a separate study/action group comprising independent consultants over a period of, say, three years, housed in the CAIC or OECS secretariat but reporting to the regional council. Although much work has

been done in this area in the past, there is a need to continue the efforts and move forward with the benefit of earlier research.

**Training**

1 Develop a comprehensive and ongoing business skills program through the Division of Management Studies of the UWI to facilitate a wide range of business training. This organization would not actually carry out the training but would contract with other specially qualified groups or individuals to do the training. The organization would be responsible for planning, coordinating and evaluating. This training would cover the spectrum of needs from the micro-enterprise level to the senior executive level. Special emphasis should be placed on marketing and merchandising training, with assistance from outside the region most likely called for in some cases. The training program must also cover the spectrum of business size, but with special emphasis on the medium size business which has so far not benefited from training opportunities to the same extent as the large and micro sectors.

   The following program components numbered 2 through 8 may be viewed as compatible with this component for the purpose of program development.

2 Provide training for middle/lower management and supervisory level personnel in a coordinated fashion with those of higher levels so that when participants return to the work place they will find that their superiors are receptive to implementation of the newly acquired skills.

3 Improve the level and quality of training for local NDF's and chambers of commerce in technical assistance areas and develop a network of advisors upon whom these organizations may call for specialist assistance and advice. This could be accomplished through a regional body such as CAIC or as a spin off of the business skills program above.

4 Focus training efforts on the companies who are distributing or exporting the products of many smaller suppliers in both agriculture and manufacturing. These companies will have to provide leadership and training to many suppliers with respect to basic business practices such as planning, cost control and quality control.

5 Training for government employees right along with their private sector counterparts is important. This can work especially well in the planning, feasibility study and cost control areas. Training opportunities for government employees should include participation with their private sector colleagues in selected seminars, workshops or courses where appropriate as well as specific programs addressed to their needs. The object is to strengthen the professionalism of the public sector, enhance understanding of the role and functioning of the private sector and also to develop skills



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and attitudes related to efficiency and productivity just as they are required in the private sector.

6 Training for the management of labor unions with respect to issues of labor management, the role and functioning of the private sector and its relationship to the labor unions.

7 Provide for the ability to follow up in-class training with assistance in implementing the skills or ideas learned in the business setting. Failure to facilitate implementation of newly acquired skills is a universal weakness of training programs in the West Indies. Implementation can also be assisted by careful planning of training which takes into account the actual circumstances of the work places of the participants.

8 Pre-vocational skills training and the incorporation of business subjects into school curricula. This component would require the identification or development of appropriate teaching materials.

9 Strengthen the ability of CAIC to develop increased awareness among the private sector and the public at large of the range and quality of products manufactured in the region. A travelling trade show (perhaps a small cruise vessel leased for a month) which presents the locally produced items (including those of other CARICOM countries) side by side with examples of the competitive products currently being imported will allow buyers and consumers to see the differences, or lack of them, for themselves. This practical activity will complement the production of catalogs of regionally manufactured products which, even if they were widely read, would fail to provide an opportunity to compare with the imported substitute. The problem with stationary trade shows is the difficulty in persuading a very wide range of businesses and the general public to attend. Some innovation is required to encourage attendance.

10 Through CAIC, prepare and mount a program designed to increase public awareness of the role and functioning of the private sector in the society and its relationship with the public sector.

## Finance

1 An increase in the credit guarantee levels for the NDF's in addition to the ability to provide working capital is needed. This is particularly true for the success cases amongst the NDFs' clients. The ceiling should be kept low for start ups but be increased for existing clients until they graduate to the commercial banks. This should not impact the credit scheme significantly as the companies in many cases have proven themselves - they are less likely to fail than a whole new set of start ups. Consideration for expansion to small size companies makes sense as the Development Banks traditionally have not serviced these clients effectively. Working capital is essential to all NDF clients. Evaluation measures would include success/failure rate,



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companies in arrears, number of applications vs loans made, companies graduated to commercial banks.

