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RDO/C

REGIONAL DEVELOPMENT STRATEGY

FY 90 - 94

AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL DEVELOPMENT OFFICE/CARIBBEAN

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REGIONAL DEVELOPMENT STRATEGY STATEMENT

REGIONAL DEVELOPMENT OFFICE/CARIBBEAN (RDO/C)

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EXECUTIVE SUMMARY

Private sector-led development is the core of the RDO/C Regional Development Strategy (RDSS, FY 1990-94). The ultimate aspiration is to stimulate economic growth throughout the region by developing a mutually-reinforcing set of vital, viable and sustainable private sector and private-sector-supporting institutions and governmental policies. This perspective extends beyond the end of the century. The present RDSS is therefore viewed as one five-year subcomponent of a longer-term process. This document is presented as a self-contained strategy statement drawn from numerous analytic works contained in a separate Annex document.

The RDSS is primarily addressed to five key problem areas: economic growth; agricultural sector deficiencies; obstacles to private sector development; access to basic and professional education; and democratic traditions and institutions. The mission is also concerned with other problem areas but these do not constitute a central part of the strategy because: planned RDO/C resource levels do not permit significant contributions (large infrastructure and macroeconomic budgetary support); or the problem does not warrant high mission priority in light of acceptable standards and other donor and government activity (traditional large scale health and family planning activities). Environmental preservation, land use management and biodiversity are serious mission concerns, but will be addressed in terms of their cross-cutting importance to the private sector and agricultural development objectives, rather than as a separate objective.

In terms of the LAC MBO framework, interventions will focus on Goals 2,3, and 4, to achieve the following LAC Objectives: strengthen the private sector; promote exports (and tourism earnings); improve educational opportunities;

strengthen democratic institutions; and an "other" category which includes improving the financial efficiency of health and family planning services and small community development projects.

Other cross-cutting strategic concerns include: Grenada; Women In Development; Advanced Developing Countries; targeted and focused infrastructure; Sectoral Structural Adjustment (alternative to Stabilize Financial Structures); Collaboration with Peace Corps and PVO's; and support for regional economic integration.

Long-term structural adjustment, not economic stabilization, has been the central macroeconomic problem in the Eastern Caribbean. That emphasis will now shift from macroeconomic to sector structural adjustment programs and policy dialogue. With the exceptions of Grenada and Dominica, the World Bank and IMF endorsed OECS countries as essentially being in current account equilibrium. Depending on funding levels and allocations, three areas are anticipated targets for sector programming: agricultural diversification; tourism; training and education. Policy dialogue will aim at alleviating the constraints that impede development in these sectors.

Annex III details the strategy for RDO/C's future private sector development programs. It is intended to accomplish a single major objective: to improve the general business and investment climate, and encourage the emergence of robust private sector-led economies which will serve to attract investment (both local and foreign) far more effectively than will contrived incentives.

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. The strategy will be to

promote planned and accelerated growth focused on the accommodation sector but also paying attention to the development of ancillary supports. Tourism master planning in each country and at the regional level will be a key first step in exploiting the potential of this important sector. The agriculture strategy (Annex IV) will focus on economic policy changes, institutional reforms, infrastructure to remove bottlenecks, and product development and marketing programs that will facilitate the development of diversified private sector agriculture.

With probable scarcity of ESF funds during the RDSS period, large infrastructure projects may not be feasible. Some infrastructure may still be constructed with DA funds, or in the context of Sector Structural Adjustment programs and will be targeted at: improving the productivity of the private sector; preserving the natural environment; supporting or leveraging sectoral structural reforms; and maintenance of existing capital, emphasizing regional utilities in the early years. Other donors and lending institutions (particularly CDB) are expected to provide significant amounts of new infrastructure.

The strategy includes a special focus on development at the roots of a market economy: the legal and institutional environment in which entrepreneurial decisions are made. Efforts at private sector development cannot be effective if rudimentary foundations such as a modern corpus of corporate and commercial law and a private sector voice in setting development priorities are absent.

Environmental degradation will eventually destroy the very resources upon which the tourism and agricultural sectors survive. Conservation, maintenance, and more careful development of these resources will support the region's medium to long term growth and development aspirations.

Regional economic integration, with free flow of labor and capital and a wider market for products, is central to the long term viability of these small island nations. AID will encourage regional integration--channelling assistance through selected regional institutions to the extent their absorptive capacity and our resources permit. In this context, the mission requests AID Washington to designate Barbados and Trinidad/Tobago as "Advanced Developing Countries" (ADC's), given their potential catalytic role in OECS regional development. Guyana (see Annex II) could play an important regional role as well. It is now only eligible for food aid.

Full implementation of the strategy will require at least present levels of DA funding and a portion of the AAPL ESF levels. However, the strategy has been designed as an "accordian" that can adjust to various levels of funding without damaging the central thrust of the program. Funding changes can be accommodated by, for example: adjusting the number of sector structural adjustment programs; varying investment in productive infrastructure; and varying the number of island replications of environmental activities. A vigorous consolidated strategy will generally favor regional over bilateral institutions for implementing projects but will have an identifiable, coordinated impact at the national level. The number of RDO/C management units fell from over 100 in 1985 to 34 in 1988 and will decrease to about 15 by 1994. Of those 15, at least three will solely reflect AID and Congressional Special Concerns. Within the overall focus on regional cooperation and institution-building, we will continue to recognize the special national needs of Grenada, to protect the massive investment we have made in that island's economic recovery.

I. OVERVIEW OF THE ENVIRONMENT FOR DEVELOPMENT

The small islands of the Eastern Caribbean, widely scattered across 80,000 square miles of tropical sea, form a unique setting for human habitation and serve as an environmental bridge between the plant and animal species of the North and South Americas. Beaches, wetlands and forests lie along ancient migratory routes for numerous land and waterfowl. The islands are rich in endemic marine and land species, although many of these are now endangered. Except for Barbados and Antigua/Barbuda, the islands have volcanic origins, with diverse soils and micro-climates suitable for production of a wide range of agricultural commodities, albeit often on a very small scale. Soil stabilization suffers continual attack from poor agricultural practices, deforestation and overgrazing. Hurricanes, tropical storms and even normally heavy rains result in landslides which threaten human life and destroy investments in land and infrastructure. Several Eastern Caribbean islands boast white sand beaches, emerald waters and coral reefs which--though imminently threatened by pollution and over-use--form the basis for a substantial and expanding tourism industry.

All the English-speaking countries of the Eastern Caribbean are functioning democracies with multiparty political systems and freely and openly elected parliamentary governments. Basic human rights are universally enjoyed on a level that is rare in the developing world. While some traces of the colonial past are still evident, upward social mobility is widely available to all classes, achievable through educational attainment, and more recently, commercial success. Independence during the mid-1960's to 1983 left the islands with a highly developed welfare system. As a result, the benefits

of economic growth are widely shared through a series of mechanisms. Government has traditionally acted as employer of last resort, and protected markets for agricultural products engendered broad-based small farmer activity, including very high proportions of females. Extended family relationships can soften the blow of underemployment.

While direct or indirect participaton in the fruits of economic growth is therefore wide, this situation is threatened in several islands by high unemployment rates among a large young population. The median age of most island populations is under 20. This, combined with high aspirations for consumer goods is increasing the number of drug users with increasingly serious consequences for the social and political structures of the islands. Unless economic growth can outpace labor force expansion and reach the poor, the region could experience political and social disruption. Unless they can develop appropriate marketable skills, it will become more difficult for women and youth to participate in the economic process and for women to achieve positions of increased authority.

The movement toward Eastern Caribbean regional political integration is very slow. The RDO/C strategy does not assume any early resolution of this complex issue. However, much can be done, short of formal political union, to greatly improve the environment for growth and development. Coordinated efforts that effectively increase the size of the regional market, reduce barriers to trade and labor and capital flows, and lead to harmonized customs and investment incentives may ultimately be more important to the region's development than political union _per se_.

Given the handicaps associated with being tiny open economies, the OECS countries have performed remarkably well in the past decade. In overall

terms, the OECS countries have been fairly successful in promoting economic growth in the 1980s. Ten-year individual country growth rates ranged from 3.5% to 6.5%, with most exceeding 4%. While the rest of Latin America and the Caribbean experienced aggregate real GDP growth of 0.8% per year during the 1980-85 period, the corresponding figure for the OECS states was 4.2%.

Growth has been export-led. Real growth of OECS exports of goods and nonfactor services between 1980 and 1987 was 5%, or 1.2 times the average GDP growth rate. In all islands the rate of growth of real exports nearly equalled, exceeded, that of GDP. The exception was St. Kitts-Nevis, reflecting the impact of declining sugar exports. The two leading sectors have been tourism and agriculture. Growth has been relatively good in all of the OECS states. Dominica, whose economy grew slowest of all, managed 3.8 percent per year since 1977, despite two hurricanes in 1979/80. Antigua experienced the most rapid annual growth (6.5 percent).

Per capita GDP in the OECS increased by more than 3.5% annually from 1980 to 1987, varying from a low of 2.3% in St. Lucia to a high of 4.6% in Antigua.

Eastern Caribbean growth rates are strongly influenced by the strength or weakness of the U.S. dollar, to which the E.C. dollar has been tied since 1975. Banana exports are traded for British pounds sterling. When the U.S. dollar weakened vis-a-vis the British pound, beginning in 1984, growth rates rose to the 4-8 percent range. European tourism has also been stimulated by the 1988 dollar lows.

The OECS states, with the exceptions of Grenada and Antigua, have made impressive strides in managing their public finances over the past three to four years. In 1986, the donor community launched the "Tighter" Consultative Group (TCG) as a basis for coordinating external financing for the OECS

countries. IDA-eligible OECS countries were to have access to IBRD funds only if they were judged fiscally sound by the IMF or were engaged in an IMF stabilization or adjustment program. Of the five IDA-eligible OECS states, St. Kitts, St. Lucia, and St. Vincent received clean bills of fiscal health. Of the remaining two, Dominica has had a Structural Adjustment Facility (SAF) arrangement with the IMF (supported by AID funding) for the past two years, and has turned a fiscal deficit into surplus. At the same time, Government undertook important fiscal reforms (designed with AID assistance). Grenada, too, has carried out extensive fiscal reforms, but uneven (and to some extent imprudent) implementation has resulted in financing gaps, supported in part by AID.

Government revenues, close to half of which are derived from international trade, range from 28-40 percent of GDP. Inflation averaged 7.5% since 1977, but was under 4% in the mid-1980's. External debt levels (except for Antigua and, to a lesser extent, Grenada) are not particularly worrisome so long as the banana and tourism markets remain strong and the U.S. dollar weak. Debt service is less than 20 percent of exports in all countries except Antigua, which depends on tourism rather than exports for repayment.

External assistance is carefully coordinated through a participatory arrangement between governments, regional institutions, and donor agencies. The World Bank-led Caribbean Group for Cooperation in Economic Development (CGCED) serves as a forum for donors and countries to analyze and discuss development constraints and long-term planning. However, fiscal management and economic planning still raise complex issues. Each of the six OECS states maintains a full bureaucracy, and government services amounted to about

one-sixth of GDP on average in the 1980s. Recurrent budget revenues are high (between 20 and 30-plus percent of GDP), and government investment is also substantial. The World Bank examines public sector investment programs each year for the Caribbean Regional consultative group meetings. In the past two to three years, some OECS states have commissioned development strategies. The Government of St. Vincent recently published the second iteration of a rolling, three-year development plan. The Government of St. Lucia has perhaps most clearly defined its development goals, although it has not yet published a "plan". The Government of St. Kitts has released a development plan, but the document needs further work. Finally, in 1986 Grenada published a draft development strategy. CDB and other donors are available to provide technical assistance for improved planning efforts.

Eastern Caribbean countries are, however, vulnerable to natural disasters, external economic conditions and in most cases are almost exclusively dependent on donor assistance to finance public sector capital formation. Development prospects during the RDSS period are clouded by: vulnerability of exports to externally-induced exchange rate changes and possible economic recession in the industrial countries; threatened loss of protected markets for sugar and bananas; and potentially diminished external assistance flows if they are "graduated" from IDA and U.S. assistance levels off or decreases. Geographic separation, diseconomies of small scale, low productivity, inadequate investment and transportation bottlenecks stifle export performance in agriculture and light manufacturing. The comparatively high cost of labor deters foreign investment in industry and agriculture. Past experience with low-technology, labor intensive textile and assembly industries dampens expectations for the manufacturing sector and for extra-regional exports.

Major development problems include: fragile environmental ecosystems; poorly maintained physical infrastructure; dependence on a few traditional crops enjoying protected markets; scarcity of entrepreneurial experience; inefficient public bureaucracies; an allegedly risk averse commercial banking sector; domestic savings rates inadequate to fund needed investment; lack of human resource development and management training; land use management that does not take full account of ecological and social concerns; in some countries, rapid population growth feeding high dependency ratios.

RDO/C's strategy deals with these by building the region's capacity to deal with them on a self-sustaining basis in the long term.

II. PROBLEM ANALYSIS AND DESCRIPTION

A. Inadequate Income Growth

Despite serious constraints, and except for dislocations caused by hurricanes, world recession and other external shocks, growth rates in the OECS have generally been quite good, even remarkable, in the past decade. Overall, the OECS economies grew by 4.9 percent per year in the decade 1978-87, approximately 3.5 percent per year in per capita terms. Moreover, due to favorable movements in the exchange rate and boomlets in tourism and traditional agriculture, that growth accelerated in recent years. With the exception of St. Vincent, which has been hampered by adverse weather and a somewhat sluggish manufacturing sector, the countries of the OECS growth rates have ranged from 4 to 8 percent per year since 1985. In each case this has been sufficient to increase per capita income.

Past growth was spurred by export of traditional crops, large inflows of foreign capital in the form of foreign aid, and in some cases, tourism. In addition to several long-standing constraints, the countries now face the reality of reduced sugar quotas, economic stagnation in their most important regional markets and the potential elimination or alteration of UK preferential purchases of bananas. Future growth at historic rates is therefore far from assured in these countries. Even moderate growth will hinge on the ability of each island to successfully cope more effectively than it has in the past with fundamental constraints and to move quickly to address programmable constraints.

The Eastern Caribbean Agriculture Strategy Assessment (Annex IV) and the Private Sector Strategy paper (Annex III) provide greater detail on current activity, island by island, as well as potential and actual constraints. In general, the OECS states show a geographic split in the pattern of economic growth. The Leeward islands (especially Antigua) place heavy and growing emphasis on tourism, while the Windward Islands still depend mostly on crop mono-culture--bananas (Dominica, Grenada, St. Lucia and St. Vincent), cocoa and nutmeg (Grenada). In spite of tendencies toward increased economic balance, each country is still uncomfortably reliant on one sector or one product. Diversification must continue throughout the 1990's, with increased emphasis in all islands on non traditional agriculture, tourism, manufacturing and services linked to tourism and regional markets. Diversification will not be a panacea but rather a cushion against adversity. It will not remove the fundamental vulnerability of small island economies to trends and events beyond their control.

Interisland differences are partly attributable to natural features. The terrain of Antigua is flatter and more conducive to tourism development. At the other extreme, Dominica in the Windwards is very mountainous with little accessible shoreline. Differences in terrain and rainfall also have led to sharply different crop mixes. In the Leewards, sugar and molasses, and to a lesser extent cotton and coconut, are the leading agricultural products, but agriculture is struggling. In Antigua the share of agriculture in GDP fell from 11% to 4% between 1977 nd 1987. In the Windwards, bananas are dominant, followed by root crops, cocoa, copra, spices, plantains, citrus, and a wide variety of other crops.

These and other differences in the structures of the economies have been reflected in the labor markets. The Leewards are experiencing labor shortages while the Windwards still generally have labor surpluses. There is significant on-going net out-migration from all the islands, so that population growth rates are generally low. In St. Kitts, the labor shortage is making it increasingly difficult to sustain the sugarcane harvest at levels sufficient for an economically efficient amount of throughput in the sugar milling process. Throughout the OECS, the labor markets have an important bearing on the prospects for economic growth. Country descriptions and policy agenda issues are included in Annex II.

Reliable income distribution data do not exist for the OECS states. Few countries have household surveys, and not all included the item in the 1980 census. Full detail will not be available until the 1990 census. RDO/C will assist CARICOM and the Economic Affairs Secretariat of the OECS in analysis of

data to be gathered in the 1990 round of censuses. In 1988, RDO/C contracted a regional expert to provide estimates of income distribution in the region. Severe lack of data precluded very meaningful conclusions. Based on the fragmentary information available, the consultant concluded that the region exhibits a generally "moderate degree of income inequality.", with Gini coefficients lying between those, such as Brazil with high inequality and those such as Sweden with low ratios.

B. Agriculture Sector Deficiencies

Constraints to agriculture must be viewed in the context of the sector's overall recent performance. Agriculture's share of GDP in 1985 was 14.4% for all the OECS states and 18.8% for the four Windward Islands of Dominica, St.Lucia, St.Vincent and Grenada. However, when the role of agroindustry and agricultural marketing is taken into account, those shares rise to 22.0% and 27.1%, respectively (See Tables in Annex IV).

Agriculture's importance as an earner of foreign exchange has been proportionately greater. In 1986, agriculture accounted for 75.6% of the value of all domestic exports of goods (that is, excluding re-exports) and 32.9% of all foreign exchange earnings. Excluding Antigua, which is exceedingly oriented toward tourism, the latter figure rises to 47.5% (See Annex IV).

Between 1965 and 1983, OECS agricultural exports increased from $22.5 million to $87.9 million, for an annual growth rate of 7.9%. In more recent years, exports have continued growing even more rapidly. From 1982 to 1986, agricultural exports expanded at an annual rate of 19.0%.

In per capita terms, the agricultural export levels are among the world's highest. In 1984, the OECS exported about $217 worth of agricultural products per capita. In a reasonably representative sample of small and large countries, world-wide, only Malaysia exports more agricultural products on a per capita basis (see Annex IV). And even some superstars in agricultural exports, such as Argentina and the Ivory Coast, rank somewhat below the OECS by the same criterion.

These data underscore the concern in the OECS over the prospect of losing their preferential access to the UK market in bananas in 1992. This concern is heightened by knowledge that in spite of the dependence of their economies on agricultural exports the OECS states are not among the most competitive producers of their two main export products, bananas and sugar.

With the exception of Antigua, each of the countries has a strong agriculture sector founded on traditional crops such as sugar, bananas, nutmeg, cocoa, and coconuts. In each case, the farmers have little motivation to diversify into "new" food crops because 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, a supply of inputs and free agricultural extension and other advisory services. They have generations of experience in growing and cultivating and are enjoying substantial and stable incomes, sometimes complemented by tax exemptions. In many ways, agricultural diversification is constrained by the same complacency which characterizes the established merchant class. Small farmers who do grow food crops may be regarded as opportunistic and undisciplined in terms of business dealings, but have successfully produced for export on contract.

While in gross terms tourism earns more foreign exchange than agriculture does, Annex IV shows agriculture is probably the larger net earner of OECS foreign exchange, and it is very much larger when Antigua is excluded. This does not deny the important role of tourism but suggests that the islands are equally dependent on agriculture. Programs that succeed in further improving agriculture's performance could contribute substantially to overall economic growth.

The macroeconomic environment affects the agricultural sector by influencing cost-price relationships. The main elements of the macro environment are the exchange rate, trade policy, wage structures, and instruments of fiscal policy, particularly tax rates on exports and other commodities.

Real agricultural prices for OECS exports were threatened in the early 1980's by the high rate of the U.S. dollar and owe much of their present prosperity to its decline. Moreover, Antigua and St. Kitts' experiences suggest that the growth of one export-oriented, high-wage sector, tourism may produce the "Dutch disease" syndrome whereby the leading export sector supports the exchange rate at a level higher than it would otherwise be, and at the same time it puts upward pressure on the domestic wage structure, thereby damaging to the international competitiveness of the economy's other tradeable-goods sectors: agriculture and manufacturing. The region must work to counteract the negative effects on agriculture's profitability that arise from the development of the tourist industry and are transmitted through the exchange rate mechanism. At a macro level, three economic mechanisms are available: devaluation, letting real wages decline over time, and compensatory trade policies. Devaluation is unlikely because it requires an unlikely

unanimous decision by the OECS governments. A deflationary wage policy does not appear feasible, although wage restraint would be beneficial. Compensatory trade and fiscal policies, consistent with GATT rules, are therefore important to sustain export agriculture. It will be important to seek elimination of domestic price controls, where they exist. In these open economies, international prices, as modified by the exchange rate and the tariff/export subsidy schedules, effectively determine domestic prices, and attempts to additionally control those prices are distortive.

A micro response to the Dutch disease syndrome is to increase productivity in the production and marketing of farm products. The consensus of experts is that yields can be substantially improved via more extensive use of known technologies, improved extension efforts and ongoing agricultural research. The Dutch disease places a greater burden for improved performance on the research and extension network than would otherwise be the case. Other interventions include: better quality control at the field level, and through cost reductions in the storage and marketing network. It appears that more systematic quality control in bananas could largely offset the loss of the preferential arrangements in the UK, by increasing the average unit value of the product at the farm gate. Other problem areas involve lack of cold storage and dry storage, and lack of regularly scheduled refrigerated transport, unusually high rates of wastage and high unit costs for farm-to-market transport and lack of sufficient all-weather feeder roads.

Analytical groundwork has been laid that promises potential in the processing of fruits and vegetables on a relatively small scale, to be able to reap greater value and from a comparative advantage at the field level. Crop-level studies appear to indicate that in spite of the unfavorable

macroeconomic environment a comparative advantage exists in a range of products, including traditional exports, traditional foods for export, non-traditional foods for export, and some import substitutes. RDO/C will support an approach which emphasizes market signals and feasibility studies guide the selection of crops in any of the groups. Institutional barriers to diversification include the existing companies acts and the land tenure situation.

Women are small farmers and are major participants in inter-island vegetable and fruit trade. Limited access to credit is a potential constraint on their sphere of operations.

C. Obstacles to Private Sector Development

A more extensive list of constraints to private sector development found in Annex III. Key constraints relate to finance, the shortage of business and marketing skills, and the creation of an environment conducive to new investment and to business development, both local and foreign.

In the area of finance, working capital is the single most significant constraint. Although the commercial banks are highly liquid, conservative lending policies and the shortage of equity in the region make working capital very difficult for new and expanding enterprises to obtain. For the same reasons, there is also a shortage of long term debt capital. There is much talk but little understanding of venture capital, which in any case is hardly available at all.

Working capital is the most significant financing constraint. RDO/C's priority in the area of enterprise financing will be to expand the working capital component of the SEA project to the regional scale originally

intended. Project financing in the vicinity of $800,000 would provide essential working capital to 35 small and medium size companies throughout the region that could not otherwise obtain it, to enable foreign-exchange earning projects in tourism and backward linkage projects in manufacturing and agribusiness to go forward.

In the area of venture capital, USAID activity depends mainly on the progress of the HIAMP and EIB/CFSC programs and on future levels of mission funding. Although the need for more equity in the region is clearly identified, venture capital may not be the best means of addressing this constraint.

A major element of our strategy with respect to financing will be policy dialogue aimed at eliminating constraints to the mobilization of local capital in the region. Issues to be taken up will include development bank policies, leveraging changes in commercial bank policies, and encouraging the free flow of capital and the formation of new types of capital markets in the region.

The second major constraint to private sector development in the region is the lack of business and marketing skills affecting firms of all sizes, from micro-enterprises to the large established merchant houses. There is a universal call in the region for more training opportunities at all levels, from youth training programs to management seminars conducted for senior executives. The lack of business skills is closely connected to the shortage of enterprise financing. Many entrepreneurs with a good business idea lack the skills necessary to prepare credible business plans or may lack the business skills neccessary to carry them out.

USAID has developed a broad approach to business skills development covering the entire socio-economic spectrum and including training and technical assistance for micro-, small- and medium-size enterprises,

management training for middle and senior executives, participant training in a wide range of skills related to private enterprise development, and job training for young, economically-disadvantaged entrants to the labor force. The strategy for the forthcoming RDSS period is to continue on each of these fronts.

The third, and in our view most critical, constraint is the lack of a policy environment conducive to business development and new investment, both local and foreign. There is an urgent need for enhanced public/private sector consultation and cooperation in planning for development of the tourism sector, developing backward linkages to agriculture and manufacturing, and removing impediments to regional and extra-regional trade. A pre-requisite for tourism development is master planning at the national and regional level, which must address issues such as investment promotion and incentives, marketing, air access and aviation and cruise ship policy, infrastructure planning and development, and environmental planning.

There are a number of areas in which government policies act as constraints to businesses of all sizes and types. For instance, there is concern in the private sector that taxation policies need to be overhauled and rationalized. There is concern that complex administration, bureaucratic delays, and petty regulation create negative perceptions of the region's investment climate and frustrate both foreign and local investors. Inefficiency of government departments is a serious concern, with complaints ranging from unnecessary delays in clearing goods through air and sea ports to long waits for government decisions. The legal framework governing the functioning of the private sector tends to be outdated and fails to recognize modern business practices.

In the current RDSS period, substantial progress was made in the priority area of investment promotion and improving the capability of governments in the region to respond to the needs of investors. The principle vehicle was the Investment Promotion and Export Development Project (IPED) which provided for the establishment of the Eastern Caribbean Investment Promotion Service and for technical assistance to the Industrial Development Corporations of each OECS country. Progress also was made through the Public Management and Policy Planning Project (PMPP) in the area of fiscal reform.

In the RDSS period, the strategy to obtain improvements in government policy and planning and enhanced public/private sector consultation and cooperation will be to encourage the formation of national public/private sector councils under a regional umbrella and to provide these councils with a means to contract for policy planning expertise. The councils will identify, prioritize, and seek solutions to constraints to private sector development and provide input to development planning, including tourism master planning. The objective will be to obtain incremental improvements in the business climate leading to increased investment and more robust private sector led economies.

D. Access to Basic and Professional Education

The Eastern Caribbean enjoys high primary and modest secondary enrollment rates. The nature and quality of education is, however, inadequate to meet the challenges of development in the 1990's and beyond.

Table II.14 in Annex I provides country by country enrollment estimates for OECS States.

Measured literacy rates seriously overstate the qualifications of the human resource pool. Although well over 90 percent of the children of primary

school age are currently enrolled, the formal education sector at primary and secondary levels is characterized largely by untrained teaching staffs with inadequate teaching materials. As a consequence, the labor force available to staff offices, factories and farms--lack sufficient general education to prepare them for job-specific training.

A recent CARICOM study reports "an observed decline in the levels of functional literacy and numeracy". Employers complain that weaknesses in basic literacy, numeracy and problem solving skills leave a significant proportion of the work-force poorly prepared for job-specific training. The quality and relevance of basic education must be improved to resolve this problem.

The overly academic orientation of secondary schooling does not adequately prepare school leavers for employment. The unavailability of trained workers for the manufacturing, tourism and services sectors exists concurrently with a high level of unemployment. A program for the training of entry level workers is required to respond to this dual problem.

The development of appropriate management expertise to promote private sector development is constrained by (a) a lack of trainers, (b) a lack of communication and coordination with employers, (c) limited training opportunities for needed skills and (d) the low quality of training institutions. Underdevelopment of management expertise is as damaging to the future of the region as any shortage of physical or financial resources. A program of management training is required to redress these constraints.

Only ten percent of secondary school graduates proceed immediately to tertiary level education. Indeed, a disproportionate amount of educational resources is required to provide such tertiary level education. The University of the West Indies, for example, provides an increasingly costly

form of bachelor's education, with total costs approximating those at U.S. private universities. Targeted tertiary level training relevant to the development needs of the OECS countries should be provided. Mission training projects are achieving 50 to 60 percent female participation, however the mission is attempting to shift the focus of participant training away from traditional female careers to better-paying and higher status fields.

E. Democratic Traditions and Institutions

Democratic traditions are strong in the Eastern Caribbean. The English-speaking, predominantly English common law-based Commonwealth Caribbean is one of the few areas in the Third World where democratic institutions have taken hold and are enthusiastically retained. Multiple parties, free elections, speech and press are the norm. The judiciary is responsible and independent and respect for the rule of law remains high. Democratic institutions themselves are based largely on British models and often antedate U.S. experience.

Having said this, however, a study commissioned by AID late in 1985 revealed this has been changing and for the worse, due to lack of investment in, and routine maintenance of, the system of administration of justice. Because of poor salaries and incentives, lawyers refuse government legal service and judgeships in their own countries. Laws are woefully out-of-date. Statutes and subsidiary legislation are not printed or revised and court decisions not reported.

The need for the revision of laws, rules and procedures relating especially to private sector development, trade, commerce and investment has been graphically demonstrated by recent RDO/C experiences. The outdated state of all Eastern Caribbean companies laws alone has been found to be a

significant constraint to investment (whether local, regional, or extra-regional) in export-oriented and other productive enterprises. This is especially true for investment in existing small enterprises that could grow significantly from the timely injection of equity investment. The lack of a clear, relatively simple, well-known body of investment law, regulation and policy--especially in the equity financing area--is a significant bar to the development of other than the largest, most well-entrenched business organization. A companion and supplementary effort to CJIP is the Caribbean Law Institute (CLI) which has as its express purpose the revision, updating and harmonization of laws relating to commerce, trade and investment.

The public/private, high low split in female employment is as evident in the legal world as it is in the private sector. Most of the legal librarians are women and all of the Chief Justices are men. The legal librarians have achieved management and administrative stature within the public sector employment structure. The Chief Justices are men because the pool of contenders with the qualifying education/experience mix happen to be almost exclusively men. Where women have had the social support necessary to permit them to obtain the qualifications necessary for appointment, they have competed effectively and have been appointed to various senior posts in the legal system of particular territories (Jamaica, and recently St. Lucia). However, child care responsibilities and low family income make the path of women attaining qualifying status much more difficult.

F. Degradation of Natural Resources and Biodiversity Issues

Annex V treats this subject in detail. Tourists are attracted to the Eastern Caribbean by climate, coral reefs and beaches, flora and fauna, and spectacular scenery. However, population pressure and careless development

efforts have begun to threaten and, in some cases, degrade these prime resources. Proper sewage disposal is a serious continuing problem. Misuse of agrochemicals further jeopardizes freshwater and marine resources. On most of the Eastern Caribbean Islands the coastal waters are being rapidly degraded. Improper landscaping in urban and tourist areas is resulting in increased sedimentation, which once again contributes, along with agriculturally produced sedimentation, to the death of coral reefs.

Increasing tourist visitation also puts greater stress on the marine environment to provide the lobster, shell and fin fish consumed by local populations and visitors alike.

Long term sustainable agriculture depends on the use of appropriate technology to maintain soil cover and to control agricultural pests. Currently, many small farmers, because of limited land space and skills are farming steep sloped areas in a manner that promotes severe soil erosion. The loss of this top soil not only decreases long term agricultural production but eventually washes into the nearshore waters smothering coral reefs and grass beds, these latter environments being extremely important to tourism and to fish production. On many islands inappropriate soil conservation and watershed management by the small farmer results in only a few years of production from a piece of land resulting in continual deforestation as new land is continually cleared to replace that which has gone out of production. It will be years before the full biological potential of the land returns; in some cases this potential is lost forever.

It is probable that high levels of fertilizers and pesticides are also carried into the coastal waters, furthering their degradation. Pesticides used by untrained farmers may be applied at excessive rates. There

is a need to take the fishing pressure off of the nearshore coral reefs, and while attacking land-based pollution, give both the reefs and the dimersal fish populations (especially the grazers which control algal cover on the reef) a chance to recover.

The mission realizes that manufacturing must be undertaken with great caution, and that appropriate standards are promoted in the Caribbean with regards to the production and disposal of wastes.

G. Infrastructure Deficiencies and Maintenance

Basic economic and social infrastructure is either in place or under construction throughout the Eastern Caribbean. Basic roads, power and communications have been supplied. However, due to limited financial and administrative capability, lack of maintenance and the nature of the physical environment, nearly all forms of infrastructure are deteriorating, some at a rapid rate. Government agencies responsible for specific services often lack the funds, managerial capability and technical competence to plan and implement either their capital investment or operational maintenance programs. They are, therefore, unable to assure reliability of service or maintain over time an adequate balance between supply and demand. The characteristic historical pattern is an accelerated deterioration of plant to the point where conditions force emergency allocation of funds to remedial action programs.

Efficient public utilities are critical to the development of the Eastern Caribbean. Most public utilities have been slow to adopt businesslike pricing criteria and are unable to generate the cash flow to meet normal counterpart funding requirements for capital projects or to defray the cost of

operation and maintenance. Unfortunately, most public utility systems are both unreliable and expensive. Due to their small size and remote location, it is difficult for them to take advantage of economies of scale and to lower per-unit procurement costs through bulk transactions. On many islands, hotels and industrial plants require stand-by power units due to the unreliability of public electric power generation and transmission. U.S. assistance through NRECA (The National Rural Electric Cooperative Association) has identified the following priority areas for improvement in electric power utilities: Training, Procurement and Inventory Maintenance, Management and Finance. Investment in other productive infrastructure (e.g., ports, airports and industrial parks) cannot be widely encouraged, unless significant ESF funds become available.

Infrastructure projects have direct effects on women by making life for any economically productive member of the household easier or more efficient. The Basic Needs Trust Fund Project improves and constructs schools, water systems, health centers and roads. To the extent that women participate in economically productive work and maintain a household, improvements in their local infrastructure have a cumulative positive impact because they enhance the efficiency with which both men and women accomplish productive tasks.

H. Population Growth and Access to Family Planning Services

Population growth ranges from 1.0% to under 2.0%. However, population densities are great even where population growth rates have slowed, as in Barbados--one of the most densely populated countries in the world.

All islands have experienced historically high rates of emigration which siphon off skilled and unskilled labor and increase dependency ratios. Hard currency remittances compensate for this to some extent. Population

projections are shown in the table in Annex I, Table II.8. Two sets of projections are shown for each of the OECS states. Scenario (A) straightlines current total fertility and emigration rates, while Scenario (B) assumes major declines in both during the 1980's and 1990's. These data lead to the following observations: (1) Emigration is the key to medium term labor force management. With decreased emigration, labor force growth accelerates rapidly. Fertility declines, of course, do not begin to affect the labor force for 15-20 years. (2) School age populations grow appreciably in St. Vincent and St. Lucia where fertility is now highest, but begin to decline in Grenada, Dominica and St. Kitts as fertility continues to decline.

Current estimates of unemployment are inexact for all islands, but there are clear indications of skilled labor shortages in Antigua and in St. Kitts and labor surpluses in the Windward Islands. Crude estimates can be found in Annex I, Table II.10A. Labor movement among the islands is tightly restricted, another argument for political and economic integration.

The majority of population activities are managed by women as executive directors and as educators in extension delivery. Project participants are almost 100% female and the emphasis is on young females. In addition to the need to decrease fertility in an absolute sense, the program aims at child-spacing for womens' health and at the achievement of reduced fertility rates in young age categories because teenage pregnancy limits womens' options and ability to participate in the benefits of growth.

I. Health Sector Deficiencies and Costs

Compared to other developing countries, the Eastern Caribbean enjoys relatively high standards of overall health. The leading causes of morbidity and mortality are the same as in the U.S. and Western Europe: cardiovascular

disease, cancer, hypertension. Cervical cancer rates in the Caribbean, for example, are among the highest in the world. Additionally, the prevalence of glaucoma which, undetected leads to blindness, is the highest in the world and 25 times the rate found in the United States.

As Table II.3 in Annex I shows, most of the Agency-monitored health statistics for the region (e.g., infant and child mortality rates and life expectancy at birth) are favorable when compared to the A.I.D. and worldwide standards. The major maternal and child health related problem in the Caribbean is perinatal death which is closely related to low birth weight, anemia during pregnancy, toxemia, high pregnancy rates, short birth intervals and abortion. The high life expectancy at birth statistic is both a positive and negative indicator: while it suggests improved health care, it also suggests one reason for the changing disease pattern and growing emphasis on chronic diseases. The rapid "graying" of the Caribbean further suggests both increases in the dependent populations and more costly, longer term health care needs. For other Agency indicators (e.g., percentage of population below F.A.O. critical level of caloric intake, and percentage of children under five with chronic and severe undernourishment), the data are less accurate but those which are available suggest that the Eastern Caribbean may not yet have arrived at the standards. "Food and nutrition" has been identified as one of the seven Caribbean Cooperation in Health (CCH) priority areas and continues to be addressed by the Jamaica-based Caribbean Food and Nutrition Institute, a PAHO collaborating center.

The battle against communicable and environmental diseases is not over, however, and the firmly held popular conviction that government should be the provider of free health care for all results in both critical and

costly public sector programming. For example, dengue, which is spread by Aedes aegypti mosquitoes, is endemic to the region. Evidence from the Centers for Disease Control and national surveillance programs indicate that dengue epidemics have occurred in the Caribbean with increasing frequency over the past 25 years and sporadic cases of dengue hemorrhagic fever/dengue shock syndrome (the most severe forms of the disease) have been documented in several Caribbean countries in the 1980s. Environmental health activities to prevent dengue outbreaks require constant attention. The number of cases of sexually transmitted (communicable) diseases are increasing significantly across the Caribbean including the most critical disease pandemic, AIDS. The prevalence rate for AIDS in Barbados (13.3/100,000) is the seventh highest reported worldwide. The most common means of transmission in the Caribbean is heterosexually, a frightening prospect given the cultural norm of early initiation of sexual activity and multiple partnering.

With increasing pressures on all government expenditures, real expenditures in the health care financing have declined throughout the Eastern Caribbean--contributing to declining levels of service and the quality of care and deferral of maintenance of the capital stock. At 12-15 percent of total government expenditures, public sector spending on health is comparatively higher than in most developed countries and is not likely to increase further. Governments must seek ways to improve efficiency of existing resources and to expand sources of revenue through new financing strategies. However, these efforts face formidable constraints.

The largest of the target countries in the region has a population of only 120,000. The small size of these markets limits the ability of many country-specific strategies to improve system efficiency. Where the costs of

delivering of health care services are subject to significant economies of scale (as in many hospital and diagnostic services) smaller volumes of production mean higher costs per unit. Governments spend significant portions of their health budgets sending patients offshore for treatment unavailable locally and face the need to upgrade select (e.g., diagnostic) tertiary care facilities to reduce the exponentially increasing costs of medical referrals to the more advanced Caribbean countries and extraregionally. However, the lure of sophisticated technologies without a full appreciation of their recurrent costs and relative value vis-a-vis other options has already resulted in poor procurement decisions such as a $1 million CATscan in one country of 80,000 people. Hospitals already account for up to 35% of the total health budgets and such new technologies will require expensive maintenance and human resources to support. Opportunities to aggregate activities to achieve lower average costs are limited.

Many of the region's health care systems were developed under British rule and in most cases, the physical facilities are old, inadequately maintained, and in a deteriorating condition. These circumstances generate higher operating costs creating financial shortfalls for major expenditures in other parts of the health care system. The over-reliance on tertiary facilities means that primary care facilities are frequently underbudgeted. This results in shortages of supplies and inefficient uses of health manpower. The combination of inappropriate use and inadequate support impacts adversely on the quality of care. These conditions are self-reinforcing.

Most public institutions are funded through annual budgets supplemented by special appropriations throughout the year. Records of expenditures, although carefully made, are not organized for management purposes and appropriate financial management is nearly absent. Public sector health systems are

plagued by inadequate budgets, lack of trained staff, management deficiencies, shortages of critical supplies and essential drugs and the absence of modern information systems.

J. Shelter Deficiencies and Land Use Management

This topic is treated in Annex VI. The combined effects of urbanization and economic growth are creating significant demand for land in the Eastern Caribbean region. This demand is in response to the needs of expanding populations and a variety of industrial, commercial and tourism uses. At the same time, there is only a finite supply of accessible, easy-to-develop land to meet this demand. In this context of very small island economies, whose economic base has traditionally been agriculture, competition for this scarce commodity has fueled a heated debate between those who require land for new development and shelter and those who wish to keep the land in its present agricultural state. The question raised is whether enough land will be made available to accommodate future growth and development without having to sacrifice land that is essential to productive agricultural purposes.

Unfortunately, the record to date in resolving this predicament is not good. There currently exist serious deficiencies in the Eastern Caribbean region in the delivery of urbanized land and basic shelter and in the management of the use of land. Problem areas manifest themselves in the lack of access to public services (such as water, waste disposal and electricity) for the expansion of economic activities and the orderly growth of urban settlements. Lack of adequate access to public services is particularly acute in the islands' smaller towns and in lower-income sectors of the population.

The region's existing shelter and urban development problems are exacerbated by the lack of rational land use management systems. Individual land delivery systems are not responding well to the myriad requirements placed on them by the agricultural, industrial, tourism and shelter sectors. Current demand for land to meet these various sectoral requirements is being met on a haphazard, ad hoc basis. This non-planned and inefficient allocation of land works to the detriment of this scarce, environmentally fragile resource.

The clearest evidence that the shelter and land delivery systems of the region are not working efficiently is the rapid growth of illegal squatter settlements in the region's growing urban centers and around industrial, estates and tourism complexes. The need for urbanized land and basic shelter in the Eastern Caribbean will only be met through the combined efforts of the local public and private sectors. The vast majority of shelter produced in the region is still produced informally by individual household units with assistance from family members, friends or small contractors. The availability of adequate public services and secure land tenure greatly facilitates and stimulates the production of shelter by the formal and informal private sectors. While varying among the islands, current government policies generally do not build on or take advantage of informal construction processes which could be guided or made more efficient to enhance accessibility to land and services by lower-income households. A key component of a potential USAID policy agenda is to assist government to disengage from a direct role in shelter production and finance and to begin to facilitate the participation of the private sector through supportive policies and the timely provision of land and urban services. Annex VI contains a full discussion of the key problem areas in the shelter and land use management sectors as identified by a RHUDO assessment team.

III. STRATEGY

A. Summary

1. Concentration and Establishment of Priorities

The mission has reviewed and weighed the relative importance of the various constraints to economic development in the Eastern Caribbean and has identified five key problem areas for its strategy focus during the 1990-94 period: removing constraints to economic growth; agricultural sector deficiencies; obstacles to private sector development; access to basic and professional education; and democratic traditions and institutions.

The selection of the subset of problems to be most directly addressed derives from the premise that the private sector strategy is the core of the RDO/C Regional Development Strategy (FY 1990-94). The most important long-term priority is to help develop a mutually-reinforcing set of vital, viable and sustainable private sector and private sector-supporting institutions and governments. This perspective extends beyond the end of the century. This ultimate objective will therefore be achieved during a series of RDSS periods, not merely one. The present RDSS is therefore one five-year subcomponent of a longer-term process. It focuses on reducing several fundamental barriers to market-led development. It is a growth-oriented strategy aimed at providing equity through widespread participation. Both growth and equity considerations will guide small enterprise assistance, work with women and small farmers, institutional development and policy reform. The democratic governments of the OECS are in a strong position to maintain equitable and efficient distribution of the benefits of growth. The RDSS therefore focuses on promoting equity via wider participation in the economic growth process, leaving the more explicit social equity programs to the governments themselves.

A diagram in Annex I illustrates the long-term interrelationships between the region's growth aspirations, the requirements necessary for a market-led economy to achieve needed investment and growth, and the areas where interventions in the RDSS period may bring about necessary changes.

In terms of opportunities for structural adjustment at the sectoral level, tourism and agriculture are the leading priorities, ranking first or second, depending on which island is considered. Agricultural productivity must be improved and its output diversified if the sector is to survive the integration of the EEC market after 1992. It is an important potential earner/saver of foreign exchange and serves as a supplier to the tourism sector. It is anticipated that a large portion of mission funding will be in the agriculture account. For most countries in the region, tourism is the area of clearest comparative advantage and the sector most likely to experience the most rapid rate of growth. In the Leewards tourism is likely to be large enough to serve as the primary engine of growth, while in the Windwards it will satisfy an essential need for creating jobs and generating needed additional net foreign exchange.

Human resource development is the third sectoral priority. Increased labor productivity as well as well as improved entrepreneurial and managerial skills will be central to the development of a vigorous private sector that is capable of carrying the development process.

The strategy includes a special focus on the roots of market economy development: the legal and institutional environment in which entrepreneurial decisions are made. One lesson learned from past RDO/C approaches to private sector development is that such efforts cannot be effective if such rudimentary foundations as a modern corpus of corporate and commercial law and a private sector voice in development planning are absent.

The mission is also concerned with other problem areas, but these are not, for various reasons, singled out as separate objectives to be pursued:

Although inadequate infrastructure still represents a constraint to effective private sector-led growth, funding limitations will virtually preclude large RDO/C infrastructure projects (airports, ports, major road construction) on a regular basis. Smaller projects on a given island will be funded using DA or ESF resources as part of a policy-leveraged sector structural adjustment program. These projects will be aimed specifically at: improving the productivity of the private sector; preserving the natural environment; supporting or leveraging sectoral structural reforms; and maintenance of existing capital. In the early part of the period, the emphasis of the latter will be on regional utilities maintenance. A separate infrastructure objective is therefore not included because the needs are largely subsumed under the requirements for strengthening the private sector and preserving the environment. Other donors and lending institutions (particularly CDB) are expected to concentrate on new infrastructure development as well as on other areas of RDSS concern (e.g., tourism linkages to other sectors) for which close coordination will be required.

Stabilization of Financial structures in a macroeconomic sense has rarely been a central concern in the Eastern Caribbean and is not selected as a separate goal or objective. Macroeconomic structural reform has been important in several counties, notably in Grenada and Dominica. This objective will become less important during the RDSS period, unless there is a more severe cutback in Lome privileges than is currently anticipated. The mission's focus therefore will shift to sectoral structural adjustment programs and policy dialogue. Depending on funding levels and allocations,

the areas anticipated as targets for sector programming are: tourism; agricultural diversification; training and education.

Health problems in the region tend to follow a pattern somewhat similar to those of more developed countries. Traditional interventions such as child survival, are therefore not appropriate. Health financing and delivery, including opportunities for privatization, is a concern. The mission's comparative advantage as a donor suggests that improving health care financing and management will be the most effective way to utilize its relatively meager health funds, thereby supporting the overall strategy thrust of enhancing professional management capabilities of senior and mid-level managers and reducing the burden of the government on the private sector. AIDS will become an increasingly severe problem, and RDO/C will continue to support targetted activities which in collaboration with other donors, will work to prevent further spread of that disease.

Protection of the region's resource base is essential to a strategy of sustainable economic growth. The mission underscores the vulnerability of Eastern Caribbean environmental resources which are key to continued economic growth and to improved quality of life. Environmental degradation will eventually destroy the very resources upon which the tourism and agricultural sectors survive. Conservation, maintenance, and more careful development of these resources will support the region's medium to long term growth and development aspirations. This is therefore a cross-cutting objective supportive of diversified private sector-led growth and is not singled out as a separate objective to be pursued for its own sake. During the RDSS period,RDO/C will develop and implement at least one environmental/biodiversity project that will serve this cross-cutting function.

Similarly, shelter and land use management institutions and policies have cross-cutting effects on the mission's core strategy. These are to be addressed through a separate program that RHUDO/Jamaica is presently attempting to develop with the CDB and which will mesh with this RDSS.

The role of Women in Development is another important cross-cutting strategic concern. The mission is embarking on its first WID Action Plan (due in AID Washington March 31, 1989) which will focus on specific ways of including West Indian women in the design and implementation leadership required to overcome the key constraint to WID issues in the Caribbean so that women can routinely achieve the highest levels of professional authority and responsibility.

A more focused family planning strategy will help reduce dependency ratios while improving women's health and increasing opportunities for their active economic participation. Intra-regional and extra-regional migration policy holds the key to labor force containment, given the real limits to growth in agricultural employment and small enterprise development.

Regional economic cooperation or integration, with free flow of labor and capital and a wider market for products, is central to the long term viability of these small island nations. AID will encourage regional integration--channelling assistance through selected regional institutions to the extent their absorptive capacity and our resources permit. Potential development partners include: the Caribbean Development Bank, the Caribbean Agricultural Research and Development Institute, the Caribbean Association of Industry and Commerce, the Caribbean Tourism Council, the Caribbean Conservation Association, the University of the West Indies, the Organization for Eastern Caribbean States and the Caribbean Community Secretariat.

The mission requests that AID Washington begin the steps necessary to

designate Barbados and Trinidad/Tobago as "Advanced Developing Countries" (ADC's), given their potential catalytic role in OECS regional development. If it manages a successful structural adjustment program, Guyana (see Annex II) could also play an important regional role. It is now only eligible for food aid.

2. Public/Private Sector Split in U.S. Assistance

It is proposed that economic assistance include ESF project and sectoral program assistance, DA project and sectoral assistance and Housing Guarantees in order to assist the private sector and to assist governments and regional institutions in activities that benefit the private sector by providing physical and social infrastructure, research and training essential to private sector development. HG funds may be provided by RHUDO/Jamaica for a proposed program with the Caribbean Development Bank.

Though not a central part of its portfolio or strategy, it is anticipated that RDO/C will have managerial and monitoring responsibilities for Guyana's PL480 and 416 food assistance programs in the early part of the RDSS period.

ESF funds will enable the mission to help meet the critical continuing need for additional improved public infrastructure. An evaluation of RDO/C's policy dialogue and related technical assistance is scheduled to be completed by April, 1989. While a definitive decision on the matter must await the results of that evaluation, at this time it is not anticipated that ESF funds will be used for general budgetary support or macroeconomic structural adjustment programs. Exceptions would be made if a serious stabilization crisis emerged, for example, due to a natural disaster or a collapse in international commodity markets. Instead, as funding levels permit, ESF resources will be used to supplement SDA-financed sector

structural adjustment programs in agriculture, tourism and human resource development.

Given their tiny size, limited absorbtive capacity, and general nutritional profile, food assistance will not be an effective form of assistance for the OECS states. Its benefits for Guyana, however, have to date been considerable, albeit difficult to administer from afar. Future food aid to Guyana will be increasingly programmed as sectoral or subsectoral assistance and will be designed to complement a structural adjustment program, if one is undertaken.

The DA portfolio targets the private sector at the national level, though in cases indirectly through regional institutions. The private sector, and notably small enterprises benefit directly from funds and technical assistance channeled through IDC's and National Development Foundations. In line with the mission's objective of developing sustainable private sector support institutions, AID funds have supported the development of the Caribbean Association of Industry and Commerce and the Eastern Caribbean Investment Promotion Service. The Agriculture Venture Trust provides equity capital to agribusinesses, while the Caribbean Financial Services Corporation provides loan funds to regional entrepreneurs.