2 Provision within CFSC or a similar organization of the ability to either make equity funds available or to provide guarantees to nervous investors that their equity investment has some protection. The shortage of equity capital is a critical problem facing development of a favorable investment climate. One possible model for addressing this problem is the "Guaranteed Recovery of Investment Principal" (GRIP) scheme fielded by the IFC. Under this scheme, investors may opt to place a cash deposit with IFC which in turn uses the funding to take an equity position in the project. Capital gains and dividends are shared. At intervals, the investor has the choice of taking over the investment as the sole and direct shareholder, withdrawing his capital, or extending the agreement. A similar scheme might be developed through CFSC to benefit local investors who are reluctant to venture too far too fast. This component should be coordinated closely with ongoing plans for CFSC to receive funding from the European Investment Bank as well as the recently announced plans for an equity participation scheme by CPIC.

3 Investigate means and mechanisms for mobilizing local money for productive investment. This will tie in with the policy study sections on tax, fiscal incentives, credit guarantees etc. This activity will address opportunities to increase public participation in investments made available through privatization or through the flotation as public companies of some of the established, family owned companies, although the latter first requires demonstrating (through training) to the existing equity owners the value of having access to public participation and equity. One method of demonstrating the value of wider equity participation would be through tax incentives for the issue of shares to employees.

4 Provision of technical assistance for feasibility study/business plan development and the use of business counsellors to assist these same companies to become successful. This might include access to CFSC funds or help in gaining credibility with the commercial banks. The development banks have been historically poor at providing this type of service, being at the same time both the counsel and the judge as well as sometimes suffering from political influence.

5 Provision of direct support (either in the form of working capital or business development funds) to regional food distributors or co-ops with the aim of assisting them in providing training to local farmers and in gaining sufficient capacity to service both tourism and export markets. This may consider such options as privatizing CATCO or working with a number of private distributors in each country to assist them in gaining further expertise. This activity should focus on existing companies if possible rather than starting new entities. Perhaps linking this with an agriculture project or in some other way accessing agriculture funds would be possible.

6 Provide access to working capital for middle sized companies either through provision of technical assistance to help them make their case more persuasively or through export or raw material credit guarantee schemes. This middle group of companies can be a significant force in new investment in the region as they are less complacent than many large companies, more willing to take risks, but have less access to capital.

7 Provision of feasibility study/business plan funding and seed capital for privately owned business incubators. This approach could be applied to the tourism sector's ancillary services on the lines of the Pelican Village in Barbados. In the case of manufacturing, an incubator might deal only with distribution and sales occurring off site together with freight facilitation services.

8 Provision of temporary direct grant support to private sector organizations such as national chambers of commerce based on need and pending self sufficiency based on expanded active membership.

BACKGROUND NOTES TO THE REPORT

## The PEDS Project

This study was conducted under the Private Enterprise Development Support Project. The PEDS Project is a five year (FY88 - FY92) $20 million project managed by the Bureau for Private Enterprise. In the first year of the project, PRE provided technical assistance for nearly fifty different requests from Missions and Bureaus. The PEDS Project is designed to provide a wide range of expertise in private sector development. Areas of technical assistance include the following:

- Policy analysis related to private sector development
- Sector assessments and analyses
- USAID private sector strategy development
- Legal and regulatory analysis and reform
- Small-scale business development
- Trade promotion
- Investment promotion
- Free trade zone development
- Financial institutions and instruments
- Management and financial training
- The role of women in private enterprise
- Applications of MAPS: Manual for Action in the Private Sector

USAID Missions have the resources of thirteen contractors available to them through the PEDS Project.

- Arthur Young (prime)
- SRI International
- Management Systems International
- The Services Group
- Trade and Development, Inc.
- Multinational Strategies
- J.E. Austin Associates
- Ferris & Company
- Metametrics
- Elliot Berg Associates
- Robert Carlson Ass.
- Ronco
- Dimpex Associates

## The Consultancy

The Regional Development Office/Caribbean is in the process of revising its development strategy statement for the Eastern Caribbean region. A major component of this effort will be developing a strategy for promoting growth of the private sector. The purpose of this consultancy was to conduct a detailed review of the environment for private sector growth in the region and identify specific strategies and actions that the RDO/C should take over the next 3-5 year period.

## The Authors

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