If an agreement is concluded between RHUDO and CDB, HG funds will be used to provide sites and services development for private housing construction and to leverage policy and institutional reforms that will improve land use management in ways that will enhance the productivity of the agriculture and tourism sectors.

B. Goals and Objectives #

GOAL 2: SUSTAINABLE ECONOMIC GROWTH

a. Overview:

The pattern of future economic growth will reflect the bifurcation in the resource endowments and sectoral prospects between the Leewards and the Windwards. While agriculture still predominates in the Windwards, tourism is emerging as an important source of growth for the region as a whole, but especially in the Windwards. The tourism sector has been relatively neglected by country planners and donors alike. It will assume a more important role in the future, and is an important element in the RDO/C growth strategy. Linked to the region's obvious comparative advantage and anticipated continued worldwide tourism growth, the sector provides employment and business opportunities. In some islands it has the potential to replace declining foreign exchange earnings provided by traditional agricultural exports. Private sector development in every sector will require on the demand side more aggressive marketing and on the supply side productivity increases and product development. Strengthening private sector institutional operations is central to achieving this goal. Productivity depends on the resource base--protecting the physical environment, maintaining capital infrastructure and, most important of all, investing in human resources.

Long-term structural adjustment, not economic stabilization, has been the central macroeconomic problem in the Eastern Caribbean. In the RDSS period, this emphasis will shift to sectoral structural adjustment. Policy dialogue will be leveraged through sectoral structural adjustment assistance to

NOTE: Targets marked by an asterisk are required by MBO No. 6.

(depending on the particular country): tourism, diversified agriculture, or education and training. Policy dialogue will aim at alleviating the constraints that impede development of private sector instituions, private investment, exports of agricultural and manufactured products and increased tourism earnings.

OBJECTIVE # 2: STRENGTHEN THE PRIVATE SECTOR

		by 1995
Target (A):*	Private investment as percent of GDP	27%
Target (B):	Number of small enterprises receiving credit under AID programs	450
Target (C):	Direct employment created or sustained under AID programs	3,600

b. Strategy

Annex III details the strategy for RDO/C's future private sector development programs. It is intended to accomplish a single major objective: to improve the general business and investment climate, and encourage the emergence of robust private sector-led economies which will serve to attract investment (both local and foreign) far more effectively than will contrived incentives.

The strategy for accomplishing this objective is presented in terms of the three major productive economic sectors plus the services sector which acts in a supporting role to the others.

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. The strategy will be to promote planned and accelerated growth focused on the accommodation sector but also paying attention to the development of ancillary supports. Tourism master planning in each country and at the regional level will be a key first step in exploiting the potential of this important sector.

First level linkage impacts of tourism growth 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 economic efficiency considerations permit. However agriculture and factors 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. The mission will work closely with regional institutions and governments to facilitate the implementation of solutions to the many constraints to the private sector, and to facilitate the emergence or expansion of those industries which can be viable producing products for export, local consumption, direct consumption by an expanded tourism sector. The strategy for the service sector will be to simply monitor its growth in response to the other sectors and intervene only if it is essential to the growth of the other sectors, especially tourism.

The strategy will be implemented through a broad range of activities. 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 prevailing business climate such as fiscal policy, freight facilitation, tourism development planning, investment promotion and gaps in enterprise financing. The mission will work to institutionalize the policy dialogue process between the private sector and governments, thereby beginning to move away from the short-term donor-government dialogue model. One step in this

process will be to foster fora and provide research support for public-private sector discussion of policy constraints to private sector investment and growth.

Training and technical assistance will build on existing efforts to improve the range of business and management skills in government and the private sector, the values and work skills of the labor force, and the better general understanding by key government officials of the role and functioning of the private sector.

Efforts will be made in finance to meet the need for equity, working capital 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.

Efforts under this objective are closely tied to those under CLI in objective 12, below, whereby critical changes in commercial law and practice will be addressed.

Small enterprise development will continue to emphasize outreach to, and support for, females as employees and as owners of businesses. Investment promotion efforts are focused on industries that offer both unskilled and supervisory opportunities to women. Indeed, male employment appears to be a more serious problem because so many new jobs are perceived as being for women. The mission will continue to emphasize the employment of women in management and skilled service delivery positions in counterpart organizations administering AID projects (for example, the National Development Foundations, CFSC and CAIC).

OBJECTIVE # 5 PROMOTE EXPORTS

		by 1995
Target (A):	Value of Total Commodity Exports (US$mill)	$400 m
Target (B):*	Value of Nontraditional Exports (US$ mill)	
	1. Agricultural	$ 55 m
	(of which, AID project related	$ 2 m
	2. Industrial	$135 m
	3. Value Added in Drawback industries	n.a.
Target (C):	Foreign Exchange Earnings from Tourism (visitor expenditures)(US$mill)	$600m

b. Strategy:

RDO/C's Agricultural Strategy in the West Indies is based on the premise that export agriculture is a major employer and earner of foreign exchange as well as a complement to local tourism and services development. Development of export agriculture is an important element in the private sector strategy and in spreading the benefits of growth to women and small farmers (although the Private Sector strategy concentrates on improvement of the business climate to foster manufacturing and related agrobusiness export). In addition to providing employment, business opportunities and foreign exchange, the sector complements the tourism sector by providing needed inputs and reducing the large foreign exchange leakage in the hotel sector. A large number of products already have profitable international markets or have been demonstrated to have good market potential.

The agriculture strategy concludes that in the Organization of Eastern Caribbean States (OECS) context agricultural development should have four basic elements. (1) Project and sector support resources will be used to leverage economic policy changes to eliminate inconsistencies in trade policy, to shift the basis of fiscal policy somewhat, and to eliminate domestic price controls. (2) Institutional reforms will be urged, to remove the impediments in labor markets, to encourage easier management of capital through new companies, to improve land markets, and to eliminate any inefficiencies that

might be associated with the existing monopoly in banana marketing. (3) infrastructure investments will be made to remove bottlenecks in the area of transport and storage. (4) AID projects will fund product development programs, including agricultural research and extension and market-led pilot programs for production and marketing of products whose potential has not been fully realized.

RDO/C will work to improve the economic policy framework and to eliminate inefficiencies in institutional environments. New projects or sector structural adjustment programs will address these areas within the context of the four strategy elements listed above so as to implement policy changes and to foster dialogue on relevant economic and institutional issues among the member states of the OECS. It is fundamentally a private sector strategy, though public institutions and universities play a key role in it. This is because the identified constraints are not basically "on the farm," but are rather in the areas of technology, human resource development and economic policy. The strategy thus closely complements the general private sector development thrust of the RDSS.

To break the long-standing dichotomy between island plantations and subsistence farmers the RDO/C agricultural strategy will support programs dedicated to streamlining production and marketing activities of farmers and exporters. This goal is consistent with the Agency's emphasis on increasing income, expanding availability and consumption of food, and maintaining and enhancing natural resources. To support all of these objectives and the four strategy elements, RDO/C will concentrate on improving efficiency in farming, especially of non-traditional export crops. A more complete description of the agriculture strategy and its foundations is found in Annex IV and the documents referenced therein.

Tourism is a cross-cutting sector that supports both this objective and Objective 2, Strengthen the Private Sector. The tourism strategy will be to promote planned and accelerated growth focussed on the accommodation sector while also serving the need to develop ancillary supports.

Agricultural diversification in the OECS is part of a multi-donor effort, coordinated by the CDB and involving CIDA, BDD, EDF in a closely coordinated effort launched by the governments in March of 1988. In his inaugeral address, the new President of the CDB stressed the need for devoting more attention to tourism. It is likely that other donors will move into this area, but to date intervention in the sector is largely in the planning stage. RDO/C has a unique opportunity to place its private sector "spin" on both agriculture and tourism development.

The agriculture sector strategy will recognize the integral role that women play as decision-makers in the agricultural production system and will develop technology and train technology transfer agents in the importance of this role so that women are integrated more fully into the agricultural system.

GOAL # 3 WIDER SHARING OF THE BENEFITS OF GROWTH

a. Overview.

Human resource development is important for equity considerations, but it is also vital to economic growth objectives and central to our private sector tourism, agriculture and infrastructure strategies. We will continue proven approaches to non formal skills training, regional management training and training initiatives under the Presidential Training Initiative for the Island Caribbean and CDT and will consider support for basic education once the revised LAC guidance on this subject is issued. Family planning services are central to maintaining the balance between population and resources on the small islands of the Eastern Caribbean. They

also provide women with greater control over their own lives and reduce the burden of child care which impedes their access to higher wage employment and social mobility. Maintaining health standards by strengthening health financing is part of the long term strategy for helping Eastern Caribbean countries become increasingly self-reliant.

OBJECTIVE # 11 IMPROVE EDUCATIONAL OPPORTUNITIES

		By 1995
Target (A):	Satisfactory completion of basic education	90%
Target (B):	Skills Training and placement network in six Eastern Caribbean countries	100%
Target (C):	Vocational training and placement	
	a. Males trained annually	500
	b. Females trained annually	700
	c. Males placed annually	85%
	d. Females placed annually	85%
Target (D):	Self-sustaining Institute of Management	100%
Target (E):	Managers trained annually	
	a. Males	150
	b. Females	50
Target (F):	Number of Persons Beginning Training Programs During the Period FY 90-95	
	a. Short-term (up to one year) - Total:	1175
	1. Men 735	
	2. Women 440	
	b. Long-Term (more than one year) - Total:	205
	1. Men 135	
	2. Women 70	

b. Strategy

A detailed human resources development strategy is attached as Annex VII. The main elements of that strategy are noted here.

(i) Overview: The region does not now have the pool of skills to undertake and sustain the development program RDO/C wishes to pursue. RDO/C's overall development strategy requires a concurrent human resources development strategy designed to improve educational opportunities in basic education, vocational and technical academic train;ing and management.

(ii) Basic Education: The basic education constraints in the Eastern Caribbean are related to quality. The high enrollment of children of

primary school age in Eastern Caribbean countries since the 1960's outstripped the availability of resources to provide classroom space, essential supplies, qualified teachers and improved curricula. Employers are now hindered by the lack of functional literacy, numeracy and problem solving skills in the work-force. While USAID initiated some activities (primarily between 1979 and 1984) to alleviate these constraints, the major follow-on work required to reap the full benefits of this project was not undertaken. If future resources permit, RDO/C will assist in the alleviation of the basic education constraints to development by helping Eastern Caribbean countries develop an innovative teacher-training program, a regional resource development center and standardized grade level testing.

(iii) Non-Formal Skills Training: Shortages of skilled labor exist concurrently with a high level of unemployment. In 1982, RDO/C funded the Regional Non-Formal Skills Training Project to assist in the training of entry level workers. Under OAS leadership, the project has successfully trained over 6,000 young people and placed over 80 percent of them in jobs in the private sector. Measures to institutionalize the skills training program are underway. RDO/C will assist participating countries further with the institutionalization process by providing annual reducing grants through the OECS Secretariat to assist countries in meeting project costs.

(iv) Management: In FY 1986, RDO/C designed the Regional Management Training Pilot Project to test a number of interventions aimed at improving management skills, particularly in the private sector. Results of this pilot are encouraging. RDO/C will fund the development of a follow-on program which maintains some of the current focus on seminars, symposia and case development, and which addresses private-public sector policy issues and gives greater support to institutional strengthening.

(v) Participant Training: Participant training is an essential component of USAID's development strategy in all sectors, complementing other forms of assistance, and continuing to have an impact long after other investments of capital, commodities or technical assistance have been expended. In the past 9 years, 1579 individuals have received training in various fields. Most are, for the most part, now utilizing their training to train their countrymen and many of them have risen to leading positions within their countries.

Currently, the major training efforts of RDO/C are channeled through the Presidential Training Initiative for the Island Caribbean (PTIIC) which will have trained a total of 749 individuals by the end of the project in FY 94. This project has spread the benefits of growth by primarily targeting the disadvantaged. Phase II of this project will continue during the period FY 90 thru FY 95 with a more leadership focussed selection criteria (training an estimated 350 individuals) with a more leadership focussed selection criteria new Development Training Project (CDT) will provide training for 790 individuals and will aim to support three major activities in the RDO/C regional strategy: (1) strengthening the private sector; (2) institutional development; and (3) spreading the benefits of growth. While the project will contain both long- and short-term training, the majority of the training will be short-term technical courses in third countries.

OBJECTIVE # 13 Other: Public Services and Community Development

		By 1995
Target (A):	Reduced unit costs of pharmaceuticals compared to 1980 levels:	45%
Target (B):	Cost Recovery Pilot activities introduced	5%
Target (C):	Percent of population with correct knowledge of how AIDS is transmitted	75%
Target (D):	Increase percent of women in union contracepting	50%
Target (E):	Family Planning programs using private sector delivery mechanisms implemented	3%
Target (F):	Number of local affiliates served by regional family planning institution	5
Target (G):	Cumulative Jobs Created through Community Participation	650
Target (H):	Small Community Infrastructure Projects Completed under SDA Program	150
Target (I):	Persons trained in nonformal community skills through SDA program	300

b. Strategy:

(i) Creating Efficiencies in Health Services

Real public sector expenditures for health in the Caribbean have stabilized over recent years at 13-17% of total government expenditures and are not likely to increase significantly as a percentage of total government outlay. The need to maintain primary health care services while facing the growing demands of chronic disease, environmental health and AIDS will be impossible without signficant improvements in the effectiveness and efficiency of publically delivered services and the willingness and capability of governments to divest itself of those services which can be more appropriately provided by the private sector.

Undoubtedly governments need to upgrade tertiary care facilities to address severe physical plant deterioration over recent years and to reduce the exponentially increasing costs of medical referrals to the more advanced Caribbean countries and extraregionally. However without improved resource allocation methods and health management systems including comprehensively applied cost containment programs, all health services will seriously

deteriorate over the coming years. This mission has already tested some long- and short-term models for promoting improved management and cost effectiveness in health care delivery. The longer term efforts (e.g., Regional Pharmaceuticals Management Project) have been most successful at introducing and institutionalizing critical change.

In the RDSS period, the mission will use successful health and training models to improve the efficiency of public health sector systems. RDO/C will provide additional support to institutionalize the Eastern Caribbean Drug Service of the Regional Pharmaceuticals Management Project. This project is providing one of the most successful models for cost-effectiveness and enhanced public sector services through international competitive procurement, improved management techniques and cost-containment.

Drawing on the experience of the Regional Management Pilot Training Project, RDO/C will introduce health management training at the top policy level following up with a targetted program of interventions to improve public health management. Training and technical assistance will focus on areas including program budgeting and resource allocation, health information systems, and the institutionalization of cost containment activities. Over the course of the RDSS period, dialogue with governments will continue to promote divestiture of ancillary (e.g., hospital dietary, laundry and sterile supply) services for which models already exist in other countries. Following on successes in Grenada and St. Lucia where hospital fees have been increased, the Mission will continue to promote the benefits of cost sharing and improved fee collection methods.

Activities will address the tertiary level in the first instance as (1) it represents such a large draw on health sector resources, (2) builds on

successful hospital cost studies already conducted in St. Lucia and Antigua, and (3) such efforts will augment and facilitate the regionally-adopted Caribbean Cooperation in Health strategy and other infrastructural work at hospital level by other donors.

The regional model will also be applied to assist Caribbean countries in supporting the fight against AIDS. The strategy being implemented by the region-wide Caribbean Epidemiology Centre and U.S.-based AIDS experts through the AIDS Communications and Technical Services Project includes assessing both the level of HIV seropositivity and the knowledge, attitudes and practices (KAP) among select high risk groups and the general population; developing effective communications strategies; training in AIDS surveillance and education strategies; and testing and replicating effective and innovative models for increasing knowledge, changing high risk behavior, and reducing the financial burden on health care systems. Among the models being examined to reduce costs will be the feasibility of testing pooled blood samples for HIV infection and introducing cost recovery for AIDS screening.

The above strategy will maximize the efforts by governments and other donors in this region by working within the Caribbean Cooperation in Health framework.

(ii) Access to Family Planning Services

Child spacing spreads the benefits of growth through its beneficial health effects on women and increased female opportunities for labor force participation and upward social mobility. In the RDSS period, if gains are to continue and to be sustained, the management of family planning institutions delivering the services will need to be improved. The Caribbean Family Planning Affiliation Ltd. based in Antigua, will be used to coordinate and

facilitate the further managerial development of its affiliated family planning associations. With technical assistance provided by a U.S. contractor, the CFPA will organise training for its own staff and those of its affiliates in: program management; development and implementation of management information systems; expansion of revenue generation activities; and improvement of the commodity supply logistics systems.

The mission will undertake three to five pilot projects in different locations aimed at delivering family planning services and counselling at work sites. Feasibility studies indicate a 10 percent or higher pregnancy rate on industrial estates and the pilot projects will try to demonstrate to industry that their participation both in monetary terms and in active propagation of the benefits of child spacing and child planning, could lead to a more productive and stable work-force. There has been a slow but steady increase in the percentage of couples contracepting, so that by 1990 the average percentage across the region will be 40 percent. In the RDSS period, the Mission will focus its effort on those two or three countries where, despite considerable gains in reducing the total fertility rate, the rates remain relatively high (St. Lucia, St. Vincent and Grenada).

RDO/C is the major population donor in the Eastern Caribbean--the only one which devotes resources to service delivery. UNFPA, with its diminished funding levels is no longer a major player, although continuing to work through PAHO on family life education in the schools. UNFPA also provides some training and supports research projects and underwrites work with parliamentarians. FPIA is an important provider of commodities which AID cannot finance. IPPF (with substantial AID funding) provides some core costs to the family planning associations.

(iii) Community Development

The Special Development Activities Fund is a continuing program to spread the benefits of development and has been in existance since FY72. RDO/C's strategy will continue to address the constraints and promote opportunities for economic and social development at the community or village level by encouraging small community groups and non-profit organizations to participate in small scale self-help development activities. Self-help community participation will continue to be one of the primary channels through which low income groups and the rural poor can be encouraged to actively contribute to the development of their communities.

GOAL # 4 STRENGTHEN DEMOCRATIC INSTITUTIONS

a. Overview:

While respect for the rule of law, exercise and protection of democratic traditions and the foundation of democratic traditions are arguably stronger in the Eastern Caribbean than any other single geographic area in the Third World and often antedate U.S experience, a lack of investment in and routine maintenance of the systems of administration of justice have eroded thi firm ground. Moreover, the antiquated state of the laws relating to commerce, investment, trade and the formation of capital are being increasingly indicated as obstacles to investment (whether local, regional or extra-regional) and growth in export-oriented and other productive enterprises. This is especially true for investment in existing smaller enterprises that could grow significantly from the injection of equity investment.

OBJECTIVE # 12 Strengthen Democratic Institutions

		By 1993#
Target (A):	Strengthen Court Systems	
	1. No. of Courts Renovated	49
	2. No. of Judges Trained	65
	3. Court Mgt. Activities Conducted	14
Target (B):	Development of Regional & Local Institutions	
	1. Bar Activities Conducted	14
	2. Legal Aid Design/Development Activities	7
Target (C):	Law Revision/Harmonization/Printing	
	1. CLI Training Activities Conducted	9
	2. Revised Laws Prepared for Adoption	10
	3. Printing of Laws (by country)	4

Work expected to be complete before 1995.

b. Strategy:

RDO/C has two elements in its strategy to strengthen democratic institutions. Both will be completed during the strategy period, and at the present time, RDO/C has no plans for follow-on efforts to either:

(i) Caribbean Justice Improvement Project (CJIP)

CJIP was developed to assist in correcting the justice system lack of investment and maintenance noted. CJIP provides technical assistance to and training of judges and court personnel, will complete the renovation of selected courts in the region to allow the introduction of more modern technology in administration, construct a judicial facility including library and registry for St. Kitts/Nevis, undertake the publication of legal materials, print laws and court judgements and assist in the design and development of affordable (to both client and government) legal aid programs. Finally, the project will conduct policy dialogue with governments and negotiate policy changes relating to salaries, benefits, incentives and conditions of service of judges and members of government legal service. An important aspect of the project will be to accomplish these activities within a recurring cost context affordable by countries that have the population and revenue base of small countries in the United States.

(ii) Caribbean Law Institute (CLI)

A cooperative effort of the law faculties of the University of the West Indies and Florida State University, CLI will draft and encourage the adoption of such legislation and provide technical assistance and training to legislators, law practitioners and others to ensure its dissemination and knowledge. Model statutes will be developed for consideration by all Commonwealth Caribbean States and adoption in substantially model form will begin the creation of a body of uniform law in the Caribbean. CLI builds on the efforts of, and closely coordinates with, the OECS and Caricom.

C. OTHER STRATEGY CONCERNS

1. Grenada.

Grenada will retain its special concern status during most of the RDSS period. The prospects and issues surrounding Grenanda's future are presented in more detail in the separate Country Annex. Grenada's economic prospects are moderately good, perhaps better than those of its Windward neighbors, provided that early and decisive action is taken to address several key issues, including: restoring the government's fiscal solvency; improving the PSIP process; removing price controls; reexamining the tariff structure and removing harmful disincentives; a more vigorous program of privatization of parastatals; removing red tape and other disincentives to investment; and a general improvement in the business climate and attitudes toward private investment. As with most of the other OECS islands, given their tiny size and limited fiscal resources, it is probably not reasonable to expect Grenada to provide from its own resources more than a fraction of its Public Sector capital needs through the mid-1990's. External assistance will therefore necessarily be an important part of the country's development during this

period. Much of this can be provided from external sources other than the U.S., including an anticipated large role in the region by Canada and Great Britain in agriculture, fisheries, forestry and water-related infrastructure as well as available infrastructure funds from CDB.

Fortunately, much of the large basic infrastructure is now in place, thanks to previous AID assistance. Future infrastructure needs will be more modest and the mission proposes that these be tied to government's ability to maintain its infrastructure or to one or more policy-conditioned sectoral structural adjustment programs.

Maintenance of political stability and government fiscal solvency are perhaps the two most urgently needed interventions to improve the business climate. In this context, there is need for training at all levels, but in Grenada more than in other states, emphasis needs to be placed on basic education and training and community development activities aimed at youth and the unemployed. This may be addressed on a project or a sectoral basis.

The mission's overall private sector strategy points out the region's lack of sufficient cooperation between the private sector and government as well as fragmentation of the private sector itself. This problem is especially critical in Grenada and special efforts will be made to improve coordination within the private sector and to establish a constructive dialogue and more mutual trust between the private sector and government.

Experience suggests that bilateral macroeconomic and general budgetary support outside the context of a multidonor structural adjustment program will be counterproductive. It runs a serious risk of building a dependence on U.S. assistance that will preclude the structural reforms that are essential to future economic growth.

Future nonproject assistance for Grenada, if funding permits, will

therefore be for bilateral sectoral structural adjustment. The sectors to be targeted are tourism, agriculture and education/training. Given its potential for early and significant impact, tourism will be the focus of the first such program. The sectoral program will consist of a mix of policy level technical assistance and advice, targeted tourism-related (or other sector-related, as appropriate) infrastructure projects, and training programs through which to work with the Grenadian public and private sectors to develop and implement agreed comprehensive private/public sector policies and policy reforms. Technical assistance at the senior policy/organizational levels will be the lead element of our bilateral strategy. Ideally, and to be fully effective, such a program should be developed in the context of a TCG program, though there may be some opportunities for bilateral leverage at the sectoral level. Policy dialogue will focus on improved government efficiency, eliminating price controls and other government disincentives to investment, production and export, and on increasing the sustainability of sector support institutions.

2. Biological Diversity/Tropical Forests

The mission will address environmental issues under two broad headings: land use management and environmental protection. More detailed treatment of these two subjects is contained in Annex VI and Annex V, respectively. In deference to space limitations in this document, fuller explanation of the mission's special strategic concern is deferred to Annex X.

RHUDO HG funds channeled through the CDB will leverage policy dialogue and institution-building to develop a sound land use management system to meet the varied multi-sectoral requirements for agricultural,

industrial, tourism and residential land at affordable prices.

Poicy dialogue will emphasize the need for host governments to support land use planning and land development, training and technical assistance.

The program will assist governments to research and develop a coherent set of incremental site planning and engineering standards, while providing developable land to low and moderate income households at affordable prices.

b. Environmental Protection

The mission's environmental strategy will focus on strengthening each island's non governmental organizations (NGOs), helping them assess and monitor significant environmental impact resulting from growth and economic development. Biodiversity activities will be included in ongoing mission projects. In addition, during the RDSS period the mission will develop and implement at least one environmental project.

Environmental Education will be at the top of the mission agenda. RDO/C will encourage National Conservation Strategies and improved environmental planning capabilities and will also explore means of implementing an integrated marine resources/watershed management program. If ESF funding is available, we will help fund waste treatment maintenance programs.

Policy dialogue will emphasize the importance of user charges for irreplacable resources.

3. Women in Development

The high degree of female participation as salaried workers in the labor force suggests that Eastern Caribbean women face very little discrimination in education or training and little overt discrimination when they compete for rank and file jobs. However, the social definition of female responsibility for childcare severely limits the ability of women to compete for upper level jobs. The burden of child care affects educational

attainment, capital formation and other foundations for socio-economic advancement. RDO/C family planning initiatives, perhaps combined with self-financing day care centers, may have more impact on the mass of Eastern Caribbean women than any other intervention. All mission training activities will continue to emphasize female participation and will encourage women to enter fields of training normally identified with upward mobility. Small enterprise development and other assistance to female entrepreneurs will continue to make credit available to women who are pursuing self-defined roads to economic advancement. The WID Action Plan, which is due in AID/W in March, 1989, will provide a more extensive explanation of the socio-economic forces which affect the WID issue in this region.

During the RDSS period, the mission will make a conscientious effort to disaggregate project data by gender in order to ensure that WID issues are given the highest practical focus. Project design documents will include information on women's social and economic roles as well as an analysis of how the project will relate to these roles. Evaluation documents will begin to assess the extent to which women participated in and benefitted from the project. In order to assure that the mission addresses WID issues in a systematic way, PPC/WID will carry out a TDY to RDO/C early in 1989 to set up a computerized information system and to examine methods for improving WID input into project design.

4. Support for Advanced Developing Countries

RDO/C recommends that AID take steps to declare Barbados and Trinidad-Tobago as "Advanced Developing Countries" thereby making them eligible for the kinds of programs available to ADC's. A consultant's report is attached as Annex VIII. Due to space limitations, the mission's rationale is deferred to Annex X.

IV. RESOURCES.AND OTHER DONORS.

A. Other Donors

Table IV. 1 in Annex I reports donor assistance to the Eastern Caribbean from 1980 to 1988.

The Caribbean Development Bank (CDB), in cooperation with the World Bank, takes the lead in donor coordination. Most multilateral and bilateral lending supports public sector investment programs developed with World Bank assistance. The United Nations Development Program (UNDP) has computerized the tracking of donor aid flows and coordinates technical assistance programs. Multilateral donors include:

The United Nations Development Program and the Organization of American States provide modest grant resources for training and technical assistance.

The principal bilateral donors are the U.S., Canada and the United Kingdom. Canadian assistance focuses on science and technology, training grants, major water and sewerage infrastructure and forestry development. The UK administers a long standing program of independence grants, with emphasis on the traditional agricultural sector. Japan and West Germany have begun to play stronger roles. France (and to a lesser extent Italy) have increased their programs. Other donors include Brazil, EDF, EIB, People's Republic of China, South Korea, Taiwan, Trinidad and Tobago, and Venezuela.

Donor Coordination. The World Bank chairs the Caribbean Group for Cooperation in Economic Development, with annual meetings to coordinate donors, regional and national government planning. UNDP assists in tracking the development assistance funds provided by the donors. This information is used by the World Bank for their Investment program Analyses and their Balance of Payment Analyses. According to UNDP, incomplete information on what

countries spend for technical assistance in economic assistance projects affects their ability to reconcile the national accounts.

The Inter-American Development Bank (IADB) funds road designs, port studies and road traffic studies, offers project preparation and implementation courses, supports environmental impact assessments of capital projects, provides credit to small investors and is considering provision of special assistance to micro-enterprises. IADB also works with the Caribbean Association of Industry and Trade (CAIC) on a Trade and Development Program for the small islands in those productive sectors with the most potential for growth: agriculture; furniture, and apparel.

Responsibility for tracking country and donor expenditures for development is shared by the Caribbean Development Bank (CDB), which is responsible for tracking public sector investment programming and capital assistance programs and The Eastern Caribbean Central Bank (ECCB) which is responsible for monitoring debt.

B. U.S. Resources.

1. Financial Resources

Full implementation of the strategy will require between 36 million and 39 million dollars per year, 20 to 25 million of which would be SDA and the remainder ESF. Programming of ESF has deliberately been made flexible, to reflect the uncertainties in future funding. As they become available, ESF funds will be used to fund: shelf infrastructure projects targeted at supporting private sector development; sector structural adjustment programs supported by policy dialogue; and fuller funding of projects in the private sector portfolio. Table IV.3, Annex I, presents RDO/C's planned assistance levels.

To the extent that ESF funds are not forthcoming, the strategy will not be fully implemented. In particular, the Maintenance of Infrastructure and the Stabilize Financial Structures objectives will be largely curtailed while the Strengthen the Private Sector and Natural Resources/Biodiversity objectives will be funded at reduced levels.

2. Staffing Levels

The Table IV.4 in Annex I indicates RDO/C's staffing levels by category of employee as it has evolved during an intensive four year effort to streamline management units and consolidate what had been a $250.0 million portfolio. The 26 USDH, 31 FNDH, and 48 PSC or PASA positions are fully utilized in the implementation of a program which now consists of only 34 management units but covers 15 Caribbean nations and numerous regional institutions. While the ratio of staff to overall budget seems generous, the ratio of staff to normal programming and Congressionally earmarked requirements has proven at times to be less than ideal.

As this RDSS is being written, the Department of State has implemented a new management system whereby RDO/C's primary territory, the Organization of Eastern Caribbean States (OECS), has been divided into three separate embassies (Grenada, Barbados and Antigua). A result of this separation is a consideration that USAID establish 3 separate offices.

The March 24, 1988 Foreign Service Inspector's report for the Bridgetown embassy included the two following recommendations:

- "Recommendation 5: The Department (ARA in consultation with M and M/O) should enter into discussions with other agencies with representatives present in Barbados, particularly AID and USIS, with a view to having their operations decentralized and their staffs dispersed to the other embassies in the region, as appropriate, and incident to plans of the Department of State to disperse its staff."

- "Recommendation 6: The Ambassador should, under authority of NSSD Directive No. 38 initiate a review of operations and staffs of other agencies in Barbados, and in consultation with the Department, encourage and arrange the appropriate dispersal of their staffs to the embassies and regions served."

In a similar context, the Charge d'Affaires in Grenada argues that, "In the political and economic development of Grenada, and continuing shortcomings in the development area which require corrective effort at the national level, it is essential that we retain an American-led A.I.D. office in Grenada to work with Embassy Grenada, the GOG and RDO/C on continuing development issues."

RDO/C has argued, so far unsuccessfully, that it is technically and administratively more effective to implement its development program from a regional office located in the Caribbean, presumably in Barbados. RDO/C has expressed its disagreement with the proposed fragmentation of USAID because it would create an additional drain on both operating expense and management resources and, in RDO/C's opinion, reduce overall development effectiveness and abandon regional-type programs and institutions, in direct contradiction to the strong desire among West Indians for regional integration and in contradiction to the U.S. Embassy Goals and Objectives Statement which clearly states Regional Integration as a central U.S.G. goal. In the event of failure to decentralize AID resources to the three embassies, as recommended by the Department of State Inspectors, a recent memorandum from Embassy Barbados advocates, on the other hand, relocating RDO/C to Miami or Washington, D.C.

The Mission requests that the complex management issues raised by the State Inspector and the Charge' in Grenada be addressed in the review of the RDSS. Additional background documents will be sent to AID Washington in a separate submission.

Should RDO/C's funding levels decrease to approximately $22.0 million, and be skewed away from ESF and PSEE (106) funds as predicated by recent

congressional earmarking of the agency's budget, the Mission's management units can be expected to decrease to about 15 by FY92 and the following adjustments to the Barbados staffing table can be expected:

The four technical divisions would be consolidated into two. This would occur as a result of a virtual phase out of the infrastructure portfolio, a significant decline in the scope of the private sector projects and a virtual cessation of all macroeconomic structural adjustment programs. The engineering and private sector divisions would assume support roles for those functional accounts which maintain significant budget levels. Changes in the configuration of the technical divisions would result in a gradual reduction of three USDH, three FSN, three USPSC and one PASA position.

The regional legal advisor and the regional contracting officer would preferably pick-up management responsibility for additional missions in the Caribbean although its possible that they could be transferred to other missions. Should RDO/C be able to retain these critical positions, one FNPSC position would still be eliminated in FY92.

The project development and program/economics offices would be reorganized to satisfy the regional coordination objective. The project development office would absorb the program operations function and coordinate communication with AID/W regarding project funding levels, CNs, and the ABS. The program and economics office would focus on strategic planning and budgeting, macroeconomic monitoring, regional institutions, donor coordination and embassy coordination. While this would only result in a decrease of one USDH, it would increase the efficiency of the regional communication/coordination process and reduce redundant project-related AID/W communication.

- While there may be a savings of one USDH and one USPSC in the controller's office, there would be no reduction in the FSN staff since the amount of documentation would not decrease significantly nor would payments related to the labor intensive grants to agriculture and education projects.

The size of the executive office would also not decrease appreciably, although two USPSC's would be replaced by FSN staff and one USPSC would be eliminated. Since RDO/C has recently withdrawn partially from FAAS, it is waiting to alter the composition of its staff by transferring two employees from the Grenada office to Barbados if that office closes.

From the above analysis the following fiscal year staffing levels are derived:

Category	FY90	FY91	FY92	FY93	FY94
OPERATING EXPENSE					
USDH	24	22	19	19	19
US parttime	2	2	2	2	2
FNDH	33	33	33	33	33
USPSC	2	1	0	0	0
FNPSC	28	28	28	28	28
Subtotal OE Funded	89	86	82	82	82
PROJECT FUNDED					
FNPSC	4	3	1	1	1
USPSC	4	4	2	2	2
PASA	2	1	1	1	1
Subtotal project	10	8	4	4	4
TOTAL STAFF	99	94	86	86	86

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2. St. Vincent
3. St. Lucia
4. Dominica

B. The Leeward Islands
1. Antigua and Barbuda
2. St. Kitts and Nevis

C. The Dependencies
1. Montserrat
2. Anguilla
3. Turks and Caicos

D. The "Advanced Developing Countries"*
1. Barbados
2. Trinidad and Tobago

E. Others
1. Guyana

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Annex IV.	Agriculture Strategy: Supporting Documentation
Annex V.	Biological Diversity and Tropical Forests
Annex VI.	Housing and Land Use Management
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Annex X.	Other Strategic Concerns

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* Contingent upon formal designation by A/AID in consultation with the Secretary of State.

ANNEX I

STATISTICAL TABLES

Regional Development Office/Caribbean

1990-1994 CDSS

Table I.2

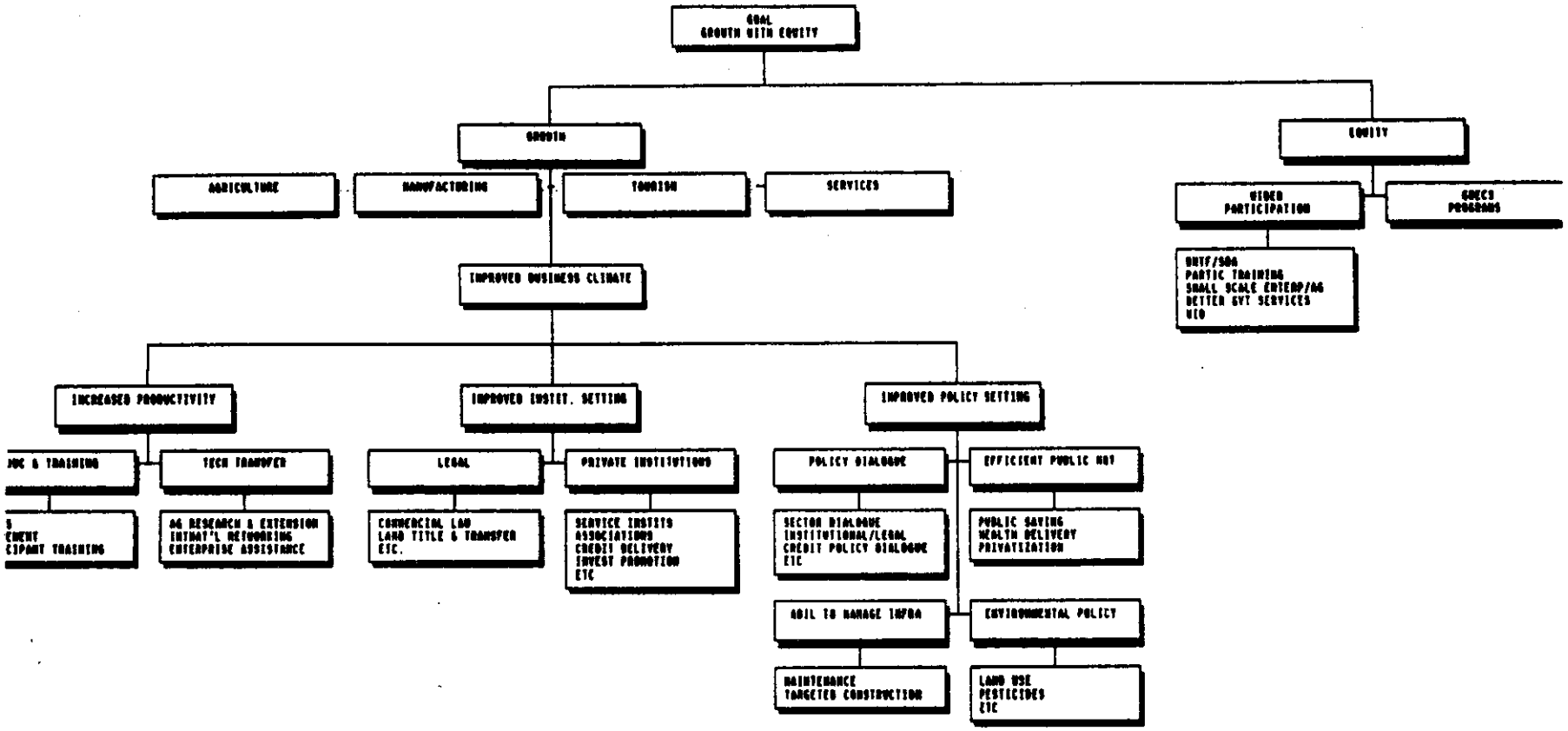
GROWTH RATES, 1978-87, PERCENT

	AGRI	MANU	TOUR	GOVT	OTHER	GDP
Antigua	-4.2%	9.1%	10.3%	3.5%	7.3%	6.5%
Dominica	1.6%	8.8%	1.6%	3.8%	5.0%	3.8%
Grenada (NOTE: 1981-87)	1.6%	6.5%	8.6%	8.2%	3.4%	4.4%
St. Kitts/ Nevis	-1.1%	0.4%	18.5%	7.6%	6.4%	5.1%
St. Lucia	4.4%	3.7%	3.8%	5.6%	3.8%	4.2%
St. Vincent/Grenadines	4.4%	8.5%	8.5%	3.0%	6.6%	5.9%
TOTAL OECS	1.6%	5.2%	8.3%	4.9%	5.4%	4.9%

GROWTH RATES, 1988-95, PERCENT

	AGRI	MANU	TOUR	GOVT	OTHER	GDP
Antigua	2.8%	4.0%	7.9%	3.5%	4.0%	4.6%
Dominica	4.1%	4.8%	7.6%	2.0%	3.3%	3.5%
Grenada	1.7%	6.4%	8.6%	4.5%	4.2%	4.3%
St. Kitts/ Nevis	-0.2%	1.2%	18.5%	3.5%	6.2%	5.9%
St. Lucia	4.5%	3.7%	7.5%	3.0%	5.0%	4.6%
St. Vincent/Grenadines	2.4%	2.4%	2.7%	3.0%	3.7%	3.3%
TOTAL OECS	3.1%	3.6%	9.0%	3.3%	4.4%	4.4%

OUTLINE OF ADO/C ROSS



BEST AVAILABLE

TABLE 1.3 A

GROSS CAPITAL FORMATION, CURRENT PRICES, EC$MILLION

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Antigua	36.87	39.00	88.50	93.46	145.92	146.90	84.60	110.61	151.55	231.93	303.61	303.61	303.60	180.26	189.19	198.55	208.38	218.69	229.52
Dominica	21.51	27.48	41.01	79.71	57.05	54.91	70.10	91.20	98.60	90.00	93.49	103.65	103.62	105.35	107.06	106.64	103.20	107.01	109.47
Grenada				55.90	91.10	107.20	94.50	80.00	97.10	112.50	110.00	138.20	113.86	120.56	118.74	116.48	113.71	110.33	118.06
St. Kitts/ Nevis	30.81	25.14	37.25	49.44	46.06	54.95	59.92	57.05	63.85	69.50	80.00	80.00	0.00	72.20	77.90	81.00	85.86	96.47	102.26
St. Lucia	87.70	147.80	155.80	181.20	198.00	155.50	128.60	144.50	162.00	193.40	236.30	213.77	213.91	210.61	208.78	209.28	218.80	229.01	239.98
St. Vincent/Grenadines	33.88	34.37	48.62	62.84	64.15	64.71	62.90	70.53	76.10	115.16	135.09	138.19	136.11	132.55	124.58	128.81	133.22	137.79	142.56
TOTAL OECS	210.77	273.79	371.18	522.55	603.08	584.17	500.62	553.89	649.20	812.49	958.48	977.43	871.10	821.54	826.25	840.77	863.16	899.31	941.84

GROSS DOMESTIC SAVINGS, CURRENT PRICES, EC$MILLION

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Antigua	28.07	35.18	114.27	35.89	55.48	99.46	105.68	50.94	55.54	73.15	166.11	161.81	157.55	100.06	109.44	119.71	130.93	143.20	156.61
Dominica	2.07	0.48	-34.29	-32.93	-21.86	0.97	31.20	31.80	34.10	29.50	37.00	36.12	32.26	33.72	35.20	34.59	31.01	34.75	37.18
Grenada	119.27	147.40	169.45	-8.30	-11.30	-6.80	12.80	-1.00	1.20	10.70	15.00	39.20	20.86	34.41	40.35	46.84	53.89	61.53	81.53
St. Kitts/ Nevis	17.51	14.64	11.35	10.24	1.69	5.22	-11.63	-3.80	16.51	15.62	-5.52	-23.06	-42.69	-32.07	-16.46	0.88	23.02	55.91	89.98
St. Lucia	25.90	53.80	42.70	50.20	32.80	23.70	60.00	46.20	82.30	147.20	130.50	127.12	132.51	135.04	138.32	143.12	155.99	172.13	188.11
St. Vincent/Grenadines	-9.40	4.43	-15.27	-18.61	1.35	-4.07	1.17	31.84	57.58	77.36	35.08	82.52	74.72	96.56	92.08	96.84	101.18	105.45	110.16
TOTAL OECS	183.43	255.93	288.21	36.49	58.16	118.48	199.22	155.98	247.23	353.52	378.17	423.72	375.22	367.71	398.93	441.97	496.02	572.96	663.57

Table 1.3 B

GROSS DOMESTIC PRODUCT, CURRENT MARKET PRICES, EC$MILLION

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Antigua	178.63	202.10	249.04	297.20	336.03	372.44	414.59	470.35	541.93	650.67	747.77	793.81	831.71	828.00	871.97	918.19	966.82	1,018.03	1,072.00
Dominica	98.20	121.93	119.60	159.53	178.78	194.54	218.00	238.80	266.60	310.90	349.90	362.74	375.55	388.95	402.60	416.63	430.89	445.67	460.79
Grenada	119.27	147.40	169.45	202.00	211.80	236.60	254.90	273.20	314.40	349.40	375.70	394.50	410.15	426.70	444.25	462.88	482.71	503.85	526.44
St. Kitts/ Nevis	80.72	92.54	107.72	129.59	150.32	159.08	158.30	185.97	201.38	243.08	266.07	279.71	294.62	311.00	328.98	348.81	370.74	395.01	421.98
St. Lucia	184.10	219.70	267.60	304.70	346.40	361.30	374.40	413.20	459.70	509.40	538.50	570.06	594.20	619.45	646.37	675.10	705.82	738.74	774.12
St. Vincent/Grenadines	96.95	122.16	142.03	159.05	195.18	226.33	253.47	275.07	302.48	340.70	367.08	376.55	388.89	401.67	415.27	429.38	444.05	459.31	475.21
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TOTAL OECS	757.87	905.83	1,055.44	1,252.07	1,418.51	1,550.29	1,673.66	1,856.59	2,086.49	2,404.15	2,645.02	2,777.37	2,895.12	2,975.77	3,109.43	3,250.99	3,401.02	3,560.61	3,730.55

RESOURCE GAP, CURRENT PRICES, EC$MILLION

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Antigua	8.80	3.82	-25.77	57.57	90.44	47.44	-21.08	59.67	96.01	158.78	137.50	141.80	146.05	80.20	79.74	78.84	77.45	75.50	72.91
Dominica	19.40	27.00	75.30	112.60	78.60	55.10	30.90	59.40	64.50	60.50	65.00	67.53	71.36	71.63	71.87	72.05	72.19	72.27	72.29
Grenada				64.20	102.40	114.00	81.70	81.00	95.90	101.80	95.00	99.00	93.00	86.15	78.40	69.65	59.81	48.81	36.52
St. Kitts/ Nevis	13.29	10.50	25.90	39.20	44.37	49.73	71.55	60.85	47.35	53.89	85.52	103.06	114.89	104.27	94.36	80.12	62.84	40.56	12.28
St. Lucia	61.83	93.96	113.13	130.95	166.05	131.76	68.58	98.28	79.65	46.17	105.84	86.65	81.41	75.57	70.45	66.16	62.82	56.88	51.87
St. Vincent/Grenadines	43.28	29.94	63.89	81.45	62.80	68.78	61.73	38.69	18.52	37.80	100.01	55.67	61.39	35.99	32.50	31.97	32.04	32.34	32.40
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TOTAL OECS	146.60	165.22	252.45	485.97	544.66	466.81	301.38	397.89	401.93	458.94	588.87	553.72	568.08	453.83	427.32	398.80	367.15	326.35	278.27

Table 1.3 C

VALUE ADDED, 1977, IN 1977 EC$ MILLION

	AGRI	MANU	TOUR	GOVT	OTHER	GDP
Antigua	17.4	6.9	18.5	21.5	94.4	158.8
Dominica	31.9	4.2	1.2	16.9	30.7	84.8
Grenada (1980, NOT 1977)	22.4	4.9	5.0	17.2	57.9	107.5
St. Kitts/ Nevis	13.1	12.5	1.4	11.8	30.4	69.2
St. Lucia	24.2	13.8	12.4	27.3	79.0	156.7
St. Vincent/Grenadines	14.7	5.9	1.9	14.9	44.8	82.3
TOTAL OECS	123.8	48.3	40.4	109.6	337.1	659.2

VALUE ADDED, 1987, IN 1977 EC$ MILLION

	AGRI	MANU	TOUR	GOVT	OTHER	GDP
Antigua	11.3	16.5	49.1	30.4	191.1	298.3
Dominica	37.4	9.8	1.4	24.5	49.8	122.9
Grenada	25.1	7.6	9.0	29.8	73.3	144.9
St. Kitts/ Nevis	11.7	13.0	7.8	24.4	56.8	113.7
St. Lucia	37.4	19.8	18.0	47.2	115.1	237.5
St. Vincent/Grenadines	22.7	13.3	4.4	20.1	85.2	145.6
TOTAL OECS	145.7	80.0	89.6	176.3	571.3	1,062.9

VALUE ADDED, 1995, IN 1977 EC$ MILLION

	AGRI	MANU	TOUR	GOVT	OTHER	GDP
Antigua	14.1	22.5	90.5	40.0	260.6	427.7
Dominica	51.7	14.3	2.4	28.6	64.7	161.8
Grenada	28.7	12.5	17.3	42.4	102.0	203.0
St. Kitts/ Nevis	11.6	14.3	30.3	32.1	92.0	180.3
St. Lucia	53.1	26.4	32.1	59.8	170.0	341.4
St. Vincent/Grenadines	27.4	16.0	5.4	25.4	114.3	188.5
TOTAL OECS	186.6	106.1	178.0	228.4	803.6	1,502.7

TABLE 1.4

GDP FACTOR COST, CURRENT PRICES

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Antigua	158.75	177.15	217.44	257.16	289.36	317.11	356.09	403.45	464.83	537.17	624.67
Dominica	84.80	105.90	105.80	143.70	152.90	163.60	178.40	197.90	213.90	253.30	291.70
Grenada (1980 PRICES)	95.27	116.30	134.20	167.6	176.0	193.8	206.5	221.7	249.4	281.0	301.4
St. Kitts/ Nevis	69.20	76.52	87.86	103.46	121.44	138.74	136.49	159.32	171.76	212.20	232.45
St. Lucia	156.70	191.00	229.10	264.20	299.40	312.50	323.40	353.00	388.80	426.60	445.50
St. Vincent/Grenadines	82.25	104.20	120.10	134.89	167.01	189.52	211.23	230.40	250.20	281.64	303.71
TOTAL OECS	646.97	771.07	894.50	1071.01	1206.11	1315.27	1412.11	1565.77	1738.89	1991.91	2199.43

IMPLICIT GDP PRICE DEFLATOR

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	AVE INFL RATE
Antigua	100.0	107.8	119.5	132.5	142.0	155.0	162.9	171.7	183.6	195.8	209.4	7.7%
Dominica	100.0	111.0	133.6	155.8	155.8	162.9	173.9	183.0	194.5	215.6	237.4	9.0%
Grenada (1977 PRICES)	100.0	117.9	133.1	152.2	160.9	166.0	170.4	176.6	185.4	197.2	203.4	7.4%
St. Kitts/ Nevis	100.0	107.1	113.7	128.9	143.9	154.7	153.8	164.7	168.2	195.5	204.5	7.4%
St. Lucia	100.0	107.9	124.9	145.1	162.5	164.6	163.7	170.1	176.8	183.3	187.6	6.5%
St. Vincent/Grenadines	100.0	114.9	128.1	137.3	157.6	169.5	178.2	183.5	188.1	199.4	208.5	7.6%
TOTAL OECS	100.0	110.5	124.9	142.0	153.4	162.0	167.5	174.7	183.5	197.0	206.9	7.5%

GRENADA 1977-80 ARE ESTIMATES

Table I.5

Growth of Real Exports of Goods and Non-factor Services Compared to GDP Growth, 1980-87 (EC$ million, 1977 Prices

	1980	1982	1984	1986	1987	(a) 1980-87 Rate of Growth Real Exports	(b) 1980-87 Rate of Growth Real GDP	(a)/(b)
Antigua	150.96	141.46	201.04	246.50	271.64	8.8%	6.3%	1.4
Dominica	22.52	49.24	54.43	57.24	56.44	14.0%	4.2%	3.4
Grenada	70.24	62.28	63.88	89.79	90.96	3.8%	4.4%	0.9
St. Kitts/ Nevis	67.30	52.13	62.23	76.36	79.77	2.5%	5.1%	0.5
St. Lucia	143.11	116.66	139.19	200.00	190.86	4.2%	3.9%	1.1
St.Vincent/ Grenadines	65.15	80.19	105.18	112.94	93.25	5.3%	5.8%	0.9
Total	511.28	500.94	623.94	773.68	774.85	6.1	5.0%	1.2

Table II.1

Antigua and Barbuda - Balance of Payments
(EC$M)

	1985	1986	1987
CURRENT ACCOUNT	-67.0	-386.0	-240.4
Trade Balance	-351.4	-690.3	-573.1
Exports	72.5	75.6	83.2
Imports	-423.9	-765.9	-656.3
Services Balance	246.0	258.9	287.1
Travel	266.8	298.6	344.9
Other Non-Factor Services	-13.5	-27.0	-18.1
Interest Payments	- 5.7	- 5.9	-32.4
Other Factor Services	- 1.6	- 6.8	- 7.3
Private Transfers (net)	36.5	39.2	41.4
Official Transfers (net)	1.9	6.2	4.1
CAPITAL ACCOUNT	78.5	413.1	233.2
Official Drawings (net)	4.0	311.0	174.7
Commercial Banks	25.7	23.5	-20.3
Private Direct Investment (Plus Errors & Omissions)	48.8	78.6	78.8
Overall Balance	11.5	27.1	-7.2
Financing:			
Change in Imputed Reserves	-11.5	-27.1	7.2

SOURCE: Statistical Department, IMF and ECCB estimates

Table II.1 B

Dominica - Balance of Payments
(EC$M)

	1985	1986r	1987p
CURRENT ACCOUNT	- 9.2	11.3	6.9
Trade Balance	-72.6	-33.5	-50.6
Exports (f.o.b)	76.8	117.2	129.5
Imports (f.o.b)	-149.4	-150.7	-180.1
Services Balance (net)	5.9	4.0	8.9
Travel (net)	20.5	21.2	22.4
Other Non-Factor Services (net)	-10.2	- 8.4	- 6.7
Factor Services	- 4.4	- 8.8	- 6.8
Private Transfers (net)	18.1	17.6	18.4
Official Transfers (net)	39.4	23.2	30.2
CAPITAL ACCOUNT	11.7	10.7	0.6
Public Sector Loans (net)	8.9	11.1	10.5
Private Direct Investment	4.9	7.2	23.3
Commercial Banks	-2.1	- 7.6	-33.2
OTHER INCLUDING ERRORS & OMISSIONS	-5.1	- 6.7	16.8
Overall Balance	-2.6	15.3	24.3
Financing			
Change in Imputed Reserves	- 0.6	- 0.8	- 1.3
Change in Official Reserves	7.3	-12.9	-21.9
Change in Use of IMF Reserves	-4.1	- 1.6	- 1.1

r = Revised; p = Provisional

SOURCE: Statistical Office, Ministry of Finance, IMF and ECCB Estimates

Grenada - Balance of Payments
(EC$M)

	1985	1986	1987
CURRENT ACCOUNT	11.2	-1.1	-47.8
Trade Balance	-126.7	-148.0	-143.2
Exports (f.o.b)	60.3	77.4	95.3
Imports (f.o.b)	-187.0	-225.4	-238.5
Services Balance	28.9	47.2	38.4
Travel (net)	55.6	62.1	60.1
Other Non-Factor Services (net)	-22.2	-10.0	-11.3
Factor Services	- 4.5	- 4.9	-10.4
Transfers	109.0	99.7	57.0
Private	47.4	37.8	41.8
Official	61.6	61.9	15.2
CAPITAL ACCOUNT	15.5	5.7	39.3
Central Government Loans (net)	- 1.6	- 4.1	2.5
Private Direct Investment	13.8	6.6	36.9
Commercial Banks	- 3.3	3.2	- 0.1
ERRORS & OMISSIONS	- 2.5	1.2	16.0
Overall Balance	24.2	5.8	7.5
Financing:	-24.2	- 5.8	- 7.5
Change in Use of IMF Credit	- 6.6	- 4.3	-
Change in Government Foreign Assets	- 0.6	- 2.1	-
Change in Imputed Reserves	-17.0	- 0.6	- 7.5

SOURCE: Statistical Office, Ministry of Finance, IMF and ECCB Estimates

Montserrat - Balance of Payments
(EC$M)

	1985r	1986r	1987p
CURRENT ACCOUNT	1.0	-0.6	- 6.1
Trade Balance	- 41.8	- 46.5	- 58.9
Exports (f.o.b)	7.8	6.9	9.5
Imports (f.o.b)	- 49.6	- 53.4	- 68.4
Services Balance	14.2	16.9	20.4
Travel (net)	14.5	17.3	20.8
Other Services (net)	- 0.3	- 0.4	- 0.4
Transfers (net)	28.6	29.0	32.4
CAPITAL ACCOUNT	5.9	8.2	8.8
Commercial Banks	0.1	2.9	1.8
Other Long-term Capital (Private & Public)	5.8	5.3	7.0
Overall Balance	6.9	7.6	2.7
Financing:			
Change in Reserves	- 6.9	- 7.6	- 2.7

r = Revised; p = Provisional

SOURCE: Statistical Department and ECCB Estimates

St. Kitts and Nevis - Balance of Payments
(EC$M)

	1986	1987
CURRENT ACCOUNT	-22.5	-37.0
Trade Balance	-110.7	-141.4
Exports (f.o.b)	63.6	74.3
Imports (f.o.b)	174.3	215.7
Services Balance	58.4	68.9
Travel (net)	62.5	75.6
Other Non-Factor Services (net)	- 2.9	- 7.5
Factor Services	- 1.2	- 0.8
Transfers (net)	29.8	35.5
CAPITAL ACCOUNT	30.9	38.5
Official Borrowings (net)	- 0.3	9.4
Commercial Banks	- 4.7	-20.1
Other Direct Investment*	35.9	49.2
Overall Balance	8.4	1.5
Financing	- 8.4	1.5
Change in Government Foreign Assets	- 0.8	- 0.5
Change in Imputed Reserves	- 7.6	- 1.0

* Includes Errors and Omissions

SOURCE: Statistical Office, Ministry of Finance, IMF and ECCB Estimates

St. Lucia - Balance of Payments
(EC$M)

	1985	1986	1987
CURRENT ACCOUNT	- 25.4	4.5	- 34.6
Trade Balance	-197.1	-194.3	-272.2
Exports (f.o.b)	140.4	223.8	208.7
Imports (f.o.b)	-337.5	-418.0	-480.9
Services Balance	109.4	141.4	170.9
Travel (net)	80.2	113.1	138.0
Non-Factor Services	37.3	37.5	41.8
Other Factor Services (net)	- 8.1	- 9.2	- 8.9
Private Transfers	38.3	34.6	35.1
Official Transfers	24.0	22.7	31.6
CAPITAL ACCOUNT	40.0	26.3	55.8
Official Capital (net)	9.5	6.8	14.0
Private Direct Investment	48.6	50.0	59.4
Commercial Banks (net)	-18.1	-30.5	-17.6
ERRORS AND OMISSIONS	- 3.9	- 0.2	3.4
Overall Balance	18.4	30.6	-24.6
Financing:	-18.4	-30.6	-24.6
Change in Government Assets	- 0.5	- 0.6	- 9.2
Change in Imputed Reserves	-13.0	-28.9	-15.4
Change in Use of IMF Reserves	- 4.9	- 1.1	- 0.0

SOURCE: Statistical Department and ECCB Estimates

St. Vincent and the Grenadines - Balance of Payments
(EC$M)

	1985	1986	1987
CURRENT ACCOUNT	23.9	- 16.0	- 37.2
Trade Balance	- 43.1	- 63.3	-125.1
Exports (f.o.b)	170.8	172.4	141.3
Imports (c.i.f)	213.9	235.7	266.4
Services Balance (net)	20.8	25.9	49.4
Travel (net)	31.0	33.7	59.5
Other Non-Factor Services (net)	- 2.4	- 3.0	- 3.6
Factor Services (net)	- 7.8	- 1.6	- 5.4
Transfers (net)	46.2	53.4	38.5
CAPITAL ACCOUNT	2.0	3.1	26.2
Public Sector Borrowing (net)	5.9	10.7	28.4
Private Direct Investment	5.0	8.1	8.0
Commercial Banks	- 8.9	-15.7	-10.2
ERRORS AND OMISSIONS	- 7.9	12.0	- 4.1
Overall Balance	18.0	31.1	-15.1
Financing:	-18.0	-31.1	15.1
Change in Government Assets	- 2.7	- 2.2	n.a
Change in Imputed Reserves	-13.4	-27.8	15.1
Change in Use of IMF Reserves	- 1.9	- 1.1	-

SOURCE: Ministry of Finance, Statistical Unit, World Bank & ECCB

BEST AVAILABLE

Table II.2

VALUE ADDED SHARES, 1977, IN PERCENT

	AGRI	MANU	TOUR	GOVT	OTHER	GDP
Antigua	11%	4%	12%	14%	59%	100%
Dominica	38%	5%	1%	20%	36%	100%
Grenada	21%	5%	5%	16%	54%	100%
St. Kitts/ Nevis	19%	18%	2%	17%	44%	100%
St. Lucia	15%	9%	8%	17%	50%	100%
St. Vincent/Grenadines	18%	7%	2%	18%	54%	100%
TOTAL OECS	19%	7%	6%	17%	51%	100%

VALUE ADDED SHARES, 1987, IN PERCENT

	AGRI	MANU	TOUR	GOVT	OTHER	GDP
Antigua	4%	6%	16%	10%	64%	100%
Dominica	30%	8%	1%	20%	41%	100%
Grenada	17%	5%	6%	21%	51%	100%
St. Kitts/ Nevis	10%	11%	7%	21%	50%	100%
St. Lucia	16%	8%	8%	20%	48%	100%
St. Vincent/Grenadines	16%	9%	3%	14%	59%	100%
TOTAL OECS	14%	8%	8%	17%	54%	100%

VALUE ADDED SHARES, 1995, IN PERCENT

	AGRI	MANU	TOUR	GOVT	OTHER	GDP
Antigua	3%	5%	21%	9%	61%	100%
Dominica	32%	9%	1%	18%	40%	100%
Grenada	14%	6%	9%	21%	50%	100%
St. Kitts/ Nevis	6%	8%	17%	18%	51%	100%
St. Lucia	16%	8%	9%	18%	50%	100%
St. Vincent/Grenadines	15%	8%	3%	13%	61%	100%
TOTAL OECS	12%	7%	12%	15%	53%	100%

Table II.3A

Selected Health Status Indicators
and Neighboring Countries Compared to A.I.D
Minimum Standards

	Life Exp. at Birth	Gross Mort. Rate	Infant Mort. Rate per 1,000	1-4 yrs. Mort. Rate per 1,000	Maternal Mort. Rate per. 1,000
Antigua and Barbuda	70.0	na	11.5	0.1	0.2
Dominica	71.0	5.1	13.9	0.4	na
Grenada	65.5	7.3	21.2	-	1.4
Montserrat	na	10.4	26.4	-	na
St. Kitts/Nevis	65.0	10.6	41.2	1.1	2.3
St. Lucia	67.0	7.8	18.0	1.1	0.3
St. Vincent & the Grenadines	68.5	6.1	33.0	3.0	1.3
Barbados	70.0	6.8	17.6	0.6	na
Trinidad and Tobago	68.9	7.0	19.7	1.3	0.9
Turks & Caicos Islands	na	3.9	24.4	3.8	na
Guyana	70.5	7.0	47.9	3.4	na
British Virgin Islands	na	5.4	21.6	1.0	na
Anguilla	70.0	7.1	na	na	na
Bahamas	69.3	5.5	24.7	1.0	0.8
Bermuda	73.0	7.0	8.7	1.3	na
Cayman Islands	na	na	24.3	1.7	na
Jamaica	70.1	5.9	26.5	3.0	0.6
A.I.D. Minimum Standards	60.0	na	75.0	10.0	na

Table II. 3B

Life Expectancy at Birth

	M	F	YR	M	F	YR
Antigua	68.6(E)	71.9(E)	1983			
Dominica	72.0	72.0				
Grenada	66.7	73.0	1980-85	67.8	74.3	1985-90
St. Kitts-Nevis	66.1	69.8	1983			
St. Lucia	67.0	72.0	1980	67.4	73.7	1987
St. Vincent	65.6	70.9	1980-85	65.6	70.9	1987
Barbados	70.2	75.2	1979-81	70.2	75.2	HELD CONSTANT (1986-2000)

Sources St. Vincent and Grenada - ECLAC
Barbados - Population Policy
St. Kitts and St. Lucia - Digests of Statistics
Antigua - Ministry of Health

Compiled by Dawn Marshall

Table II.4

Daily Per Capita Protein and Calorie Supplies

	Calorie Intake as % of Requirements	Per Capita Protein Intake gms/day
Antigua	86.1 (1977)	58.3 (1977)
Dominica	87.0 (1978)	56.9 (1978)
Grenada	86.0 (1977)	57.0 (1977)
St. Kitts/Nevis	144.0 (1982)	56.0 (1982)
St. Lucia	-	-
St. Vincent	-	-
Barbados	138.0 (1983)	93.0 (1983)
Guyana	104.0 (1975)	58.0 (1975)

Sources: IBRD: World Bank Economic Memoranda and Updates

As reported in Dawn Marshall, "Quantitative Profile of Nutritional, Health, Demographic and Educational Characteristics of Population of the OECS Countries, Barbados and Guyana," - RDO/C, September, 1988.

Table II. 5

Aids Cases Reported 1981-1988

	1984	1985	1986	1987	1988	Total
Antigua	-	-	2	1	-	3
Dominica	-	-	-	5	1	6
Grenada	-	2	1	5	3	11
St. Kitts/Nevis	-	-	-	-	1	-
St. Lucia	-	4	0	7	0	11
St. Vincent	1	0	2	6	1	10
Barbados	2	9	20	24	5	60
Guyana	-	-	-	12	2	14

Sources CAREC Surveillance Report (CSR) Vol: 14 Nos. 1 & 2; January and February; Vol: 14 - 5 May, 1988; Ministries of Health

Notes Antigua actually had 10 cases reported, but 7 of these were not Antiguans and have since left the state.

Compiled for RDO/C by Dawn Marshall, September, 1988

Table II. 6

Doctor/Population Ratios (1:XXX)

	1980	1981	1983	1985	1987
Antigua	3039*	2297*	2485*	N/A	1659
Dominica	N/A	3521*	2738*	N/A	2524
Grenada	N/A	2848*	N/A	N/A	N/A
St. Kitts-Nevis	N/A	2548	2538	2000	N/A
St. Lucia	3757	2546	2577	3424	2905
St. Vincent	N/A	N/A	5214*	4379*	N/A
Barbados		1136*			

Sources Statistical Digests

Notes * Estimated from figures on number of doctors per 10,000 population. Figures would be affected by the accuracy of the inter-censal population estimates. Where these are not available, population projections (medium) for 1985 were used.

Table II. 7A

Estimated Enrollment Ratios

COUNTRY	ESTIMATED AGE GROUP GROUP 5-11	PRIMARY ENROLLMENT	% PRIMARY ENROLLMENT AGE 5-11*	ESTIMATED AGE GROUP GROUP 12-18	SECONDARY ENROLLMENT	PERCENT SECONDARY ENROLLMENT AGE 12-18
Antigua	14075	9933	71	14410	4197	29
Dominica	13265	17386	131	13500	3466	26
Grenada	16165	20284	125	16550	6396	39
Montserrat	NA	NA	NA	NA	727	NA
St. Kitts/Nevis	7785	7074	91	7970	4334	54
St. Lucia	22295	32415	145	22830	5031	22
St. Vincent	18456	24551	135	18910	5170	27

* The percent primary enrollment is greater than 100 in some countries due to the enrollment of students from outside the age group 5-11.

Table II. 7B

Percent of Teachers with Certification

		1980/81	82/83	83/84	86/87	87/88
Antigua	P	57	57	66	N/A	N/A
	S	47	51	55		
Dominica	P	37	37	31	35	42
	S	9	9	7	5	11
Grenada	P	N/A	N/A	N/A	N/A	N/A
	S					
St.Kitts & Nevis	P	50	60	60	69	N/A
St. Lucia	P	40	36	41	52	N/A
	S*	30	28	28	28	
St. Vincent	P	N/A	N/A	N/A	N/A	25
	S					49

Sources: OECS Annual Digest Statistics, 1984
Ministries of Education
National Digests of Statistics

Notes: (St. Lucia) * Graduates, not necessarily with teacher certification
(St. Kitts) Data available for primary only

Compiled for RDO/C by Dawn Marshall, September 1988

TABLE 11.8

COUNTRY	(TFR)1/	(EMIG)2/	POPULATION PROJECTION 1980	1990	2000	2010	LABOR FORCE PROJECTION 1980	1990	2000	2010	SCHOOL AGE POPULATION 1980	1990	2000	2010
Grenada	3.5	1800	91,300	89,950	88,624	85,490	30,752	31,332	33,760	32,929	23,128	25,057	21,625	20,982
	2.8	900	91,300	99,742	107,910	116,293	30,752	37,265	46,161	51,443	23,128	26,148	22,550	23,863
St.Vincent	4.5	1000	97,845	114,375	137,137	165,316	31,259	40,981	47,607	57,470	28,570	29,180	36,933	42,706
	2.1	500	97,845	116,751	126,997	139,149	31,259	43,114	55,693	66,862	28,570	30,159	25,389	24,372
St.Lucia	4.5	1500	120,300	140,016	173,584	213,037	34,693	45,311	58,242	72,248	37,595	35,936	44,964	56,425
	2.1	750	120,300	136,633	151,036	164,491	34,693	49,098	68,371	80,552	37,595	38,383	22,862	29,613
Dominica	3.4	800	72,311	78,899	86,387	91,165	25,136	32,903	36,447	40,455	21,163	14,882	19,005	17,407
	2.6	400	72,311	82,521	91,710	100,129	25,136	34,694	41,157	47,360	21,163	16,276	18,234	17,580
St.Kitts/ Nevis	3.6	800	43,309	42,838	42,022	39,213	14,915	16,556	16,829	17,305	10,886	8,968	9,679	7,577
	2.5	400	43,309	45,670	47,683	49,283	14,915	18,446	21,527	23,681	10,886	10,142	8,519	8,541
Antigua/ Barbuda	2.4	-0-	75,200	88,305	101,248	114,166	29,335	39,015	42,742	54,981	16,809	16,457	19,265	18,841
	2.1	-0-	75,200	85,964	96,450	105,923	29,335	39,334	47,335	52,658	16,809	15,335	16,856	16,018

1/ TFR Total Fertility Rate: The average number of live births a woman will have in her lifetime.

2/ EMIG Emigration: Number of emigrants per year

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Table II. 9

Migration Patterns

	1970-79 Census Est'd Average Net Annual	1975-79 Annual Average USA & & CANADA	(2) as % of (1)	1983 IBRD Est.	1983 USA & C'DA	Bouvier L = Low H = High	ECLAC/ COUNTRY
Antigua	700	816	117	-	2,090	L = 0 H = 250	N/A
Dominica	1,300	643	49		615	L = 400 H = 800	L = 627 H =
Grenada	2,100	1,147	55	664	1,328	L = 900 H =1,800	L = 627 H = 1,600
St. Kitts/ Nevis	800	870	109	1,747* 444**	2,843	L = 400 H = 800	L = 200 H = 700
St. Lucia	1,900	612	32	689	742	L = 750 H =1,500	L = 350 H = 700
St. Vincent	1,500	779	52	1,062	935	L = 500 H =1,000	L = 500 H = 1,000
Barbados	1,500	2,856	190	1,600	2,106	L = 900 H =1,800	1,500
Guyana	13,000	8,388	65	8,000 (1979)	11,615	1981-86 5,468/yr Guyredem	

Sources Guengant, 1985

* 1986 Memorandum
** 1988 Memorandum

Compiled for RDO/C by Dawn Marshall, September 1988

Table II.10

OPEN UNEMPLOYMENT RATES
(PERCENT)

Country	Rate 1980	Rate 1985	Rate 1988 Low	Rate 1988 High	Ratio of Female to Male Rates for 1980 or 1985
Antigua	n.a.	21.0*	10.0	15.0	n.a.
Barbados	11.0	18.0	18.6	18.6	1.89
Dominica	19.0	n.a.	18.0	20.0	2.40
Grenada	18.0	20.0	25.0	30.0	1.31
Montserrat	11.0	n.a.	5.0		1.88
St. Kitts	12.0	20.5*	15.0	20.0	1.50
St. Lucia	19.0	25.0*	20.0	25.0	1.44
St. Vincent	20.0	n.a.	20.0	30.0	1.22

Sources: 1980 and 1985 from Compton Bourne, CARIBBEAN DEVELOPMENT TO THE YEAR 2000: CHALLENGES, PROSPECTS AND POLICIES. 1988 figures are Mission's speculative estimates based on perceptions voiced by government officials and other observers in the region. The 1988 rates are are illustrative numbers, not hard data.

* 1983 for Antigua and 1982 for St. Lucia.
**Mission estimate

Table II. 10 B

Labor Force Projections

	Scenario A				Scenario B			
	1980	Est. 1990	2000	1990-2000 Rate	1980	Est 1990	2000	1990-2000 Rate
Antigua		39015	42742	0.9%		39334	47335	1.9%
Dominica		32903	36447	1.0%		34694	41157	1.7%
Grenada		31382	33760	0.7%		37265	46161	2.2%
St. Kitts		16556	16829	0.2%		18446	21527	1.6%
St. Lucia		45311	58242	2.5%		49098	68371	3.4%
St. Vincent		40981	47607	1.5%		43114	55693	2.6%
OECS		206148	235627	1.3%		221951	280244	2.4%

Scenarios correspond to A and B Population projections. A assumes current fertility and emigration rates, while B assumes large decreases in both of these.

Source: ZABA & Bourne (1988) as compiled for RDO/C by Dawn Marshall and David Mutchler.

Table II.10 C

Simulated Employment Growth in the OECS 1988-95

Scenario A

	Average Annual 1990-2000 Lab. Force Growth	Annual 1988-95 Real GDP Growth	Employment Growth if EMPL/GDP Elasticity is: 0.31	0.874	Ratio of Employment Growth to Labor Supply Growth If Elasticity is: 0.31	0.874
Antigua	0.9%	4.6%	1.4%	4.0%	1.6	4.4
Dominica	1.0%	3.5%	1.1%	3.1%	1.1	3.0
Grenada	0.7%	4.3%	1.3%	3.8%	1.8	5.1
St. Kitts	0.2%	5.9%	1.8%	5.2%	11.2	31.5
St. Lucia	2.5%	3.8%	1.2%	3.3%	0.5	1.3
St.Vincent	1.5%	3.3%	1.0%	2.9%	0.7	1.9
OECS	1.3%	4.3%	1.3%	3.8%	1.0	2.8

Scenario B

	Average Annual 1990-2000 Lab. Force Growth	Annual 1988-95 Real GDP Growth	Employment Growth if EMPL/GDP Elasticity is: 0.31	0.874	Ratio of Employment Growth to Labor Supply Growth If Elasticity is: 0.31	0.874
Antigua	1.9%	4.5%	1.4%	4.0%	0.8	2.2
Dominica	1.7%	3.5%	1.1%	3.1%	1.1	0.6
Grenada	2.2%	4.3%	1.3%	3.8%	0.6	1.7
St. Kitts	1.6%	5.9%	1.8%	5.2%	1.2	3.3
St. Lucia	3.4%	3.8%	1.2%	3.3%	0.3	1.0
St.Vincent	2.6%	3.3%	1.0%	2.9%	0.4	1.1
OECS	2.4%	4.3%	1.3%	3.8%	0.6	1.6

Scenario A assumes that Emigration and fertility remain at present levels
Scenario B assumes significant reductions in both of those variables.

Source: Data from ZABA, compiled for RDO/C by Dawn Marshall.

OECS employment Elasticities are not known.
Bourne, "The Commonwealth Caribbean to Year 2000...." estimated elasticities of .31 for Trinidad-Tobago and .874 for Barbados. These are assumed to be a plausible range for the OECS.

Table II.11

STAYOVER TOURIST ARRIVALS
(THOUSANDS)

	1980	1981	1982	1983	1984	1985	1986	1987	ANNUAL GROWTH 1980-87
ANTIGUA/BARBUDA	86.6	84.7	87.0	101.1	129.1	139.8	149.3	177.0	9.3%
DOMINICA	14.4	15.9	19.0	19.6	22.2	21.5	24.4	26.7	8.0%
GRENADA	29.4	25.1	23.2	32.5	39.5	52.0	57.3	57.4	8.7%
MONTSERRAT	15.5	15.6	15.0	14.3	15.9	16.5	15.6	17.0	1.2%
ST. KITTS-NEVIS	32.8	35.5	34.5	34.3	39.8	46.1	55.1	64.6	8.8%
ST. LUCIA	79.7	68.6	70.2	77.8	86.2	94.5	111.7	122.6	5.5%
ST. VINCENT	50.4	44.7	37.1	37.7	38.5	42.1	42.1	46.0	-1.1%
SUBTOTAL	308.8	290.1	286.0	317.3	371.2	412.5	455.5	511.3	6.5%
BARBADOS	369.9	352.6	303.8	328.3	367.7	359.1	369.8	421.9	1.7%
GUYANA	40.0	40.0	41.4	45.0	47.3	47.0	46.8	59.8	5.2%
TRINIDAD/TOBAGO	199.2	186.8	190.0	190.0	191.5	187.1	191.3	201.7	0.2%
TURKS & CAICOS	11.9	12.3	13.3	14.2	17.3	29.2	35.0	36.6	15.1%
TOTAL	929.8	881.8	834.5	894.8	995.0	1034.9	1098.4	1231.3	3.6%

NOTE: 1983 BEGINS NEW SERIES FOR GRENADA

SOURCES: 1980-86, CARIBBEAN TOURISM RESEARCH CENTER,
"THE CONTRIBUTION OF TOURISM TO ECONOMIC GROWTH AND DEVELOPMENT IN THE CARIBBEAN,." BARBADOS: OCTOBER, 1987.
1987, CTRC STATISTICAL NEWS, JUNE, 1988.
1988, MISSION ESTIMATES FROM TOTAL VISITOR ARRIVALS

Table II. 12

ESTIMATED VISITOR EXPENDITURE
(US$ MILLIONS)

	1980	1981	1982	1983	1984	1985	1986	ANNUAL GROWTH 1980-86
ANTIGUA/BARBUDA	42.0	43.7	43.8	50.5	65.1	83.6	93.9	10.6%
DOMINICA	2.1	3.0	4.0	7.3	8.6	8.7	10.6	22.4%
GRENADA	14.8	17.3	17.2	18.7	22.7	32.4	38.4	12.7%
MONTSERRAT	4.3	5.4	5.8	6.0	6.7	7.7	8.5	8.9%
ST. KITTS-NEVIS	13.4	16.1	17.3	18.6	24.2	31.0	34.1	12.4%
ST. LUCIA	32.9	29.4	32.4	39.7	42.4	55.7	71.4	10.2%
ST. VINCENT	13.7	15.0	16.0	16.7	19.0	23.0	25.0	7.8%
SUBTOTAL	123.2	129.9	136.5	157.5	188.7	242.1	281.9	10.9%
BARBADOS	251.0	261.9	251.1	251.6	284.2	309.0	323.7	3.2%
GUYANA	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
TRINIDAD/TOBAGO	151.1	151.9	178.6	205.7	197.8	197.3	190.0	2.9%
TURKS & CAICOS	4.2	4.8	5.2	5.5	6.9	12.2	15.4	17.6%
TOTAL	529.5	548.5	571.4	620.3	677.6	760.6	811	5.5%

NOTE: 1983 BEGINS NEW SERIES FOR GRENADA
SOURCES: 1980-86, CARIBBEAN TOURISM RESEARCH CENTER,
"THE CONTRIBUTION OF TOURISM TO ECONOMIC GROWTH AND DEVELOPMENT IN THE CARIBBEAN,." BARBADOS: OCTOBER, 1987.

Table II. 13

Growth in Real Per Capita GDP, 1980-87
(EC$ Constant 1977 Prices)

Population Scenario

	Scenario A				Scenario B			
	1980	Est. 1987	1990	1980-90 Rate	1980	Est 1987	1990	1980-90 Rate
Antigua	75200	84150	88305	1.6%	75200	82528	85964	1.3%
Dominica	72311	76826	78899	1.0%	72311	79315	82521	1.3%
Grenada	91300	98353	89950	-0.1%	91300	97131	99742	0.9%
St. Kitts	43309	42979	42838	-0.1%	43309	44948	45670	0.5%
St. Lucia	120300	133784	140016	1.5%	120300	131513	136633	1.3%
St. Vincent	97845	109142	114375	1.6%	97845	110725	116751	1.8%
OECS	500265	537278	554383	1.0%	500265	546214	567281	1.3%

Per Capita GDP

	Scenario A			Scenario B		
	1980	1987	Annual Rate	1980	1987	Annual Rate
Antigua	2581	3545	4.6%	2581	3612	4.9%
Dominica	1275	1599	3.3%	1275	1549	2.8%
Grenada	2130	2901	4.5%	2130	2698	3.4%
St. Kitts	1854	2645	5.2%	1854	2529	4.5%
St. Lucia	1514	1775	2.3%	1514	1806	2.6%
St. Vincent	1004	1334	4.1%	1004	1415	3.9%
OECS	1682	2196	3.9%	1682	2196	3.6%

Growth in Per Capita GDP was calculated for population scenarios A and B, in Table II. 8

Source: Table II.8

Table IV.2
PARTIAL LIST OF SOURCES OF DONOR FINANCING FOR
PUBLIC SECTOR INVESTMENTS
(US$ Million)

	FY 89/90	FY 91/92	FY 93/94
Productive Sectors			
Agriculture Production, Infra	18.38	18.38	18.38
Agriculture Fisheries	2.94	2.94	2.94
Agriculture, Other	0	0	0
Manufacturing	1.68	1.68	1.68
Tourism	.84	.84	.84
Economic Infrastructure			
Power and Energy	2.40	3.51	3.51
Transport	18.92	20.03	20.03
Water	12.48	13.59	13.59
Economic Reform Budget Support	0	0	0
Social Infrastructure			
Environment	4.20	4.20	4.20
Education and Training	19.46	19.46	19.46
Health and Family Planning	7.68	7.68	7.68
Policy and Management	.18	.18	.18
TOTAL	79.16	92.49	92.49
(Includes estimated T.A. of):	(15.83)	(18.49)	(18.49)

Note: PSIP data are not available for most of the RDSS period. These mission estimates are highly tentative and were derived from partial data. They represent only a portion of the antitipated donor community assistance. Notably, two of the largest multilateral donors are excluded from these figures.

Grenada received less than any of the other OECS states (except Montserrat)

TABLE IV.1
OFFICIAL DEVELOPMENT ASSISTANCE TO SELECTED CARIBBEAN ISLANDS
1975 AND 1980-89 a/
(Million US$)

Country	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	TOTAL 1980-89
Antigua/Barbuda	2.1	5.6	9.1	5.0	3.4	2.4	1.7	10.0	21.3	25.3	12.0	95.8
Dominica	7.9	18.7	15.3	17.3	10.2	16.5	16.1	11.2	15.0	18.5	17.1	155.9
Grenada	3.2	3.7	6.6	6.2	7.5	27.5	111.4	39.0	41.0	12.0	13.1	268.0
Montserrat	4.5	3.6	3.4	4.0	2.2	1.8	0.6	1.5	6.1	3.0	3.2	29.4
St. Kitts-Nevis	1.6	6.2	3.8	3.2	2.8	3.6	2.4	5.2	10.7	14.0	16.3	68.7
St. Lucia	8.9	8.6	11.5	8.2	6.9	5.7	11.8	9.7	10.9	17.0	13.0	103.3
St. Vincent & Gren.	6.0	9.7	9.2	7.6	5.4	4.1	2.5	8.3	26.2	19.6	18.7	111.3
OECS SUBTOTAL	34.2	56.1	58.9	51.5	38.4	61.6	146.5	84.9	131.2	109.4	93.9	832.4
Anguilla	1.7	2.3	2.6	2.0	2.3	1.7	0.2	1.7	4.7	4.9	6.2	28.5
Bahamas	0.7	2.1	2.0	1.9	0.9	10.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Barbados	5.6	14.7	17.9	12.9	19.0	8.8	9.8	27.4	27.5	28.5	28.5	195.0
Bermuda	0.0	0.3	0.2	0.1	0.1	0.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Brit. Virgin Islands	2.4	4.7	3.8	3.8	3.2	1.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Cayman Islands	1.6	1.5	1.0	0.6	0.4	0.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Netherlands Antilles	33.3	96.6	73.6	65.0	65.1	63.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Trinidad-Tobago	5.4	4.7	-1.4	5.7	5.6	4.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Turks & Caicos	2.3	3.4	7.1	10.3	6.7	6.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL	87.2	186.4	165.7	153.8	141.7	159.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

SOURCE: 1975-84, UN, Specific Measures in Favour of Island Development Countries
Report of the Secretary-General, August 18, 1986.
1985-90, Mission Estimates derived from IBRD, CDB, UN, and Regional Government Sources.

a/ 1975-84, Net Disbursements of ODA from DAC and OPEC Sources and gross disbursements from CMEA countries. 1985-90, gross disbursements.

NOTE: 1986-87 Data for Antigua do not include $70 million annual line of credit from Italian export bank. Barbados 1985-89 excludes technical assistance. 1988 and 1989 are estimates.

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Table IV 3

SUMMARY RDO/C ASSISTANCE LEVELS
BY OBJECTIVE

OBJECTIVE	FY90	FY91	FY92	PLANNING PERIOD FY93	FY94
DEVELOPMENT ASSISTANCE (DA)					
02 - Strengthen the Private Sector	4364	5400	5800	5800	6150
05 - Promote Exports (tourism, Agr. Manufacturing)	6700	7300	7400	7400	7400
11 - Improve Educational Opportunities	4200	4350	4550	4900	4550
12 - Strengthen Democratic Institutions	0	0	0	0	0
13 - Other: Public Services & Community development	3236	2950	3250	3900	3900
Total DA Funding	18500	20000	21000	22000	22000
ECONOMIC SUPPORT FUND (ESF)					
02 - Strengthen the Private Sector	6200	2650	2650	2600	2600
05 - Promote Exports (tourist, Agr. Manufacturing)	1500	5000	5000	5000	5000
11 - Improve Educational Opportunities	3000	8000	8000	8000	6000
12 - Strengthen Democratic Institutions	2100	0	0	0	0
13 - Other: Public Services & Community Development	2250	350	400	400	400
Total ESF Funding	15000	16000	16000	16000	17000
P.L. 480 & SEC 416*	4000	4000	4000	4000	4000
Total RDO/C	33500	36000	37000	38000	39000

* Non-add. PL480 for Guyana.

Table IV. 3A

SUMMARY RDO/C ASSISTANCE LEVELS
BY MANAGEMENT UNITS

MANAGEMENT UNIT	FY90	FY91	FY92	PLANNING PERIOD FY93	FY94
Infrastructure	7862	6550	7200	7400	7400
Agriculture	8400	12400	12400	12400	13400
Private Sector	4047	0	0	0	0
Health & Population	3939	4120	4400	5000	5000
Education Training	6155	11750	11750	11900	11900
Other	3097	1180	1250	1300	1300
P.L. 480 & SEC 416	0	0	0	0	0
Total RDO/C	33500	36000	37000	38000	39000

TABLE IV. 4

PORTFOLIO MANAGEMENT UNITS
PROJECTS ACTIVE IN FY 90, 91, 92, 93 & 94

				FY 90	FY 91	FY 92	FY 93	FY 94
I.	**INFRASTRUCTURE**							
A.	538-0103	(G)	Basic Needs Trust Fund	X				
C.	538-0138.02	(G)	Grenada Infrastructure Revitalization III	X	X	X	X	X
D.	538-0138.07	(L)	St. Vincent Infrastructure	X				
E.	538-0138.08	(CA)	Regional Utilities Maintenance	X	X	X	X	X
F	538-xxxx	(G)	St. Kitts Courthouse	X	X			
				5	3	2	2	2
II.	**AGRICULTURE**							
A.	538-0140	(G)	High Impact Agriculture Marketing & Production (HIAMP)	X	X	X		
B.	538-0140.02	(G)	Regional Cocoa Rehabilitation	X	X			
C.	538-0140.07	(G)	Fruit Fly Survey and Detection	X	X			
D.	538-0163	(G)	West Indies Tropical Produce (TROPRO)	X	X	X	X	
E.	538-0164	(G)	Agriculture, Research and Extension Dev. (ARED)	X	X	X	X	X
F.	598-0652	(G)	Tropical Bont Tick	X	X	X	X	
G.	538-xxxx	(G)	Environment	X	X	X	X	X
H.	538-xxxx	(G)	Small Farmers		X	X	X	X
				7	8	6	5	3
III.	**PRIVATE SECTOR**							
A.	538-0133	(G)	Small Enterprise Assistance Project	X	X	X	X	X
B.	538-0119	(G)	ECIPS Follow-on	X	X	X		
C.	538-xxxx	(G)	Policy Dialogue	X	X	X	X	X
D.	538-xxxx	(G)	Tourism	X	X	X	X	X
				4	4	4	3	3
VI.	**HEALTH & POPULATION**							
A.	538-0039	(G)	Population and Development	X	X	X	X	
B.	538-0134	(G)	Regional Pharmaceutical Management Project	X	X			
C.	538-0161	(G)	AIDS	X	X	X	X	X
D.	538-xxxx	(G)	Health Care Financing		X	X	X	X
				3	3	3	3	2
V.	**EDUCATION & TRAINING**							
A.	538-0073	(G)	Regional Non-Formal Skills Training	X	X	X	X	
B.	538-0148	(G)	Regional Management Training Pilot	X	X	X	X	X
C.	538-0162	(G)	Caribbean Development Training	X	X	X	X	X
D.	598-0640	(G)	Presidential Training Initiative (PTIIC)	X	X	X	X	X
				4	4	4	4	3
IV.	**OTHER**							
A.	538-0165	(CA)	Caribbean Law Institute	X	X	X	X	
B.	538-0141	(G)	Economic Structural Adjustment	X	X			
C.	598-0645.17	(G)	Caribbean Justice Improvement	X	X			
D.	538-xxxx	(G)	Sectoral Structural Adjustment	X	X	X	X	X
E.			Guyana PL480	X	X	X	X	X
				5	5	3	3	2
			TOTAL	28	27	22	20	15

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ANNEX IV. 5

FY89 RDO/C STAFFING STRUCTURE
OF 105 EMPLOYEES

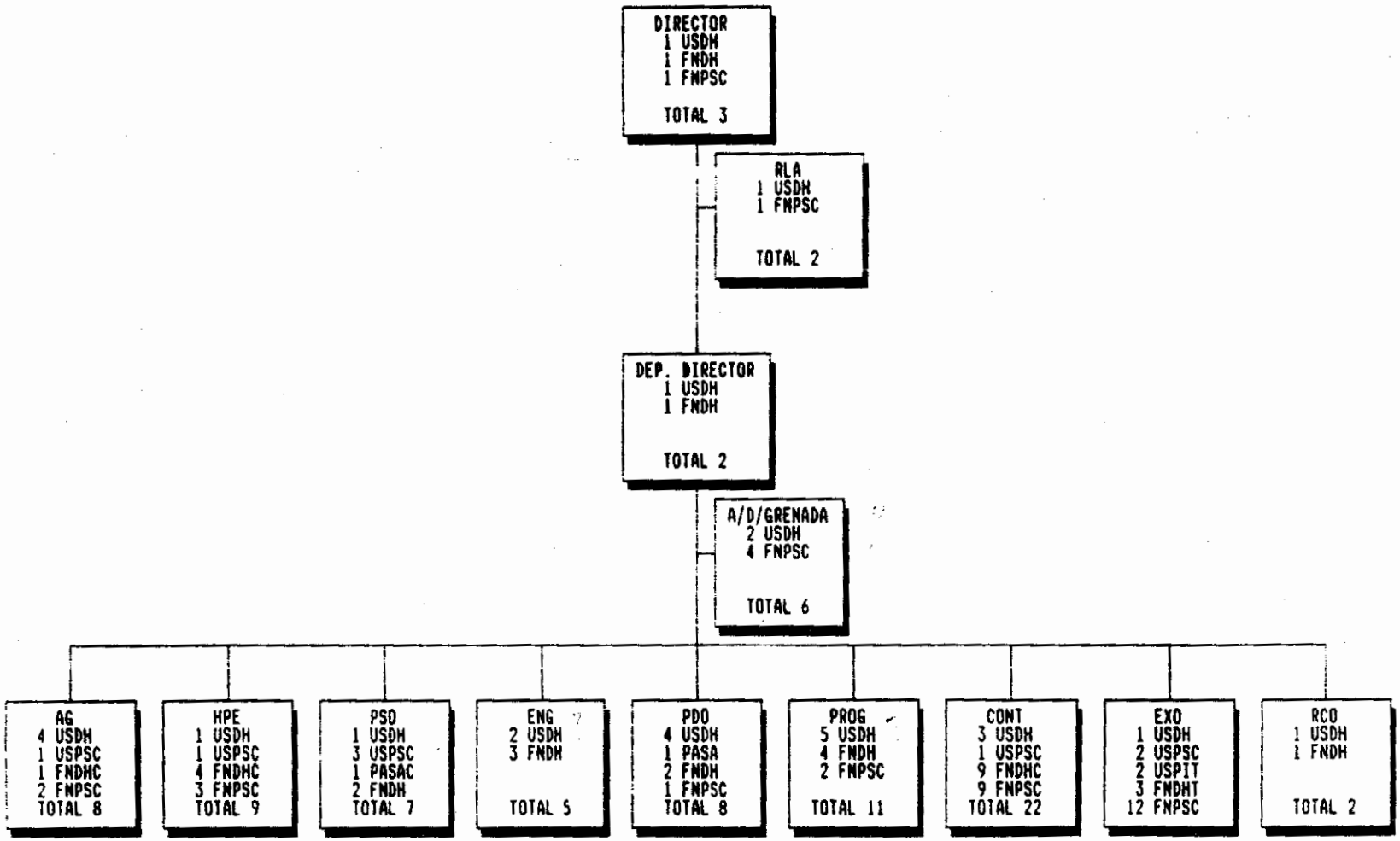

Table IV. 6
Selected List of Regional Organizations
by Functional Classification

Planning and Policy Coordination

--The Caribbean Development Bank
--The Eastern Caribbean Central Bank
--University of West Indies
--CARICOM Secretariat
--OECS Secretariat

Environment

--Caribbean Conservation Association
--National Non Governmental Organizations

Tourism

--Caribbean Hotel Association
--Caribbean Tourism Organization

Small Enterprise Development and Finance

--Agriculture Venture Trust
--Caribbean Association of Industry and Commerce
--Council of Eastern Caribbean Manufacturers
--Caribbean Financial Services Corporation

Agriculture

--Caribbean Agriculture Research and Development Institute
--University of the West Indies
--Caribbean Agriculture Trading Company

Population

--Caribbean Family Planning Association

Health

--Caribbean Cooperation in Health
-- Caribbean Epidemiology Center

Humans resource development

--University of West Indies

ANNEX II

COUNTRY PROFILES

Regional Development Office/Caribbean

1990-1994 CDSS

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GRENADA

Recent Economic Developments *

Production and Growth

Grenada's economy boomed in 1987, growing by nearly 6 percent. This continued the very favorable performance of the preceding three years, following the late 1983 change of government. With the exception of Antigua, Grenada was the fastest-growing OECS economy in 1987. Very early estimates for 1988 suggest that real growth could again hit 5 percent. From 1980 to 1987, including two weak years in 1981 and 1983, the average annual rate of growth was 4.35 percent. Depending on assumptions made about fertility and emigration rates during that period, this yielded annual increases in per capita GDP of from 3.4% to 4.5%.

Grenada's agriculture sector, as a share of the country's GDP, is among the largest in the OECS. This sector, which performed poorly in the 1977-86 decade, with negative growth in 1985 and 1986, grew rapidly in 1987 as bananas, cocoa, nutmeg, and mace production all thrived. Banana output grew by 7 percent, largely due to better agronomic practices such as improved field packing. Cocoa production and exports grew by more than 8 percent, but excess world market meant no increase in foreign exchange earnings on that crop. High world market prices for nutmeg and mace gave Grenada a sharp increase in exports and earnings on those two crops. Preliminary estimates for 1988 indicate continued growth, but perhaps not a repeat of 1987.

The manufacturing sector in Grenada is small. In terms of value added and in terms of its percentage share of GDP, the sector is relatively the smallest among the OECS states. Following a poor showing in 1986, 1987 was a banner year for Grenada's manufacturing, with growth exceeding 16 percent. This contributed to a significant increase in employment in the sector and to a sharp increase in electricity consumption. The sharp rises will not be repeated in 1988, but data for the first three quarters suggest that the sector may turn in a respectable 6 percent performance.

Tourism, small but growing, saw in increase in the number of visitors in 1987, compared with 1986, but earnings grew only marginally. Preliminary reports suggest that the second half of the 1987-88 tourist season was distinctly better. After a disappointing summer, tourism arrivals began to increase again in late 1988, so that overall tourism growth for 1988 is expected to be about 11 percent.

The construction sector has grown very rapidly since 1983, probably the result of the period of relative economic and political stability since then. In 1987 growth was about 15 percent, reflecting an increase in private housing construction as well as contined high levels of public sector capital spending. In 1988, construction continued to grow at about 10 percent.

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* This Section draws heavily upon data and reporting by the O.E.C.S. Economic Affairs Secretariat, the Caribbean Development Bank, IMF, IBRD and the ECCB.

The rest of the economy mirrored this good performance in 1987, especially transport and communications and wholesale and retail trade, growing at 7.5 percent and 6.3 percent respectively. Partial data for 1988 indicate further expansion in these sectors.

To some extent, the growth in the economy in the past four years must be seen in the context of a falloff in performance in 1982 and 1983. Still, Grenada stands out among the OECS in terms of economic growth.

Government Finance

The disturbing state of Grenada's public finances is at once one of the country's greatest economic problems and the problem most amenable to solution.

In 1986, following nearly a year's analysis by Government and outside consultants funded by AID, the Government announced a sweeping reform of the revenue system. First, the revenue system was simplified by removing an extensive series of revenue-earning items and increasing the rates on those that remained. Second, the dominant feature of the revised system was its primary reliance on indirect taxes, by contrast with the direct taxation in the previous system. Unfortunately, despite the consultants' recommendation that the revenue reform should be revenue-neutral, the Government felt compelled to make numerous concessions to various interest groups and revenues dipped significantly. To compound the problem, the Government did not take corresponding measures on the expenditure side of the budget, perhaps in large part because the Government expected AID budgetary support to make up the difference. In 1986 the government required extraordinary financing of EC$ 40 million, including arrears. This was equivalent to approximately 40 percent of recurrent expenditures. About half of this shortfall was provided by A.I.D. budgetary support. In 1987 the situation worsened slightly. Extraordinary financing was EC$ 41 million. However, with only EC$ 4.9 million in budgetary grants, the largest proportion of the gap was covered by a "loan" given by Cable and Wireless as prepayment for its purchase of shares in the local telephone company. In 1986 and 1987, Grenada's government was clearly living beyond its means. Despite this, in 1987 the GOG contracted with the civil service for a pay increase of some EC$ 8 million, in excess of the figure provided for in the budget for that year. The windfall from Cable and Wireless saved the government finances from bankruptcy. This windfall also delayed the day of reckoning for the GOG, permitting it to continue increased spending and permitting it to hold off on reductions in civil service wage expenditures.

In 1988 the Government of Grenada (GOG) took some steps to come to grips with its financial situation. The 1988 GOG budget, unveiled in March 1988, contained some fundamental changes in the revenue system, changes that the GOG hoped would turn around the sagging revenue performance of the two preceding years. Import duties were raised on extraregional imports (thereby creating a de facto two-tiered exchange rate) and the value-added tax (VAT) on domestic value added was dropped in favor of a sales tax levied on wholesalers and retailers. These actions appear to have been reasonably successful, particularly with a strong performance

at the end of the year. Preliminary government figures report recurrent revenues of nearly EC$ 121 million. While this is less than the budgeted amount, it still represents a 17 percent increase over 1987 and 29 percent more than the 1986 figure. The budgeted recurrent balance was a strong EC$ 16 million, or just over 3 percent of GDP. This scenario would have required only about EC$ 15 million in extraordinary financing (EC$ 10.3 million in budgetary grants and EC$ 4.6 million from the NIS).

The government reports balance in the current account, which would still represent an improvement over the previous year. It is not yet known what the final capital revenues and expenditures will be, or to what extent the recurrent account balance was achieved through accumulated arrearages. However, it appears that the need for extraordinary financing may have been reduced compared to previous years, although it represents a problems that still needs to be addressed. Barring windfalls such as the Cable and Wireless funds which the GOG received in 1987, even with the revised revenue figure there is likely to be an overall deficit to be financed by previous years' techniques, including borrowing from the National Insurance Scheme (NIS), accumulation of arrears on its debt obligations and borrowing from the domestic banking system, if it can.

As for 1989, AID estimates that improved administration combined with GDP growth may bring in revenues about ten percent over the actual 1988 level. If the recurrent expenditure level in 1989 can be held to the 1988 level, public savings could be about EC$ 10 million, or about two percent of projected GDP.

Balance of Payments

The economic expansion of recent years has been "purchased", to some extent, with a deterioration of the balance of trade. Visible exports increased by 10 percent in 1987, due to a large increase in the unit value of some exports. On the other hand, while the volume of cocoa exports increased by 13 percent, a price drop produced a 15 percent decrease in the value of cocoa exports. Nutmeg prices increased sharply, producing an increase in value despite a slight decrease in volume. Imports increased by nearly 6 percent in 1987. The trade deficit rose by 3.5 percent between 1986 and 1987. A substantial supply of external resources helped to finance the country's import bill. Unable to conclude an agreement with the IMF and World Bank, the sources of these external flows became more scarce. While sufficient to fund commodity imports, they were inadequate to cover full debt service obligations as well. The 1988 balance of trade picture looks better than originally forecast, though it is expected that the deficit widened somewhat over 1987.

Balance of payments projections for the RDSS period reflect an expected slowdown in the rate of GDP growth, compared to 1987-88, a continuation of the modest historical agricultural growth rates, a slowdown in reconstruction-related construction, reduced donor flows, and a steady increase in tourism, but at rates below the large percentage increases in 1987. Nutmeg and mace prices are expected to be stable at about 1987 levels due to the recently concluded agreement with Indonesia, although this situation is clouded by rumors that Brazil and India may enter

production. Other exports are expected to grow slowly but steadily. Imports are expected to be constrained somewhat by reduced demands from the Public Sector Investment Program.

Population, Labor Force and Employment

The 1980 census reported a population of 91,300. Data compiled for RDO/C from CARICOM and other sources produce an estimated 1987 population of 90,353 or 97,131, depending on assumptions made about fertility and emigration. The former represents an annual growth rate of -0.1 percent, the latter an increase of 0.9 percent. As with most of the other OECS states, emigration and fertility will be key to the ability of the country to steadily increase the level of living for its citizens and to provide jobs for them, with emigration being the more important factor for Grenada.

Depending upon the fertility and emigration assumptions made in the estimates, the labor force will increase by anywhere from 0.7% to 2.2% annually during the RDSS period. Using the employment/GDP elasticity range employed for the other countries, combined with alternative labor force growth scenarios, produces a range of projected employment increase of from 1.3% to 3.8% annually. The scenarios suggest that employment growth may generally keep pace with labor force growth except in the case of lowest elasticity (.31) and sharply reduced emigration.

There are no reliable data on unemployment, but observers estimate that despite the strong growth performance of recent years, the open unemployment rate is still between 18 and 20 percent, and many workers are underemployed. This results from several factors, including: mismatch between skill levels and job requirements, causing shortages of workers in certain skill areas alongside unemployment in others; recent rates of growth in the labor force in the main urban center; the relatively capital-intensive nature of the major reconstruction projects; rigid job security requirements that make labor virtually a fixed cost; and factors in both the labor and capital markets that make labor expensive relative to capital.

Economic growth by itself, therefore, will be necessary but not sufficient to reduce the unemployment rate to more tolerable levels. Rather, interventions on the supply side will be needed to provide the labor force with the skills that will be demanded by a growing economy while opportunities will also need to be available for self-employment in small-scale enterprises. Human resource development is an important element in attacking unemployment as well as productivity.

Prospects for the 1990-95 Period

Mission projections for the period suggest that growth in Grenada in the medium-term is potentially solid, but is unlikely to sustain the rates of the past three or four years. Projections for Grenada are particularly risky, because the country is still so dependant on agriculture so that changes in weather and international commodity markets will exert strong impacts on GDP. Trends, therefore, should be viewed as illustrative

rather than predictive, since the future growth path is likely to be quite cyclical, with rather wide year-to-year deviations from any underlying "trend" that can be identified.

Whereas data for the other OECS countries date from 1977, for Grenada interally consistent data can be identified only since 1980. A simple extrapolation (not shown) of the 1980-87 growth rate for each component of GDP yields a projected 1987-95 increase of about 5 percent per annum. In the mission's opinion, while this is achievable, it is rather optimistic and represents an upper bound scenario, for at least two reasons. First, the mini-boom of recent years strongly reflects construction and other public sector investment activity that is likely to slow in the near future. Second, government services represent the single largest component of real GDP. Simple extrapolation recent growth rates in that sector is inconsistent with the sustainability of the government's finances. Restraint in the growth of recurrent government expenditure will be required to restore fiscal solvency, and this will dampen short-term economic growth somewhat. Unless it is continuously shored up by donor grant flows, there will be a tradeoff between fiscal solvency and short-term rapid economic growth. To some extent, the dampening effect of these factors may be offset by stronger-than-expected increase in agricultural exports and, what is more likely, a breakthrough in the threshold level of tourism capacity that will bring double-digit growth to that sector.

Under a more probable scenario, the real GDP growth rate is projected to average 4.3 percent, which is approximately what it has been since 1980, after allowing for two serious slowdowns in 1981 and 1983. The essential differences between this scenario and the previous one are slower rates of increase in construction and government services. Improvements on this base case can be had by stronger performance in tourism, and becuase of its large weight, even a modest improvement in agriculture. For example, if tourism growth can be raised from 8.5% to 12%, GDP growth will increase to nearly 4.8%. If this is combined with only a modest increase in agricultural performance, from 1.7 to 2.0 percent increase, the overall growth rate will approach 5 percent.

In short, if carefully Grenada engineers the shift from an economy heavily dependent on the public sector and traditional agriculture for employment to one in which a diversified agriculture, tourism and other elements of the private sector can absorb reductions in public employment, the medium-term prospects for Grenada's economy are modestly optimistic. Even if the more conservative IMF projections prove correct, a 3 percent rate of economic growth will still provide a steady, if modest, increase living standards through the mid-1990's if present population projections are correct. Migration will be the critical element in this outcome. Under the high population growth scenario, population increases would erode much of the gain from economic growth, while labor force growth would threaten to outstrip job availability. However, if emigration remains at current rates, the labor force and total population will both grow more slowly than the economy.

As with St. Vincent, a major concern that could undo the more optimistic scenarios, is the structural adjustment path to be taken by Trinidad and Tobago. While growth in the latter would, in the past, have meant

expanding markets for agricultural and manufacturing products from the OECS, discussions now indicate that Trinidad could in fact become a competitive producer rather than a net purchaser. In this case, the prospects for Grenada's manufacturing and agriculture sectors will be rather dim unless extraregional markets can be tapped very early in the 1990's. This adds a cautionary note to the projections about employment prospects.

Under the above scenario, exports and imports are projected to grow at rates that permit a narrowing of the resource gap. Much of the gain in export earnings depends on success in the tourism sector. Total consumption and savings grow steadily, with investment slowing on the assumption that the PSIP will not sustain recent high levels.

Development Issues

Continued Diversification

Grenada's heavy reliance on agriculture makes it particularly vulnerable to external shocks, which could undercut even the more conservative scenarios outlined above. Prosperity will therefore depend heavily on the country's ability to absorb technological changes required to diversify within agriculture and a willingness to remove policy impediments to agricultural diversification, particularly in agricultural exports.

Whether Grenada achieves the gains in the more optimistic scenarios, or something less, will depend in large part on the performance of the tourism sector. Better promotion of the tourism product will be essential, but equally important is the government's ability to foster and "market" a business and legal climate that will encourage domestic and foreign investment in tourism and in supporting sectors, in order to achieve the minimum scale of tourism plant required to attract regular airline service.

Restraint in government recurrent expenditure, so important in maintaining fiscal solvency, will have a negative effect on overall demand and employment unless early and vigorous steps are taken to assure that a vigorous private sector is prepared to fill the gaps.

With the caveat about Trinidad's future development, as noted above, the manufacturing sector is projected to grow at over 6 percent per year. While that is not sufficient to make it a major sector, its share of GDP is projected to rise from about 5 percent to over 6 percent over the RDSS period. While it will not therefore serve as a major engine of growth, it will represent an important complement to tourism and agriculture, and will provide a significant number of jobs. For the sector to play its important role, however, significant changes will need to be brought about in the country's business climate. The problems are similar to those discussed in the main text, including: envigorating the IDC, removing price and other disincentives to investment, removing bureaucratic impeditments that slow the investment application process, and careful examination of the fiscal regime to assure that it is compatible with investment by efficient firms.

For all sectors, as noted in the main body of the RDSS, the system of price controls and other government influences on market prices and incentives should be carefully re-examined with the objective of creating a positive investment climate for competitive firms in agriculture, tourism and manufacturing.

Improved Quality of the Labor Force

Grenada lacks depth in nearly all of the skill areas that will be required to support adequate private sector growth. Worse, there is always the threat that increased training will result in a "brain drain". Formal training in a broad range of skill levels will be required to adequately staff the tourism, manufacturing, and services sectors. Furthermore, in Grenada perhaps more so than in the other islands, the "raw material" for secondary training must be improved by work in the primary schools, so that the labor force becomes trainable before it needs to be trained. Important issues include:

Reducing the school dropout rate
Improved teacher training at all levels
Improved management skills at all levels
Development of entrepreneurial skills
Improved women't access to vocational/technical training

Environmental/Infrastructural Issues

Maintenance of the physical environment, notably the provision of clean water and adequate sewerage facilities, must be a high priority if tourism is not to be choked off before it gets started. This in turn will require that the government's priorities for its own capital expenditures be set through a very rigorous analytical process that will ensure the most long-term economic benefit from public savings and increasingly scarce external capital resources to support the Public Sector Investment Program (PSIP).

Government Finances

In order to establish an attractive future investment environment, it is essential that the government's public finances be immediately set in order, so that it can generate savings to cover at least part of its capital budget, and that its own borrowing does not crowd out critical private investment. This will require careful restraint in the recurrent account budget, great care to remove economic distortions that may exist in the revenue system, and prudent administration of the revenue system.

Sectoral Adjustment

Absent a natural disaster or collapse of one of the important commodity export markets, it is unlikely that further macroeconomic programmatic support will be called for or necessary. The Government is presently considering the possibility of a TCG structural adjustment program. If such a program is undertaken, general budgetary support might be part of the IMF/IBRD package. Macroeconomic budgetary support programs should not be undertaken outside the context of a TCG program.

To the extent that non-project assistance is given in the future, it is the mission's intent to use the bilateral sectoral structural adjustment, rather than a macro-structural adjustment, mode. Policy changes required to maximize the benefits of assistance to the sector will be leveraged through DA or ESF funds, as available. In Grenada, the sectors targeted for bilateral structural adjustment are: tourism, diversified agriculture, and human resources development (education and training), with tourism the probable first candidate. While the final determination will be made at the project design stage, it is assumed that in some instances an ongoing TCG structural adjustment framework may need to be a prerequisite or concomitant to an effective sector assistance program.

GRENADA

GROSS DOMESTIC PRODUCT BY ECONOMIC ACTIVITY, AT FACTOR COST
IN CONSTANT 1984 PRICES (EC$ MILLION)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	ANNUAL RATE OF INCREASE 1980-87	PROJECTED ANNUAL RATE OF INCREASE 1987-95
												(----------PROJECTIONS----------							)		
Agriculture				40.60	43.10	38.80	39.70	44.90	42.00	41.80	45.40	46.17	46.95	47.75	48.55	49.37	50.20	51.05	51.91	1.61%	1.69%
Crops				33.70	36.40	31.90	32.20	36.70	34.60	34.00	37.10	37.66	38.22	38.79	39.38	39.97	40.57	41.18	41.79	1.30%	1.50%
Livestock				2.30	2.40	2.50	2.40	2.20	2.50	2.40	2.60	2.64	2.69	2.73	2.77	2.82	2.86	2.90	2.94	1.77%	1.77%
Forestry				0.00	0.00	0.00	0.10	0.10	0.10	0.20	0.20	0.23	0.26	0.28	0.31	0.34	0.37	0.40	0.42	18.92%	18.92%
Fishing				4.60	4.30	4.40	5.00	5.90	4.80	5.20	5.50	5.64	5.79	5.94	6.09	6.25	6.41	6.58	6.75	2.59%	2.59%
Mining & Quarrying				0.50	0.70	0.70	0.60	0.50	0.70	0.90	1.00	1.10	1.22	1.35	1.49	1.64	1.81	2.00	2.21	10.41%	10.41%
Manufacturing				8.90	10.70	11.90	11.60	9.80	11.70	11.80	13.80	14.63	15.57	16.58	17.65	18.80	20.01	21.31	22.69	6.47%	6.47%
Electricity & Water				4.00	4.00	4.00	3.90	4.00	4.70	5.30	5.80	6.38	6.73	7.10	7.49	7.90	8.34	8.80	9.28	5.45%	5.50%
Construction				16.10	20.80	22.60	18.20	18.40	19.30	22.20	25.60	27.90	29.58	31.35	33.23	35.23	37.34	39.58	41.96	6.85%	6.80%
Wholesale & Retail Trade				30.50	24.50	30.50	28.30	29.30	30.70	33.10	35.20	35.95	36.71	37.48	38.28	39.09	39.91	40.76	41.62	2.07%	2.12%
Hotels & Restaurants				9.10	10.20	9.40	9.50	11.70	14.60	16.10	16.20	17.59	19.10	20.74	22.52	24.46	26.56	28.84	31.32	8.59%	8.59%
Transport				20.30	18.50	20.40	20.70	22.30	22.60	25.00	26.07	29.56	31.07	32.75	34.66	36.81	39.26	42.06	45.29	4.09%	6.74%
Road Transport				18.40	16.50	17.60	17.50	19.00	18.40	20.20	21.71	23.88	24.46	25.06	25.67	26.30	26.94	27.60	28.27	2.39%	2.44%
Sea Transport				0.70	0.70	1.50	1.70	1.70	2.20	2.50	2.69	2.96	3.59	4.35	5.28	6.40	7.76	9.41	11.41	21.21%	21.26%
Air Transport				1.20	1.30	1.30	1.50	1.60	2.00	2.30	2.47	2.72	3.01	3.34	3.71	4.11	4.56	5.06	5.61	10.86%	10.92%
Communications				7.00	6.60	7.10	7.30	7.80	7.80	8.40	9.03	9.93	10.31	10.69	11.09	11.51	11.94	12.39	12.86	3.70%	3.75%
Banks & Insurance				8.50	10.20	10.90	10.40	11.80	13.00	13.40	14.00	15.04	16.16	17.36	18.65	20.04	21.53	23.14	24.86	7.39%	7.44%
Real Estate & Housing				15.20	15.30	15.40	15.50	15.70	15.90	16.30	16.70	16.93	17.15	17.39	17.62	17.86	18.10	18.34	18.59	1.35%	1.35%
Government Services				31.20	32.70	36.40	45.00	46.60	51.50	54.00	54.00	56.43	58.97	61.62	64.40	67.29	70.32	73.49	76.79	8.15%	4.50%
Other Services				9.50	9.70	10.20	10.50	10.60	10.70	11.00	11.30	11.59	11.89	12.19	12.50	12.82	13.15	13.49	13.83	2.51%	2.56%
Less Imputed Service Charge				6.90	8.50	9.20	9.20	10.00	10.80	12.00	12.80	13.98	15.27	16.68	18.22	19.90	21.74	23.74	25.94	9.23%	9.23%
TOTAL				194.50	198.50	209.10	212.00	223.40	234.40	247.30	262.10	275.22	286.13	297.68	309.92	322.92	336.75	351.50	367.26	4.35%	4.31%
GROWTH RATE					2.06%	5.34%	1.39%	5.38%	4.92%	5.50%	5.98%	5.00%	3.97%	4.04%	4.11%	4.19%	4.28%	4.38%	4.49%		

ST. VINCENT AND THE GRENADINES

Recent Economic Developments *

Production and Growth

The economic history of St. Vincent has been dominated by agriculture, centering around the production of bananas, sugar and arrowroot. In the 1980's a significant trade in ground provisions emerged as "hucksters" traveled the islands with produce. In 1987 this fell off by nearly two thirds, as Trinidad removed the two-tier exchange rate that had favored these traders, and as its own suppliers began to produce ground provisions.

Of the three major traditional commodities, only bananas remain important. The sugar industry had been dormant for some time, when the government attempted to revive it during the period of high prices in the 1970's. However, the factory startup costs were high and prices began to decline in the 1980's. By 1985 the government could no longer afford to sustain the losses of the sugar industry, and the factory was closed.

St. Vincent arrowroot starch exhibits unique characteristics that make it an elite among starches. For nearly 30 years, it occupied a near-monopoly position, and then began to face competition from cheaper starches. Since 1983 acreage and production have decreased by nearly 80 percent. Ironically, this has led to a situation where the industry was recently unable to meet an increase in demand by baby food producers, because of low farmgate prices, poor technology, inadequate management, and a crushing debt burden. Unless some way can be found to change its fortunes, the arrowroot industry appears headed for extinction.

Bananas are threatened by the potential removal of the protected market status in the U.K. in 1992.

Preliminary data for 1988 are still rather sparse, but growth was again probably slow. It is estimated that real GDP at Factor cost increased by 3.1 percent in 1987. Given the severe blow that agriculture sustained that year, some observers feel that even this estimate may be optimistic. This was a very disappointing performance compared to the 6.2 percent gain registered in 1986, and also compared unfavorably with the strong performance from 1982-86, when the economy averaged 6 percent growth. Indeed, growth averaged between 5.5 and 6 percent for the decade ended in 1987.

While few sectors turned particularly good performances that year, The major explanation for the 1987 slowdown lay in the poor performances of agriculture and manufacturing, which together account for approximately 25 percent of real GDP.

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*This section draws heavily on data and reporting by the O.E.C.S. Economic Affairs Secretariat, CDB and World Bank reporting.

After growing each year from 1980, crop production declined by nearly 8 percent in 1987 due to tropical storm Danielle in late 1986, followed by the worst drought in more than a century during the first half of 1987, topped off by Hurricane Emily in September 1987, which destroyed more than 40 percent of the banana plantings. Banana exports were down 9.4 percent from 1986. This was cushioned by an appreciation of sterling against the U.S. dollar. Given its dominant position in the economy, these agricultural disasters spilled over to the other sectors as well. These effects were compounded by the 1987 unification of the Trinidad-Tobago exchange rate which had previously conferred concessionary benefits to St. Vincent's exports of ground provisions. Misfortune carried over into 1988. While first-half 1988 banana exports were 60 percent above 1987 lows, rains from a nascent hurricane Gilbert later in the season again raised havoc with the plantings. Arrowroot is on the ropes. At the end of 1988 the critical Trinidad market was "dead" according to one analyst. Hucksters have found some outlet in Barbados, but it is not sufficient to counter the severe loss of Trinidad. Worse for St. Vincent, while it was formerly an importer of foodstuffs, Trinidad is now becoming a potential competitor by revitalizing its own agriculture. On the brighter side, St. Vincent's 1987 fish landings rose due to increased technical and infrastructure support for the industry.

Manufacturing stagnated in the face of economic troubles in the important Trinidad market, though some items, notably flour, arrowroot, steel sheets and garments recovered somewhat from the doldrums of 1985 and 1986. In 1988 performance continued to be uneven. While clothing, tennis rackets, beer and other items registered increases, arrowroot starch and galvanized sheets decreased by 36 and 26 percent, respectively. RDO/C's preliminary estimate is for virtually no overall growth in manufacturing.

On the other hand, in 1987 construction remained strong, growing by 11.8 percent. This reflected a sharp increase in public sector investment in 1986 and 87, spurred by the Cumberland Hydroelectric Project. This activity will continue to be one of the few supporting struts on the economy in 1988. In 1987 an upswing in stayover tourist arrivals also helped offset the calamity in agriculture. Tourism arrivals were down sharply in the first half of 1988, though an increase in stayovers perhaps was sufficient to contribute modestly to growth.

The drought combined with the depreciation of the U.S. dollar increased the rate of inflation from about 1 percent in 1986 to 3.4 percent in 1987. There are reports that prices fell somewhat in early 1988 as the effects of the drought wore off.

The sectoral composition of output has changed only moderately the last decade.

On the basis of fragmentary preliminary data, it is expected that 1988 will show only modest improvement, since storm damage prevented agricultural recovery, the arrowroot industry is in serious trouble, the Trinidad market for nontraditional foods and manufactures remains largely closed, and limited factory shell space inhibits the growth of manufacturing. The economy in 1988 is largely driven by construction of

the Cumberland Hydroelectric project and some other PSIP infrastructure activities. The attached tables show an estimate of 1988 growth in excess of 2 percent. While government officials voiced optimism near the end of the year, other observers expect that final data will reveal it to be between one and two percent.

Government Finance

In recent years the Government of St. Vincent has markedly improved its finances. In fiscal 1981/82 the Government's current account deficit was equivalent to 2.6 percent of GDP. By 1983/84 this had decreased to 0.9 percent of GDP and the current account has been in surplus ever since. In FY1987/88 this is projected to reach as much as 3.5 percent of GDP.

While revenues have increased, this turnaround was achieved largely through expenditure control, though salaries continued to increase at relatively high rates in 1986 and 87. While revenues increased slightly as a percent of GDP, recurrent expenditures fell from 32 to 26 percent of GDP between 1981 and 1987. The increase in revenues came about as a result of more rigorous collection and a shift toward indirect taxes, which increased to over 58 percent of revenue by 1987. The latter, in turn, reflected a sizeable growth in imports. The Government's five-year plan calls for sustained public sector savings that will enable it to contribute to funding a sizeable portion of the Public Sector Investment Program. The ability to maintain this level of fiscal performance hinges in part on enforcement and adequate staffing, which has become a problem.

While central government finances have improved, the future of the overall public sector is clouded by the prospects for several parastatals. The public enterprises succeeded in moving from large deficits in the early eighties to a surplus of 1.7 percent of GDP in 1986/87. However, this masks the plight of three enterprises that remained in deficit in 1986/87: The Arrowroot Industry Association; the Development Corporation (DEVCO); and the Housing and Land Development Corporation. The Arrowroot industry is burdened by significant debt.

Ministry of Finance figures show that the combined central government and government-guaranteed external debt stood at US$36.5 million in 1987. This was nearly double the level of 1981 and represented an increase of 23 percent for the latest year. Even so, this amounts to only about 27 percent of GDP. Moreover, the debt is on highly concessional terms. The average interest rate is about 4 percent, with a maturity of about 25 years. Consequently, debt service amounts to only about 4 percent of exports of goods and services and under 7 percent of central government recurrent revenues. The debt therefore appears to be easily manageable.

Balance of Payments

St. Vincent ran balance of payments deficits during the first half of the 1980's. In 1985 and 1986 there were current account surpluses as trade deficits were offset by surpluses in the services account (notably tourism earnings) and by significant transfers. By 1987, the drop in exports combined with a surge of imports produced a current account deficit despite a large increase in travel receipts. The sharp decrease in exports was caused by falling banana production and other factors

noted above. At the same time, large public investment projects coming on stream led to the increase in imports. The surge in tourism receipts was not enough to offset the combined effects of a trade deficit and a decrease in official transfers, to that overall there was a current account deficit. Because of increased private sector borrowing, capital account activity tended to offset these deficits, but the overall balance of payments still turned negative in 1987. While data are not yet available, it is likely that this pattern continued, and perhaps worsened in 1988.

Population, Labor Force and Employment

Estimates compiled for RDO/C place the 1980 population at 97,845. Depending on assumed fertility and emigration rates, the 1987 population is estimated to be between 109,140 and 110,725, reflecting growth rates of 1.6% and 1.8 percent, respectively. The latter places it at the top of the OECS list. St. Vincent is one of two countries (St. Lucia being the other) where fertility-driven population growth threatens to seriously erode the gains from economic growth. The two share a total fertility rate of 4.5 per thousand. Emigration has provided a partial safety valve so far. Labor force growth rates during the RDSS period are projected at 1.5 percent to 2.6 percent, depending on whether current fertility and migration rates continue, or whether both fall. Clearly reduced emigration would pose a serious problem for St. Vincent's job seekers.

Although there are no reliable statistics on employment, and despite the relatively high economic growth rates of the last decade, it is widely believed the unemployment rate in St. Vincent is the highest among the OECS states, and is estimated to be in the range of 25 to 30 percent of the labor force. It is particularly high among women, youth and those without marketable skills. This is combined with a high dependency ratio, so that the working population has a considerable burden to bear.

The government is very concerned about the unemployment problem and has undertaken several measures in an attempt to deal with it, including both improvements on the supply side and increased opportunities on the demand side.

We estimate that, given the economic growth projections outlined below, employment will increase annually by about 1 to 2.9 percent, depending on the assumed elasticity of employment with respect to GDP growth. With an elasticity as high as that estimated by Bourne for Barbados (.874) it would appear that employment growth would keep up with labor force growth if migration rates remain at current levels. However, if migration rates fall (population/labor force scenario B), even at the higher elasticity employment will barely keep up with labor force growth.

The unemployment problem in St. Vincent is not likely to be resolved easily, even if growth rates remain relatively high because it is not solely a demand problem (as evidenced by the fact that the unemployment rate has remained high despite years of relatively rapid growth). There is a labor supply problem as well. Much needs to be done to improve the skills of those coming out of the school system, and particularly among school leavers.

Prospects for the 1990-95 Period

Not only is St. Vincent one of the poorest countries in the region, but its growth prospects are perhaps the least bright among the OECS states. Mission projections suggest that the high rates of growth of the early eighties would be repeated only under a very optimistic set of assumptions. For example, if each sector were to grow at its 1977-87 trend rate, overall GDP growth would average 6.6 percent for the 1987-95 period. However, it is very unlikely that all of these conditions will be met.

First, even if there is a measure of success in agricultural diversification, it will be offset to some extent by a less bouyant market for bananas. The threat does not come entirely from potential changes in the Lome market in 1992. Indeed, EEC representatives have recently stated publicly that while a bilateral banana protocol with Great Britain will not continue after 1992, some arrangement will be found for preferential access by the Eastern Caribbean to the EEC as a whole. Great Britain has more recently made even stronger supporting statements. The mechanism has not yet been devised, and the preference price might not be as strong as it has been in recent years, but something will be done. The challenge may come from the potential need to compete at a lower price, or from increased production saturating the OECS quota as it already threatens to do under the U.K. arrangement. Thus, while the threat of a decrease in banana production does not appear to be great at this time, serious doubts can be raised about the latitude for future growth in the banana sector, since the region is already near saturating its quota under the present regime.

Second, and more mechanistically, historical data suggest that the long term trend for some sectors is likely to be linear rather than a simple percentage extrapolation. This will tend to slow the overall rate of growth.

Third, the Government of St. Vincent's own Plan projects slower growth for several sectors at least through 1989, which the Mission has extended beyond that period.

Fourth, St. Vincent has in effect run up against a wall of constraints that will need to be removed if even the modest scenarios outlined below are to be achieved.

In something less than the best-case scenario, therefore, GDP growth is projected to average somewhat over 3 percent for the period. This scenario is in line with that indicated by the Caribbean Development Bank, which sets a 3.5% to 5% range for the medium term. The World Bank High Growth Scenario envisions growth rates of 4 percent through 1991, falling to under 3 percent thereafter. Its Low Growth Scenario sees growth in the 2 to 3 percent range.

While stronger than expected growth in tourism and manufacturing may in the end tell the tale, it appears that the fortunes of agriculture will largely dictate St. Vincent's fate through the mid-1990's. If the base case projection is altered only by assuming that agricultural growth

stops after 1991, the overall growth rate for the period falls from 3.3 percent to 3.0 percent, without allowing for probable negative multiplier effects on nonagricultural sectors. Finally, if solutions are not found to the collapse of the Trinidad market for agricultural produce and the threat of zero or limited growth in bananas after 1991, projections indicate that it will be difficult for St. Vincent to achieve a 2 percent growth rate. If negative multiplier effects of this agricultural stagnation on other sectors are added, it is possible (though the Mission is not projecting so) that St. Vincent could experience no growth in the 1990's--- a situation not entirely dissimilar to that faced by Trinidad when the petroleum market collapsed in the early 1980's.

Clearly, with agriculture playing such a central role in the St. Vincent economy, and with the chief export crop, bananas, facing slower growth or even reduced markets abroad, crop diversification is one of the most urgent problems facing the country during the RDSS period. The government has made some moves in this direction, by beginning a land reform program aimed at transferring 7,000 acres to small farmers and by encouraging the fishing industry through construction of infrastructure and provision of technical assistance. Moreover, the OECS leaders have resolved to take steps to encourage agricultural diversification in the region. However, the challenges are formidable.

In any diversification effort it will be critical to improve product quality, to introduce much more vigorous and sophisticated marketing, and to resolve serious transportation cost problems. This is especially important in light of the fact that the Trinidad market might not provide the outlet for produce that it did in recent years, thereby forcing St. Vincent to compete in the wider region, or even outside of it. This will be a serious challenge to Vincentian producers. A means must be found to free the Arrowroot association of its debt burden. Caught in a vicious circle, the association cannot afford to pay acceptable prices to farmers, so that production is reduced. It is possible, but by no means certain, that higher farm prices would elicit more output for a single efficient plant to produce food-quality arrowroot.

While manufacturing is an important element in the government's economic plan, the sector's performance has been disappointing. In 1986 and 1987, output actually decreased slightly, and indeed 1987 real output was actually lower than it had been in 1984. The sector is dominated by a few enclave manufacturers. Growth in the early 1980's was satisfactory, but halted when the Trinidad market for flour and galvanized steel weakened, and offset the gains from some other firms.

Despite this poor performance, there is still some hope for a modest resurgence of the sector if some critical changes are made soon. The government's Development Plan focuses on: agroprocessing; garments; sporting goods; electronic assembly and toys. Growth, however, will depend on adequate infrastructure. The growth of the early eighties took place in the context of expanding factory space and other infrastructure combined with strong fiscal incentives. This was brought to a halt when construction of additional factory space was detained by land title disputes. The government now has embarked on a program of expansion of factory space, which should remove the bottleneck for the time being. Future growth of the sector will depend on continued availability of

factory space along with numerous other factors that influence the investment climate. Among these factors is the tax climate. To some extent the government's current account surpluses and clean bill of fiscal health from the donor agencies has been purchased by higher taxes, particularly indirect taxes. It should be determined, however, whether this might be a negative element in the investment climate. There is an apparent need for the country to have a more aggressive attitude toward investment promotion, and for a reassessment of the attitude toward investment in general.

The Grenadines offer some of the most beautiful yachting opportunities in the region. In 1987 cruise ships and yachts accounted for 53 percent of the country's tourism while stopover air visitors represented only 16,000 out of 129,000 visitors to the country. While the country therefore has a definite niche tourism market that it is uniquely positioned to fill, there is much to be done if tourism is to become a major sector and if the country is to capture a larger share of the tourist dollar. While tourism grew at a respectable rate during the past decade, the percentage is derived from a small base, and is not necessarily replicable in the future without significant changes in the sector.

There is a general shortage of rooms that act as a constraint to significant tourism growth. Furthermore, the more appealing sights of the Grenadine archipelago are difficult to reach except by boat or by some heartpounding adventures in small planes. The government, with the assistance of Lome III funds, is planning some improvements in the air strips on the smaller islands. More aggressive marketing will be required if tourism is to grow. Even so, the main airport in St. Vincent is unable to accommodate large aircraft and represents a major constraint to high volume tourism that would depend on direct flights from North America or Europe. Nearby Grenada has a complementary problem of possessing a large airport but not enough hotel rooms to attract the large regular high-volume international flights. Some observers have suggested that ways be explored of developing a symbiotic relationship between the two countries that would permit combining international flights to Grenada's airport, with shuttle to St. Vincent from there, thereby generating the visitor volume that neither island can muster alone in the early years of the 1990's. While there is therefore room for steady expansion in a kind of boutique tourist package, the probability of the sector providing more than a necessary, but modest, supporting role in St. Vincent's economy through 1995 is not great unless some major bottlenecks can be alleviated.

St. Vincent's infrastructure needs are still great. Aside from major projects such as airport improvement, there is significant need for additional road construction. Only about 55 percent of the population is served with potable water in their homes. Inadequate water storage and leakage are major problems. The rather modest projections for construction growth, therefore, may be revised upward if sufficient external support can be found to finance these major infrastructure efforts.

In sum, St. Vincent will achieve growth rates at the upper end of the projected range to the extent that:

--- The UK banana protocol can be maintained or that efficiencies can be brought to the banana industry sufficient to make it competitive in a nonprotocol environment.

--- Agricultural diversification and produce quality measures are instituted promptly and efficiently so that regional food crop markets can be regained.

--- Tourism marketing and infrastructure is adequate to ensure the country a fair share of a growing world tourism market.

--- That difficulties that have beset the manufacturing sector in recent years can be overcome.

Sources and Uses of GDP

Export and import projections were made by tying IBRD coefficients to the Mission's projected economic growth rate. The result is a steady increase in imports, assuming that the problems identified above can be overcome, accompanied by a modest increase in imports (unless major infrastructure programs are undertaken that will place an increased demand on foreign materials). With modest growth in government current expenditures, resources will be available to the private sector to distribute between consumption and savings. The model used treats savings as a residual. Unless unusual restraint is exercized by (or imposed on) consumers, it is probable that actual consumption will increase more rapidly, and savings less rapidly, than projected on the table. Likewise, if the government is more vigorous in implementing and funding its PSIP, the projected growth in capital formation is likely to be higher than shown in the table.

Development Issues

The World Bank, CDB, OECS and AID have identified several issues that must be addressed if ST. Vincent is to achieve even the more moderately optimistic growth rates projected above.

Diversification

It is essential that St. Vincent diversify its economy as rapidly as possible in the early 1990's. This involves both diversification within the agriculture sector and diversification away from agriculture to the extent that this is possible.

In addition to effective implementation of its Public Sector Investment Program to alleviate important infrastructural constraints, actions will need to be taken to:

alleviate the problems of the arrowroot industry. The industry needs to be carefully examined to determine whether it has a viable future, and if so what measures are needed to streamline it and make it competitive and sustainable.

foster improvements and efficiencies in the banana industry that will enable producers to operate profitably in a more competitive

market after 1992.

move to increase the profitability of and appropriate market incentives to, private sector nontraditional agriculture. St. Vincent is severely handicapped by the loss of the important Trinidad market and the preferential exchange rate that it has heretofore enjoyed there. Because its own exchange rate is effectively unavailable as a tool of macroeconomic policy, the Government of St. Vincent will need to identify means whereby the fiscal system can be used to bring about the kinds of expenditure switching and resource reallocations that would result from a currency devaluation.

work with other CARICOM governments to remove distortions in the tariff schedules that bias resource allocation against agricultural exports and toward import substitution.

move rapidly to eliminate price controls and export taxes from agricultural products

work with other OECS governments to develop mechanisms that will permit the freer flow of labor and capital resources to their most efficient uses within the region.

seriously reexamine the entire scheme of investment incentives, including prices, regulations, and fiscal incentives and carefully assess the general investment climate, including the Companies Act.

find ways to alleviate the serious shortage of technical and managerial public sector workers needed to implement the five-year development plan. This may involve reexamination of immigration policies.

vastly improve the marketing of agricultural products.

more aggressively market tourism and to improve the tourism plant, including supporting infrastructure.

alleviate the bottleneck of factory space for manufacturing and more aggressively encourage foreign as well as domestic investment

reexamine the revenue system to ascertain modifications that would be necessary to enhance its contribution to a favorable investment climate.

Population

Of the OECS islands, St. Vincent is the one where population and labor force growth is likely to be the most problematic. While neither rate is distressingly high, they must be viewed in the context of an already high unemployment level. Even under the most optimistic growth scenarios, it will be difficult for St. Vincent to create jobs rapidly enough to employ its growing labor force. It will also be difficult to maintain present per capita living standards. Under the more pessimistic scenarios, both could deteriorate. Because of the long lags involved, family planning

programs can do little to alleviate these problems in the short run, but can help to reduce the burdens on the long run. A freer OECS labor market that would permit workers to move readily from labor surplus to labor shortage economies within the region may be an essential element in coping with St. Vincent's future employment problem.

Improved Quality of the Labor Force

In addition to growing numbers, the problem of matching skills with available job opportunities is an urgent one that needs to be addressed immediately.

Inadequacies in the education system have been pointed out as an important cause of high unemployment in St. Vincent. There are too few schools to accommodate the school age population. As a result, the World Bank estimates that 10 percent have no access to formal primary education and 20 percent no access to secondary education. Student/Trained Teacher ratios are very high (74:1 and 45:1, respectively). The curriculum does not adequately prepare students for employment after completing school. The Bank estimates that the combination of inadequate facilities and inappropriate curriculum leads 25 percent of students to drop out at ages between 10 and 13 years. As a result, both government and the private sector lack skills essential to develop the economy despite the highest measured unemployment rate in the region. The government is aware of these problems and is attempting to address them in its five-year plan.

Environmental Issues.

As in all the other islands, environmental mismanagement threatens to undermine growth in agriculture and tourism, by destroying the very natural resource base upon which they rest. Watershed management, coastal management and safe use of agricultural chemicals are at minimum requirements for sustaining an even modestly optimistic long term economic future.

Housing

While the government is working to keep up with the shortage of adequate housing, high construction costs have undermined attempts to provide affordable shelter on a wide scale. The private sector is being encouraged to get into the sector.

The World Bank has recommended that the government's Housing and Land Development Corporation be abolished because it cannot be managed effectively given the stringent shortages of trained personnel.

Government Finances

While government finances have exhibited a veneer of solidity in recent years, there are underlying problems that will have to be rectified if the rather optimistic projections above are to be realized in the 1990's, including:

serious restructuring or elimination of the money-losing parastatals, most notably the arrowroot and housing operations.

expenditure restraint, that combines salaries necessary to attract skilled personnel to public service with overall restraint in the wage bill.

reexamination of the revenue system seeking ways to preserve fiscal solvency without furnishing disincentives to the private sector.

Ability to Implement a Development Plan

Skilled personnel in the government are so scarce that the government has been unable to implement its PSIP on schedule. As a result the overall economic growth rate has suffered. A key difference between the World Bank's High Growth and Low Growth scenarios lies in the assumed ability of the government to implement its PSIP.

While soft external agricultural markets are a key growth-inhibiting factor in the 1990's, lack of skilled public service employees in key places is key bottleneck to the rapid diversification that will be necessary to overcome the misfortunes of agriculture.

ST. VINCENT AND THE GRENADINES
GROSS DOMESTIC PRODUCT BY ECONOMIC ACTIVITY, AT FACTOR COST
IN CONSTANT 1977 PRICES (EC$ MILLION)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	ANNUAL RATE OF INCREASE 1977-87	PROJECTED ANNUAL RATE OF INCREASE 1987-95
												(----------PROJECTIONS----------							----------)		
Agriculture	14.70	17.24	14.64	12.53	17.68	18.71	20.22	21.53	23.32	24.18	22.70	22.92	23.50	24.10	24.73	25.37	26.03	26.71	27.42	4.44%	2.39%
Crops	10.94	13.19	11.21	9.01	14.26	15.19	16.71	17.55	18.38	19.02	17.50	17.50	17.85	18.21	18.57	18.94	19.32	19.71	20.10	4.81%	2.00%
Livestock	1.66	1.90	1.71	1.66	1.48	1.53	1.48	1.58	2.30	2.37	2.25	2.32	2.39	2.46	2.53	2.61	2.69	2.77	2.85	3.09%	3.00%
Forestry	0.68	0.67	0.63	0.50	0.44	0.31	0.32	0.34	0.37	0.38	0.39	0.39	0.39	0.39	0.39	0.39	0.39	0.39	0.39	-5.41%	0.00%
Fishing	1.42	1.48	1.09	1.36	1.50	1.68	1.71	2.06	2.27	2.41	2.56	2.71	2.88	3.05	3.23	3.43	3.63	3.85	4.08	6.07%	6.00%
Mining & Quarrying	0.27	0.24	0.29	0.30	0.31	0.31	0.34	0.34	0.35	0.39	0.43	0.44	0.46	0.47	0.48	0.50	0.51	0.53	0.54	4.76%	3.00%
Manufacturing	5.98	8.85	10.56	11.10	11.31	11.97	12.28	13.33	13.50	13.39	13.28	13.28	13.55	13.82	14.23	14.66	15.10	15.55	16.02	8.45%	3.00%
Electricity & Water	2.44	2.82	3.05	3.22	3.31	3.62	3.70	3.78	4.14	4.50	4.89	5.07	5.25	5.44	5.63	5.83	6.04	6.26	6.48	7.20%	3.59%
Construction	10.08	8.83	10.56	11.18	11.39	11.50	12.19	12.07	12.43	14.29	15.97	16.29	16.62	16.95	17.29	17.63	17.98	18.34	18.71	4.71%	2.00%
Wholesale & Retail Trade	11.11	11.82	11.08	12.02	11.11	12.72	13.01	13.57	14.74	16.23	17.17	17.33	17.49	17.65	17.82	17.99	18.15	18.32	18.49	4.45%	3.00%
Hotels & Restaurants	1.93	2.46	2.91	3.69	3.23	3.37	3.58	3.59	3.78	4.06	4.36	4.58	4.69	4.80	4.91	5.03	5.15	5.28	5.40	8.49%	2.39%
Transport	10.79	12.28	13.23	14.53	15.85	17.68	20.26	22.12	22.31	24.22	25.13	26.46	27.80	29.15	30.51	31.88	33.26	34.65	36.04	8.82%	4.61%
Road Transport	7.38	8.54	9.60	10.80	11.79	12.96	15.15	15.95	16.41	17.76	18.32	19.41	20.50	21.59	22.68	23.77	24.86	25.95	27.04	9.52%	5.83%
Sea Transport	2.82	3.05	2.75	2.74	3.05	3.63	4.10	5.13	4.85	5.29	5.61	5.81	6.01	6.22	6.44	6.67	6.90	7.14	7.39	7.12%	3.51%
Air Transport	0.59	0.69	0.88	0.99	1.01	1.01	1.01	1.04	1.05	1.17	1.20	1.24	1.29	1.34	1.39	1.44	1.50	1.55	1.61	7.36%	3.74%
Communications	3.10	3.26	3.51	4.47	5.68	5.96	6.13	6.63	9.73	10.22	10.74	11.30	12.36	13.53	14.80	16.20	17.72	19.39	21.22	13.23%	5.00%
Banks & Insurance	3.45	3.44	3.71	4.77	5.14	5.00	5.16	5.93	5.20	5.56	6.00	6.13	6.26	6.39	6.53	6.67	6.81	6.95	7.10	5.69%	2.00%
Real Estate & Housing	4.17	4.26	4.34	4.43	4.52	4.62	4.71	4.78	4.84	4.90	4.96	5.03	5.11	5.19	5.26	5.34	5.42	5.50	5.59	1.75%	1.50%
Government Services	14.90	15.57	16.45	17.13	17.46	17.46	17.81	18.39	18.91	19.48	20.06	20.66	21.28	21.92	22.58	23.26	23.95	24.67	25.41	3.02%	3.00%
Other Services	2.63	2.85	2.92	3.11	3.22	3.35	3.41	3.46	3.50	3.55	3.60	3.60	3.67	3.75	3.82	3.90	3.97	4.05	4.14	3.19%	2.00%
Less Imputed Service Charge	3.22	3.21	3.46	4.25	4.21	4.39	4.29	3.93	3.77	3.71	3.65	3.70	3.74	3.79	3.84	3.89	3.93	3.98	4.03	1.26%	1.26%
TOTAL	82.25	90.71	93.79	98.23	106.00	111.80	118.51	125.59	132.98	141.26	145.64	149.40	154.29	159.36	164.76	170.36	176.18	182.23	188.54	5.88%	3.28%
GROWTH RATE		10.29	3.40	4.73	7.91	5.47	6.00	5.97	5.88	6.23	3.10	2.58	3.28	3.29	3.39	3.40	3.42	3.44	3.46		

ST. VINCENT AND THE GRENADINES
EXPENDITURE ON GROSS DOMESTIC PRODUCT
IN CURRENT PRICES
(1988-95 IN 1987 PRICES)

EC$ Million

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	CURRENT PRICES 1977-87	CONSTANT PRICES 1987-95
GDP AT FACTOR COST	82.25	104.20	120.10	134.89	167.01	189.52	211.23	230.40	250.20	281.64	303.71	311.5	321.8	332.3	343.6	355.3	367.4	380.0	393.2	13.95%	3.28%
Net Indirect Taxes	14.70	17.96	21.93	24.16	28.17	36.81	42.24	44.67	52.28	59.06	63.37	65.0	67.1	69.3	71.7	74.1	76.7	79.3	82.0	15.73%	3.28%
GDP AT MARKET PRICES	96.95	122.16	142.03	159.05	195.18	226.33	253.47	275.07	302.48	340.70	367.08	376.5	388.9	401.7	415.3	429.4	444.1	459.3	475.2	14.24%	3.28%
RESOURCE GAP	43.28	29.94	63.89	81.45	62.80	68.78	61.73	38.69	18.52	37.80	100.01	55.7	61.4	36.0	32.5	32.0	32.0	32.3	32.4	8.74%	-13.14%
Exports of Goods and NFS	42.69	73.96	76.31	89.47	115.98	135.93	155.74	192.95	222.48	225.18	194.46	236.8	251.0	262.5	274.9	287.8	301.3	315.4	330.3	16.37%	6.84%
Merchandise	26.76	43.99	39.32	41.68	64.95	87.06	113.40	145.70	170.64	172.53	141.30									18.10%	
Non-Factor Services	15.93	29.97	36.99	47.79	51.03	48.87	42.34	47.25	51.84	52.65	53.16									12.81%	
Imports of Goods and NFS	85.97	103.90	140.20	170.92	178.78	204.71	217.47	231.64	241.00	262.98	294.47	292.4	312.4	298.5	307.4	319.7	333.3	347.8	362.7	13.10%	2.64%
Merchandise	81.92	97.69	125.08	154.18	157.18	175.82	192.90	206.80	214.00	235.71	266.43	266.0	283.9	271.3	279.4	290.6	303.0	316.2	329.8	12.52%	2.70%
Non-Factor Services	4.05	6.21	15.12	16.74	21.60	28.89	24.57	24.84	27.00	27.27	28.04	26.5	28.5	27.2	28.0	29.1	30.3	31.5	32.8	21.35%	1.99%
GROSS DOMESTIC EXPENDITURE	140.23	152.10	205.92	240.50	257.98	295.11	315.20	313.76	321.00	378.50	467.09	432.2	450.3	437.7	447.8	461.4	476.1	491.7	507.6	12.79%	1.05%
TOTAL CONSUMPTION	106.35	117.73	157.30	177.66	193.83	230.40	252.30	243.23	244.90	263.34	332.00	294.0	314.2	305.1	323.2	332.5	342.9	353.9	365.0	12.06%	1.19%
Private	84.41	90.13	123.31	149.24	147.00	176.36	193.97	180.35	184.72	195.53	261.01	220.9	238.9	227.5	243.3	250.2	258.1	266.5	275.1	11.95%	0.66%
General Government	21.94	27.60	33.99	37.42	46.83	54.04	58.33	62.88	60.18	67.81	70.99	73.1	75.3	77.6	79.9	82.3	84.8	87.3	89.9	12.46%	3.00%
GROSS CAPITAL FORMATION	33.88	34.37	48.62	62.84	64.15	64.71	62.90	70.53	76.10	115.2	135.1	138.2	136.1	132.6	124.6	128.8	133.2	137.8	142.6	14.83%	0.68%
Public																					
Private																					
Increase in Stocks																					
GROSS DOMESTIC SAVINGS	-9.40	4.43	-15.27	-18.61	1.35	-4.07	1.17	31.84	57.58	77.36	35.08	82.5	74.7	96.6	92.1	96.8	101.2	105.5	110.2		15.38%
DOMESTIC SAVINGS RATIO	-9.7%	3.6%	-10.8%	-11.7%	0.7%	-1.8%	0.5%	11.6%	19.0%	22.7%	9.6%	21.9%	19.2%	24.0%	22.2%	22.6%	22.8%	23.0%	23.2%		
INVESTMENT RATIO	34.9%	28.1%	34.2%	39.5%	32.9%	28.6%	24.8%	25.6%	25.2%	33.8%	36.8%	36.7%	35.0%	33.0%	30.0%	30.0%	30.0%	30.0%	30.0%		

ST. LUCIA

Recent Economic Developments *

Production and Growth

St. Lucia's economy is primarily dependant on agriculture, although tourism and manufacturing have made advances in recent years. The economy's fortunes are therefore closely tied to weather and exchange rate movements. From 1977 to 1987 real GDP growth averaged 4.25 percent annually. Depending on the assumptions made about fertility and migration, this was sufficient to yield an increase in per capita income of between 2.3% and 2.6% between 1980 and 1987. Early reports indicate that the economy slowed to less than 2.1 percent growth in 1987 after three years in excess of 5 percent. It was the poorest performance since 1981. The main cause for the slowdown was a decline in agricultural output. Agriculture had averaged over 12 percent the previous two years, then declined by 4.3 percent in 1987, led by a 23 percent reduction in banana exports, the latter largely due to a drought in the first part of the year and heavy rains later on. The Green Wholesale price of bananas also decreased. This was partly offset by an appreciation of the pound sterling vis a vis the U.S. and E.C. dollars. Preliminary reports for 1988 indicate that the economy recovered and should show a growth rate between 5 and 6 percent, led by banana recovery, tourism and construction.

Manufacturing did not fare much better, growing by only 1 percent in 1987, compared to an average of 1.4 percent between 1984 and 1986. That sector has been rather stagnant since the regional markets, notably Trinidad-Tobago, were closed.

Tourism has become a leading sector in St. Lucia, though its contribution to national value added is still less than 8 percent. Visitor arrivals increased by 20 percent in 1987, compared to 15.5 percent the previous year. However, stayover arrivals were up only 8 percent compared to 18 percent in 1986. As a result, earnings from tourism slowed to 3 percent from the 5 percent average of the previous three years. Data for 1988 are not yet in, but observers report that tourism performed well. Room capacity has not kept pace with arrivals, so that the plant is at near 100 percent occupancy during the high tourist season. The sensitivity of the sector to the exchange rate is highlighted by the shift in sources between 1986 and 1987. In 1986 the U.S. market was strong. In 1987, with the dollar down, U.S. arrivals increased by barely 2 percent, while those from Canada and Eurpose increased by nearly 25 percent.

Construction did well in 1987, increasing by 13 percent as compared to an average of over 14 percent for the previous three years. This prosperity resulted largely from the government's public sector investment program, although private residential construction was also rather strong.

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* This section draws heavily on data and analyses from: CDB, ECCB, IBRD and the Economic Affairs Secretariat of the OECS.

The government succeeded in holding down the growth of its own consumption expenditures, while trade and transport slowed compared to earlier years. While adequate data are not available, observers feel that there has been some reduction in the unemployment rate in recent years as the number of banana farmers increased and spot labor shortages began to appear in the construction sector. After falling dramatically in the early 1980's, inflation began to increase in 1987.
St. Lucia's economy grew relatively rapidly in the 1960's and '70's. But, by the late 1970's and early 1980's there was a marked slowdown, brought on by rising oil prices, world recession, natural disasters and political uncertainty. The rebound began in 1983, so that during most of the previous RDSS period, the economy grew at nearly 5 percent.

The historical profile of investment merits some explanation. Between 1977 and 1983, Hess Oil constructed an enclave petroleum tank farm at a cost of approximately US$151 million. This project alone was equal to 20 percent of the country's GDP for that same period. With this large bulge, investment averaged nearly 43 percent of GDP in those years, while total domestic investment averaged 52 percent annually. In addition hurricane damage in 1979 and 1980 necessitated additional rehabilitative investment in St. Lucia. After 1983, investment fell to more normal historical rates.

For the long term the government has established target growth rates of 5 to 6 percent and a reduction in unemployment from an estimated 18 percent to 15 percent. This is to be accomplished through exports, with bananas held at no less than 110,000 tons, while tourism plant capacity is doubled. The government's plan focuses on agriculture, manufacturing, and tourism, with an emphasis on private sector-led development.

Government Finance

Public finances have improved significantly in recent years, as the government went through a self-imposed austerity program. Public savings which were a mere 0.1 percent of GDP in 1982, rose to 11 percent in 1987. In the earlier years the central government budget deficit was offset by surpluses in the National Insurance Scheme and in the Port Authority. More recently, however, even the central government current account has been in surplus, though the overall budget was in deficit in 1985 and 1986. This was accomplished through better revenue collection and through expenditure controls, notably wage and salary restraint that reduced that item from 57 percent of current expenditure to 52 percent between 1982 and 1987.

The country's tax burden is still one of the highest in the region. Recognizing that, in 1987 the government introduced a fiscal reform package that would, over time: reduce the maximum rate of company tax; reduce the maximum tax rate on small businesses; grant tax holidays to hotels and manufacturers; reduce personal income taxes; and increase consumption taxes. Data for FY1987/88 show that taxes on property and on goods and services increased by 14 and 16 percent, respectively, while income taxes fell by about one half percent, compared to the previous year. Overall tax revenue was up 14.6 percent. International trade accounted for 43 percent of all tax revenue, or about 16 percent of the value of imports for 1987. In this same period, current expenditure rose

only 2.5 percent, while wages and salaries decreased by 1.3 percent. Capital expenditure increased by nearly 39 percent.

Balance of Payments

Reflecting the deterioration of the agriculture sector in 1987, St. Lucia's balance of payments current account deteriorated, following a surplus in 1986. The strong performance of bananas and tourism are expected to reverse that situation for 1988. While agriculture exports performed poorly, certain clothing and certain other manufactures increased markedly. Imports also increased sharply in 1987, adding to the trade imbalance. Data for the first quarter of 1988 exhibited an increase in imports sufficient to offset the increase in exports, so that the trade deficit for that quarter was 16 percent higher than for 1987. The strong performance of tourism will have offset that increase.

Population, Labor Force and Employment

Estimates compiled for RDO/C place the 1980 population of St. Lucia at 120,300. Depending on the assumed rates of fertility and emigration, the estimate for 1987 is 131,513 or 133,784, corresponding, respectively, to 1.3% and 1.5%. St. Lucia shares the highest total fertility rate in the region with St. Vincent (4.5 per thousand). Emigration is therefore a key to restraining overall population growth. Under the same two population scenarios, the labor force will grow between 1990 and 2000 at 2.5 percent or 3.4 percent. This ranks St. Lucia at the top of the OECS, well above any of its neighbors. Employment creation is therefore a critical problem facing the country during the RDSS period. Lacking employment/GDP elasticities for the OECS countries, the mission Used the range of elasticities computed by Bourne for Trinidad (.31) and Barbados (.874) as a crude estimate of the range of growth in available employment. In neither labor force scenario does it appear that employment will grow rapidly enough to absorb new labor market entrants if the elasticity is as low as 0.31. At the upper elasticity rate, it appears that employment opportunities may grow at a rate commensurate with slower labor force growth, but this is doubtful at the higher labor force growth rate. The GDP projections upon which these are based are more optimistic than the "high growth" scenario estimated by the World Bank (see below). Under a scenario in which GDP grows at 3.8 percent, employment will barely keep up with labor force growth even under the optimistic assumptions. In short, unless St. Lucia manages to maintain at least a 4 percent GDP growth rate during the RDSS period, there is a high probability that unemployment will increase from present levels.

Prospects for the 1990-95 Period

The mission's projections are somewhat more optimistic than even the "high growth" scenario developed by the IBRD. The Bank estimated that GDP will grow at about 4 percent per year between 1990 and 1996. Under a "low-growth" scenario the IBRD estimates growth at 2%. The Mission's projections are for growth in the range of 4.5%, barring a prolonged international recession.

Mission projections are based on somewhat more optimistic assumptions about agriculture and tourism. In the RDSS period, the fortunes of St.

Lucia's economy will continue to be tied to agriculture. That in turn depends on the future of bananas and the ability to diversify quickly and effectively into alternative crops. While there is still the possibility of a cutoff of the preferential banana market in 1992, the mission believes that this is improbable. EEC and British representatives in the region have repeatedly, and increasingly strongly, stated that some sort of preferential regime will remain after 1992, though the details of that regime are not yet known. Even so, bananas are unlikely to carry the economy to more rapid growth rates. The region's banana quota is approximately 300,000 tons annually. St. Lucia, St. Vincent and Dominica are each capable, with relatively simple technological improvements of doubling their current banana production by the early 1990's. This would put them well above 100,000 tons each and totally saturate the existing quota. Therefore, unless a new Lome agreement leads to an actual increase in the region's export quota, there will be no room for additional growth in preferential banana exports. The countries will need to sell the excess in open markets at lower prices. Increased productivity is therefore important to each country's ability to compete in this new environment.

The long-term answer for St. Lucia's agriculture sector, however, lies in diversification that will supplement (or partially replace) bananas with alternative crops. If appropriate policies and actions take place early in the period, agriculture can continue to grow at a modest rate even after 1992.

Manufacturing has not performed particularly well in recent years. While the country has had some success in attracting CBI investors, it has been harmed by protectionism and decreased demand in the CARICOM market, brought on by the economic plight of Trinidad and Tobago and Guyana. The sector is projected to grow at essentially its 10-year trend rate during the RDSS period.

St. Lucia has begun to move into tourism in a serious way. The sector grew by less than 4% annually during the last decade, though it has been vigorous in the past few years. The sector is constrained in the near term by lack of rooms. The last major hotel was built in the 1970's, and reports are that occupancy approaches 100% in the high season. The sector could become a major contributor to growth if capacity can be increased in time. There are reports that major hotel chains are willing to begin constructing several hundred rooms, partly conditional on the government legalizing casinos. If this issue is resolved in a manner acceptable to propective hotel investors, the mission's projections of 7.5% annual growth in the sector will prove to be far too conservative, as will the projected growth in construction. These projections are based on a middle view that some additional construction and expansion of the sector will take place in response to the current room shortage regardless of the casino issue.

The projections assume that the government will be able to restrain growth in government current expenditures to approximately 3% per year.

Export and Import growth rates were derived from IBRD coefficients and tied to the mission's own GDP growth rate. The scenario suggests that the resource gap will narrow during the RDSS period. Gross capital

formation is rather low early in the period, and assumed to build up between 1991 and 1995, reflecting the government's PSIP agenda and anticipated new hotel construction. The investment ratios are assumed to remain somewhat higher than under the IBRD "high growth" projections. If the tourism sector "breaks" open, even this projection will be too modest. Under this scenario consumption and domestic saving both increase moderately.

Development Issues

Continued Diversification

The economy has begun to show signs of diversification, but more needs to be done. As already noted, agricultural diversification will be critical to that sector's continued growth. If the country intends to maintain banana production as a supplemental (or core) crop, work needs to be done to improve the competitiveness of the industry so that it can compete outside the preferential markets. The government should carefully examine, as should other OECS governments, the system of prices, preferences, tariffs and other economic incentives that may operate to discourage agricultural production for export. For example, the IBRD has suggested that subsituting tariffs for quantitative restrictions would favorably alter incentives. The role and effectiveness of the government Marketing Board should be examined.

If tourism is to take a more important role in the economy, the role and functioning of the tourism promotion board will need to be examined, and its functions and effectiveness strengthened. The same is true of marketing. As with the other islands, tourism master planning should be a first step in improving the quality of the tourism product and in the rational development of the sector.

As in the other OECS countries, both the problem of allocation of skills around the region and the problem of employment might be effectively addressed through freer movement of labor within the region, implying easing of restrictions in immigration laws.

All sectors would likely benefit from a careful review and appropriate modification and updating of the existing Companies Act.

A careful examination of investment incentives and general business climate issues should be undertaken, including open discussion with current and potential private investors, in order to foster a spirit of government-private sector cooperation.

Improved Quality of the Labor Force

As in the other islands, there is a critical shortage of skilled and managerial manpower. Future growth will depend on the ability to train the workforce in the skills necessary to staff a modern tourism, manufacturing and service industries. Even rapid growth is not likely to significantly lower unemployment rates if skills are not matched with job opportunities.

Environmental Issues

St. Lucia is still at an early stage in tourism development. The long-term survival of that sector will depend on the ability of the government to effectively incorporate environmental planning into its tourism strategy in order to preserve the very natural resources that tourists come to enjoy.

Government Finances

St. Lucia has done rather well in sustaining its fiscal solvency in recent years. It will be necessary to maintain vigilance over recurrent expenditures in order to increase public savings. Likewise the revenue system should be carefully examined in light of its bouyancy and potential effects on private sector investment.

On the capital budget side, there is a need for the government to improve its planning capabilities and the coordination between capital spending, overall development strategy, and financial resources. This will require staff training and perhaps some expansion of technical staff support for this function.

ST LUCIA

GROSS DOMESTIC PRODUCT BY ECONOMIC ACTIVITY, AT FACTOR COST
IN CONSTANT 1977 PRICES (EC$ MILLION)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	ANNUAL RATE OF INCREASE 1977-87	PROJECTED ANNUAL RATE OF INCREASE 1987-95
												(----------PROJECTIONS							----------)		
Agriculture	24.20	29.30	27.90	22.10	18.80	25.00	28.70	31.00	34.80	35.10	37.40	40.71	42.29	43.93	45.63	47.39	49.22	51.12	53.10	4.45%	4.40%
Crops	19.27	24.40	23.53	16.90	13.10	18.50	21.40	23.40	26.70	30.40	27.77	30.40	31.25	32.10	32.95	33.80	34.65	35.50	36.35	3.72%	3.42%
Livestock	2.80	2.81	2.77	2.80	2.80	3.80	4.30	4.60	5.10	5.50	5.93	6.39	6.89	7.43	8.01	8.63	9.30	10.03	10.81	7.79%	7.79%
Forestry	1.26	0.71	0.56	1.50	1.70	1.50	1.60	1.50	1.50	1.50	1.80	1.87	1.93	2.00	2.08	2.15	2.23	2.31	2.39	3.63%	3.63%
Fishing	0.87	1.38	1.04	0.90	1.20	1.20	1.40	1.50	1.50	1.70	1.90	2.05	2.22	2.40	2.60	2.81	3.04	3.28	3.55	8.12%	8.12%
Mining & Quarrying	1.00	1.20	2.80	3.00	2.50	1.50	0.90	0.90	0.90	1.00	1.10	1.11	1.12	1.13	1.14	1.15	1.16	1.18	1.19	0.96%	0.96%
Manufacturing	13.80	16.00	13.40	15.50	15.80	17.00	18.80	18.80	19.30	19.60	19.80	20.53	21.28	22.06	22.88	23.72	24.59	25.49	26.43	3.68%	3.68%
Electricity & Water	4.56	5.12	5.90	5.70	5.80	6.00	6.60	7.10	7.60	8.00	8.40	8.80	9.20	9.61	10.04	10.49	10.97	11.46	11.98	6.30%	6.50%
Construction	10.80	15.30	10.20	18.70	19.80	17.20	9.70	10.90	12.50	14.50	16.40	18.04	19.12	20.27	21.49	22.78	24.14	25.59	27.13	4.27%	6.00%
Wholesale & Retail Trade	28.00	30.80	31.70	30.60	31.40	30.10	30.50	32.00	33.10	34.40	35.50	36.67	37.87	39.12	40.40	41.73	43.10	44.52	45.98	2.40%	3.29%
Hotels & Restaurants	12.40	13.40	14.50	15.40	12.90	13.40	14.80	16.00	16.50	17.50	18.00	19.00	20.79	21.83	23.14	24.76	26.74	29.15	32.06	3.80%	7.48%
Transport	12.62	14.03	14.37	13.40	13.17	12.89	15.71	15.87	17.18	18.63	19.66	20.75	21.90	23.13	24.42	25.79	27.25	28.78	30.41	4.53%	5.61%
Road Transport	6.37	6.53	6.85	6.89	6.21	6.20	6.99	7.67	8.30	9.00	9.50	9.97	10.47	10.99	11.54	12.11	12.71	13.35	14.01	4.08%	4.98%
Sea Transport	5.30	6.40	6.41	5.33	5.80	5.59	7.52	7.46	8.08	8.76	9.26	9.85	10.51	11.20	11.94	12.74	13.58	14.48	15.44	5.72%	6.63%
Air Transport	0.95	1.10	1.11	1.18	1.16	1.10	1.20	0.74	0.80	0.87	0.92	0.92	0.93	0.94	0.94	0.95	0.95	0.96	0.96	-0.32%	0.54%
Communications	5.38	5.67	5.93	5.60	5.53	6.21	6.29	7.13	7.72	8.37	8.84	9.37	9.93	10.53	11.16	11.83	12.54	13.29	14.09	5.09%	6.00%
Banks & Insurance	9.00	10.10	11.10	11.20	11.90	12.40	13.40	13.50	14.20	14.70	15.10	16.04	17.04	18.10	19.22	20.42	21.69	23.04	24.47	5.31%	6.22%
Real Estate & Housing	8.20	8.40	8.50	8.80	9.00	9.20	9.40	9.60	9.80	10.00	10.20	10.43	10.66	10.89	11.13	11.38	11.63	11.88	12.15	2.21%	2.21%
Government Services	27.30	28.20	30.20	32.80	38.70	39.90	43.40	44.80	46.40	47.10	47.20	48.62	50.07	51.58	53.12	54.72	56.36	58.05	59.79	5.63%	3.00%
Other Services	6.60	7.20	7.60	7.90	8.20	8.60	9.30	10.00	10.40	10.60	10.90	11.56	12.26	13.00	13.79	14.62	15.51	16.45	17.44	5.14%	6.05%
Less Imputed Service Charge	7.20	7.70	8.60	8.60	9.20	9.50	9.90	10.10	10.50	10.80	11.00	11.00	11.48	11.97	12.49	13.03	13.60	14.18	14.80	4.33%	4.33%
TOTAL	156.66	177.02	183.50	182.10	184.30	189.90	197.60	207.50	219.30	232.70	237.50	251.42	262.07	273.20	285.07	297.74	311.29	325.81	341.42	4.25%	4.64%
GROWTH RATE		13.00%	3.66%	-0.76%	1.21%	3.04%	4.05%	5.01%	5.98%	5.82%	2.06%	5.86%	4.24%	4.25%	4.35%	4.44%	4.55%	4.66%	4.79%		

ST. LUCIA
EXPENDITURE ON GROSS DOMESTIC PRODUCT
IN CURRENT PRICES
(1988-95 IN 1987 PRICES)

EC$ Million

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	CURRENT PRICES 1977-85	CONST PRIC 1987
GDP AT FACTOR COST	156.70	191.00	229.10	264.20	299.40	312.50	323.40	353.00	388.00	426.60	445.50	471.61	491.58	512.47	534.74	558.51	583.92	611.16	640.43	11.0%	
Net Indirect Taxes	27.40	28.70	38.50	40.50	47.00	48.80	51.00	60.20	70.90	82.80	93.00	98.45	102.62	106.98	111.63	116.59	121.90	127.58	133.69	13.0%	
GDP AT MARKET PRICES	184.10	219.70	267.60	304.70	346.40	361.30	374.40	413.20	459.70	509.40	538.50	570.06	594.20	619.45	646.37	675.10	705.82	738.74	774.12	11.3%	
RESOURCE GAP	61.83	93.96	113.13	130.95	166.05	131.76	68.58	98.28	79.65	46.17	105.04	86.65	81.41	75.57	70.45	66.16	62.82	56.88	51.87	5.5%	-1
Exports of Goods and NFS	109.08	147.15	176.31	207.63	183.60	191.97	225.99	236.79	260.81	366.66	358.02	404.17	424.26	444.77	466.68	490.80	516.66	545.93	576.72	12.6%	
Merchandise	61.02	72.36	86.13	124.20	111.24	112.32	128.25	129.06	140.40	223.83	194.40									12.3%	
Non-Factor Services	48.06	74.79	90.18	83.43	72.36	79.65	97.74	107.73	119.61	142.83	163.62									13.0%	
Imports of Goods and NFS	170.91	241.11	289.44	338.58	349.65	323.73	294.57	335.07	339.66	412.83	463.06	490.82	505.66	520.34	537.13	556.96	579.48	602.81	628.59	10.5%	
Merchandise	160.11	223.56	273.24	334.26	348.84	318.87	288.36	319.95	337.50	417.96	460.08									11.1%	
Non-Factor Services	10.80	17.55	16.20	4.32	0.81	4.86	6.21	15.12	2.16	-5.13	3.78									-10.0%	
GROSS DOMESTIC EXPENDITURE	245.93	313.66	380.73	435.65	512.45	493.06	442.98	511.48	539.35	555.57	644.34	656.71	675.61	695.03	716.82	741.26	768.63	795.62	825.99	10.1%	
TOTAL CONSUMPTION	158.20	165.90	224.90	254.50	313.60	337.60	314.40	367.00	377.40	362.20	408.00	442.93	461.69	484.41	508.05	531.98	549.83	566.61	586.01	9.9%	
Private	118.10	123.70	180.10	191.30	243.80	244.40	221.00	270.20	264.30	230.50	284.70	315.94	330.88	349.68	369.27	389.04	402.60	414.97	429.82	9.2%	
General Government	40.10	42.20	44.80	63.20	69.80	93.20	93.40	96.80	113.10	123.70	123.30	127.00	130.81	134.73	138.78	142.94	147.23	151.64	156.19	11.9%	
GROSS CAPITAL FORMATION	87.70	147.80	155.80	181.20	198.80	155.50	128.60	144.50	162.00	193.40	236.30	213.77	213.91	210.61	208.78	209.28	218.80	229.01	239.98	10.4%	
Public																					
Private																					
Increase in Stocks																					
GROSS DOMESTIC SAVINGS	25.90	53.80	42.70	50.20	32.80	23.70	60.00	46.20	82.30	147.20	130.50	127.12	132.51	135.04	138.32	143.12	155.99	172.13	186.11	17.6%	
DOMESTIC SAVINGS RATIO	14.1%	24.5%	16.0%	16.5%	9.5%	6.6%	16.0%	11.2%	17.9%	28.9%	24.2%	22.3%	22.3%	21.8%	21.4%	21.2%	22.1%	23.3%	24.3%		
INVESTMENT RATIO	47.6%	67.3%	58.2%	59.5%	57.4%	43.0%	34.3%	35.0%	35.2%	38.0%	43.9%	37.5%	36.0%	34.0%	32.3%	31.0%	31.0%	31.0%	31.0%		

Dominica

Recent Economic Developments *

Production and Growth

The most recent data available indicate that Dominica's economy grew by about 4.5 percent in 1987. This was not as spectacular as the 6.8 percent recorded in 1986, but still represents a solid performance, and exceeded the 4 percent target of its structural adjustment program. The relative prosperity of the past two years has devolved primarily from a strong revival of the banana industry. Banana production rose from approximately 33,000 tons in 1985 to nearly 50,000 tons in 1986, 60,000 tons in 1986, and was expected to exceed 70,000 tons in 1988. The industry further benefitted from the depreciation of the U.S. dollar, to which the EC dollar is tied, vis a vis sterling, in which bananas are priced. The result has been a spectacular recovery of the finances of the Banana Marketing Corporation and a substantial increase in the net price paid to farmers. Dominica's recent economic history has been dominated by the effects and aftermath of two back-to-back hurricanes in 1979-80. Real GDP fell by nearly 17 percent between 1978 and 1979. The banana industry was devastated, and has only recently recovered to pre-hurricane production levels. The real value of crop production exceeded 1977 levels for the first time in 1987.

Dominica is still fundamentally an agriculture-based economy, with government services accounting for the second largest portion of real GDP. Dominica's lacks substantial numbers of white sand beaches, and therefore offers little to satisfy the expectations of the typical Caribbean tourist. Its spectacular and rugged landscape offers potential for tourism aimed at nature lovers, but this specialized niche is unlikely to generate a sufficient number of tourists to make that sector economically promininent during the RDSS period. Tourism is further constrained by the lack of all-weather international airport facilities, therefore eliminating much of the package tour business. The rugged terrain and extremely high cost of construction make it unlikely that Dominica will be able to build a facility to accomodate direct flights from North America or Europe during the next decade. Yet, hydrofoils, smaller aircraft, and other technical adaptations can make it possible to service an increasing number of visitors, using one of the other island as an international airline "hub". Continuous but modest growth in tourism can therefore be anticipated during the next decade. While relatively high percentage growth rates might occur, these will derive from a very small base.

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* This section draws heavily upon data and reporting by the O.E.C.S. Economic Affairs Secretariat and the Caribbean Development Bank.

Manufacturing, particularly agro-processing, offers the most promise for diversification outside of agriculture. The sector has suffered in recent years by the economic misfortunes of the larger CARICOM members, notably Trinidad-Tobago and Jamaica, which had represented the main outlet for Dominican manufactures. There is some reversal in the situation, and rapid recovery of the CARICOM trade is unlikely during the RDSS period. Nevertheless, there is potential for some steady growth in the sector, perhaps in the range of 4.5 to 5 percent per year. During 1987, soap and coconut production increased, a shoe factory began operations, and a new paint factory opened. The IDC reports interest by several foreign investors. Lack of factory space currently is constraining expansion in this sector.

A recently-enacted comprehensive tax reform package aimed at improving the investment climate. This is expected to provide incentives necessary to sustain growth rates of approximately 4 percent over the medium term.

Inadequate infrastructure has been, and will continue to be, a major constraint to Dominica's economic development. As already noted, airport facilities are not sufficient to accomodate large volume tourism nor efficient handling of agricultural or manufacturing exports. Port facilities need improvement, and there is a continuing need for new and improved roads, particularly feeder and access roads to agricultural areas. A major thrust of government activity and of RDO/C's efforts in Dominica during the current RDSS period (1985-89) has therefore been to restore infrastructure destroyed by the hurricanes, notably road construction and repair, increasing power generation capability and rural electrification. The other main effort has been to revitalize and diversify agriculture. While activities in both of these sectors have been notably successful, there is still much left to do.

Government Finance

At the beginning of the current RDSS period the Government of Dominica was in rather serious financial straits. The overall deficit before grants was equal to 20 percent of GDP, despite a revenue effort that took nearly 30 percent of GDP. The situation derived from several sources: the burdens placed on the government by recovery from two hurricanes; a pattern of granting very large multi-year pay raise packages to civil servants; a tax system that was not sufficiently elastic, not particularly well-managed, and which left the major economic sector, agriculture, largely outside the tax system. The Government had received AID budgetary support in 1983/84, and had accessed the IMF under both Standby and EFF Arrangements. By the end of FY1985/86, things had reached crisis proportions. The government had exhausted its borrowing capabilities at the Eastern Caribbean Central Bank (ECCB) as well as its overdraft facilities at local commercial banks. It narrowly escaped missing monthly payrolls on several occasions.

In this context, the government approached the IMF, IBRD, CDB, AID and other donors to establish a structural adjustment program. The program was established under a World-Bank-led "Tight Consultative Group", a mechanism for carefully coordinating the interventions of several donors to produce a comprehensive, internally consistent, structural adjustment package. Negotations for this program occured during the 1985-86 fiscal

year, and AID provided US$ 1.5 million in bridge financing to carry the government into the program. A three-year program was developed, beginning with FY1986/87, including and IMF SAF and budgetary support from the CDB, IBRD and AID. As part of this effort, AID funded technical assistance to help the government develop a tax reform package, which was enacted in FY1987/88. The package included provisions for simplifying the personal income tax, lowering rates and broading the tax base, unifying and simplifying a series of indirect taxes, and removing disincentives to saving and investment. In addition the government began a major O & M study of the civil service, aimed at rationalizing the sytem and making it less costly, and established targets for restraining the growth of the public sector wage bill.

Performance during the first two years of the program exceeded targets on most accounts. The original SAF program projected an average growth rate of 3.6 percent while in fact it has averaged nearly 5.0 percent. The balance of trade deficit has been reduced from 46 percent of GDP in 1981 to an estimated 29 percent in 1985 and about 16 percent in 1987, approximately where it is projected to remain through 1990. The central government's current account deficit moved from an equivalent of 10 percent of GDP in 1980/81 to near balance in 1984 and to a projected surplus (including grants) of about 2.5 percent of GDP in 1986/87 and 4.0 percent in 1987/88. Each of these surpluses exceeded the TCG/SAF target levels for the respective years.

Balance of Payments

Dominica has shown strong export performance in recent years, with exports increasing from US$ 36.8 million in 1984 to a projected $52 million in 1988. Much of this increase is attributable to the strong performance of the banana industry noted in the earlier section. The balance of trade, however is continuously in deficit. This deficit is expected to widen in the medium term, in large part due to the import requirements of the Public Sector Investment Program (PSIP)

Between 85 and 90 percent of the public sector capital budget is financed from external sources. It is anticipated that over the next three to five years, official grants will be more than sufficient to cover current and capital expenditure, therefore permitting the government to reduce both its external and domestic debt burden.

Population, Labor Force and Employment

Accurarate date are not available for population or labor force, since the last census was taken in 1980/81. However, estimates indicate that the population has grown at approximately 1 percent annually during the 1980's GDP growth has therefore been sufficient in increase real per capita GDP by approximately 3% annually since 1980. The high level of unemployment is a great concern to the Government of Dominica. Again, adequate statistics have not been assembled since 1981. The unemployment rate was estimated at 18.6 percent at that time. It had been as low as 8% in 1970, but increased in conjunction with a 20.6 percent increase in the labor force during the 1970's. It has probably reached cyclical levels higher than that in the imterim, but observers now estimate that the unemployment rate may now be lower than the 1981 rate because (a) of

jobs provided by the major road rehabilitation program and (b) banana price increases which have increased the acreage under banana cultivation. Moreover, some Dominicans have found employment in nearby islands. Even so, government officials still regard the unemployment rate as being at a critically high level.

We estimate that the labor force will grow at approximately 1.0% to 1.7%, (depending on assumptions about migration) per year until 1995. From crude estimates of the relationship between GDP growth and employment growth, we estimate that employment will grow at anywhere from 1.0% to 3.1% per year. At the highest assumed elasticity (.887 derived from Barbados), this would appear to be sufficient to absorb labor force growth. At the lower assumed elasticity (.31), it appears that labor force growth may well outstrip employment opportunities, especially if emigration slows. As in other countries, this situation may still exist despite shortages of skilled labor and labor for certain sectors.

Relative to St. Kitts-Nevis or Antigua, trherefore, it appears that unemployment will continue to be an issue of greater concern in Dominica into the 1990's. Recognizing this, the government is emphasizing export-oriented investments and also employment-generating activities and must turn its attention to providing educational experiences that will meet the skills requirements for future job openings.

Prospects for the 1990-95 Period

The enclosed table includes projections similar to those recently made during an IMF team visit to Dominica. These indicate an average growth rate of approximately 4 percent during through 1995. If every subsector continues to grow at its 1977-87 rate, overall GDP growth will grow at between 4.5 and 5.0 percent, even with zero increase in crop sales after 1992. However, the Mission's own estimate is that if anything, both this and the IMF estimates are somewhat optimistic. Under scenarios reflecting long term trend rates (some linear rather than constant percentages), and allowing for the liklihood that agriculture may experience difficulty after 1992, as the U.K. banana purchase convention expires, the growth will be closer to 3.5 percent. In a simulated pessimistic scenario, with crop production reduced by 50 percent in 1992, as a result of a hurricane or collapse of the banana market, the overall growth rate for the period falls to 2.79 percent. Spokespersons for the EEC have recently been making public statements reassuring the region's banana producers that while there will be some modification of the protocol, it is not intended that the special arrangement will be abandoned altogether. The decision that is ultimately made will be critical to Dominica's long-term prospects. In any circumstance, the country must diversify and at least become more price competitive in bananas under a new regime.

Despite all of the strides that the government has made, therefore, because of the several inherent constraints on its economy---weather, topography, cost of production, threat of external shock---Dominica will probably have to struggle to maintain the 4% growth rate established as a target under its structural adjustment program. To put it bluntly, given the numerous physical and external constraints facing Dominica, even exceptional economic management might produce only modest, though solid,

returns, compared to some of the other islands in the OECS. Job creation will therefore continue to be problematical.

The accompanying scenario shows the resource gap widening as the government continues to implement the PSIP undertaken under the structural adjustment program, before levelling off near the end of the period. On the assumption that any progress in other exports will be partly offset by slower, or even negative, growth in banana exports, overall exports are projected to grow only approximately at the same rate as GDP, with imports growing modestly if consumer imports can be restrained. The assumed slow growth in government expenditures may be optimistic, but if it can be attained, modest increases in private consumption and domestic savings can be achieved., though the latter is likely to fall far short of investment needs.

Development Issues

External Debt

Unlike some other countries in the OECS, Dominica does not have a huge external debt overhang. On the other hand, its ability to service debt is correspondingly more modest as well. For that reason control of the growth of the public debt is critical if the government is to retain expenditure control. Dominica began to accumulate external debt in 1979/80 in its attempts to finance a rehabilitation program. This was compounded when it had to borrow further from the IMF in its demand management program, and later in the SAF. As a result, external debt rose from 30% of GDP in 1980 to nearly 60 percent by 1987. The debt service ratio has increased from about 3 percent in the early 1980's to 11 percent in 1987. This is expected to increase by another two percentage points under the SAP. Recognizing this, GOCD has begun to attack this by agreeing to targets restricing the amount of nonconcessional debt and by targeting a prudent repayment schedule.

Export Competitiveness

In order to diversify its economy, Dominica must restrain or reduce the costs of production in every sector. In the first instance, this is being addressed by wage restraint in the public sector, which tends to be a barometer for wage demands in the rest of the economy. With a regional central bank, devaluation is not really a policy option for the government. Competitiveness therefore hinges on (a) increasing productivity and (b) wage and cost restraint in line with productivity increases. Without these measures, diversification efforts will be nipped in the bud by high production costs.

Unemployment

As indicated above, Dominica is will have to struggle to absorb increases in its labor force in the next decade, unless an emigration safety valve emerges. Even under optimistic assumptions, the demand side alone will not carry the day. Part of the response will require better job training (not necessarily formal education) to match job seekers with potential job openings. Wage policy will be critical to the ability to absorb new workers. Given the limitations in prospects for tourism and

manufacturing, many of the new jobs will probably have to come from self-employment in agriculture, trade or ancillary services, rather than working for an employer. Assistance in developing small business management skills and enabling technology transfer to smaller enterprises will be particularly important, as a supplement to spurring export-oriented growth.

Infrastructure

Dominica still seriously lacks certain kinds of basic infrastructure necessary to increase the productivity of the private sector, and to attract and support private investment. The government's own ability to finance this infrastructure is very limited. External donor support will therefore be essential for at least most of the next decade. Budgetary constraints will probably prohibit AID from providing this infrastructure, but to the extent that funds permit, targets of opportunity can be exploited.

Infrastructure maintenance is critically important in Dominica. Rugged terrain and heavy seasonal rainfall quickly erode roadbeds and rock and earth slides are frequent. A well-staffed and well financed infrastructure maintenance program is thus essential to Dominica's economic future.

Environmental Issues

Dominica's main, indeed virtually only, economic resources are its natural resources. It is critically important that agricultural practices are encouraged that avoid the use of chemicals dangerous to humans and to other plant and animal life and that soil conservation practices be introduced to preserve scarce and precious angricultural land. The banana boom has stimulated the cultivation of lands on very steep slopes, and may encourage other unhealthy priactices.

Government Finances

The government has made great strides under its structural adjustment program. It is important that the government continue to build on its success, to remove further disincentives to private investment, and to restrain its own current expenditure growth.

DOMINICA

GROSS DOMESTIC PRODUCT BY ECONOMIC ACTIVITY, AT FACTOR COST
IN CONSTANT PRICES (EC$ MILLION)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	RATE OF INCREASE 1977-87	PROJECTED RATE OF INCREASE 1987-95
												(----------PROJECTIONS----------							----------)		
Agriculture	31.93	35.51	24.16	23.66	28.92	29.59	29.84	31.47	30.68	36.50	37.43	39.06	40.62	42.34	44.10	45.92	47.77	49.74	51.74	1.60%	4.13%
Crops	27.04	30.57	19.97	17.02	20.82	21.55	21.57	22.86	21.23	26.88	27.55	28.65	29.80	30.99	32.23	33.52	34.86	36.25	37.70	0.19%	4.00%
Livestock	1.12	1.12	1.31	1.61	2.14	2.32	2.51	2.35	3.32	3.49	3.59	3.84	4.08	4.33	4.58	4.82	5.03	5.32	5.57	12.35%	5.64%
Forestry	1.41	1.41	1.68	1.69	2.54	2.60	2.60	2.65	2.20	2.13	2.17	2.27	2.27	2.37	2.47	2.58	2.70	2.82	2.94	4.41%	3.87%
Fishing	2.36	2.41	1.20	3.34	3.42	3.12	3.16	3.57	2.93	4.08	4.12	4.30	4.47	4.65	4.82	5.00	5.18	5.35	5.53	5.73%	3.75%
Mining & Quarrying	1.04	1.06	0.72	0.72	0.74	0.80	0.79	1.00	0.97	0.92	1.16	1.17	1.19	1.20	1.21	1.23	1.24	1.25	1.27	1.10%	1.14%
Manufacturing	4.24	5.85	4.85	6.20	7.30	8.57	8.74	7.87	8.30	9.28	9.83	10.39	10.95	11.51	12.07	12.62	13.18	13.74	14.30	8.77%	4.80%
Electricity & Water	1.80	1.92	1.65	1.67	1.81	1.83	1.98	2.12	2.27	2.48	2.57	2.69	2.80	2.92	3.03	3.15	3.26	3.38	3.45	3.63%	3.90%
Construction	5.43	5.41	6.64	11.90	10.08	8.75	8.26	11.64	10.37	8.75	10.41	10.62	10.83	11.05	11.27	11.49	11.72	11.96	12.20	6.72%	2.00%
Wholesale & Retail Trade	9.81	11.58	8.05	11.46	12.08	12.05	11.82	11.98	13.06	14.37	14.80	15.25	15.70	16.15	16.60	17.05	17.50	17.95	18.40	4.20%	2.76%
Hotels & Restaurants	1.15	1.33	0.99	0.90	0.87	0.96	1.10	1.13	1.09	1.23	1.35	1.45	1.56	1.68	1.81	1.95	2.10	2.25	2.43	1.62%	7.60%
Transport	4.34	4.65	4.21	4.46	3.74	4.28	5.77	6.06	6.75	7.46	7.89	8.38	8.90	9.45	10.04	10.66	11.32	12.03	12.78	6.16%	5.21%
Road Transport	3.43	3.59	3.51	3.60	2.74	3.26	4.66	4.80	5.54	6.09	6.33	6.73	7.16	7.61	8.09	8.60	9.14	9.72	10.34	6.32%	6.32%
Sea Transport	0.68	0.80	0.49	0.66	0.81	0.81	0.88	1.01	0.97	1.11	1.27	1.35	1.44	1.53	1.63	1.74	1.85	1.97	2.09	6.45%	6.45%
Air Transport	0.23	0.26	0.21	0.20	0.19	0.21	0.23	0.25	0.24	0.26	0.29	0.30	0.30	0.31	0.32	0.33	0.33	0.34	0.35	2.35%	2.35%
Communications	1.09	1.27	1.28	1.40	1.74	1.96	2.13	2.23	2.47	2.75	3.02	3.21	3.41	3.60	3.79	3.99	4.18	4.37	4.56	10.73%	5.29%
Banks & Insurance	3.81	4.74	5.23	5.64	5.77	5.80	5.83	5.95	6.25	6.44	6.69	6.91	7.12	7.34	7.55	7.77	7.99	8.20	8.42	5.79%	2.92%
Real Estate & Housing	4.90	5.02	3.81	5.52	5.62	5.71	5.82	5.88	5.94	6.01	6.13	6.26	6.38	6.51	6.63	6.76	6.88	7.01	7.13	2.26%	1.91%
Government Services	16.86	19.26	20.28	21.09	21.93	22.59	22.93	23.39	23.97	24.21	24.45	24.94	25.44	25.95	26.47	26.99	27.51	28.09	28.65	3.79%	2.00%
Other Services	1.08	1.09	0.95	1.09	1.10	1.17	1.19	1.21	1.23	1.27	1.31	1.34	1.36	1.39	1.42	1.44	1.47	1.50	1.53	1.95%	1.95%
Less Imputed Service Charge	2.64	3.29	3.63	3.50	3.58	3.61	3.63	3.78	3.97	4.09	4.17	4.27	4.38	4.49	4.60	4.72	4.84	4.96	5.08	0.85	0.02
TOTAL	84.84	95.40	79.19	92.21	98.12	100.45	102.57	108.15	109.98	117.59	122.87	127.38	131.88	136.58	141.38	146.30	151.31	156.50	161.81	3.77%	3.50%
GROWTH RATE		12.45%	-16.99%	16.44%	6.41%	2.37%	2.11%	5.44%	1.69%	6.86%	4.57%	3.67%	3.53%	3.57%	3.51%	3.48%	3.42%	3.43%	3.39%		

SOURCE: Dominica Statistical Dept./ OECS/EAS
[1987 Data Provisional]
January 1988

DOMINICA
EXPENDITURE ON GROSS DOMESTIC PRODUCT
IN CURRENT PRICES
(1988-95 IN 1987 PRICES)

EC$ Million

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1977-85	1987-95
DP AT FACTOR COST	84.80	105.90	105.80	143.70	152.90	163.60	178.40	197.90	213.90	253.30	291.70	302.4	313.1	324.3	335.6	347.3	359.2	371.5	384.1	13.1%	3.50%
Net Indirect Taxes	13.40	16.03	13.80	15.83	25.88	30.94	39.60	40.90	52.70	57.60	58.20	60.3	62.5	64.7	67.0	69.3	71.7	74.1	76.6		2.08%
GDP AT MARKET PRICES	98.20	121.93	119.60	159.53	178.78	194.54	218.00	238.80	266.60	310.90	349.90	362.7	375.6	389.0	402.6	416.6	430.9	445.7	460.8	13.5%	3.58%
RESOURCE GAP	19.40	27.00	75.30	112.60	78.60	55.10	38.90	59.40	64.50	60.50	65.00	67.5	71.4	71.6	71.9	72.1	72.2	72.3	72.3		1.14%
Exports of Goods and NFS	40.50	52.10	33.50	35.10	62.10	80.20	96.40	99.60	101.30	123.40	134.00	141.5	150.2	155.5	160.9	166.6	172.4	178.4	184.7		4.09%
Merchandise	32.29	42.89	25.38	26.30	51.76	66.01															
Non-Factor Services	8.21	9.21	8.11	8.80	10.04	14.19															7.60%
Imports of Goods and NFS	59.90	79.10	108.80	147.70	140.70	135.30	135.30	159.00	165.80	183.90	199.00	209.0	221.6	227.1	232.8	238.6	244.6	250.7	257.0	12.8%	2.34%
Merchandise	59.08	76.77	106.41	143.85	134.10	128.19															
Non-Factor Services	0.82	2.33	2.39	3.85	6.60	7.11															
GROSS DOMESTIC EXPENDITURE	117.6	148.93	194.9	272.13	257.38	249.64	256.9	298.2	331.1	371.4	414.9	430.3	446.9	460.6	474.5	488.7	503.1	517.9	533.1		3.12%
TOTAL CONSUMPTION	96.13	121.45	153.89	192.46	208.64	193.57	186.80	207.00	232.50	281.40	312.90	326.6	343.3	355.2	367.4	382.0	414.6	426.2	439.3		4.22%
Private	77.20	96.32	113.36	148.92	165.17	145.82	133.80	151.80	171.40	215.60	243.60	255.9	271.2	281.7	292.4	305.5	336.6	346.6	358.1		4.97%
General Government	18.93	25.13	40.53	43.54	45.47	47.75	53.00	55.20	61.10	65.80	69.30	70.7	72.1	73.5	75.0	76.5	78.0	79.6	81.2		2.00%
GROSS CAPITAL FORMATION	21.51	27.48	41.01	79.71	57.05	54.91	70.10	91.20	98.60	90.00	92.49	103.65	103.62	105.35	107.06	106.64	88.5	91.7	93.8		6.85%
Public							37.40	53.00	61.60	50.50	52.49	61.7	60.1	60.3	60.4	58.3					
Private							32.70	38.20	37.00	39.50	41.00	42.0	43.5	45.1	46.7	48.3					
Increase in Stocks																					
GROSS DOMESTIC SAVINGS	2.07	0.48	-34.29	-32.93	-21.86	0.97	31.20	31.80	34.10	29.50	37.00	36.1	32.3	33.7	35.2	34.6	16.3	19.5	21.5		-6.54%
DOMESTIC SAVINGS RATIO	2.1%	0.4%	-28.7%	-20.6%	-12.2%	0.5%	14.3%	13.3%	12.8%	9.5%	10.6%	10.0%	8.6%	8.7%	8.7%	8.3%	3.8%	4.4%	4.7%		
INVESTMENT RATIO	21.9%	22.5%	34.3%	50.0%	31.9%	28.2%	32.2%	38.2%	37.0%	28.9%	26.7%	28.6%	27.6%	27.1%	26.6%	25.6%	20.5%	20.6%	20.4%		

GRENADA
EXPENDITURE ON GROSS DOMESTIC PRODUCT
IN CURRENT PRICES
(EXCEPT 1988-95, IN 1987 PRICES)

EC$ Million

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	CURRENT PRICES 1977-87	CONSTANT PRICES 1987-95
GDP AT FACTOR COST				167.6	176.0	193.8	206.5	221.7	249.4	281.0	301.4	316.5	329.0	342.3	356.4	371.3	387.2	404.2	422.3	6.0%	4.31%
Net Indirect Taxes				34.4	35.8	42.8	48.4	51.5	65.0	68.4	74.3	78.0	81.1	84.4	87.9	91.5	95.5	99.6	104.1	8.0%	4.31%
GDP AT MARKET PRICES				202.0	211.8	236.6	254.9	273.2	314.4	349.4	375.7	394.5	410.1	426.7	444.2	462.9	482.7	503.8	526.4	6.4%	4.31%
RESOURCE GAP				64.2	102.4	114.0	81.7	81.0	95.9	101.8	95.0	99.0	93.0	86.2	78.4	69.6	59.0	48.8	36.5	4.0%	-11.26%
Exports of Goods & NFS				106.9	106.1	103.4	105.0	112.8	149.0	177.1	185.0	191.0	205.4	220.8	237.4	255.3	274.5	295.2	317.4	5.6%	7.52%
Merchandise																					
Non-Factor Services																					
Imports of Goods & NFS				171.1	208.5	217.4	186.7	193.8	244.9	278.9	280.0	290.0	298.4	307.0	315.8	325.0	334.3	344.0	353.9	5.0%	2.89%
Merchandise																					
Non-Factor Services																					
GROSS DOMESTIC EXPENDITURE				266.2	314.2	350.6	336.6	354.2	410.3	451.2	470.7	493.5	503.1	512.9	522.6	532.5	542.5	552.7	563.0	5.9%	2.26%
TOTAL CONSUMPTION				210.3	223.1	243.4	242.1	274.2	313.2	338.7	360.7	355.3	389.3	392.3	403.9	416.0	428.0	442.3	444.9	5.5%	2.66%
Private				169.1	176.8	197.1	187.0	214.9	245.2	260.0	280.7	271.7	301.9	301.0	308.5	316.4	324.6	333.5	331.1	5.2%	2.09%
General Government				41.2	44.3	46.3	55.1	59.3	68.0	78.7	80.0	83.6	87.4	91.3	95.4	99.7	104.2	108.9	113.8	6.9%	4.50%
CAPITAL FORMATION				55.9	91.1	107.2	94.5	80.0	97.1	112.5	110.0	138.2	113.9	120.6	118.7	116.5	113.7	110.3	118.1	7.0%	0.89%
Public				37.1	76.6	95.7	84.4	70.0	81.1	76.9	70.0										
Private				15.6	14.5	11.5	10.1	10.0	16.0	35.6	40.0										
Increase in stocks				3.2	4.9	2.0	-2.0	0.7	-3.2	-1.0	0.0										
GROSS DOMESTIC SAVINGS				-8.3	-11.3	-6.8	12.8	-1.0	1.2	10.7	15.0	39.2	20.9	34.4	40.3	46.8	53.9	61.5	81.5		23.57%
SAVINGS RATIO				-4.1%	-5.3%	-2.9%	5.0%	-0.4%	0.4%	3.1%	4.0%	9.9%	5.1%	8.1%	9.1%	10.1%	11.2%	12.2%	15.5%		10.47%
INVESTMENT RATIO				27.7%	43.0%	45.3%	37.1%	29.3%	30.9%	32.2%	29.3%	35.0%	27.8%	28.3%	26.7%	25.2%	23.6%	21.9%	22.4%	0.6%	-3.28%

ANTIGUA AND BARBUDA

Recent Economic Developments *

Production and Growth

Provisional reports indicate that the tourist-led economic boom in Antigua continued through 1987, with growth in real GDP at factor cost matching or exceeding the 8.4 percent rate of 1986. Antigua has experienced annual real growth rates exceeding 6 percent every year since 1979, except for a recession in 1981-82. This ranks the country at or near the top of the list of consistently strong performers in the Caribbean.

During the period 1977 to 1987, most sectors exhibited positive growth rates, though these differed markedly. Despite its recent recovery, agriculture decreased by more than 4 percent annually through the decade, though crop production increased at a modest rate. Mining and quarrying was the most rapidly growing sector in percentage terms, a reflection of the construction boom, but also of the relatively low base on which the percentages are calculated. Manufacturing grew at 9 percent per year, utilities at 6 percent, and construction at 11 percent, though the latter average masks substantial cyclycal volatility. The high rate of manufacturing growth also somewhat overstates the sector's performance, beginning from a small base and performing in the 3.5 to 4.5 percent range through much of the 1980's. The other strong performers during the decade were hotels and restaurants and communications. The private service sectors grew at rather anemic rates compared to the rest of the economy. Real estate and housing increased at only 3.4 percent annually, inhibited in part by high interest rates and stringent bank lending policies until very recently.

The island's notable prosperity in the 1980's has been built on a deliberate program tourism-led growth. A bouyant tourism sector, aimed at the upscale North American and European markets, has been supported by substantial expenditure on the contruction of tourism related infrastructure. The construction and mining and quarrying sectors have therefore prospered as well. This is the second construction boom in the past two decades. The 1979-82 bubble burst when the tourism industry stagnated and the government felt compelled to take over two major hotels to avoid closure and worker layoffs. The current burst of activity began in 1986, with an increase of 14 percent in the number of rooms constructed, followed by 9 percent in 1987. Future plans call for continued construction of hotel facilities through 1992, at which point the number of rooms in the country will have more than doubled from 1987 levels. In addition, the government has spent large sums on contructing and rehabilitating the international airport, on water and power generation facilities, and is presently constructing a major hotel complex and a major cruise-ship market in the capital of St. Johns.

Several factors, including withdrawal from sugar production and a 1984

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* Historical background and data in this section are drawn heavily from World Bank and OECS EAS sources.

drought, reduced agriculture's role in the Antiguan economy. Agricultural output decreased at an annual rate of more than 7 percent between 1981 and 1984, but began to recover in 1985. All subsectors continued to grow in 1986 and 1987, but total agricultural production has still barely returned to its 1982 level in real terms. The government is interested in promoting the recovery of agriculture during its five-year planning period, particularly by linking it more closely with the tourism sector. A protective tariff has already been imposed on imported meats in order to encourage the local livestock sector. External donor assistance is being provided to improve fisheries production, and plans are being formulated to increase crop production through more widespread use of irrigation.

Manufacturing production overtook agriculture in the early 1980's, but it still contributes only a small portion to GDP. The sector produces garments, paints, furniture, household appliances, electronic components, and beverages of various types. The market for Antiguan manufactures, as well as those from other OECS countries, was seriously curtailed in the 1980's by economic difficulties and protectionist measures in Trinidad-Tobago, Guyana and Jamaica, which had previously provided an outlet for these products. Attention has since been turned to seeking extraregional markets. New investors continue to come to Antigua, where they enjoy a relatively hospitable investor climate. Labor availability threatens to restrain the growth of this sector.

Government Finance

While government expenditure has stimulated growth so far, other than a severe external shock the government's financial situation portends to be the single most important threat to the continued vitality of the economy. The economic boom has been fueled in part by continued increases in government expenditures both for capital and on current account. With the abolition of the personal income tax several years ago, the elasticity of the tax structure was seriously eroded and the government had to rely on a series of ad hoc revenue measures to cover its ever-increasing expenditures.

Domestic current revenues increased substantially after a decrease in 1983, but have still not been sufficient to cover recurrent expenditures. The government ran continuous current account deficits, on an accrual basis, from 1982 through 1986, financed in part by accumulated arrears in excess of EC$ 10 million annually. In response to an impending financial crisis, the government undertook several revenue measures that produced a large increase in taxes over 1985.

The capital account budget is heavily financed by external borrowing. With its relatively high per capita GDP, Antigua does not qualify for the highly concessional forms of external assistance that other OECS governments due. Careful management control over the selection and financing of large infrastructure projects was often lacking. The result was that the government rapidly accumulated a large external debt, much of it on commercial terms. By the end of 1987, this debt increased to US$ 245 million, or over 94% of GDP. Interest payments on this debt absorb ever increasing portions of the government's recurrent budget. High salary increases are still regularly granted to civil servants.

As a result, the government is increasingly hard pressed to finance the provision of normal services, most notably the maintenance of an increasingly large, complex and valuable infrastructure. Deficits were financed by large increases in arrears. A short-term "fix" was accomplished in 1986 and 1987 through a series of ad hoc revenue measures and through stricter enforcement of revenue collection. With its heavy reliance on indirect taxes, the government coffers also benefitted from the rapid increase in imports required for building and servicing the service sector as well as the general increase in consumption. Revenues increased by 33% in 1986, producing the first accrued current account surplus of the 1980's. That surplus reverted to a deficit in 1987, as current expenditures, led by a 20 percent civil service wage increase, rose by an estimated 20 percent, while corresponding revenues rose by only 8 percent. EC$ 11 million in arrears were added in the same year. Surpluses in the public sector enterprises helped to produce an overall consilodated public sector surplus in 1985-86. This is estimated to have disappeared in 1987, as the operations of the public utilities expanded, most notably with the construction of a desalinization plant.

The single most troublesome element of the government's financial situation is its external debt. By the end of 1987, this had mounted to US$245 million, which was equivalent to 94 percent of GDP and to 111 percent of the export of goods and services. Sixty five percent of that debt was accumulated in just two years, for the construction of the Deep Bay resort complex, the St. Johns redevelopment project and the desalinization plant. A significant portion of the debt is denominated in Yen and other foreign currencies. The dollar value of the debt therefore increased significantly as the US dollar depreciated in the past year. If tourism remains bouyant, the debt service ratio will remain relatively low, but debt service will become an increasinly onerous burden on the government's budget, rising to 60 percent of revenues in 1988, before declining. At the end of 1988, there were rumors that the Government had identified buyers for two major hotels. Depending on the cash flow from such deals, if they are successful the government will have alleviated much of its debt burden in one stroke and will be in relatively good shape as it enters the 1990's.

Balance of Payments

Antigua has run deficits on its trade and current accounts every year since 1980, and on capital account every year except 1986, which saw a substantial inflow of official capital. Current account deficits decreased from US$ 40 million in 1981 to only $2 million in 1984 before increasing again in 1985. The value of commodity exports fell by more than half from 1980 to 1986, before levelling in 1986 and recovering slightly in 1987. This was partly offset by huge increases in service earnings, with travel earnings increasing nearly five-fold between 1980 and 1987. The 1986 current account deficit was $US 137.2 million, and is estimated to have exceeded $80 million in 1987. Official payments arrears have averaged nearly US$7 annually since 1983. Official statistics for 1987 are still being compiled by the Eastern Caribbean Central Bank. However, preliminary data indicate that there was another substantial increase in the trade and current account deficits despite increases in goods and net services exports. Much of the rapid increase in 1986-87 is attributable to material imports for hotel construction and purchase of the water desalinization plant. Although there may be some decrease when the major government projects are completed, imports are

expected to remain high in the near term if construction of tourism plant continues as expected.

Population, Labor Force and Employment

Antigua's population is estimated to be approximately 75,200 (some estimates range as high as 81,000), but this figure is probably quite inaccurate, because no census has been conducted in the country since 1970. During the 1970's, something of a demographic transition took place as Antiguans emigrated in large numbers to the U.S., Britain and Europe while at the same time substantial numbers of immigrants came from neighboring islands, notably from Dominica. As a result of decreasing fertility, the school age population declined from an estimated 19,000 in 1970 to just over 16,000 in 1984. Yet, the earlier high fertility rates produced a population profile that will add approximately 1,000 persons per year to the labor force. Average life expectancy increased from 62 to 65 years during the 1970's. Annual population growth rate has been about 1.5% in recent years.

Antigua's economic boom has produced labor shortages, despite a still relatively high overall unemployment rate. This suggests that there is a mismatch between the quality and skill mix available from the domestic labor pool and employer needs. The 1985 Annual Labour Report estimated the economically active population to be 32,254 people of which 60 percent were males and 40 percent females. This represented 40 percent of the total population and over 56 percent of the adult population. The most recent (and widely reported) estimate of the unemployment rate was 20 percent in 1983, according to the Department of Labour. It is estimated to have remained at that level until 1985. There are no more recent official data, but observation and indirect indicators suggest that the unemployment rate has fallen significantly since 1985. One observer places the current rate at below 10 percent.

As a consequence, labor shortages in certain sectors and at certain times of the year have compelled Antigua to recruit workers from outside the region and from as far away as Asia. Unless the country can continue to successfully recruit expatriate workers, in the short term the labor situation will pose a constraint on further rapid economic growth and threatens to ignite inflation. Indeed inflationary pressures are already beginning to appear in 1988, driven in part by rising wages as well as by the rising cost of imports.. Of equal concern is the possibility that in the medium term labor scarcity will thwart the government's efforts to diversify the economy. Not only is the tourism sector growing very rapidly, it is inherently more attractive than manufacturing and agriculture to large numbers of workers. Consequently, the latter two sectors may continue to suffer from labor shortages, thereby restricting their possibilities for growth.

Using a crude range of employment/GDP elasticities, we estimate that under the growth scenario outlined below, if present fertility and emigration rates are maintained, growth in jobs will outstrip labor force growth, potentially by a large margin. However, if fertility declines are matched by sharp reductions in the emigratin safety valve, job growth may not keep up with labor force growth, in the case of the lower-bound demand elasticity. However, with the upper-bound elasticity, it appears that demand will at least keep up with

supply. In short, it appears that plausible rates of growth in the RDSS period are likely create sufficient overall demand for labor. However, rather high absolute measured unemployment rates are likely to persist because of lack of worker skills to fill the new jobs. Spot shortages are likely to coexist with substantial numbers of unemployed, particularly youth.

Prospects for the 1990-95 period

Mission projections for the period suggest that the economy will remain rather bouyant through 1988 and 89. However, a great deal of uncertainty surrounds the projections beyond that point. While the underlying growth trends are strong, they may be eroded by adverse effects of government borrowing and debt on the investment climate. The final outcome will depend on the ability of Antiguan authorities and planners to successfully cope with several development issues, outlined below.

If each subsector were to grow at its 1977-87 percentage rate, the economy would sustain the strength that it has exhibited in the past two years, averaging more than 8.5 percent real annual growth through 1995. This is an improbable scenario. From a purely statistical standpoint, the long term trend for many subsectors is not one of constant percentage increase, but of linear arithmetic increase. Where this has been the case, the latter form has been used to project data for the next decade. From a substantive perspective, the present construction-tourism led prosperity will probably end. The question is when this is most likely to occur. There are several reasons to believe that a slowdown could begin in 1990 (this scenario assumes that the potential sale of government hotels does not take place):

(a) local commercial banks were at least 90 percent "loaned up" in mid-1988. Unlike several other OECS states, there is little excess liquidity in Antigua's domestic banking system. If the government continues to run substantial fiscal deficits, and if it is forced to turn to the domestic banking system for funds, a liquidity crunch is likely to occur, choking off private investment and slowing the economy. Of course, overseas branch banks have ready access to external funds and can easily bring them into the country. The probability of this scenario therefore depends upon two factors: (1) the ability of the government to finance its activities without resort to domestic borrowing and (2) sufficient confidence in the economy by the banking system to induce it to continue to bring investment funds into the economy. Both of these conditions hinge heavily on the government's ability to cope with its fiscal and debt problems.

(b) Some economists forsee a recession in the United States in early to mid-1990. This would dampen tourism and bring on a recession in Antigua. Whereas the 1982 slowdown was followed by a vigorous recovery beginning in 1983, that is less likely to happen this time. A recession would further undermine the government's already delicate fiscal balance and could cause a serious deterioration in the investment climate. Moreover, the government, unlike in the earlier period, is not in a financial position to shore up the tourism sector through assumption of debt or purchase of assets.

(c) Two major capital projects---the Deep Bay hotel complex, and the St.

Johns redevelopment project---will be completed by 1990. A substantial portion of the economic stimulus provided by construction in recent years will therefore be lost.

Our projections therefore suggest that even barring a major global depression and/or a major fiscal crisis in Antigua, the growth rate will slow from its present 8 percent level to five percent or less for much of the next decade, with some cyclical periods of zero or negative growth. The projections of course are very tentative and rest on various assumptions about each sector.

For example, agriculture is predicted to reverse its decade-long decline and to grow at a modest 2.5 to 3 percent rate until 1995. This is predicated on the assumption that crops will grow at their ten-year trend rate. If agricultural diversification efforts are successful, this might prove to be too conservative. The same is true of fishing, which is assumed to grow at 1982-87 rates. Livestock is assumed to grow at its 1983-87 rate, which will prove to be an understatement if efforts to revitalize the subsector are successful. Forestry is presumed to show zero average growth. This may also be understated, but the subsector is so tiny that the impact on overall growth would be neglibible at any rate. In each case, a recent push for agricultural diversification could lead to more rapid growth that is projected here. However, the diversification effort may not live up to its expectations due to the constraints imposed by tight government finances, which will inhibit the government's ability to provide needed infrastructure and other support services necessary to maximize diversification efforts. Diversification may further be hampered by labor shortages in sectors other than tourism.

Mining and Quarrying is closely tied to construction, and is assumed to slow down in 1990.

The growth of tourism is one of the most hazardous to project. If it retains its recent strength, it will carry the rest of the economy with it. It is assumed here that it will remain vital through 1989 and then level at about 7 percent. There are signs that growth already slowed in 1987. Continued rapid growth of the economy cannot be continued unless high growth rates in tourism are retained. The other subsectors are assumed to grow according to their 10-year pattern.

A scenario was tested assuming that tourism growth slowed to 4 percent in 1990, and construction activity fell by 50 percent, remaining at that level until 1995. The results produced negative GDP growth in 1990, followed by growth rates of 4.8 percent through 1995, averaging 4.1 percent for the period.

Whereas the base case scenario assumes a slowdown in 1990, barring an external shock, and assuming continued successful marketing of tourism, economic momentum may be maintained through 1992. In this case, construction and tourism is assumed to continue at 1988 levels through 1992 as planned additions to hotel space are built. Compared to the base case, growth contines at over 5 percent through 1992, is followed by a year of little or no growth, recovery, and an average of 4.7% for the period.

Other scenarios were explored, and from these the following patterns emerge:

If each sector grows at its ten-year trend rate, Antigua will continue to lead the OECS in growth through the mid 1990's. If a 1982-83-level

recession is imposed on this, there will be a year or two of negative growth, but with recovery very high 6 to 7 percent growth rates will still be maintained.

Under the more conservative assumptions of the Mission's projections, growth rates in coming years will be slower than in the recent past, but at approximatly 5 percent per annum, still among the leaders in the OECS.

It seems probable that there will be a year or two of zero or negative growth whenever the current massive construction activities come to an end. While construction and high tourism growth together seem essential to maintaining the very high rates of recent years, after a period of transition, a drop in construction will still permit respectable growth rates. For example, if all sectors grow according to the base case, but construction falls to the levels of the early 1980's, after a year of negative growth, yearly increases may again approach 5 percent as long as investment resources are available.

However, at least two prospects threaten even our more conservative projections:

(1) the possibility of excess capacity in the hotel sector

(2) the possibility that the government's financial situation will act negatively on the rest of the economy, through its inability to eliminate critical constraints to growth in various sectors.

Regarding the first, we already noted that there are plans, at least in the talking stages, for new construction that will nearly double the number of accomodation rooms in Antigua. If this occurs, it poses a threat of excess capacity in the near to medium-term. To maintain 50%-60% occupancy rates, it is estimated that tourist arrivals will have to increase by 10 or even 12 percent per year through the early 1990's. This compares with an increase of 8 percent in 1985 and 6%-7% in 1987. The latter may have been due to a shortage of rooms, and after a slow start, 1988 showed a 13.7 percent increase in tourist arrivals. If these higher rates cannot be maintained, overcapacity therefore potentially threatens the profitability of future investment in the sector.

Second, and more importantly, the government's impact on the economy could reverse, compared to recent years. The current boom is fueled by government participation in both construction and tourism. It has underwritten the construction of the large Deep Bay resort complex (which it hopes to sell to private investors), the St. Johns redevelopment project, the water desalinization plant, airport repairs and other infrastructure. A large portion of these large capital outlays were financed by government borrowing, debt guarantees or suppliers' credits. As long as the government's creditworthiness is sufficient in the eyes of some external lenders to permit it to continue eliciting large sums of credit for large capital projects, the present economic momentum may continue. However, with a debt/GDP ratio approaching 100 percent, with ever-larger portions of the recurrent budget being required for debt service, and with arrearages growing each year, a point will surely be reached when the government's creditworthiness will no longer permit further borrowing even at high commercial rates. At this stage, judging by experiences elsewhere in the world, at least two scenarios are

possible unless the government succeeds in divesting assets and repaying a significant portion of its external debt.

First, a bankrupt government may exist side-by-side with a properous tourism sector. Public services and infrastructure steadily depreciate through neglect and lack of funding, but the private sector accomodates to this by providing its own services: private security, on-site power generation, and so on. The real economic effects of the government's finances are therefore limited to the nuiscance value of additional potholes, more frequent power outages, and the added cost of on-site power and water supplied.

Alternatively, deteriorating public finances may exert a negative impact on the real economy. Whereas before the accumulation of public debt fueled the engine of growth, its effects act as a drag on the private sector. In this case, rather than accomodating to deteriorating public services by providing its own, the private sector responds by reducing investment and seeking alternatives elsewhere. As already noted, with external sources drying up, public borrowing might be driven to domestic sources, leading to a liquidity crunch. With the public sector unable (and the private sector unwilling) to invest the economy stagnates.

While the mission does not propose that the second scenario will unfold, there are elements of it that potentially threaten the growth of Antigua's economy during the period 1988-1995. Further increases in tourist arrivals are constrained by limits at the country's international airport, which is already near capacity at peak times of the day during the prime tourist season. As noted above, very rapid increases in tourism arrivals would be required to maintain profitable occupancy rates in planned additions to the hotel plant. These increases will be difficult to achieve in the best case, but perhaps impossible to reach if the airport produces a bottleneck. The airport presents a potentially large capital outlay for the government, which it may or may not be able to provide. Continued rapid increases in tourism will also place increasing demands on the water, wastewater, and power system. If the government is unable to supply these, they will need to be provided by the potential investor, adding to cost, and reducing profitability and the attractivness of the island as an investment site. If tourism continues to grow, training facilities must be expanded and funded. The general climate and ambiance of the country will be adversly affected both in the eyes of visitors and investors if infrastructure is not maintained or improved.

In short, potentially great demands will be placed on the government for services for which it will find itself increasingly hard-pressed to finance, unless some fundamental fiscal reforms are set in place or if it succeeds in its current attempts to divest some of its more burdensome parastatals.

An accompanying scenario suggests that the country's resource gap will narrow as the demand for construction materials and imports related to building the hotel sector ease after 1990 while export earnings, led by tourism, outpace the rate of GDP growth. Gross capital formation is also assumed to fall off in 1990 before recovering a lower long-term trend rate. The scenario illustrates what will happen if government succeeds in restraining growth of recurrent expenditures to 3.5 percent in real terms. In this scenario private consumption (a residual component of total consumption) increases, while the domestic savings rate (estimated as a residual) drops sharply in 1990 and

recovers thereafter. Gross domestic savings will still be insufficient to cover capital formation.

Development Issues

Continued Diversification

The economy of Antigua is unusually vulnerable to the fortunes of the tourism sector. The government recognizes this and is taking steps to diversity the country's economic base. This will not be easy, however.

> Unless a continuous source of externally-supplied labor can be identified, labor shortages will limit both agricultural diversification and the growth of manufacturing.
>
> While the gross impact of tourism is significant, a large fraction of the tourism dollar passes out of the economy in the form of imports to support the sector. To some extent, indigenization of management and greater efficiency will help to increase the domestic impact of tourism investment. However, there is a danger---suggested by the government's recent actions to protect local meat production from import competition--- that attempts to stengthen "linkages" to the domestic economy will the creation of inefficient "hothouse" industries, and thereby undermine the long-term sustainability of the economy.

Government Financial Management

> As noted above, the government's debt and fiscal problems threaten its ability to provide future services in sufficient quantity and quality to support either strong tourism growth or economic diversification. After resource availability, this more than any other factor would seem to pose the most serious threat to Antigua realizing its otherwise quite strong potential for continued relatively high rates of economic growth. If it sells off assets and reduces its debt burden, it will be well placed to enter the 1990's.

Environmental Issues

> Rapid growth in tourism may threaten the long-term viability of the sector. In Antigua, as elsewhere, the economic vitality of the country through the end of this century and beyond will depend on conservation of reefs and coastlines, preservation of natural and historical treasures, and sound land use management.
>
> Excessive fishing and lobstering will threaten not only the agriculture sector, but may have an indirect and adverse impact on tourism by reducing the availability of local sea products and forcing even greater reliance on imports of inputs to the tourism sector.

Labor Force Issues

> Labor availability threatens to act as a constraint on diversification.

Improved management skills for all sectors and levels of employment will be critical to maintaining solid growth performance.

Continued access to vocational training, especially for women, will be required to supply the increasing demand for trained labor.

ANTIGUA AND BARBUDA

GROSS DOMESTIC PRODUCT BY ECONOMIC ACTIVITY, AT FACTOR COST
IN CONSTANT PRICES (EC$ MILLION)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	ANNUAL RATE OF INCREASE 1977-87	PROJECTED ANNUAL RATE OF INCREASE 1987-95
												(----------PROJECTIONS----------							)		
Agriculture	17.40	17.50	13.90	13.90	12.40	11.70	11.60	9.33	9.49	10.08	11.29	11.60	11.92	12.25	12.59	12.94	13.30	13.68	14.06	-4.23%	2.78%
Crops	2.60	4.10	2.20	2.20	2.50	2.80	2.40	2.40	2.50	2.60	3.13	3.19	3.25	3.31	3.37	3.43	3.50	3.56	3.63	1.07%	1.07%
Livestock	6.70	4.00	4.80	5.50	5.60	6.20	6.40	3.82	4.31	4.54	4.81	4.95	5.10	5.26	5.41	5.58	5.74	5.92	6.09	-3.26%	3.00%
Forestry	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.29	0.34	0.36	0.38	0.38	0.38	0.38	0.38	0.38	0.38	0.38	0.38	2.39%	0.00%
Fishing	7.80	9.10	6.60	5.90	4.00	2.40	2.50	2.82	2.34	2.58	2.97	3.08	3.19	3.31	3.43	3.55	3.68	3.82	3.96	-9.20%	3.65%
Mining & Quarrying	0.80	0.50	0.90	1.20	1.10	0.90	1.10	1.59	2.52	5.56	7.62	8.00	8.00	4.24	4.83	5.51	6.28	7.16	8.16	25.28%	0.07%
Manufacturing	6.90	8.30	9.60	11.40	13.90	13.90	14.20	14.77	15.21	15.82	16.45	17.94	19.57	21.35	23.29	25.40	27.71	30.23	32.97	9.00%	9.00%
Electricity & Water	5.70	5.80	5.70	6.10	6.90	7.40	8.10	7.98	8.97	9.90	10.64	11.33	12.05	12.83	13.66	14.54	15.47	16.47	17.53	6.44%	6.44%
Construction	10.90	10.50	13.80	17.20	18.90	11.70	10.80	12.96	16.83	22.72	31.01	32.00	32.00	19.00	19.94	20.93	21.96	23.05	24.19	11.02%	-3.06%
Wholesale & Retail Trade	17.10	18.10	19.70	20.60	20.60	21.60	21.90	23.20	24.52	25.99	27.55	28.89	30.30	31.78	33.33	34.96	36.67	38.46	40.33	4.88%	4.88%
Hotels & Restaurants	18.50	20.90	24.20	25.90	25.90	26.10	30.80	38.98	42.70	45.70	49.13	53.06	57.31	61.32	65.61	70.20	75.12	80.37	86.00	10.26%	7.25%
Transport	19.10	20.00	24.30	24.40	24.40	24.70	27.80	30.22	32.63	34.71	36.84	39.16	41.64	44.29	47.11	50.13	53.36	56.80	60.49	6.79%	6.39%
Road Transport	8.70	9.10	10.60	10.80	11.10	10.30	11.40	11.68	12.54	13.17	13.96	14.57	15.21	15.88	16.58	17.31	18.07	18.86	19.69	4.84%	4.39%
Sea Transport	2.20	2.50	3.20	3.10	3.10	3.80	4.50	4.62	5.10	5.40	5.70	6.22	6.78	7.39	8.06	8.79	9.58	10.45	11.39	9.99%	9.04%
Air Transport	8.20	8.40	10.50	10.50	10.20	10.60	11.90	13.92	14.99	16.06	17.18	18.37	19.65	21.02	22.48	24.04	25.71	27.50	29.41	7.68%	6.95%
Communications	6.10	7.82	12.29	11.09	13.43	18.66	20.95	22.20	22.93	23.87	25.06	26.96	28.85	30.75	32.64	34.54	36.44	38.33	40.23	15.18%	6.89%
Banks & Insurance	10.20	11.10	12.20	13.90	14.90	13.60	14.60	15.33	16.10	16.74	17.31	18.02	18.73	19.44	20.15	20.86	21.58	22.29	23.00	5.43%	3.62%
Real Estate & Housing	19.10	19.50	20.10	20.70	21.50	22.50	23.20	23.60	24.54	25.52	26.80	27.72	28.68	29.67	30.69	31.75	32.85	33.98	35.15	3.45%	3.45%
Government Services	21.51	19.25	20.45	23.65	24.45	24.85	26.09	26.87	27.80	29.19	30.36	31.42	32.52	33.66	34.84	36.06	37.32	38.63	39.98	3.51%	3.50%
Other Services	12.04	12.22	12.56	12.95	14.76	14.93	16.33	17.31	18.69	18.91	19.29	20.22	21.20	22.22	23.30	24.42	25.60	26.84	28.13	4.83%	4.83%
Less Imputed Service Charge	6.60	7.20	7.80	8.90	9.40	8.00	8.90	9.35	9.82	10.41	11.03	11.61	12.22	12.87	13.55	14.26	15.01	15.80	16.63	5.27%	5.27%
TOTAL	158.75	164.29	181.96	194.09	203.74	204.54	218.57	234.91	253.11	274.30	298.32	314.72	330.56	329.94	348.45	367.99	388.64	410.48	432.59	6.51%	4.79%
GROWTH RATE		3.49	10.72	6.70	4.97	0.39	6.86	7.48	7.75	8.37	8.76	5.50	5.03	-0.19	5.61	5.61	5.61	5.62	5.63		

1989, 1991 Data Provisional
Source: Antigua Statistical Office / OECS/ECS
April 1988

ANTIGUA
EXPENDITURE ON GROSS DOMESTIC PRODUCT
IN CURRENT PRICES
(1968-95 IN 1987 PRICES)

EC$ Million

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
GDP AT FACTOR COST	158.75	177.15	217.44	257.16	289.36	317.11	356.09	403.45	464.83	537.17	624.67	659.0	692.2	690.9	729.6	770.6	813.8	859.5	907.9
Net Indirect Taxes	19.88	24.95	31.60	40.04	46.67	55.33	58.50	66.90	77.10	113.50	123.10	129.9	136.4	136.1	143.8	151.8	160.4	169.4	178.9
GDP AT MARKET PRICES	178.63	202.10	249.04	297.20	336.03	372.44	414.59	470.35	541.93	650.67	747.77	788.9	828.6	827.0	873.4	922.4	974.2	1028.9	1086.8
RESOURCE BALANCE	8.80	3.82	-25.77	57.57	90.44	47.44	-21.08	59.67	96.01	158.78	137.50	143.6	149.8	83.9	85.7	87.3	88.7	89.8	90.7
Exports of Goods and NFS	85.19	113.50	203.69	200.01	230.74	219.32	270.28	345.28	409.56	482.72	568.80	610.0	654.3	701.7	752.6	807.1	865.7	928.4	995.7
Merchandise	17.69	33.85	99.20	70.95	92.23	54.00	49.69	42.61	45.06	52.08	83.20								
Non-Factor Services	67.50	79.65	104.49	129.06	138.51	165.24	220.59	302.67	364.50	429.64	485.60								
Imports of Goods and NFS	93.99	117.32	177.92	257.58	321.18	266.76	249.20	404.95	506.57	641.50	706.30	753.6	804.1	785.6	838.2	894.4	954.3	1018.2	1086.5
Merchandise	92.89	110.72	169.02	236.26	299.31	242.73	226.79	358.83	449.16	560.23	656.30								
Non-Factor Services	1.10	6.60	8.90	21.33	21.87	24.03	22.41	46.12	56.43	81.27	50.00								
GROSS DOMESTIC EXPENDITURE	187.43	205.92	223.27	354.77	426.47	419.88	393.51	530.02	637.84	809.45	885.27	932.5	978.4	910.9	959.1	1009.7	1062.8	1118.7	1177.6
TOTAL CONSUMPTION	150.56	166.92	134.77	261.31	280.55	272.98	308.91	419.41	486.39	577.52	581.66	628.9	686.5	765.0	640.5	699.3	734.9	771.9	810.4
Private	116.09	132.62	88.90	203.95	217.14	202.20	225.73	332.92	387.69	456.36	441.66	484.0	536.5	608.7	479.9	533.0	562.8	593.7	626.0
General Government	34.47	34.30	45.87	57.36	63.41	70.78	83.18	86.49	98.70	121.16	140.00	144.9	150.0	155.2	160.7	166.3	172.1	178.1	184.4
GROSS CAPITAL FORMATION	36.87	39.00	88.50	93.46	145.92	146.90	84.60	110.61	151.55	231.93	303.61	303.6	291.9	146.0	318.5	310.4	328.0	346.9	367.2
Public																			
Private																			
Increase in Stocks																			
GROSS DOMESTIC SAVINGS	28.07	35.10	114.27	35.89	55.48	99.46	105.60	50.94	55.54	73.15	166.11	160.0	142.1	62.1	232.9	223.1	239.3	257.0	276.5
DOMESTIC SAVINGS RATIO	15.7%	17.4%	45.9%	12.1%	16.5%	26.7%	25.5%	10.8%	10.2%	11.2%	22.2%	20.3%	17.1%	7.5%	26.7%	24.2%	24.6%	25.0%	25.4%
INVESTMENT RATIO	20.6%	19.3%	35.5%	31.4%	43.4%	39.4%	20.4%	23.5%	28.0%	35.6%	40.6%	38.5%	35.2%	-1.2%	36.5%	33.7%	33.7%	33.7%	33.8%
ICOR CALCULATION																			
INVESTMENT RATIO	20.6%	19.3%	35.5%	31.4%	43.4%	39.4%	20.4%	23.5%	28.0%	35.6%	40.6%	38.5%	35.2%	-1.2%	36.5%	33.7%	33.7%	33.7%	33.8%
GDP GROWTH RATE		3.5%	10.7%	6.7%	5.0%	0.4%	6.9%	7.5%	7.7%	8.4%	8.8%	5.5%	5.0%	-0.2%	5.6%	5.6%	5.6%	5.6%	5.6%
ICOR (NO LAG)		5.5	3.3	4.7	8.7	100.5	3.0	3.1	3.6	4.3	4.6	7.0	7.0	6.5	6.5	6.0	6.0	6.0	6.0
ICOR (ONE LAG)		5.9	1.8	5.3	6.3	110.6	5.8	2.7	3.0	3.3	4.1	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
ICOR (TWO LAG)		0.0	1.9	2.9	7.1	80.1	6.3	5.3	2.6	2.8	3.2	6.5	8.1	-203.5	6.3	-0.2	6.5	6.0	6.0

ST. KITTS- NEVIS

Recent Economic Developments *

Production and Growth

Preliminary reports indicate that the St. Kitts-Nevis economy continued to perform well in 1987, with a real growth rate of 4.7%, following on a 6.3% performance in 1986 and 5.6% in 1985. Indeed, all sectors except agriculture, and related sugar manufacturing, experienced steady growth for the past ten years, interrupted only by the 1983 world economic recession. Between 1980 and 1987, real GDP per capita, in 1977 prices, increased by 4.5% to 5.0% per year, depending on trhe assumed rates of fertility and migration.

Again in 1987, except for sugar manufacturing, all sectors grew albeit at very different rates. Even manufacturing showed some signs of vitality, with non-sugar manufacturing increasing by 2.9 percent. This was counteracted by a decline in the sugar manufacturing subsector which faces not only problems imposed by reduced U.S. sugar quotas, but also structural problems within the industry that persist despite a recent reorganization of the sugar industry aimed at improving its efficiency. In 1987, difficulties in reaping cane reduced production by 11%. Part of the difficulty stems from an inability to recruit sufficient numbers of cane cutters to harvest the full crop. This in turn partly reflects internal problems in the sugar industry, but more importantly is a manifestation of increased labor demand in the more attractive tourism, manufacturing and construction sectors, as the economy continues a structural evolution that began in the early 1980's. Indeed, at least one observer has warned of the possibility that the "Dutch Disease" syndrome induced by tourism could threaten the competitiveness of manufacturing and agriculture. Mechanical sugar harvesters were acquired in an attempt to cope with the shortage of cane cutters, but the machines have so far not lived up to expectations. The very steep terrain of most of St. Kitts limits the use of mechanical harvesters at any rate.

Competition from other sweeteners has threatened the viability of the industry for years. In the early 1980's, sugar and sugar manufacturing accounted for roughly one third of GDP and for 25% of the country's employment. Deterioration of the sugar industry therefore spelled economic disaster for St. Kitts until alternative activities could be developed. In 1985, therefore, the government took over the sugar industry, assuming a large debt in the process. However, the manufacturing side of the sugar industry was soon caught in a Catch 22 situation. Economies of scale dictated that relatively large volumes of cane had to be processed in order to achieve required cost savings and to become profitable even at the quota price of approximately US 20¢ per lb. World prices at the time were as low as 5¢ per lb. Efficiency in sugar manufacturing therefore dictated that St. Kitts become further committed to sugar at a time when both the world market and the special U.S. quota were deteriorating.

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* This section draws heavily upon data and reporting by the O.E.C.S. Economic Affairs Secretariat.

From 1983 until 1987 St Kitts' U.S. sugar quota was successively reduced, and has only recently been partly restored.

This sugar dilemma faced both the Government of St. Kitts-Nevis and AID when AID's previous CDSS for St. Kitts was written. The government opted to maintain the sugar industry, at a cost to itself, as a means of preserving foreign exchange earnings and employment until other sectors developed. RDO/C, meanwhile, adopted a strategy for the 5-year period just ending, of assisting St. Kitts in economic diversification into: alternative agricultural crops; light manufacturing; and tourism. Given St. Kitts terrain and climate, relative scarcity of agricultural entrepreneurs, and difficulty in breaking into international markets for exportable produce, it was anticipated that alternatives within the agricultural sector would be limited. This has thus far been the case. An RDO/C HIAMP project has begun to produce produce for the local hotel market and for limited export within the region. It is anticipated that thre will continue to be similar opportunities, but that alternative agriculture will never be able to replace sugar as a foreign exchange earner or as an employer.

Light manufacturing, on the other hand, has performed better in the short-run than RDO/C had anticipated in its preceding CDSS. Due in part to efforts of RDO/C's PDAP project and to its ECIPS successor, St. Kitts has done remarkably well in attracting small manufacturers to the island. Unfortunately, particularly among garment manufacturers, the attrition rate has also been high, so that the net increase in the number of firms has been steady but modest. We expect that the role of non-sugar manufacturing as a modestly growing supportive sector will continue into the mid-1990's.

The major thrust of both the Government of St. Kitts-Nevis and of RDO/C during the current CDSS period, however, was to develop the tourism sector. The centerpiece of the strategy is construction of the AID-funded Southeast Peninsula Road. In what might be the single largest infrastructure project ever undertaken in St. Kitts, an entire area is being made accessible to private sector tourism development. Construction began in January 1988 and is to be completed by March 1989. The immediate impact is a surge in construction activity and employment, the long-term effect will be to make tourism the centerpiece of the St. Kitts economy. The two accompanying graphs vividly illustrate the transformation that has already begun. In 1977, sugar cane represented six times the percentage of GDP at constant factor cost than did the hotels and restaurants sector (the usual proxy for "tourism"). By 1986, the latter had exceeded sugar and this gap is projected to widen. When sugar manufacturing is added to the picture, it is clear that the transition began in 1983 and has progressed steadily since then. While the sugar sector as a whole is still dominant, RDO/C's projections (under what we feel are perhaps conservative assumptions about tourism) suggest that tourism will overtake the sugar sector as a contributor to GDP by the early 1990's.

Government Finance

At the beginning of the current RDSS period, we expressed concern about the Government's fiscal situation. It had abolished the personal income

tax in 1980, and the revenue system lacked the bouyancy necessary to respond effectively to economic growth. In 1982, the sugar levy, which had been the source of 26 percent of tax revenue, was abolished. These changes, coupled with the newly-acquired sugar industry debt and penchants for granting unaffordable public sector wage increases and tax holidays and other concessions to investors, cast a shadow over the government's fiscal future. In 1980 the tax revenue/GDP ratio was 29.5 percent. By 1985 this had fallen to 16.4 percent, without a corresponding decline in expenditure. Meanwhile interest on the sugar debt mounted. The government's current account surplus was 5.2 percent og GDP in 1980 and turned to a deficit equal to 3.8 percent of GDP. By December of 1986, the government was in serious financial straits, and there was talk in the donor community of the potential need for a stabilization program. The Government resisted this and embarked on a do-it-yourself program. Through a combination of new revenue measures and commendable expenditure restraint, the crisis was avoided, with the tax/GDP ratio rising to 20 percent in 1987. By 1987, this was again returned to a surplus of 3.8 percent of GDP. With expected increases in expenditure, that surplus will narrow in 1988, but the overall public sector surplus is expected to equal 9.2 percent of GDP, largely due to the Social Security scheme. Capital expenditures will rise sharply in 1988-89 in response to the needs of the Southeast peninsula road construction.

The government's external debt doubled during the period described above, but even so stood at only 24 percent of GDP by 1987---relatively low for a developing country. Much of this borrowing was related to the government's purchase of sugar lands. The debt is quite concessional, with an average interest rate of 4 percent with an average maturity of 15 years. Whereas the external debt is of no particular concern, the domestic debt incurred in acquiring the sugar lands is somewhat more worrisome. Combined external and domestic debt service payments absorbed 16 percent of the government's current revenue in 1987.

Balance of Payments

The typical balance of payments scenario for St. Kitts-Nevis has shown a current account balance of payments deficit, more than offset by external flows into the capital account. In 1987, however, the current account deficit widened sharply. Imports are likely to remain high as materials are brought in for the development of the Southeast Peninsula. Tourism has surpassed sugar exports in foreign exchange earnings. By 1985, manufacturing exports exceeded sugar expoets. However, given the high import content of tourism the increase in net foreigh exchange earnings is not as great as the sectoral rankings might indicate.

Population, Labor Force and Employment

Estimates compiled for RDO/C yield an estimated 1987 population of 42,979 or 44,948, depending on assumed migration and fertility rates, for St. Kitts and Nevis. Under the same assumptions, the labor force is estimated to be between 16,000 and 18,000 and growing between 0.2% and 1.6 percent per year. Clearly a reduction in opportunities for emigration will have a profound effect on labor force growth and employment opportunities.

Outmigration has served as a safety valve to overcome potential population pressures by largely offsetting the rate of natural increase. While it is not likely that St. Kitts-Nevis will experience a "population problem" during the 1990's, we expect that this historical safety valve may be turned down somewhat, as immigration into the U.S. and elsewhere becomes more difficult.

Because there are no regular systematic surveys in St. Kitts Nevis statements about employment and unemployment can only be impressionistic. With the increased opportunities in manufacturing and the rapid growth in tourism in recent years, there are reports of spot labor shortages have begun to appear. It is estimated that the measured unemployment rate, which stood at 20 percent in 1984 may have fallen to as low as 15 percent by 1987.

From crude estimates using widely-divergent employment/GDP elasticities derived for Trinidad and Barbados, we estimate that employment will grow at rates anywhere from 1.8% to 5.2% per year through 1995 while the labor force will increase at between 0.2% and 1.6% annually. Under plausible growth scenarios, therefore, it is anticipated that increases in the St. Kitts-Nevis labor force can be absorbed. This implies that the long-term unemployment rate should not rise markedly during the period, and may decrease somewhat if tourism shows the expected bouyancy. Spot shortages in certain sectors may appear from time to time. There will, however, probably be cyclical increases during the period and the demand for unskilled labor will probably not be sufficient to absorb all of the increased number of school-leavers and other untrained workers. This, combined with an aversion among young males to certain types of work such as cane cutting and factory work, will place a floor below which the measured unemployment rate is unlikely to fall. In the Mission's view the long-term unemployment problem in St. Kitts is therefore expected to be more a supply-side rather than a demand side problem. That is, a general increase in demand for labor by itself, except at implausibly high rates, is not likely to reduce the unemployment rate to an "acceptable" level. Except under a pessimistic growth scenario, it is possible that labor shortages in some sectors will appear simultaneously with relatively high national unemployment rates. The "employment problem" is to improve the quality of the labor supply in order to increase the skills and productivity of individuals thereby making them more competitive in a growing job market.

Prospects for the 1990-95 Period

Mission projections for the period suggest that growth in St. Kitts-Nevis is likely to remain relatively bouyant. Furthermore, the projections are rather robust under alternative scenarios, suggesting that only a severe external shock, such as a hurricane or a major U.S./world recession, will seriously dampen the otherwise encouraging growth prospects for St. Kitts.

Mission extrapolations indicate that if each subsector were to grow at its 1977-87 trend rate until 1995, the 1987-95 GDP growth rate would average 7.5% for the period, rising from 6.6 percent in 1987 to a remarkable 8.5 percent in 1995. We feel that this best-case scenario is unlikely to occur. Yet, even under more conservative assumptions, as

shown in the accompanying table, real GDP will on average increase by 5 percent or more each year during the RDSS period. These projections assume that: sugar cane production and sugar manufacturing continue to decline during the period (but are not completely cut off); that production of other crops increases historical rates; that growth in fishing and forestry slows; that government manages to restrain growth of its own current expenditures; that tourism continues its ten-year trend rate of growth and that other subsectors grow at the same or diminished rates compared to recent trends.

Several modified scenarios were measured against this Base Case. In one case a 1983-level recession, including a 20% decrease in tourism, was assumed to occur in 1990. After a 2% decrease in GDP for that year, recovery occurs and total period growth rate is still a respectable 4.2 percent. In a second scenario, it was assumed that sugar continued to decrease each year at the same 11% rate as was experienced in 1987. The average GDP growth rate is still projected at 4.9%. The same is true if sugar is reduced by half in 1990, and remains stable thereafter. In short, the St. Kitts economy appears to be becoming sufficiently diversified that a shock to one sector is not necessarily disasterous for the entire economy. The projections imply that except for cyclical downturns, an underlying annual GDP growth rate in excess of 4% can be expected into the 1990's, barring a severe external shock such as a hurricane, a world depression, or an unfortunate congruence of smaller shocks. This should be accompanied by steady growth in employment, especially in tourism and in the skilled trades, with perhaps a reduction in the overall unemployment rate under the more optimistic scenarios. Early stagnation in the tourism sector, of course, will undercut each of these projections.

Under the above growth scenario, there would be a marked reduction in the resource gap. The slow growth of imports projected in the table may be optimistic, given the needs of the tourism sector, but with the expected rapid increase in export earnings there will be at least some narrowing of that gap. If government succeeds in restraining its recurrent expenditures in real terms to the rate shown, the same scenario suggest that there will be negative gross domestic savings in early years, turning positive late in the RDSS period.

Development Issues

Continued Diversification

While St. Kitts has moved a good distance toward economic diversification, there is more to be done.

> Further efforts must be made to exploit whatever opportunities are available to further diversify agriculture. This will require providing individual farmers with access to productive land currently held by government for sugar production. Ideally they would be given ownership, but at a minimum long-term leasing will be required.
>
> The vitality of the nascent manufacturing sector must be maintained. This will require more imaginative investor search

techniques to attract less footlose industries. The future of manufacturing is heavily dependant upon the continued recovery of CARICOM countries and freer trade in the region. Government policies will need to be continuosly monitored and evaluated to ensure that competitive manufacturers are not discouraged from locating and remaining in St. Kitts. The possibility of dealing with the "Dutch Disease" syndrome must be addressed.

Tourism. Careful policies and programs will be required to assure that the tourism sector does not develop as an enclave, effectively separated from the rest of the economy. Opportunities must be exploited for drawing a wide range of indigenous entrepreneurs into niches of the accomodations market as well as support and supply activities.

Improved Quality of the Labor Force

It is important that the productivity of the labor force be improved. This is essential for cost containment to make tourism and manufacturing competitive and profitable. It is also essential, as noted above, in order to effectively combat the problem of long-term unemployment, and to effectively encourage the "indigenization" of the spillovers from tourism development. Particularly important issues include:

Reducing the school dropout rate
Improved access to vocational/technical education
Improved management
Development of entrepreneurial skills
Women's access to vocational/technical training

Environmental Issues

A major threat to the scenarios outlined above can come from neglect of the environment.

The Southeast Peninsula is a precarious natural habitat. Its potential for supporting tourism as an engine of growth will be largely lost if development destroys the natural environment which tourists come to see.

Soil erosion will continue to be a threat to agriculture. Chemicals threaten health and also other industries, such as fishing

Imprudent fishing and lobstering could ultimately destroy the economic base of the industry.

Government Finances

While the Government of St. Kitts-Nevis escaped the jaws of financial disaster in 1986-87, there are still several issues that must be continuously addressed during the RDSS period, including:

The need to restrain the growth of government recurrent expenditure.

This includes continued wage restraint and careful monitoring and control of debt service payments.

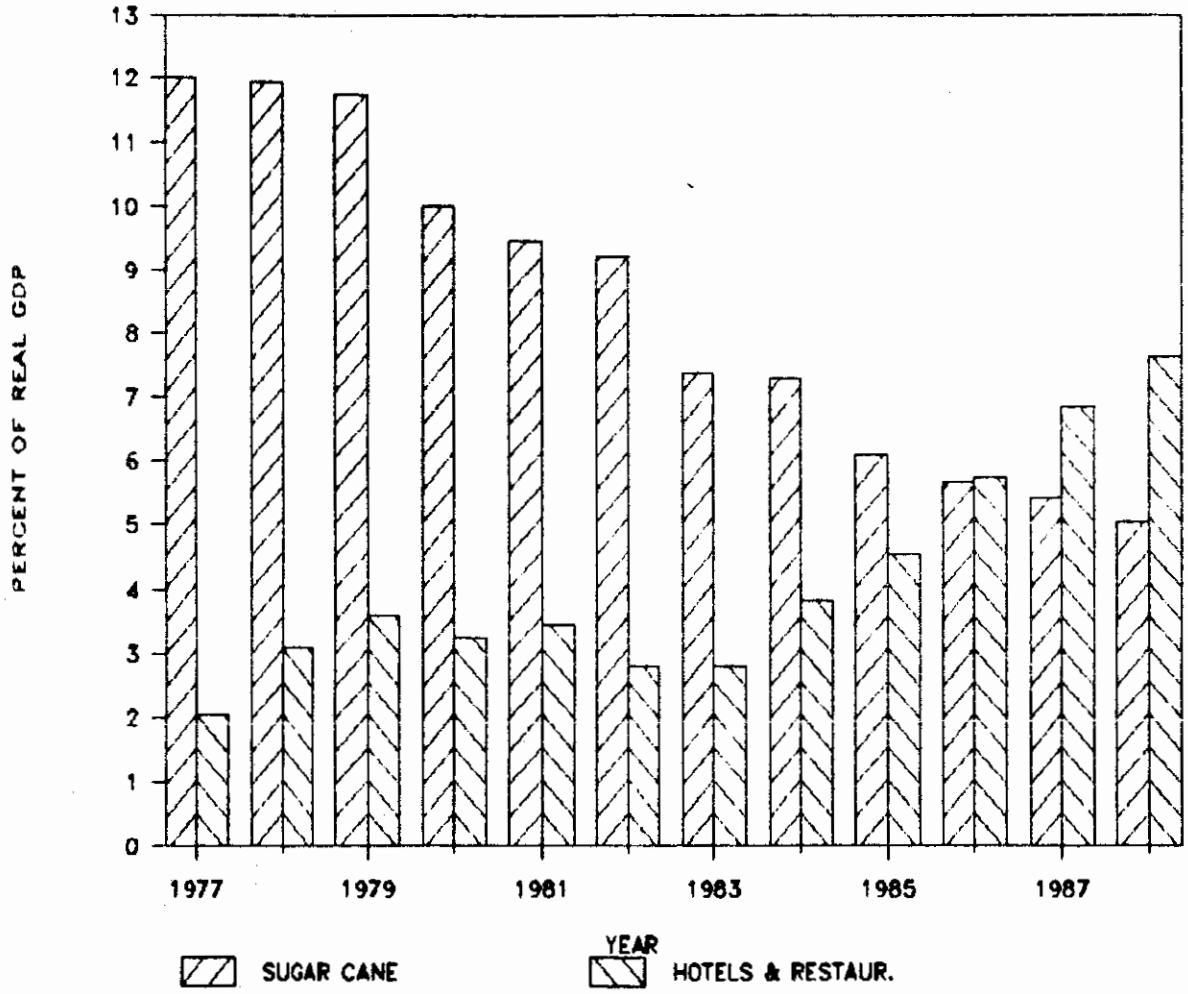
The need to examine and improve the government's revenue system.

To improve the systems of revenue collection, especially of user fees for utilities and other fee-for-service operations

To simplify and increase the elasticity of the tax system

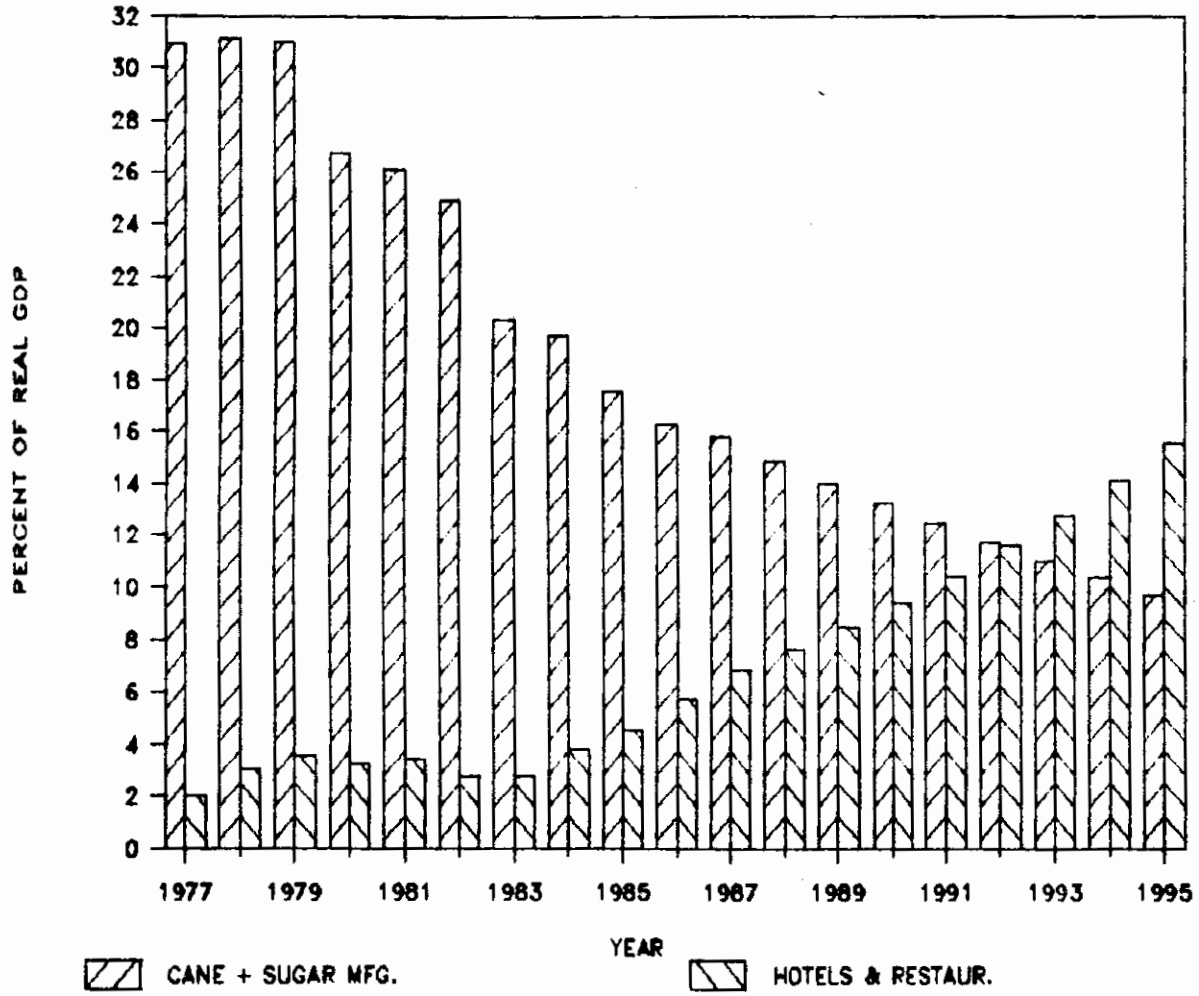
ST KITTS-NEVIS SHARE OF REAL GDP

CONSTANT 1977 PRICES



ST KITTS-NEVIS SHARE OF REAL GDP

CONSTANT 1977 PRICES



ST. CHRISTOPHER AND NEVIS

GROSS DOMESTIC PRODUCT BY ECONOMIC ACTIVITY, AT FACTOR COST
IN CONSTANT 1977 PRICES (EC$ MILLION)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	ANNUAL RATE OF INCREASE 1977-87	PROJECTED ANNUAL RATE OF INCREASE 1987-95
												(----------PROJECTIONS----------							)		
Agriculture	13.10	13.78	14.86	13.44	14.09	14.09	11.50	11.99	11.72	11.52	11.74	11.68	11.63	11.60	11.56	11.55	11.55	11.55	11.57	-1.09%	-0.19%
Sugarcane	8.31	8.54	9.07	8.03	7.97	8.25	6.52	7.05	6.21	6.15	6.15	5.97	5.79	5.62	5.45	5.29	5.13	4.98	4.83	-2.97%	-2.97%
Crops (other)	1.42	1.62	2.09	1.99	2.05	1.74	1.25	1.17	1.34	1.53	1.61	1.63	1.65	1.67	1.69	1.71	1.74	1.76	1.78	1.26%	1.26%
Livestock	2.39	2.43	2.41	2.21	2.54	2.49	2.11	2.06	2.38	1.79	1.88	1.88	1.88	1.88	1.88	1.88	1.88	1.88	1.88	-2.37%	0.00%
Forestry	0.05	0.05	0.06	0.07	0.07	0.08	0.08	0.08	0.09	0.09	0.10	0.10	0.10	0.11	0.11	0.11	0.12	0.12	0.12	7.18%	2.31%
Fishing	0.93	1.06	1.23	1.14	1.46	1.53	1.54	1.63	1.70	1.96	2.00	2.10	2.21	2.32	2.43	2.55	2.68	2.81	2.95	7.96%	5.00%
Mining & Quarrying	0.20	0.15	0.18	0.23	0.24	0.28	0.31	0.26	0.29	0.32	0.33	0.35	0.36	0.38	0.40	0.42	0.45	0.47	0.49	5.14%	5.14%
Manufacturing	12.54	13.15	13.31	13.53	12.15	13.17	11.72	13.15	12.44	13.46	13.00	12.84	12.92	13.00	13.10	13.21	13.33	13.46	13.61	0.36%	0.50%
Sugar	8.60	8.23	8.39	7.34	6.83	7.59	5.92	6.54	5.67	6.01	5.33	5.17	5.01	4.86	4.72	4.58	4.44	4.31	4.18	-4.67%	-3.00%
Other	3.94	4.92	4.92	6.19	5.32	5.58	5.80	6.61	6.77	7.45	7.67	7.67	7.90	8.14	8.38	8.63	8.89	9.16	9.43	6.89%	2.62%
Electricity & Water	0.61	0.71	0.74	0.88	0.94	1.00	1.01	1.07	1.16	1.27	1.36	1.45	1.54	1.64	1.74	1.85	1.97	2.09	2.22	8.35%	6.34%
Construction	6.59	4.94	6.09	7.72	7.99	5.49	10.44	8.72	9.81	10.30	10.71	11.57	12.14	12.75	13.38	14.05	14.75	15.48	16.25	4.98%	5.35%
Wholesale & Retail Trade	7.01	7.75	8.32	9.36	9.20	10.18	10.95	12.29	13.81	14.50	15.08	16.28	17.58	18.98	20.49	22.12	23.88	25.78	27.83	7.96%	7.96%
Hotels & Restaurants	1.42	2.21	2.78	2.61	2.91	2.59	2.48	3.68	4.64	6.22	7.77	9.21	10.92	12.94	15.34	18.18	21.55	25.54	30.27	18.53%	18.53%
Transport	3.81	4.03	3.94	4.31	4.85	5.03	5.13	5.39	5.79	6.35	7.17	7.65	8.17	8.73	9.32	9.96	10.65	11.39	12.19	6.53%	6.86%
Road Transport	2.90	2.93	2.82	3.14	3.57	3.75	3.81	3.96	4.19	4.36	4.88	5.14	5.42	5.70	6.01	6.33	6.67	7.02	7.40	5.34%	5.34%
Sea Transport	0.41	0.43	0.42	0.47	0.52	0.55	0.58	0.61	0.68	0.90	1.04	1.14	1.25	1.38	1.51	1.66	1.82	2.00	2.19	9.76%	9.76%
Air Transport	0.50	0.67	0.70	0.70	0.76	0.73	0.74	0.82	0.92	1.09	1.25	1.37	1.50	1.65	1.80	1.98	2.17	2.37	2.60	9.60%	9.60%
Communications	2.05	2.15	2.35	2.57	4.44	4.38	4.51	5.09	5.67	7.39	7.76	8.38	8.88	9.51	10.17	10.88	11.65	12.46	13.33	14.24%	7.00%
Banks & Insurance	3.79	3.63	4.06	4.28	4.19	4.96	5.04	5.56	5.84	6.42	6.74	7.14	7.56	8.01	8.49	8.99	9.52	10.09	10.69	5.93%	5.93%
Real Estate & Housing	5.26	5.31	5.40	5.50	5.57	5.62	5.71	5.80	6.03	6.21	6.33	6.49	6.65	6.82	6.99	7.16	7.34	7.52	7.71	1.87%	2.50%
Government Services	11.75	13.07	14.95	15.69	16.58	17.75	18.58	22.40	23.52	23.33	24.39	25.24	26.13	27.04	27.99	28.97	29.98	31.03	32.12	7.58%	3.50%
Other Services	3.55	3.31	3.37	3.75	4.29	4.58	4.72	4.95	5.20	5.46	5.60	5.95	6.24	6.54	6.85	7.18	7.53	7.89	8.27	4.81%	4.81%
Less Imputed Service Charge	2.48	2.64	3.10	3.59	3.06	3.25	3.38	3.63	3.81	4.19	4.40	4.66	4.93	5.23	5.53	5.86	6.21	6.57	6.96	5.90%	5.90%
TOTAL	69.20	71.47	77.25	80.28	84.38	89.70	88.72	96.72	102.11	108.56	113.66	119.49	125.78	132.69	140.29	148.66	157.93	168.19	179.60	5.09%	5.09%
GROWTH RATE		3.28	8.09	3.92	5.11	6.30	-1.09	9.02	5.57	6.32	4.70	5.13	5.26	5.50	5.72	5.97	6.23	6.50	6.78		

SOURCE: ST. KITTS STATISTICS DIVISION/OECS/ECAS
(1987 Data Provisional)
March 1988

ST. CHRISTOPHER AND NEVIS

EXPENDITURE ON GDP
(EC$ MILLION)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	ANNUAL RATE OF INCREASE 1977-87
												PROJECTIONS (CONSTANT 1987 PRICES)								
GDP at Market Prices	80.72	92.55	107.72	129.59	150.32	159.08	158.29	185.98	201.38	243.08	266.07	278.71	292.11	306.72	322.61	339.96	358.97	379.79	402.58	11.45%
Resource Gap	13.30	10.50	25.90	39.20	44.37	49.74	71.55	60.85	47.35	53.85	84.98	89.88	98.63	102.27	98.37	92.06	82.83	70.10	53.19	18.37%
Exports of Goods	40.54	45.21	45.47	65.13	65.51	50.93	48.87	54.40	55.01	70.96	74.32	75.06	75.81	76.57	77.34	78.11	78.89	79.68	80.48	5.67%
Exports of NFS	10.97	13.39	18.83	21.60	26.73	29.70	29.97	40.10	61.60	78.30	88.03	103.04	119.52	138.65	160.83	186.56	216.42	251.04	291.21	20.95%
Imports of Goods	59.18	65.41	86.71	121.07	128.78	120.37	137.70	140.15	138.56	173.95	215.68	232.93	255.53	275.97	292.53	310.00	328.68	348.41	369.31	12.48%
Imports of NFS	5.62	3.69	3.49	4.86	7.83	9.99	12.69	23.20	25.40	29.28	32.45	35.05	38.45	41.52	44.81	46.65	49.45	52.42	55.56	17.28%
Resource Availabilities	94.02	103.05	133.62	168.79	194.69	208.82	229.84	246.83	248.73	296.97	351.05	368.59	390.75	408.99	420.98	432.02	441.80	449.89	455.76	12.72%
Total Consumption	63.22	77.91	96.37	119.35	148.64	153.87	169.92	189.78	184.87	227.47	271.05	283.00	302.83	317.83	326.43	333.96	340.09	344.38	346.30	14.15%
Private	47.17	57.28	73.51	92.26	108.92	117.33	133.08	144.35	137.49	176.18	215.56	226.63	243.95	257.18	263.97	269.62	273.82	276.12	275.99	14.81%
General Government	16.05	20.63	22.87	27.09	39.72	36.54	36.84	45.39	47.39	51.28	55.50	57.17	58.88	60.65	62.47	64.34	66.27	68.26	70.31	11.94%
Gross Fixed Capital Formation	30.81	25.14	37.25	49.44	46.06	54.95	59.92	57.05	63.85	69.50	80.00	84.79	87.31	91.16	94.54	98.06	101.71	105.51	109.46	9.06%
Land Development	0.06	0.03	0.04	0.06	0.10	0.18	0.20	0.25	0.23	0.37	0.39	0.41	0.43	0.45	0.47	0.50	0.52	0.55	0.58	18.65%
Transport Equipment	1.56	1.69	4.81	6.56	5.35	6.20	6.02	7.96	8.50	9.22	13.25	13.91	14.61	15.34	16.11	16.91	17.76	18.64	19.58	21.46%
Other Equipment	12.23	9.30	11.52	15.61	12.70	13.60	14.43	15.07	16.42	17.02	20.05	20.45	20.86	21.28	21.70	22.14	22.58	23.03	23.49	4.60%
Construction	16.95	14.12	20.88	27.21	27.90	34.97	38.47	32.97	38.70	42.89	46.31	50.01	52.02	54.10	56.26	58.51	60.85	63.28	65.82	9.57%
GROSS DOMESTIC SAVINGS	17.50	14.64	11.35	10.24	1.68	5.22	-11.63	-3.80	16.51	15.61	-4.98	-5.09	-10.72	-11.11	-3.83	6.00	18.88	35.41	56.27	

SOURCE: OECS/KAS DATA 1977-87. MISSION PROJECTIONS BASED ON IBRD AND OTHER DATA

ANGUILLA - COUNTRY DATA

Area: 91 km² **Population:** 6,806 **Density:** 757 per km²

Population Characteristics (1987)

Crude birth rate per '000	27.5
Crude death rate per '000	11.3
Infant mortality per '000	19.5

Health

Population per physician	1,134
Population per hospital bed	284

Gross Domestic Product (GDP) in 1987

	$'mn
GDP at market prices	45.5
Gross domestic investment	...
Gross national savings	...
Current account balance	...
Exports of goods & NFS	...
Imports of goods & NFS	...

Output, Labour Force & Productivity

	Value-added		Labour Force		
	$m	%	No.	%	
Agriculture	0.5	1.1	...	...	
Hotels & guest houses	9.0	20.0	...	...	
Government	7.7	17.1	...	...	
Construction	5.1	11.1	...	...	
Fishing	2.6	5.8	...	...	
Other	20.1	44.7	...	...	
Total	45.0	100.0	...	...	

Public Sector Finances

	Consolidated Public Sector $'000		Central Government $'000	
	1986	1987	1986	1987
Current receipts	16.4	20.3	14.8	17.9
Current expenditures	12.9	16.3	12.4	15.8
Current surplus/deficit(-)	3.5	4.0	2.4	2.0
Capital expenditure	5.0	6.0	3.0	5.0
External assistance (net)	3.9	6.3	2.3	5.4

Money, Credit and Prices

	1982	1983	1984	1985	1986	1987
	($ mn outstanding at end of period)					
Money and quasi-money	-	-	-	-	-	-
Bank credit to public sector	0.4	-0.1	0.4	-1.7	-1.9	-2.6
Bank credit to private sector	23.7	21.9	22.8	24.7	33.4	40.0
	Percentage					
Money and quasi-money as % of GDP	...	...	...	...	...	...
Annual change in the cost of living	...	...	...	...	2.3	2.3
Bank credit to public sector/ Total loans and advances	1.7	-0.5	2.1	-7.4	-6.0	-7.0
Bank credit to private sector Total loans and advances	98.3	100.5	97.9	107.4	106.0	107.0

Balance of Payments

($mn)

	1984	1985	1986	1987
Exports of goods and NFS	12.1	28.0	51.0	57.7
Imports of goods and NFS	51.3	56.4	91.8	74.5
Resource gap	-39.2	-28.4	-40.8	-16.8
Factor payment	...	...	...	...
Net transfers	...			
Balance on current account	...	...	...	...
Public capital	...	...	...	...
Disbursements	...	...	...	...
Amortisation	...	...	...	...
Capital grants	...	...	...	...
Other capital (net)	...	...	...	...
Change in reserves (- = increase)	...	...	...	...

Merchandise Exports (Average 1984-1987)

	$'000	%
Salt	89	2.1
Lobster	4,091	97.9
Total	4,180	100.0

External Debt Operations (December 31, 1987)

	US$'000
Public debt, incl. guaranteed	2,373
Non-guaranteed private debt	...
Total outstanding and disbursed	...

Debt Service Ratio (December 31, 1987)

US$000

Public debt, incl. guaranteed	65.1
Non-guaranteed private debt	...
Total outstanding and disbursed	...

Rate of Exchange

Since May 1976:
US$1.00 = EC$2.70
EC$1.00 = US$0.37

SOURCE: CDB, WITH PERMISSION

MONTSERRAT

SUMMARY

Following output growth of 5.9% in 1986, the economy of Montserrat grew by 10.8% in 1987. The improved performance was due mainly to Cable and Wireless' investment and installation works and buoyant construction activity in the private and public sectors. In addition to a 15% growth in tourism receipts, both agriculture and manufacturing showed modest improvements, with the agriculture, fishing and forestry sector growing by 6.3% in 1987 compared with a 6.3% decline in 1986. The unemployment rate fell to within 2% while inflation rose slightly from 3.1% in 1986 to 3.7% in 1987.

Increased construction activity explained the increase in the investment output ratio from 42% in 1986 to 48% in 1987. Correspondingly, the consumption output ratio fell to 102% as the net trade ratio remained constant. The merchandise trade deficit widened by 20% to US$21.8 million (mn) as imports of manufactured products rose steeply. Despite an 8% wage increase to Public Servants and transfers to statutory bodies, the Government recorded a surplus of $1.7 mn on recurrent account.

The development constraints facing Montserrat include a weak industrial base, poor transport infrastructure, small market size, inadequate domestic savings and a shortage of skilled labour in certain areas due to migration. Despite the buoyant growth since 1985, there is considerable scope for efficiency and productivity improvements in parts of agricultural and industrial sectors, and in the public sector. Prospects for sustained growth will be enhanced by policies designed to increase sectoral linkages and reduce operational costs.

Wage costs continue to be of concern to both the private sector and the Government of Montserrat (the Government). The Government is keen to reduce its wage-expenditure ratio and to exercise fiscal prudence through the containment of recurrent expenditures, increased productivity and improved revenue collection. The Government is also supportive of a development strategy in which the private sector is the prime creator of wealth. As an incentive to private sector development the Government aims to reduce income taxes.

The Public Sector Investment Programme (PSIP) focuses on the creation of an environment that is conducive to private sector growth. The emphasis is therefore on physical and institutional economic infrastructure to support the productive services. However the social services, which provide support to the private sector and are important to the public welfare, are not neglected. The total cost of the PSIP is $121.4 mn of which $65 mn is planned expenditure for the 1988-90 period. Local resources represent about 10% of the total cost and 12% of expenditure in the planned period.

The ability of the Government to meet its expected commitments will depend on its success in containing recurrent expenditures, better financial performances by the statutory bodies and the rationalisation of a tax policy that maximises revenues but minimises the disincentive to production.

The medium-term prospects of the economy depend on the availability of donor financing for key sectoral programmes and the Government's success as a catalyst to private sector growth. Overall, the economy is capable of sustaining a growth rate of about 5% in the medium term subject to the continuation of prudent economic management.

SOURCE: CDB Annual Economic Re[illegible] 1987

BEST AVAILABLE

MONTSERRAT

COUNTRY DATA SHEET

	1980	1981	1982	1983	1984	1985	1986
AREA (km sq): 103							
MID-YEAR POPULATION ('000)	11.6	11.6	11.7	11.7	11.8	11.9	11.9
PER CAPITA GDP (current prices($)	5,647	6,319	6,923	7,393	7,941	8,483	9,587
GROSS DOMESTIC PRODUCT (GDP)							
GDP at current market prices ($m)	65.5	73.3	81.0	86.5	93.7	100.0	114.1
Demand components ($m):							
Consumption expenditure	83.5	90.6	98.8	101.6	109.5	116.7	123.3
Gross domestic investment	26.9	33.7	32.1	25.6	24.7	26.2	40.8
Exports of goods & n.f. services	4.8	8.9	10.5	10.5	12.8	11.7	11.5
Imports of goods & n.f. services	49.7	59.9	60.4	59.2	53.3	54.6	61.5
Gross domestic savings ratio	(27.5)	(23.6)	(22.0)	(17.5)	(16.9)	(16.7)	(8.1)
Sectoral distribution of current GDP:							
Agriculture	2.4	3.0	3.3	3.3	4.0	4.3	4.8
Mining	0.4	0.5	1.1	0.7	1.1	1.2	1.3
Manufacturing	3.5	4.1	4.0	5.3	5.6	5.1	6.5
Utilities	1.9	2.0	2.1	3.0	3.3	3.3	3.7
Construction	5.2	6.4	8.3	5.7	6.2	7.1	8.5
Transport & communication	4.3	5.2	6.5	8.5	9.7	11.0	12.2
Tourism or hotels & restaurants	1.8	2.4	2.7	3.0	3.2	3.7	... a/
Wholesale & retail trade	8.9	12.7	13.5	13.1	12.7	13.2	20.5
Government services	10.7	12.1	13.4	14.8	17.1	18.2	... a/
Other services	18.7	15.7	16.1	19.3	20.4	21.4	40.7
GDP at current factor cost	57.8	64.1	71.0	76.7	83.3	88.5	101.2
GDP at constant 1977 prices ($m)	39.9	41.1	42.8	41.6	42.3	44.3	46.6
Annual rate of growth in GDP (%)	10.3	2.9	4.2	(2.8)	1.8	4.6	5.2
LABOUR FORCE AND EMPLOYMENT							
Labour Force ('000)	4.9	4.9	5.0	5.1	5.2	5.3	5.3
Unemployment rate (%)	6.1	5.5	5.5	7.0	5.8	5.3	4.2
MONEY AND PRICES ($m)							
Consumer prices (rates of growth)(%)	29.8	7.1	9.8	4.7	5.5	2.7	3.1
Cash plus Demand Deposits	9.5	10.0	9.3	11.0	11.7	12.3	14.9
Commercial banks' loans & advances:	17.2	27.5	31.0	30.8	32.6	32.7	34.2
Government	1.1	3.9	3.9	3.1	4.4	3.9	2.6
Private	16.1	23.6	27.1	27.7	28.2	28.8	31.6
Estimated Tourism Expenditure (US$m)	4.3	5.4	5.8	6.0	6.7	7.7	8.1
CENTRAL GOVT. FINANCES ($m)							
Current revenue	14.7	18.0	19.8	20.9	21.6	24.0	25.0
Current expenditure	13.5	15.7	18.6	20.0	21.4	21.3	23.4
Current A/C surplus/(deficit)	1.2	2.3	1.2	0.9	0.2	2.6	1.6
Capital expenditure	7.5	10.9	7.6	4.5	4.6	5.6	8.7
Overall surplus/(deficit)	(6.3)	(8.6)	(6.4)	(3.6)	(4.4)	(3.0)	(7.1)
Financing (domestic sources)	0.4	3.8	...	0.1	...	...	...
Financing (external sources)	6.5	6.0	7.1	3.7	3.5	4.2	6.7
Financing (change in reserves)	0.6	1.2	0.7	0.2	(0.9)	1.2	(0.4)

SOURCE: CDB Annual Economic Report, 1987. Barbados: March, 1988

	1980	1981	1982	1983	1984	1985	1986
BALANCE OF PAYMENTS (US$m)							
Merchandise exports (fob)	1.2	3.3	3.9	6.9	4.7	4.3	...
Merchandise imports (fob)	16.9	22.2	22.9	20.8	18.2	18.5	...
Trade balance	(15.7)	(18.9)	(19.0)	(13.9)	(13.5)	(14.2)	...
Net balance on services a/c	5.6	5.0	6.3	6.6	7.0	7.7	...
Current account balance	(10.1)	(13.9)	(12.7)	(7.3)	(6.5)	(6.5)	...
Capital inflows	9.9	13.2	12.6	7.3	5.9	6.4	...
Official	2.2	2.6	2.9	1.5	3.7	2.6	...
Private	7.7	10.6	9.7	5.8	2.2	3.8	...
Net change in international reserves	...	...	...	...	...	...	...
EXTERNAL PUBLIC DEBT (US$'000)							
Disbursed debt outstanding	1,484.8	2,012.9	2,407.2	2,681.6	3,628.1	3,747.8	...
Debt service payments	73.0	79.4	137.7	177.4	390.2	428.1	...
Amortization	22.7	19.0	42.1	70.8	274.8	305.7	...
Interest payments	50.3	60.4	95.6	106.6	115.4	122.4	...
Debt service ratio (%)	4.1	2.4	3.5	2.6	8.2	9.9	...
AVERAGE EXCHANGE RATE							
Dollar(s) per US dollar	2.7	2.7	2.7	2.7	2.7	2.7	2.7

Note: a/ Not separately identified

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ANGUILLA - COUNTRY DATA

Area: 91 km² **Population: 6,806** **Density: 757 per km²**

Population Characteristics (1987)

Crude birth rate per '000	27.5
Crude death rate per '000	11.3
Infant mortality per '000	19.5

Health

Population per physician	1,134
Population per hospital bed	284

Gross Domestic Product (GDP) in 1987

	$'mn
GDP at market prices	45.5
Gross domestic investment	...
Gross national savings	...
Current account balance	...
Exports of goods & NFS	...
Imports of goods & NFS	...

Output, Labour Force & Productivity

	Value-added		Labour Force		
	$m	%	No.	%	
Agriculture	0.5	1.1	...	...	
Hotels & guest houses	9.0	20.0	...	...	
Government	7.7	17.1	...	...	
Construction	5.1	11.1	...	...	
Fishing	2.6	5.8	...	...	
Other	20.1	44.7	...	...	
Total	45.0	100.0	...	...	

Public Sector Finances

	Consolidated Public Sector $'000		Central Government $'000	
	1986	1987	1986	1987
Current receipts	16.4	20.3	14.8	17.9
Current expenditures	12.9	16.3	12.4	15.8
Current surplus/deficit(-)	3.5	4.0	2.4	2.0
Capital expenditure	5.0	6.0	3.0	5.0
External assistance (net)	3.9	6.3	2.3	5.4

Money, Credit and Prices

	1982	1983	1984	1985	1986	1987
	($ mn outstanding at end of period)					
Money and quasi-money	-	-	-	-	-	-
Bank credit to public sector	0.4	-0.1	0.4	-1.7	-1.9	-2.6
Bank credit to private sector	23.7	21.9	22.8	24.7	33.4	40.0
	Percentage					
Money and quasi-money as % of GDP	...	...	...	...	...	...
Annual change in the cost of living	...	...	...	...	2.3	2.3
Bank credit to public sector/ Total loans and advances	1.7	-0.5	2.1	-7.4	-6.0	-7.0
Bank credit to private sector Total loans and advances	98.3	100.5	97.9	107.4	106.0	107.0

Balance of Payments

	($mn)			
	1984	1985	1986	1987
Exports of goods and NFS	12.1	28.0	51.0	57.7
Imports of goods and NFS	51.3	56.4	91.8	74.5
Resource gap	-39.2	-28.4	-40.8	-16.8
Factor payment	...	...	...	...
Net transfers	...			
Balance on current account	...	...	...	...
Public capital	...	...	...	...
Disbursements	...	...	...	...
Amortisation	...	...	...	...
Capital grants	...	...	...	...
Other capital (net)	...	...	...	...
Change in reserves (- = increase)	...	...	...	...

Merchandise Exports
(Average 1984-1987)

	$'000	%
Salt	89	2.1
Lobster	4,091	97.9
Total	4,180	100.0

External Debt Operations
(December 31, 1987)

	US$'000
Public debt, incl. guaranteed	2,373
Non-guaranteed private debt	...
Total outstanding and disbursed	...

Debt Service Ratio
(December 31, 1987)
US$000

Public debt, incl. guaranteed	65.1
Non-guaranteed private debt	...
Total outstanding and disbursed	...

Rate of Exchange

Since May 1976:
US$1.00 = EC$2.70
EC$1.00 = US$0.37

SOURCE: CDB, WITH PERMISSION

COUNTRY DATA - TURKS AND CAICOS ISLANDS

AREA	
Total	500 sq km
Inhabited	374 sq km

EDUCATION	
Literacy Rate (All Ages, 1980)	88%
Primary School Enrollment (1980)	82%

HEALTH	
Population per Doctor (1985)	944
Population per Hospital Bed (1985)	160

GDP PER CAPITA (1983 prices)	$2,700

POPULATION	
Mid-1987 Estimate	13,000

POPULATION DENSITY (Per sq km)	
All Islands (1987)	26
Inhabited Islands (1987)	35

POPULATION CHARACTERISTICS (1985)	
Crude Birth Rate (Per 1,000)	23.4
Crude Death Rate (Per 1,000)	3.8
Infant Mortality Rate (Per 1,000)	20.0

	1983	1984	1985	1986	1987
GDP BY EXPENDITURE (Current Prices, $m)	28.0	31.6	40.8	57.8	...
Consumption Expenditure	30.3	32.6	35.8	37.3	...
Gross Domestic Investment	15.1	15.0	15.6	27.9	...
Exports of Goods & Non-Factor Services	13.7	16.9	28.6	34.6	...
Imports of Goods & Non-Factor Services	31.1	32.9	39.2	42.0	...
Gross Domestic Savings Ratio	(8.2)	(3.2)	12.3	35.5	...
GDP AT FACTOR COST (1983 PRICES, $m)	24.7	26.8	32.8	35.1	...
Agriculture	2.6	3.2	3.2	3.0	...
Mining	0.8	0.8	0.8	0.7	...
Manufacturing	0.2	0.2	0.2	0.2	...
Electricity, Gas, and Water	0.5	0.5	0.6	0.6	...
Construction	4.9	5.1	4.6	4.4	...
Tourism	4.0	5.1	10.8	13.3 -37%	...
Government Services	5.8	5.9	6.0	6.1	...
Other services	6.0	6.1	6.7	6.8	...
RATE OF GROWTH OF REAL GDP (%)	...	8.6	22.1	7.1	...
CENTRAL GOVERNMENT FINANCES ($m) */					
Current Revenue	7.7	7.1	9.2	10.0	11.1
Current Grants	2.1	2.0	2.6	3.0	2.1
Current Expenditure	9.8	11.4	11.7	12.7	13.0
Current Surplus	(2.0)	(4.2)	(2.6)	(2.8)	(1.9)
Capital Grants	2.6	3.2	3.1	2.6	4.5
Capital Expenditure	3.9	2.2	3.6	3.5	4.6
Overall Surplus	(0.9)	(1.0)	(0.5)	(0.6)	(0.0)
External Financing	0.9	1.0	0.5	0.6	0.0
BALANCE OF TRADE */	(17.4)	(16.0)	(10.6)	(7.4)	...
Merchandise Exports	3.0	3.7	3.2	3.2	...
Merchandise Imports	26.3	27.4	29.1	31.1	...
Merchandise Trade Balance	(23.4)	(23.7)	(26.0)	(28.0)	...
Exports of Non-Factor Services	10.7	13.2	25.4	31.4	...
Imports of Non-Factor Services	4.8	5.5	10.1	10.9	...
Services Trade Balance	6.0	7.7	15.4	20.6	...
EXTERNAL PUBLIC DEBT (END-OF-YEAR, $m)					
Disbursed and Outstanding Debt	0.7	1.7	2.1	2.7	2.9
Debt Service Payments	...	0.3	0.1	0.1	0.1
Amortization	...	0.3	0.0	0.0	0.0
Interest	...	0.0	0.1	0.1	0.1

* Data are for the fiscal years 1983/84, 1984/85, and so on.
... Not Available

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COUNTRY DATA SHEET :BARBADOS

	1980	1981	1982	1983	1984	1985	1986
AREA (km sq): 431							
MID-YEAR POPULATION ('000)	249.1	249.9	250.4	251.2	252.0	252.7	253.1
PER CAPITA GDP (current prices)($)	6,947.4	7,661.5	7,947.3	8,410.4	9,137.7	9,580.5	10,576.5
GROSS DOMESTIC PRODUCT (GDP)							
GDP at current market prices ($m)	1,730.6	1,914.6	1,990.0	2,112.7	2,302.7	2,421.0	2,676.9
Demand components ($m):							
Consumption expenditure	1,339.4	1,556.5	1,592.0	1,667.3	1,819.5	1,864.1	2,084.1
Gross domestic investment	424.3	525.0	450.5	421.2	373.9	371.8	423.8
Exports of goods & services	1,213.7	1,147.9	1,270.2	1,489.8	1,656.4	1,632.7	1,581.1
Imports of goods & services	1,246.8	1,314.8	1,322.7	1,465.6	1,547.1	1,447.6	1,412.1
Gross domestic savings ratio (%)	22.6	18.7	20.0	21.1	21.0	23.0	22.1
Sectoral distribution of current GDP:							
Agriculture	152.2	128.9	122.0	139.3	141.4	160.1	149.5
Mining	11.5	13.1	16.1	16.3	29.4	44.0	31.2
Manufacturing	183.5	189.7	205.5	238.7	264.1	231.7	229.3
Utilities	33.1	38.6	44.7	52.9	68.0	74.7	71.7
Construction	118.2	138.3	122.1	132.5	130.0	114.7	131.4
Transport & communication	86.9	113.0	134.8	154.1	171.0	185.0	211.5
Tourism or hotels & restaurants	192.9	206.5	181.1	186.5	206.8	214.0	233.9
Wholesale & retail trade	319.0	368.8	398.0	378.5	412.3	486.0	485.7
Government services	218.2	229.7	233.0	264.3	295.5	344.0	379.0
Other services	230.3	279.6	326.9	339.8	356.6	387.4	405.1
GDP at Current Factor Cost	1,535.8	1,706.2	1,784.2	1,902.9	2,075.1	2,241.6	2,328.3
GDP at constant 1974 prices ($m)	802.3	786.9	748.2	751.2	779.3	785.8	822.9
Annual rate of growth in GDP (%)	4.4	(1.9)	(4.9)	0.4	3.6	1.0	4.7
LABOUR FORCE AND EMPLOYMENT							
Labour Force ('000)	112.0	111.9	112.0	112.2	112.3	113.2	116.9
Employment rate (%)	88.6	89.2	86.3	85.0	83.9	91.3	92.2
MONEY AND PRICES							
Consumer prices (all items index)	103.5	118.6	130.8	137.7	144.1	149.7	151.7
Money supply (M1)(BD$m)	101.6	111.2	110.6	114.1	119.1	123.5	
Commercial banks' loans & advances:	546.6	649.1	680.2	776.4	807.2	849.4	886.2
Government	4.6	4.6	4.0	6.6	7.4	7.6	
Private	542.0	644.5	676.2	769.8	799.8	841.8	
Estimated Tourism Expenditure (US$ m)	251.0	261.9	251.1	251.6	284.2	309.0	
CENTRAL GOVT. FINANCES ($m)							
Current revenue	441.1	469.4	495.7	541.1	572.0	643.6	670.3
Current expenditure	395.0	450.2	477.2	487.3	559.8	626.3	627.2
Current A/C surplus/(deficit)	46.1	19.2	18.5	53.8	12.2	17.3	43.1
Capital expenditure	138.8	173.1	112.7	126.8	134.2	142.9	155.1
Overall surplus/(deficit)	(39.7)	(154.8)	(120.3)	(73.5)	(120.4)	(125.5)	(122.3)
Financing (domestic sources)	23.0	88.0	55.2	34.0	24.3	57.6	(3.8)
Financing (external sources)	63.1	84.6	51.6	27.6	55.8	38.7	152.2
Residual	(3.6)	17.7	(17.3)	(11.3)	(41.4)	29.2	(32.7)

SOURCE: CDB Annual Economic Report, 1987. Barbados: March, 1988

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COUNTRY DATA SHEET :BARBADOS

	1980	1981	1982	1983	1984	1985	1986
BALANCE OF PAYMENTS (US$m)							
Merchandise exports (fob)	181.8	163.7	209.4	273.7	341.7	302.2	245.9
Merchandise imports (fob)	(525.5)	(576.2)	(554.2)	(624.7)	(662.6)	(611.2)	(605.7)
Trade balance	(343.7)	(412.5)	(344.8)	(351.0)	(321.0)	(309.0)	(359.9)
Net balance on services a/c	295.0	269.4	279.8	279.9	320.7	349.5	343.0
Current account balance	(27.2)	(125.0)	(41.8)	(50.3)	14.4	40.5	(5.2)
Capital inflows	61.7	121.4	47.8	51.8	(14.4)	(5.3)	17.5
Official	26.9	49.4	17.6	28.7	6.3	28.7	53.5
Private	34.8	72.1	30.2	23.1	(20.7)	(34.0)	(36.0)
Net change in international reserves (= increase)	(12.6)	24.5	(32.0)	(21.3)	(5.0)	(43.3)	11.8
EXTERNAL PUBLIC DEBT (US$m)							
Disbursed debt outstanding	82.0	129.7	143.5	173.7	182.6	222.0	276.8
Debt service payments	11.3	14.1	17.6	21.1	23.7	30.4	41.5
Amortization	6.4	6.6	7.3	9.2	11.3	14.7	19.4
Interest payments	4.9	7.5	10.3	11.9	12.4	15.7	22.2
Debt service ratio (%)	1.9	2.4	2.8	2.8	2.9	3.7	5.2
AVERAGE EXCHANGE RATE							
Dollar(s) per US dollar	2.0	2.0	2.0	2.0	2.0	2.0	2.0

Sources: Central Bank of Barbados- Annual Statistical Digest 1985
: World Bank Economic Memorandum, April 26 1985
: B'dos Statistical Service- Monthly Digest of Statistics, Dec 1984
CDB- Annual Economic Report, 1986

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SECTION I: RECENT ECONOMIC TRENDS

Introduction and Summary

During 1987, the keynotes of the evolution of the economy were increases in the rates of both inflation and unemployment, and general economic deterioration. Some of the factors contributing to the economic malaise were imbalances in the external sector and problems deriving from debt servicing and the financial straits of the public sector.

The forecasts made at the beginning of 1984 involved optimism with regard to the Government of Trinidad and Tobago (GOTT) overcoming the considerable setbacks that had affected gross national income, global production, investment, exports, prices, unemployment and the fiscal variables in 1986. They envisaged an upturn in the product, a recovery in export agricultural and agro-industrial activities and moderate increases in manufacturing, commerce, finance and the hydro-carbon industry. In contrast, it was envisaged that the performances of construction and transport and communication would remain negative. At the same time, a recovery in the public enterprises and an improvement in the income of small producers was assumed. In short, it was thought that while inflation would increase slightly, as a consequence of the unification of the country's dual exchange rate system, there would be some reactivation of production and employment.

However, during 1987 the crisis became more acute, The gross domestic product fell by 2.3%, following the 6.4% drop recorded in 1986. Although the petroleum sector continued to be the largest single contributor to Gross Domestic Product (GDP), its rate of growth fell from -0.5% in 1986 to -6.9% in 1987. At the same time, the rate of growth of the non-oil sector dropped from -1.2% in 1986 to -1.7% in 1987. Of the non-oil sectors, manufacturing, which expanded by 28.3% in real terms in 1986, recorded a growth rate of 19% in 1987, as effective demand within the domestic economy shrank sharply. Similarly, the level of construction activity fell for the fourth consecutive year, declining by 20.8% in 1987 after a fall of 17.1% in the previous year. The basic service subsectors (distribution and restaurant, hotels, transport, finance) also continued to contract, and together these subsectors registered a fall of 6.1% in 1987, after a fall of 4.5% in 1986. Overall, the agricultural sector showed a good result in 1987, with the value-added in the sector increasing from 2.2% in 1986 to 4.3%. It must be pointed out that the unfavourable effects of the contraction in the economy impacted on the domestic agriculture subsector; the rate of growth of this subsector fell from 2.8% in 1986 to zero in 1987.

During 1987 the consumer price index rose by nearly 12%, compared with 7.7% in 1986 and the rate of unemployment increased from 16.6% in 1986 to 20%, as numerous business firms went into bankruptcy. Declines in the volume and value of imports were also noted in 1987 and this, together with a significant increase in the value of total visible exports, led to a favourable balance on visible trade. By the end of 1987, both the gross debt and interest payments on the debt had, however, increased considerably.

SOURCE: Caribbean Development Bank, Annual Economic Report, 1987. Barbados, March, 1988.

TABLE 1: [illegible]

(CURRENT PRICES), SECTORAL CONTRIBUTIONS, 1983-87

(US$ Million)

Sector	1983	1984	1985	1986	1987
Gross Domestic Product	7,941.2	7,941.8	7,603.2	4,747.1	4,425.8
Petroleum (Oil)	1,892.2	2,110.8	2,006.1	1,047.9	1,004.1
Non-Oil	6,049.0	5,831.0	5,597.1	3,699.2	3,421.7
Agriculture	362.9	141.5	246.1	174.5	183.4
Export Agriculture	10.3	10.6	16.2	9.5	11.8
Domestic Agriculture	154.7	174.5	193.5	138.0	141.9
Sugar	(10.5)	(43.6)	36.5	27.0	29.7
Manufacture	568.3	608.7	551.9	415.0	429.1
Food, Beverages and Tobacco	209.4	217.9	230.2	171.9	191.6
Textile, Garments and Footwear	40.9	37.8	28.6	24.9	25.4
Printing, Publishing, etc.	45.5	48.1	46.7	46.5	46.4
Wood and Related Products	30.0	33.4	21.0	12.8	10.1
Chemicals and Non-Metallic Products	94.7	88.1	92.5	72.7	82.2
Assembly-type and Related Industries	132.5	169.0	118.0	74.4	58.8
Miscellaneous Manufactures	15.3	14.4	14.8	11.8	14.5
Electricity and Water	(4.1)	74.5	76.6	66.1	54.9
Construction and Quarrying	1,139.2	1,001.0	839.1	472.2	378.3
Distribution and Restaurants	953.0	847.2	745.5	452.3	416.1
Hotels and Guest Houses	32.6	29.3	26.4	17.5	20.3
Transport, Storage and Communication	933.5	812.7	828.7	560.3	544.3
Finance, Insurance, Real Estate, etc.	956.5	907.9	887.7	563.2	526.8
Government	1,089.9	1,156.5	1,141.0	780.4	647.9
Education and Cultural Community Services	337.0	353.2	352.4	243.3	214.5
Personal Services	199.8	222.5	228.8	155.1	177.8
Corrections for Imputed Service Charges	-311.1	-324.0	-327.1	-200.7	-171.5

Source: Review of the Economy, 1987.

SOURCE: Caribbean Development Bank, Annual Economic Report, 1987. Barbados: March, 1988.

TABLE 2: TRINIDAD AND TOBAGO - GROSS DOMESTIC PRODUCT AT MARKET PRICES (CONSTANT 1970 PRICES), 1983-87

(US$ Million)

Sector	1983	1984	1985	1986	1987
Gross Domestic Product	1,296.3	1,197.0	1,295.6	745.0	727.7
Petroleum (Oil)	116.3	128.1	142.8	94.7	88.2
Non-Oil	1,180.0	1,068.8	986.8	650.3	639.6
Agriculture	33.0	32.8	35.3	24.1	25.1
Export Agriculture	2.5	2.2	3.0	1.7	2.1
Domestic Agriculture	19.2	19.7	21.1	14.4	14.4
Sugar	11.4	10.9	11.2	7.9	8.5
Manufacture	187.1	163.9	146.1	125.1	148.8
Food, Beverages and Tobacco	48.9	48.4	43.8	30.3	31.6
Textile, Garments and Footwear	3.0	2.9	2.2	1.8	1.6
Printing, Publishing, etc.	5.0	4.7	5.1	4.7	4.7
Wood and Related Products	6.0	6.4	3.7	2.4	2.0
Chemicals and Non-Metallic Products	15.9	13.3	11.3	8.2	8.9
Assembly-type and Related Industries	105.3	85.7	77.5	75.6	97.7
Miscellaneous Manufactures	3.0	2.6	2.6	1.8	2.3
Electricity and Water	40.1	41.5	42.0	30.5	33.1
Construction and Quarrying	160.5	127.8	104.6	57.8	45.8
Distribution and Restaurants	188.5	147.9	120.9	68.1	57.7
Hotels and Guest Houses	7.3	5.5	4.7	3.0	2.7
Transport, Storage and Communication	261.9	273.8	274.1	180.3	170.3
Finance, Insurance, Real Estate, etc.	192.1	163.2	148.2	87.3	73.4
Government	99.2	97.5	94.1	57.9	57.9
Education and Cultural Community Services	28.9	29.4	29.9	20.0	19.8
Personal Services	43.8	43.8	41.4	27.4	28.9
Corrections for Imputed Service Charges	-62.5	-58.3	-54.6	-31.1	-23.9

Source: Review of the Economy, 1987.

TABLE 3.7: TRINIDAD AND TOBAGO - BALANCE OF PAYMENTS SUMMARY TABLE 1983-86

(US$ Million)

Item	1983	1984	1985	1986
1. Merchandise (Net)	487.9	192.5	595.8	-123.2
Exports	2,023.0	2,106.3	2,149.9	1,360.9
Imports	2,510.9	1,913.8	1,554.1	1,481.1
2. Services (Net)	-418.9	-627.8	-642.7	443.0
Freight	3.2	5.9	7.4	8.2
Transportation	85.9	65.3	25.3	29.9
Travel	-174.5	-177.7	-124.1	-82.0
Investment Income	-115.9	-292.5	-340.9	-206.0
Other Government	16.7	24.6	5.1	1.8
Other Services	-234.4	-253.5	-215.4	-194.9
3. Unrequited Transfers (Net)	-118.9	-124.8	-60.0	-49.9
Private	-71.5	70.8	-56.3	-31.1
Government	-47.4	-54.0	-3.6	-19.1
4. Current Account (1+2+3)	-1,025.8	-56.2	-106.9	-616.1
5. Net Capital Movements	135.1	0.4	136.5	-31.4
Direct Investments	115.1	56.7	50.7	-14.5
Other Private	-37.8	-162.8	-113.8	-96.4
Official Borrowing	95.0	190.6	135.7	-72.7
Official Loans	-37.2	-84.2	-66.1	14.5
Public Sector Borrowing	-	-	130.1	118.4
Subscriptions	-	-	-	-
Other Assets	-	-	-	45.2
Other Liabilities	-	-	-	26.0
Allocation of SDRs	-	-	-	-
6. Net Errors and Omissions	-10.3	-169.1	-138.6	-23.4
7. Overall Surplus or Deficit	-901.0	-728.9	-108.9	-670.9
8. Counterpart to Valuation Changes in Reserves	-	-166.3	409.6	-
9. Change in Reserve (-) means Increase	2,162.5	910.2	-300.7	670.9
Commercial Banks	25.6	19.1	-41.0	-27.2
Government	0.7	0.6	-0.1	-3.2
Central Bank (Net)	874.8	875.5	-259.6	701.3
of which				
Reserve Assets	918.8	876.7	-101.5	671.1
IMF	-21.5	-0.1	-84.3	47.1
Special Drawing Rights	-22.5	-1.1	-73.7	-16.9

Source: Trinidad and Tobago Review of the Economy 1986 and 1987.

TABLE 4.1: TRINIDAD AND TOBAGO - CENTRAL GOVERNMENT OPERATIONS, 1983-87

(US$ Million)

Sector	1983	1984	1985	1986	1987
TOTAL RECURRENT REVENUE AND GRANTS	2,734.8	2,758.5	2,819.5	1,543.7	1,521.5
Recurrent Revenue	2,734.5	2,756.9	2,747.5	1,543.7	1,521.3
Tax Revenue	2,278.9	2,359.0	2,253.2	1,169.4	1,171.6
Non-Tax Revenue	455.6	397.9	397.9	374.3	349.7
Capital Receipts	0.3	1.5	71.4	0.1	0.2
Grants	-	-	0.3	-	-
TOTAL EXPENDITURE	3,658.2	3,448.3	3,201.7	1,824.9	1,858.9
Current Expenditure	2,599.0	2,613.8	2,515.7	1,552.9	1,488.7
Capital Expenditure	1,059.2	834.6	686.0	272.0	370.2
Current Account Balance	135.5	143.2	231.8	9.3	32.6
Overall Balance	(885.8)	(689.9)	(382.5)	(281.2)	(337.4)
Financing Requirements	923.3	689.9	382.3	281.2	337.4
External Financing (Net)	95.0	198.1	135.7	72.7	12.4
Domestic Financing (Net)	828.3	499.2	246.5	353.8	325.0

Source: Review of the Economy, 1987.

TABLE 4.2: TRINIDAD AND TOBAGO - TOTAL PUBLIC DEBT AND DEBT SERVICE, 1983-87

(US$ Million)

Item	1983	1984	1985	1986	1987
TOTAL PUBLIC DEBT	1,769.2	1,934.0	2,714.3	2,323.4	2,540.1
Central Government Debt	1,072.9	1,292.8	1,516.9	1,492.9	1,824.2
Internal Debt	426.7	454.1	542.4	431.2	750.1
External Debt	646.2	838.7	974.5	1,061.7	1,074.1
Central Government Contingent Liability on Guaranteed Debt	696.2	641.2	1,197.3	830.6	715.9*
Central Government Debt Service	212.1	203.7	231.3	248.1	331.7
Internal Debt Service	33.2	57.9	62.6	56.3	68.4
External Debt Service	178.9	145.8	168.7	191.8	263.3
External Debt Service Ratio	6.8	5.5	6.4	11.3	21.6

Source: Trinidad and Tobago Review of the Economy - Various Issues

* Contingent Liability as at June 1987.

GUYANA

EXECUTIVE SUMMARY

During 1987 shortfalls in the production of key sectors (agriculture, mining and manufacturing) resulted in marginal growth in the economy of Guyana. In addition, large fiscal and trade deficits and debt repayment difficulties hampered overall growth. The parallel economy continued to thrive and much of the excess liquidity in the banking system was used to finance consumption goods from that source. Both inflation and recorded unemployment were estimated to have increased.

A major explanatory factor of the current economic situation in Guyana is its inability to increase production. Poor export performance has led to inadequate foreign exchange earnings and increasing external debt obligations. Stagnant growth resulted in debt servicing difficulties and a cessation of capital inflows. Consequently, strong inflationary and balance of payments pressures were realised as the Government of Guyana (the Government) was forced to resort to local financing of its huge fiscal deficits.

The Government has attempted policies aimed at reversing the decline of the economy. Ongoing reorganisation and rationalisation in the public sector and incentives to the private sector are steps in the right direction. Although the medium-term economic prospects have improved, the economic recovery of Guyana will depend on the implementation of a broad based strategy for reducing the immense public debt and obtaining development loans to stimulate investment.

SOURCE: CDB Annual Economic Report, 1987. Barbados: March, 1988

BEST AVAILABLE

COUNTRY DATA SHEET: GUYANA

	1980	1981	1982	1983	1984	1985	1986
AREA (km sq): 214,970							
MID-YEAR POPULATION ('000)	760.0	766.2	772.4	778.6	784.9	790.8	794.0
PER CAPITA GDP (current prices; $)	1,984	2,084	1,872	1,885	2,166	2,484	2,795
GROSS DOMESTIC PRODUCT (GDP)							
GDP at current market prices ($m)	1,508.0	1,597.0	1,446.0	1,468.0	1,700.0	1,964.0	2,219.0
Demand components ($m):							
Consumption expenditure	1,217.4	1,476.2	1,315.0	1,431.7	1,408.9	1,704.9	1,349.6
Gross domestic investment	449.0	471.0	350.0	309.0	438.0	516.0	590.0
Exports of goods and n.f.s	1,041.9	1,031.9	794.4	675.3	942.3	1,056.8	1,066.0
Imports of goods and n.f.s	1,200.3	1,382.1	1,013.4	948.0	1,089.2	1,313.7	1,286.6
Gross domestic savings ratio (%)	19.3	7.6	9.1	2.5	17.1	13.2	16.6
Sectoral distribution of current GDP:							
Agriculture	312.0	300.0	292.0	291.0	347.0	439.0	471.0
Mining	221.0	101.0	88.0	17.0	65.0	50.0	116.5
Manufacturing	59.0	51.0	44.0	33.0	53.0	67.0	73.0
Utilities	103.0	150.0	135.0	125.0	130.0	160.0	188.0
Construction	95.0	110.0	95.0	98.0	100.0	120.0	123.9
Transport and communication	75.0	90.0	85.0	98.0	100.0	128.0	139.0
Tourism or hotels and restaurants	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Wholesale and retail trade	115.0	145.0	123.0	120.0	125.0	133.0	134.0
Government services	250.0	276.0	238.0	255.0	315.0	346.0	387.7
Other services	106.0	127.0	150.0	163.0	175.0	187.0	187.0
GDP at Current Factor Cost	1,336.0	1,350.0	1,250.0	1,200.0	1,410.0	1,630.0	1,820.0
GDP at constant 1977 prices ($m)	1,103.0	1,120.0	972.0	906.0	909.2	917.3	929.7
Annual rate of growth in GDP (%)	1.6	(0.3)	(10.4)	(9.6)	5.5	0.9	1.4
LABOUR FORCE AND EMPLOYMENT							
Labour Force ('000)	...	...	...	...	...	...	...
Employment rate (%)	...	...	...	...	...	...	...
MONEY AND PRICES ($m)							
Consumer prices (all items index)	279.1	340.8	390.2	448.7	561.5	645.9	696.7
Money supply (M1) ($m; end of period)	350.4	997.2	1,269.3	1,533.8	1,815.0	2,169.6	2,625.5
Commercial banks' loans and advances: ($m)	423.3	633.5	623.7	997.7	1,004.5	1,361.3	1,009.5
Public Sector	235.4	387.7	314.2	620.3	560.3	850.6	340.7
Private Sector	187.9	245.8	309.5	377.4	444.2	510.7	668.8
Estimated Tourist Expenditure (US$m)	...	...	...	...	...	...	...
CENTRAL GOVERNMENT FINANCES ($m)							
Current revenue	451.3	559.2	539.4	548.0	650.1	777.6	782.9
Current expenditure	613.9	805.7	787.7	1,000.6	1,274.4	1,153.1	1,252.5
Current A/C surplus/(deficit)	(162.6)	(246.5)	(248.3)	(452.6)	(624.3)	(375.5)	(469.6)
Capital expenditure	300.2	360.1	758.1	239.2	309.6	409.8	694.7
Overall surplus/(deficit)	(459.0)	(585.2)	(1,003.1)	(689.8)	(739.8)	(663.9)	(987.0)
Financing (domestic sources)	365.6	188.7	866.2	554.1	685.8	601.7	651.0
Financing (external sources)	93.4	396.5	136.9	135.7	54.0	62.2	336.0
BALANCE OF PAYMENTS (US$m)							
Exports of goods and n.f.s	408.6	366.9	264.8	225.1	246.3	247.2	247.9
Imports of goods and n.f.s	470.7	491.4	337.8	316.0	284.7	307.3	299.2
Resource balance	(62.1)	(124.5)	(73.0)	(90.9)	(38.4)	(60.1)	(51.3)
Net balance on services a/c	(41.2)	(58.3)	(54.0)	(64.7)	(67.3)	(82.3)	(106.7)
Current account balance	(109.3)	(182.6)	(135.2)	(154.6)	(99.5)	(125.0)	(140.3)
Capital inflows	11.3	152.2	26.2	(17.2)	(40.1)	(52.0)	(13.2)
Official	52.2	115.9	40.8	0.5	(4.6)	18.8	(21.9)
Private	(40.9)	36.3	(14.6)	(17.7)	(35.5)	(70.8)	8.7
Net change in international reserves () = increase	81.0	(43.8)	(0.4)	(4.0)	(11.8)	(9.9)	(15.5)
EXTERNAL PUBLIC DEBT (US$m)							
Disbursed debt outstanding	554.5	650.0	660.2	692.6	682.5	753.8	772.3
Debt service payments	69.5	79.7	47.6	52.1	38.5	25.0	80.0
Amortization	42.8	43.6	23.2	23.6	17.7	11.6	49.0
Interest payments	26.7	36.1	24.4	28.5	20.8	13.4	31.0
Debt service ratio (%)	17.0	21.7	18.0	23.1	15.6	10.1	12.5
AVERAGE EXCHANGE RATE							
Dollar(s) per US dollar	2.55	2.8125	3.00	3.00	3.8316	4.2519	4.2724

Source(s): Bank of Guyana-Statistical Abstract, June 1987

SOURCE: CDB Annual Economic Report, 1987. Barbados: March, 1988

GUYANA FOOD AID

Background

The Guyana Food Aid program began with the signing of a PL 480 Title I Agreement for U.S. Dollars 3.4 million in FY 1986. The program was continued in 1987 for U.S. Dollars 4 million and in 1988 for U.S. Dollars 7 million. An agreement for U.S. Dollars 4 million for FY 1989 is currently in the signing process, which will bring the total PL 480 for the 4 years through 1989 to U.S. Dollars 18.4 million. In addition to the PL 480 Title I food assistance, Guyana received grant food aid under the section 416 sugar quota of U.S. Dollars 2.2 million in FY 1987, and U.S. Dollars 1.1 million in FY 1986.

The proceeds of the PL 480 Title I concessional sales program have been programmed for the FYs 1986 and 1987. The 1988 program is in the process of being programmed. The funds programmed have been largely in the agricultural infrastructure and research areas (53%), small enterprise development (19%) and the rest in health, education and institution building projects.

The section 416 proceeds have been used to assist the Guyana Sugar Corporations (Guysuco) agricultural diversification program for agricultural infrastructure and introduction of new non-traditional crops. No new section 416 sugar quota food aid is anticipated in the future.

Programming Strategy for PL 480 Title I Proceeds

RDO/C currently has programmed the FY 86 and 87 proceeds into 20 on-going projects in the sectors shown above. We anticipate that the programm will continue at U.S.Dollars 4 million annually through 1994. RDO/C's strategy for programming the funds will be, in some degree, dependant on the outcome of the on-going attempts by Guyana to negotiate an IMF Agreement, and the payment of their arrearages to the USG, thereby allowing possible U.S.Dollar assistance to Guyana under the Brooks-Alexander amendments. In any case, the thrust of our strategy will be to encourage privatization of the public sector businesses, through policy dialogue, and the encouragement of private sector institutions and small entrepeneurs through projects assisting those sectors. Future assistance may be provided through a sectoral approach once budgeting, accounting and programming systems of the GOG are in place and operating satisfactorily.

ANNEX III

PRIVATE SECTOR STRATEGY

Regional Development Office/Caribbean

1990-1994 CDSS

PRIVATE SECTOR STRATEGY, 1990-1994

(Short Version)

Regional Development Office, Caribbean
United States Agency for International Development

November 1988

RDO/C would like to recognize Arthur Young International (Barbados) for its work in developing the strategy, and USAID's Bureau for Private Enterprise for funding eir efforts. We also want to thank the many business and government leaders who took time to discuss their concerns and ideas for change.

Private Sector Strategy, 1990-94 (Short Version)

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EXECUTIVE SUMMARY

The central objective of RDO/C private sector development efforts in the 1990-94 period will be to create a robust private sector in the Eastern Caribbean 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 to contribute to overall economic growth.

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 the following areas:

- Reducing constraints related to government inefficiency;
- Promoting the ability of the private sector to develop policy alternatives in partnership with government;
- Sustaining private sector institutions that can effectively influence governments, improve the business climate, encourage growth and help to improve the work ethic;
- Assisting the private sector in developing bankable projects;
- Mobilizing local money for investment and working capital; and
- Providing training and technical assistance for management and business skills, supervisory and vocational skills, and pre-vocational training.

With respect to four major areas of business activity - tourism, agriculture, manufacturing, and services - the private sector development strategy is as follows:

- The region possesses a natural comparative advantage in the tourism sector which will be leveraged for its direct economic impact 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.

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. The strategy will also seek means of maximizing the retention of foreign exchange earnings within each country and the region.

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.

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 strategy for manufacturing will be to focus on business skills development and improvements in the investment climate, and to assist in the development of sources of equity and working capital.

The strategy for the services sector will be to simply monitor 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 strategy will be accomplished by activities in three areas: Public policy dialogue, training, and finance.

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. This is critical for obtaining improvmements in the investment climate.

Training will benefit all sectors of the economy, as well as governments 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.

RDO/C PRIVATE SECTOR STRATEGY (Short Version)

INTRODUCTION

The Organisation of Eastern Caribbean States (OECS) comprises the independent island nations of Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and 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, 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 in the region with significant achievements especially in terms of the creation and strengthening of national and regional private sector organizations. These organizations have been instrumental in promoting government policy reforms 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 exports. USAID's programs have also resulted in more structured and coordinated activities aimed at attracting new foreign investment.

The purpose of this strategy document is to provide a sound basis for leveraging the successes of the past and carrying the development effort forward into the 1990's. This document is distilled from a more in-depth strategic analysis available from the Private Sector Office of USAID/RDO/C, Bridgetown, Barbados.

MACROECONOMIC AND SECTORAL TRENDS

Economic Sectors. The principal foreign exchange-earning sectors in the OECS economies are tourism, agriculture, and manufacturing.

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 productive sectors in all countries. The "hotels and restaurants" sector contributed 7.5 percent to regional GDP in 1986, and during the 1980-86 period grew at a compound annual rate of 18.4 percent, compared to 10.8 percent for overall GDP. Continued growth is forecast.

All of the islands of the OECS have an agricultural tradition, and agriculture is still one of the most dominant economic sectors in the OECS, contributing over 14 percent to the regional GDP in 1986. Agriculture has remained realtively stable as a share of GDP in all countries except Antigua where it has declined significantly.

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. The main industries currently existing in the OECS include apparel, chemicals, flour and animal feeds, aerated drinks, paints, electrical goods, cigarettes, and coconut products including soaps. There are also various assembly-type operations where all of the inputs except for labor are imported. With the exception of these assembly operations, which export finished goods to the United States under the 807 Program and similar schemes, the sector primarily produces goods for local consumption, with some of the larger companies exporting to other islands in the Caribbean.

Macroeconomic Policies. Public sector expenditures are a larger than desirable share of GDP. Current government revenues and expenditures ranged on average from 28 percent of GDP in Antigua to 40 percent in Grenada during the 1984-86 period. Revenues are largely derived from consumption taxes and duties on imports and other international trade. Public sector balances - postitive and negative - are small. The inflation rate is small, consistent with low public sector indebtedness. With the exception of Antigua (and to a lesser extent Grenada), external debt of OECS countries appears to be well within manageable limits.

Although the Eastern Caribbean Central Bank has a rediscount facility, it has not been used to expand the money supply. Foreign banks normally operate on the basis of savings collected on the islands and do not normally transfer international funds for their own account. The growing liquidity in the banking system is primarily the result of general prosperity derived from increased banana sales and remittances. Increased liquidity and limited loan demand has kept interest rates low.

The OECS countries in effect eliminated exchange rate policy as an individual policy instrument by accepting a regionally unified exchange rate. The Eastern Caribbean dollar has been pegged to the U.S. dollar since 1976 at the rate of EC$2.70 = US$1.00. Since much of OECS exports are to the EEC and the U.K. in particular, and because OECS exports compete directly with products from other developing countries not tied to the dollar, the relative value of the U.S. dollar is the most important exchange rate factor in the Eastern Caribbean economies. When the U.S. dollar was strongest in 1982-84 it acted as a major drag on island exports. The decline in the value of the U.S. currency from 1985 has been a major factor in island prosperity.

Foreign Trade. OECS countries are heavily dependent on imports from the developed world. During the four year period 1983-86, OECS imports from the developed world amounted to roughly twice the value of extra-regional exports in two of the years, and three times the value of exports in a third. Although extra-regional exports increased substantially in each of the years, at an average annual rate of 27 percent, the rate of import expansion kept close pace. As a result, there was no significant improvement in the size of the trade deficit as a percentage of total trade.

The narrow production base of the OECS is reflected in the comparative composition of imports and exports. The Eastern Caribbean exports a relatively narrow range of products, chiefly unprocessed agricultural goods and, from the small manufacturing sector, apparel and electrical components with a minimum of local content. Imports, on the other hand, are comprised of a broad range of manufactured goods and foodstuffs, including meat, paper goods, gasoline, automobiles, clothing, cooling equipment, paints, furniture and wood products, vegetables, grains, and fruit products.

On the extra-regional export ledger, foodstuffs account for more than 60 percent of income. Nearly three-fourths of these come from banana exports to the United Kingdom from the Windward Islands (Dominica, St. Lucia, St. Vincent, and to a lesser extent Grenada), under a protected market scheme that may end in 1992 as the internal EEC market is more fully integrated. In recent years banana exports have maintained a constant share of total export earnings. Agricultural export diversification is proceeding at a snail's pace, and there are no products with the near-to-medium term potential to replace income from bananas. The second largest agricultural export, sugar, accounts for only one-tenth the revenue of bananas and has been decreasing as a share of total exports due to the squeeze in U.S. sugar quotas.

The principal manufactured goods exports are apparel and electrical components, mainly for the United States market, which together account for nearly 20 percent of extra-regional exports. Since a large percentage of these goods are the products of simple assembly operations using imported semifinished imputs, local value added can be minimal, estimated by some at 20 percent. The size of this trade is indicative, however, of the importance of the industry as a source of employment in the Eastern Caribbean. Exports of electrical components have been growing at an average annual rate of about 15 percent, and apparel at slightly less.

All OECS countries are eligible under the duty-free entry trade schemes of the United States (CBI), Canada (Caribcan), and the EEC (Lome).

There has been a constant but modest increase in inter-OECS trade in recent years, and a decline in the value of exports to the CARICOM market outside of the OECS, due to structural adjustment in the major markets, Jamaica and Trinidad.

New Foreign Exchange-Earning Investment. According to a recent U.S. Department of Commerce survey, at least 79 foreign exchange-earning investment projects became operational in the OECS during the 1984-87 period, of which 50 were new starts and 29 were significant expansions for the firms surveyed. These projects accounted for more than US$230 million worth of investment and direct full-time employment for more than 9,400 persons. Most of the projects, and nearly 80 percent of the new employment, came in the area of light industry, chiefly apparel and electronics assembly. While light industry created the most jobs, tourism accounted for more than 80 percent of the total investment dollar. Agriculture accounted for the least investment and job creation.

To put these figures into perspective, the total full-time jobs created over the four-year period is approximately equal to one-fifth of the overall population growth in the OECS, indicating that the job opportunities resulting from new foreign exchange-earning investment (and foreign investment generally), while not solving employment shortages, is on an order of magnitude to be extremely significant to these economies.

THE STRATEGY AND PORTFOLIO IN THE 1980s

Since the late 1970s, RDO/C's private sector strategy has been to remove the constraints to Eastern Caribbean export development, particularly in light manufacturing. To oversimply somewhat, the RDO/C approach has been to identify a critical export constraint and to design a project to address it. In 1983-84, the Mission responded to the challenge of the new Caribbean Basin Initiative (CBI) by strengthening its focus on attracting foreign investment. This was viewed as the most effective short-term means to boost foreign exchange-earning exports and give relief from the collapsing intra-CARICOM market and depressed commodity markets, particularly for sugar.

Under this strategy, major projects were implemented to strengthen local and regional chambers of commerce, finance public and private sector industrial estates, provide loans for productive investments by medium size companies and micro-enterprises, promote foreign investment, and provide training and technical assistance to business.

The private sector strategy underwent revision early in 1987. The revised strategy still recognized export growth as essential to the long-term viability of the region, and foreign investment as an important generator of exports. The revised strategy placed greater emphasis on the indigenous private sector, however, including firms without near-term export potential, and on developing institutional mechanisms needed over the long term to improve the business climate and move domestic firms up the scale. It recognized that only the

strongest firms in the region were able to take advantage of export opportunities, and many of them failed to do so. It recognized that, by and large, OECS companies were nowhere near the threshold of being able to compete regionally or internationally.

Shortly thereafter, RDO/C's private sector portfolio was evaluated by an outside contractor. Overall, the portfolio was judged most successful in developing regional and local investment in enterprises, and encouraging regional economic integration, rather than generating foreign investment. In export development, the portfolio was more successful developing niche markets rather than major export markets.

From RDO/C's perspective, the past decade of USAID involvement has had a substantial positive impact on the business climate in the Eastern Caribbean. For example, USAID was instrumental in revitalizing the Caribbean Association of Industry and Commerce to be a force for regional integration and a voice for policy reform. USAID also has left an undeniably large mark in the area of foreign investment promotion, persuading governments to be more open to and supportive of foreign investment, creating and/or strengthening a network of investment promotion institutions (ECIPS in the United States and industrial development corporations on each island), financing public and private industrial estates, and directly facilitating specific investments.

The region has not proven as attractive to foreign investors as was expected, however, partly for reasons beyond the capability of USAID and other donors to affect with available resources (e.g. major transportation deficiencies and high production costs), and partly due to shortcomings in the investment climates that OECS governments have yet to address.

The establishment of the Caribbean Financial Services Corporation (CFSC) is, according to the evaluation, among USAID's most notable accomplishments in the region in terms of economic impact. CFSC has financed more than 35 productive investments to-date, two-thirds of which probably could not have found financing from the region's conservative commercial banks.

In micro-enterprise development, USAID contributed to the creation of effective national development foundations (NDFs) for delivering training and credit services to micro-business in the OECS countries. With the assistance of the regional coordinating unit at CAIC, the NDFs are seeking to diversify their sources of support and to explore innovative revenue generating services. CAIC has also begun to provide technical assistance and training to small and medium size firms, and working capital through a pilot project in Dominica.

In summary, USAID has had a notable impact on the business environment in the region during the past decade - creating new institutions and attracting foreign investment - and has had an impact as well on the level of the individual firm, through delivery of technical assistance and credit. Still, many of the advances are tenuous, owing principally to the financial insecurity of these fledgling institutions and to continuing shortcomings in the business climates of OECS countries. One of the challenges of implementing a new strategy will be to preserve and consolidate USAID's accomplishments, while pressing forward into the areas most likely to have development impact in the 1990s. The bigger challenge will be to do this within the constraints of a Mission budget substantially smaller than what was available when the portfolio of the the 1980s was designed and, for the most part, implemented.

CONSTRAINTS TO PRIVATE SECTOR DEVELOPMENT

Arthur Young International (Barbados) conducted more than 80 personal interviews with public and private sector representatives throughout the OECS region, to identify, analyze, and seek solutions to the principal constraints to private sector development. 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 private sector organizations.

The constraints identified through this exercise range from those which are common throughout the world - finance, collateral, security, bad government policy - to those which are more unique to the West Indies - small scale, the novelty of entrepreurial activity, and social structure. Key constraints relate to finance, the shortage of business and marketing skills, and the creation of an environment conducive to new investment and to business development, both local and foreign.

The Size of Markets. The small size of the OECS markets and societies taken individually, and even as a region, presents formidable constraints to private sector development. The small scale of OECS and even the wider CARICOM markets prevents the establishment of business activities that can compete with large scale extra-regional producers, and so exporting goods extra-regionally tends to be uncompetitive for enterprises initially premised on the basis of regional or national markets.

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 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. Reasons advanced for the lack of innovation incl

- New ventures would stretch limited management resources too thinly and jeopardize even the established activities.

- Shortage of available working capital.

- Promotion of managers or entry of joint venture partners who are not family members would jeopardize the family control and ownership.

- There is little motivation to enter ventures seen as unacceptably high risk when traditional activities are yielding a satisfactory income.

A few of the large companies are beginning to move, however, and 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. Nevertheless, 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, and are given a chance to grow and to have access to the training and resources to allow them to enter new areas.

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), and 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, and are provided with fertilizers and sprays. In St. Vincent and Dominica, their banana crop is even sprayed by light aircraft.

- They are enjoying substantial and stable incomes, and have generations of family experience in traditional agriculture.

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. There is a lack of reliable and disciplined repeat markets where the cost of failure to keep to a contract would be sufficently high to enforce compliance. The farming community also tends to distrust "middle men" who act as distributors. The farmers will seek to circumvent the distributor and secure his margin for themselves. 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.

The Banking System. In all of the OECS countries without exception, the commercial banking systems are highly liquid. The problem, say the bankers, is a dearth of bankable projects. Many entrepreneurs with a viable project do not possess the general business skills necessary to secure the confidence of the banking community. 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. Furthermore, there is a general difficulty in identifying security for loans. In Dominica, for example, the development bank requires between 133 and 150 percent 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.

While the difficulties faced by the banking community in approving new loans are valid, the commercial banks are accused of complacency in their reliance on traditional short-term consumer lending. 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 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 in the region for more training opportunities at all levels from youth training programs to management seminars conducted for senior executives.

Lack of skills in merchandising and marketing is considered by all to be one of the single most significant and important constraints. Skills also need to be upgraded in financial management, business planning, production and materials management, product design and quality control.

NDF business counselors, Peace Corps and IESC 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. The need is for the entrepreneurs to acquire the skills themselves. 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. Working capital is perhaps the single most significant financing constraint. 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. The working capital component of the USAID Small Enterprise Assistance (SEA) Project, operating in Dominica, has only US$50,000 to loan and can only be regarded as an experiment.

Outside of the established merchant houses, local investors lack equity and collateral to support loan applications. There is much talk, but little understanding, of venture capital which in any case 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. Debt financing is also constrained by the inability to prepare and sustain credible business plans as previously discussed. The national development banks generally have poor track records. CFSC has been successful, but cannot by itself fill a financing gap that should be filled by commercial institutions.

The Stigma of Failure. In the small communities of the OECS countries, personalities and minor events assume enormous proportions, and business activities come under the most searching scrutiny. Even in developed countries, the failure rate among new business start-ups is high. In the OECS countries, the stigma of failure is so great in terms of standing and respect in the community that even (and perhaps especially) the most stable and secure individuals tend to act only after extensive reflection and analysis. There is a lack of understanding that business failure should be recognized as a natural component of risk-taking, innovation and entrepreneurship.

The Role of Micro-Enterprise. Micro enterprise is regarded by the commercial banks and more established businesses as politically expedient but as having very little real economic impact. In

contrast, the national development foundations (NDF's) are enthusiastically committed to their clients. They perceive that enabling a client to run a business promotes self respect and the belief that other ambitions previously thought to be unrealistic may also be achievable. This infusion of belief in the art of the possible is a significant accomplishment. However, even the NDF's acknowledge the difficulty of graduating their clients so that they can function without continuous subsidy.

The Role 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 percent, interest in the venture. The many advantages of foreign investment are widely recognized: Large scale employment generation, foreign exchange earnings, technology and skills transfer, etc. But while there are significant rewards to be derived, foreign investment has also generated negative feelings. Foreigners are often viewed as poor corporate citizens, demanding special privileges, incentives and priority access to scarce resources, yet leaving suddenly when it suits them to do so. Loss of control to foreigners over internal economic activity adds to the tension.

In addition, foreign enterprises are characterized as low-tech businesses designed to exploit low-skilled labor, providing unattractive jobs at low pay rates. Enterprises such as garments and electronics assembly provide jobs mainly for females, leaving a major problem in male unemployment.

In St. Kitts, Montserrat and Antigua, the view is expressed that further significant foreign investment in enclave industries such as garments cannot be sustained due to shortages of labor. In some cases, the countries are looking to upgrade 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.

Some assembly operations using s807 of the U.S. Tariff Schedule have been successfully promoted. In general, however, promotion efforts have not been particularly successful. This may be due in part to the fact that tax reliefs and similar financial incentives, on which much emphasis is placed, probably do not play a significant role in the foreign investment decision. Instead, success with foreign investment promotion should rest on identifying and correcting negatives such as excessive bureaucracy, inefficient tax systems, and transportation constraints. The local private sector should be more actively involved in the promotion process, which is now principally government-led.

Infrastructure. With respect to roads, water, electricity, and communications, there is general acceptance of the status quo even though the reliability and availability of utilities is not considered ideal anywhere.

Inadequate airport facilities (short runways, small planes, few carriers) are a major constraint to trade and tourism in St. Vincent, Montserrat, and Dominica. The regional air carrier LIAT uses planes which maximize passenger capacity at the expense of freight. Extra-regional air carriers also concentrate on passengers rather than air freight (especially during the high tourist season), and are expensive. CARICARGO, a public sector air cargo carrier, is more economical but considered unreliable.

Sea transport is not as seriously constrained but is also expensive, both for extra-regional and, even more so, for intra-regional trade. For a number of reasons it is more expensive to ship goods from the Caribbean to the United States than from East Asia to the United States. Many large carriers pass through the islands, primarily to carry freight in and out of the region, but also conducting some intra-island trade. Privately-owned inter-island schooners operate but are more costly and are not always reliable. More costly still is WISCO, a regional public sector marine shipping company which operates on a more reliable schedule.

Ready availability of factory space is a constraint on attracting foreign investment. Under the Caribbean Development Bank financing program (begun with assistance from USAID), construction is undertaken only in response to firm indications of demand, rather than for inventory. Long lead times for construction (in some cases more than a year) have resulted in at least a few lost investments. Not all OECS countries are currently eligible to particpate in the program, due to repayment problems.

Labor. Labor relations are generally considered good; there are only isolated complaints. Entry-level wages for unskilled labor vary by island but are in the neighborhood of $1.00 U.S. per hour, more in the Leewards. In general, skilled labor is in short supply throughout the region, and unskilled labor in short supply in the Leewards. As is the case with other workplace-related skills, the work ethic and attitude is of regional concern.

Specific Contraints to Tourism. There is general acceptance that tourism has a major role to play in economic development. Growth of tourism traffic depends upon expansion of the accommodation sector, however, and since that expansion requires large amounts of capital, it is likely to depend primarily upon foreign investment, an area in which the OECS has not had great success. Growth of tourism traffic also 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 have 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. While 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 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 there is demand from visitors.

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. None of the countries have a clear strategy or plan for tourism development. A pre-requisite for tourism development is tourism master planning at the national and even regional level, which must address issues such as investment promotion and incentives; marketing and promotion (including how to deal with the seasonality of Caribbean tourism); air access and aviation policy; infrastructure planning and development; and environmental planning.

Governments need to carefully consider complaints by the hospitality industry regarding import licensing and negative lists, high levels of taxation, inadequate funding of promotional campaigns, restrictions on work permits, and poor quality service from immigration and customs officials.

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. There is an urgent need for enhanced public/private sector consultation and cooperation in planning for development of the tourism sector.

Linkages Between Tourism and Manufacturing. Given the small size of domestic markets, some form of rationalization of manufacturing is needed within the OECS to allow industries of economically viable scale to be established. 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.

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. Part of the solution may lie in promoting 807-type operations in which the majority of the output is destined for an extra-regional market in the U.S. or elsewhere.

Another constraint arises from the expressed reluctance of hoteliers, including local investors, to purchase local products. In part this is because local products often are not competitive with respect to price or quality. Even given the same quality at the same price as imports, however, 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 taxes (e.g. through under-invoicing). The manufacturers are also to blame for not aggressively marketing and merchandising their products.

Linkages Between Tourism and Agriculture. Unlike the case of manufactured items, hoteliers express less concern with the quality and price of local fruit and vegetable produce; their main difficulty is unreliability of supply which is due in part to the small nature of most of the farmers who are producing food crops and to the lack of market discipline as discussed earlier in this paper.

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 might 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. There are a number of areas in which government policies act as constraints to private sector development. These include:

- Privatization. There is little previous history of privatization in the OECS. A few opportunities do exist, however, which could serve to mobilize savings into productive investments rather than remaining in commercial bank deposits.

- Tax policies and fiscal incentives. There is a general concern in the private sector that taxation policies need to be overhauled and rationalized. In many cases, it is felt that new, indirect forms of taxation have been imposed without the promised relief from direct forms. There also is widespread support among the private sector for a revision of tax policies to encourage export industries. Tax provisions which discriminate against new forms of foreign investment such as management contracts, licensing agreements and franchising also require review and modification.

- Investment promotion. Local and especially foreign investment promotion should take as its starting point the elimination of constraints inherent in policies and practices which create negative perceptions of the country's investment climate, e.g.: complex administration, bureaucratic delays, and petty regulation. It also 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.

- 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. There are complaints as well that public officials do not appreciate the practical implications of their decisions due to lack of practical experience. 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, though this has improved in recent years.

- Legal framework. 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. Tax law in particular consists of a long series of measures passed at budget time but never consolidated. It is difficult, even impossible, for the average business to obtain a copy of the tax laws and regulations as they currently stand.

THE NEW STRATEGY

Objective. 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 to contribute to overall economic growth.

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 the following areas:

- Reducing constraints related to government inefficiency;
- Promoting the ability of the private sector to develop policy alternatives in partnership with government;
- Sustaining private sector institutions that can effectively influence governments, improve the business climate, encourage growth and help to improve the work ethic;
- Assisting the private sector in developing bankable projects;
- Mobilizing local money for investment and working capital; and
- Providing training and technical assistance for management and business skills, supervisory and vocational skills, and pre-vocational training.

Achievement of this objective will 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.

Strategy. The strategy used to achieve this objective 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:

USAID RDO/C - PRIVATE SECTOR STRATEGY

OBJECTIVE	**IMPROVE GENERAL BUSINESS CLIMATE**			
STRATEGY	**TOURISM** Promote growth	**AGRICULTURE** Promote channels of distribution to discipline supply side	**MANUFACTURING** Seek solutions to constraints and foster implementation	**SERVICES** Monitor growth in response to other sectors
PROGRAM COMPONENTS	**TRAINING AND TECHNICAL ASSISTANCE**	**PUBLIC POLICY DIALOGUE**	**FINANCE**	

- The region possesses a natural comparative advantage in the tourism sector which will be leveraged for its direct economic impact 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. While 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 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.

Tourism. 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. The strategy will also seek means of maximizing the retention of foreign exchange earnings within each country and the region.

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 relatively small scale enterprises that require less expertise and capital to establish than manufacturing enterprises. They are likely to be typical of many of the existing clients of the NDFs which have performed so successfully in recent years. Tourism thus offers an opportunity to leverage the success of the NDFs and to develop an expanded local market which will permit their clients to proliferate and grow.

While tourism offers opportunities, it is not an economic panacea. Agriculture can be encouraged and assisted to respond to the expanded local 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, but 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 lead to a better investment climate for hotels. Similarly, finance would not be provided for a new hotel, but rather for the businessman who will make furnishings or raise vegetables 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.

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 reaching the product reliability and quality that both the tourism and export markets require.

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. However, tourism alone cannot provide a sufficiently expanded market to sustain many manufacturing industries. Manufacturing must be developed 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.

The strategy for manufacturing will be to focus on business 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. 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 services sector will be to simply monitor 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 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:

- Public policy dialogue
- Training
- Finance

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. Central to this is continued activity in supporting and strengthening the private sector organizations.

Training will benefit all sectors of the economy, as well as governments 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.

The following paragraphs describe the activities within each area identified as key to achieving the strategic objective of creating a robust business climate. The extent to which each of the activities is implemented will of course depend to a large extent on the level of funding available from time to time. Thus, the activities are intended to be implemented or deferred, expanded or contracted as required without compromising the overall integrity of the strategic approach.

PUBLIC POLICY DIALOGUE

Public/Private Sector Councils. The establishment of public/private sector councils in each country under a regional umbrella is needed to guide the agenda for public policy research and reform and to provide a forum for the exchange of information between the public and private sector. The long version of this strategy document provides a description of the possible structure and operation of such councils. The single most important element is balance between public and private sector participation and the commitment to get things done.

These councils would be formed at the instigation of an established regional organization. Funding would be made available to the regional organization to support costs incurred in managing the project and to provide a pool of funds to pay for consultancies requested by the national councils. No funds would be provided directly to the national councils to support their operating costs. Membership in the national councils would consist of appropriate government and business community leaders.

Typical agenda items for the consideration and review of the groups would include the following:

- Constraint identification, analysis, and prioritization
- 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
- Maximizing foreign exchange retained from tourism
- Investment promotion

The remaining program components grouped under the heading of public policy dialogue may be viewed as subordinate to the formation of the national/regional council structure. 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 (this could be accomplished by earmarking funds for specific purposes).

Tourism Master Planning. Tourism master planning is needed at the national, and possibly regional level 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 should be a joint public/private sector undertaking. Issues which would 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
- 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

Law Reform. Through the vehicle of the Caribbean Law Institute, laws governing commercial activities need to be reviewed with a view to modernization, consolidation and facilitation of private sector activity. Of particular concern is updating the company laws to facilitate new types of corporate entities and allow for modern business practices; facilitating the formation of OECS regional corporations; facilitating the flow of capital between countries in the region; and encouraging formation of more sophisticated capital markets that will enable companies to mobilize local investment capital and utilize the region's excess liquidity for productive investment.

Privatization. One of the functions of the public/private sector national councils would be to explore opportunities for privatization as a vehicle for increased efficiency in operations as well as a vehicle for mobilizing local investment. This effort would be assisted by the provision of consulting services to evaluate the potential benefits of privatizing specific entities and to propose means for accomplishing the privatization.

Financial Institutions. There is a need for strategic planning and the development of an action plan for strengthening linkages between the various financial institutions which make up the capital markets of the region. This is a project that could be undertaken by the regional umbrella council with the support of the public/private sector councils at the national level. The purpose would be to discover ways of making financial institutions more

responsive to the needs of the private sector and to push for changes in the policy guidelines of banks and other institutions. Part of the solution is expected to be in executive-level training to broaden the vision of the financial community and promote innovation in portfolio management and financial instruments.

Regional Trade. The umbrella regional council could also initiate a policy planning project with the objective of facilitating intra-regional and CARICOM trade. 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

There is need to continue the development (begun under the Regional Management Skills Training Pilot Project) of an umbrella group to plan and coordinate a comprehensive business skills training program in the OECS region. A small executive directorate for the group could be formed and affiliated with the University of the West Indies. This organization would not actually carry out the training but would contract with its member agencies or other specially qualified groups or individuals. The scope of effort could gradually be expanded to cover the spectrum of needs from the micro-enterprise level to the senior executive level. Special emphasis is needed on marketing and merchandising training. The training program must also cover the spectrum of business size, but with special emphasis on medium size business which has so far not benefited from training opportunities to the same extent as the large and micro sectors. The long version of this document provides more detail on program components that could be implemented by the coordinating group.

FINANCE

Micro-Enterprise. An increase in the credit guarantee levels for the NDFs in addition to the ability to provide working capital is needed. There also may be a development opportunity in providing feasibility study/business plan funding and seed capital to encourage the start-up of privately-owned business incubators, possibly with involvement of the NDFs. This approach could be applied to the tourism sector's ancillary services on the lines of the Pelican Village in Barbados. Investigation is needed to determine the types of services and support needed in-common by small scale manufacturers in the OECS (clearly not identical to what is provided in U.S. models) that could best be provided in an incubator environment. Coordination with UNDP efforts in this area is necessary to share knowledge and conserve resources.

Working Capital. Access to working capital is a critical need of middle-sized companies. 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. This need may be met through provision of technical assistance to help companies make their case more persuasively to commercial banks and/or through an export or raw material credit guarantee scheme.

Equity Financing. The shortage of equity capital is a critical problem. This need can be addressed through providing CFSC, the HIAMP Agriculture Venture Trust or a similar organization with the ability to either make equity investments in the broad range of productive industries in the region or to provide guarantees to venture capitalists that their equity investment has some protection. The new CFSC equity window funded by the European Investment Bank will help meed this need and should be assisted however possible by USAID.

Mobilizing Local Capital. The need for equity financing is part of the broader problem of mobilizing local money for productive investment. (This ties in with possible policy dialogue activities in the areas of capital market development, commercial law, taxation, etc.) Means or mechanisms are needed to allow for public participation in investment opportunities made available through privatization or through the flotation of public companies. With respect to the latter, the reluctance of family-owned firms to take on outside investors must be addressed through education and the demonstration effect. One method of encouraging the larger, family-owned companies to allow public equity participation might be through tax incentives for the issue of shares to employees.

Business Plan Development. There is a critical need for technical assistance to OECS companies in feasibility study/business plan development and the successful implementation of plans once they are formed and adopted, e.g., on-going, long-term follow-up. This might be tied with access to CFSC funds or ombudsman assistance in gaining credibility with commercial banks.

Linkages to Agriculture. Provision of direct support (either in the form of working capital or business development funds) to food distributors or co-ops is needed to assist them in providing training to local farmers and in gaining sufficient capacity to adequately service both tourism and export markets. This activity should focus on existing companies if possible rather than starting new entities, and could be linked with an agriculture project or in some other way access agriculture funds.

Private Sector Organizations. Provision of temporary direct grant support to private sector organizations such as national chambers of commerce or manufacturers associations is a continuing need in the region. Such support would be provided contingent upon progress toward self-sufficiency based on expanded active membership.

USAID-PDO/C
PRIVATE SECTOR STRATEGY
1990-1994

BEST AVAILABLE

R E V I S E D

PRIVATE SECTOR STRATEGY, 1990-1994

Regional Development Office, Caribbean
United States Agency for International Development

February 1989

ANNEX III - 1990-1994 CDSS

RDO/C would like to recognize Arthur Young International (Barbados) for its work in developing the strategy, and USAID's Bureau for Private Enterprise for funding their efforts. We also want to thank the many business and government leaders who took time to discuss their concerns and ideas for change.

Private Sector Strategy, 1990-94

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EXECUTIVE SUMMARY

The central objective of RDO/C private sector development efforts in the 1990-94 period will be to create a robust private sector in the Eastern Caribbean 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 to contribute to overall economic growth.

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 the following areas:

- Reducing constraints related to government inefficiency;
- Promoting the ability of the private sector to develop policy alternatives in partnership with government;
- Sustaining private sector institutions that can effectively influence governments, improve the business climate, encourage growth and help to improve the work ethic;
- Assisting the private sector in developing bankable projects;
- Mobilizing local money for investment and working capital; and
- Providing training and technical assistance for management and business skills, supervisory and vocational skills, and pre-vocational training.

With respect to four major areas of business activity - tourism, agriculture, manufacturing, and services - the private sector development strategy is as follows:

- The region possesses a natural comparative advantage in the tourism sector which will be leveraged for its direct economic impact 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.

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. The strategy will also seek means of maximizing the retention of foreign exchange earnings within each country and the region.

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.

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 strategy for manufacturing will be to focus on business skills development and improvements in the investment climate, and to assist in the development of sources of equity and working capital.

The strategy for the services sector will be to simply monitor 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 strategy will be accomplished by activities in three areas: Public policy dialogue, training, and finance.

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. This is critical for obtaining improvements in the business climate.

Training will benefit all sectors of the economy, as well as governments 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.

RDO/C PRIVATE SECTOR STRATEGY

INTRODUCTION

The Organisation of Eastern Caribbean States (OECS) comprises the independent island nations of Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and 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, 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 in the region with significant achievements especially in terms of the creation and strengthening of national and regional private sector organizations. These organizations have been instrumental in promoting government policy reforms 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 exports. USAID's programs have also resulted in more structured and coordinated activities aimed at attracting new foreign investment.

The purpose of this strategy document is to provide a sound basis for leveraging the successes of the past and carrying the development effort forward into the 1990's. The contents are distilled and adapted with modifications from a more in-depth report produced by the Private Sector Office of USAID/RDO/C, Bridgetown, Barbados, from a study by Arthur Young International, Barbados.

MACROECONOMIC AND SECTORAL TRENDS

Economic Sectors. The principal foreign exchange-earning sectors in the OECS economies are tourism, agriculture, and manufacturing.

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 productive sectors in all countries. The "hotels and restaurants" sector contributed 7.5 percent to regional GDP in 1986, and during the 1980-86 period grew at a compound annual rate of 18.4 percent, compared to 10.8 percent for overall GDP. Continued growth is forecast.

All of the islands of the OECS have an agricultural tradition, and agriculture is still one of the most dominant economic sectors in the OECS, contributing over 14 percent to the regional GDP in 1986. Agriculture has remained relatively stable as a share of GDP in all countries except Antigua where it has declined significantly.

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. The main industries currently existing in the OECS include apparel, chemicals, flour and animal feeds, aerated drinks, paints, electrical goods, cigarettes, and coconut products including soaps. There are also various assembly-type operations where all of the inputs except for labor are imported. With the exception of these assembly operations, which export finished goods to the United States under the 807 Program and similar schemes, the sector primarily produces goods for local consumption, with some of the larger companies exporting to other islands in the Caribbean.

Macroeconomic Policies. Public sector expenditures are a larger than desirable share of GDP. Current government revenues and expenditures ranged on average from 28 percent of GDP in Antigua to 40 percent in Grenada during the 1984-86 period. Revenues are largely derived from consumption taxes and duties on imports and other international trade. Public sector balances - postitive and negative - are small. The inflation rate is small, consistent with low public sector indebtedness. With the exception of Antigua (and to a lesser extent Grenada), external debt of OECS countries appears to be well within manageable limits.

Although the Eastern Caribbean Central Bank has a rediscount facility, it has not been used to expand the money supply. Foreign banks normally operate on the basis of savings collected on the islands and do not normally transfer international funds for their own account. The growing liquidity in the banking system is primarily the result of general prosperity derived from increased banana sales and remittances. Increased liquidity and limited loan demand has kept interest rates low.

The OECS countries in effect eliminated exchange rate policy as an individual policy instrument by accepting a regionally unified exchange rate. The Eastern Caribbean dollar has been pegged to the U.S. dollar since 1976 at the rate of EC$2.70 = US$1.00. Since much of OECS exports are to the EEC and the U.K. in particular, and because OECS exports compete directly with products from other developing countries not tied to the dollar, the relative value of the U.S. dollar is the most important exchange rate factor in the Eastern Caribbean economies. When the U.S. dollar was strongest in 1982-84 it acted as a major drag on island exports. The decline in the value of the U.S. currency from 1985 has been a major factor in island prosperity.

Foreign Trade. OECS countries are heavily dependent on imports from the developed world. During the four year period 1983-86, OECS imports from the developed world amounted to roughly twice the value of extra-regional exports in two of the years, and three times the value of exports in a third. Although extra-regional exports increased substantially in each of the years, at an average annual rate of 27 percent, the rate of import expansion kept close pace. As a result, there was no significant improvement in the size of the trade deficit as a percentage of total trade.

The narrow production base of the OECS is reflected in the comparative composition of imports and exports. The Eastern Caribbean exports a relatively narrow range of products, chiefly unprocessed agricultural goods and, from the small manufacturing sector, apparel and electrical components with a minimum of local content. Imports, on the other hand, are comprised of a broad range of manufactured goods and foodstuffs, including meat, paper goods, gasoline, automobiles, clothing, cooling equipment, paints, furniture and wood products, vegetables, grains, and fruit products.

On the extra-regional export ledger, foodstuffs account for more than 60 percent of income. Nearly three-fourths of these come from banana exports to the United Kingdom from the Windward Islands (Dominica, St. Lucia, St. Vincent, and to a lesser extent Grenada), under a protected market scheme that may be altered in 1992 with the planned integration of the internal EEC market. In recent years banana exports have maintained a constant share of total export earnings. Agricultural export diversification is proceeding at a snail's pace, and there are no products with the near-to-medium term potential to replace income from bananas. The second largest agricultural export, sugar, accounts for only one-tenth the revenue of bananas and has been decreasing as a share of total exports due to the squeeze in U.S. sugar quotas.

The principal manufactured goods exports are apparel and electrical components, mainly for the United States market, which together account for nearly 20 percent of extra-regional exports. Since a large percentage of these goods are the products of simple assembly operations using imported semifinished imputs, local value added can be minimal, estimated by some at 20 percent. The size of this trade is indicative, however, of the importance of the industry as a source of employment in the Eastern Caribbean. Exports of electrical components have been growing at an average annual rate of about 15 percent, and apparel at slightly less.

All OECS countries are eligible under the duty-free entry trade schemes of the United States (CBI), Canada (Caribcan), and the EEC (Lome).

There has been a constant but modest increase in inter-OECS trade in recent years, and a decline in the value of exports to the CARICOM market outside of the OECS, due to structural adjustment in the major markets, Jamaica and Trinidad.

New Foreign Exchange-Earning Investment. According to a recent U.S. Department of Commerce survey, at least 79 foreign exchange-earning investment projects became operational in the OECS during the 1984-87 period, of which 50 were new starts and 29 were significant expansions for the firms surveyed. These projects accounted for more than US$230 million worth of investment and direct full-time employment for more than 9,400 persons. Most of the projects, and nearly 80 percent of the new employment, came in the area of light industry, chiefly apparel and electronics assembly. While light industry created the most jobs, tourism accounted for more than 80 percent of the total investment dollar. Agriculture accounted for the least investment and job creation.

The job opportunities resulting from new foreign exchange-earning investment (and foreign investment generally), while not solving employment shortages, is on an order of magnitude to be extremely significant to these economies.

THE STRATEGIC EVOLUTION

Since the late 1970s, RDO/C's private sector strategy has been to remove the constraints to Eastern Caribbean export development, particularly in light manufacturing. In 1983-84, the Mission responded to the challenge of the new Caribbean Basin Initiative (CBI) by strengthening its focus on attracting foreign investment. This was viewed as the most effective short-term means to boost foreign exchange-earning exports and give relief from the collapsing intra-CARICOM market and depressed world sugar market.

Under this strategy, USAID was instrumental in revitalizing the Caribbean Association of Industry and Commerce (CAIC) to be a voice for policy reform affecting trade and investment. CAIC was also asked to coordinate USAID support for national development foundations (NDFs) and chambers of commerce in each of the OECS countries; the NDFs to provide effective training, technical assistance, and credit support to micro-enterprise, and the chambers to provide technical assistance and other services to small and medium-size business.

USAID also made an undeniably large mark in the area of foreign investment, persuading governments to be more open to and supportive of foreign investment, creating and/or strengthening a network of investment promotion institutions (ECIPS in the United States and industrial development corporations on each island), financing industrial estates, and directly facilitating specific investments. The region did not prove as attractive to foreign investors as was expected, however, partly for reasons beyond the capability of USAID and other donors to affect with available resources (e.g. major transportation deficiencies and high production costs), and partly due to shortcomings in the investment climates that OECS governments and private sectors have yet to address.

The establishment of the Caribbean Financial Services Corporation (CFSC) was among USAID's most notable accomplishments in terms of direct economic impact. CFSC has financed nearly 40 productive investments to-date, most of which could not find financing from the region's conservative commercial banks.

The private sector strategy underwent revision early in 1987. The revised strategy still recognized export growth as essential to the long-term viability of the region, and foreign investment as an important generator of exports. The revised strategy placed greater emphasis on the indigenous private sector, however, including firms without near-term export potential, and on developing institutional mechanisms needed over the long term to improve the business climate and move domestic firms up the scale. It recognized that only the strongest firms in the region were able to take advantage of export opportunities, and that most major OECS companies were nowhere near the threshold of being able to compete internationally.

Shortly thereafter, RDO/C's private sector portfolio was evaluated by an outside contractor. The evaluation indicated that action programs targeted at foreign investment promotion and extra-regional exports were the least successful elements of the portfolio, whereas the portfolio was judged most successful in developing regional and local investment in enterprises, and encouraging regional economic integration. Similarly, the portfolio was judged more successful developing local and regional markets rather than major extra-regional export markets. Policy advocacy efforts undertaken by the private sector and aimed at improving the business climate were also favorably reviewed.

The results of this evaluation have been carefully considered in developing the new strategy. Under the new strategy, a major focus will be on policy advocacy, informed by technical assistance, undertaken with private sector involvement, and aimed at improving the business climate. This is expected to lay solid foundations for increased investment and exports, and over the medium to long term to be more effective than the prior emphasis on direct action programs targeted at attracting investors and creating exporters.

Also in line with the evaluation results, the focus in working with OECS manufacturers and agribusiness companies will be on the local and regional markets rather than extra-regional export markets. This emphasis complements the new sectoral focus on tourism. Tourism is expected to be a dynamic force in the growth of local and regional markets and the creation of opportunities for OECS producers, and a leading generator of jobs and foreign exchange in its own right.

The new focus on tourism is not entirely new. Support for tourism has been an element in RDO/C programs: For example, one-third of the loans made by the Caribbean Financial Services Corporation have been tourism-related, infrastructure projects such

as the St. Kitts Southeast Penninsula Road and improvements to utilities have been directed at or had a positive impact on tourism development, and the Mission funded a feasibility study for a self-financing regional tourism promotion campaign for implementation by the Caribbean Tourism Organization. With respect to this latter activity, USAID's role is essentially finished, except that in the event the proposed campaign is not immediately adopted, we will continue to urge countries in the region to pool their scarce promotional resources and to tap the new methods of funding identified by the study.

Another major element in the previous strategy was institutional development, involving the establishment and strengthening of investment promotion agencies, chambers of commerce, development foundations, and intermediate credit institutions. Institution building will not be a major strategic thrust in the 1990-1994 period. USAID efforts in the last ten years have left a substantial institutional legacy. The region cannot readily support additional new institutions at this time, and those previously established with USAID support are at a stage of development where they should diversify sources of funding and enact measures to become self-financing. Nevertheless, USAID will continue to maintain a supportive relationship with the region's institutions, relying on them to manage new projects where possible, and providing technical assistance and training related to the accomplishment of specific USAID project purposes. We remain concerned that the various regional institutions continue as viable and vibrant contributors to Eastern Caribbean development.

In the case of the Eastern Caribbean Investment Promotion Service (ECIPS), we have a commitment to the region to continue to provide operational funding for the 1990-91 period to ensure that the organization is firmly established, even though investment promotion will no longer be a central element of our strategy. The SEA project, involving support for the Caribbean Association of Industry and Commerce and the national development foundations, will be continued through to its completion date in February 1991.

CONSTRAINTS TO PRIVATE SECTOR DEVELOPMENT

To help focus the new strategy, Arthur Young International (Barbados) conducted more than 80 personal interviews with public and private sector representatives throughout the OECS region, to identify, analyze, and seek solutions to the principal constraints to private sector development. 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 private sector organizations.

The constraints identified through this exercise range from those which are common throughout the world - finance, collateral, security, bad government policy - to those which are more unique to the West Indies - small scale, the novelty of entrepreurial activity, and social structure. Key constraints relate to finance,

the shortage of business and marketing skills, and the creation of an environment conducive to new investment and to business development, both local and foreign.

The Size of Markets. The small size of the OECS markets and societies taken individually, and even as a region, presents formidable constraints to private sector development. The small scale of OECS and even the wider CARICOM markets prevents the establishment of business activities that can compete with large scale extra-regional producers, and so exporting goods extra-regionally tends to be uncompetitive for enterprises initially premised on the basis of regional or national markets.

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 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. Reasons advanced for the lack of innovation include:

- New ventures would stretch limited management resources too thinly and jeopardize even the established activities.
- Shortage of available working capital.
- Promotion of managers or entry of joint venture partners who are not family members would jeopardize the family control and ownership.
- There is little motivation to enter ventures seen as unacceptably high risk when traditional activities are yielding a satisfactory income.

A few of the large companies are beginning to move, however, and 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), and 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 other crops.
- They enjoy a guaranteed price for the crop.

- They enjoy free agricultural extension and other advisory services, and are provided with fertilizers and sprays. In St. Vincent and Dominica, their banana crop is even sprayed by light aircraft.

- They are enjoying substantial and stable incomes, and have generations of family experience in traditional agriculture.

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. There is a lack of reliable and disciplined repeat markets where the cost of failure to keep to a contract would be sufficently high to enforce compliance. The farming community also tends to distrust "middle men" who act as distributors. The farmers will seek to circumvent the distributor and secure his margin for themselves. 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.

The Banking System. In all of the OECS countries without exception, the commercial banking systems are highly liquid. The problem, say the bankers, is a dearth of bankable projects. Many entrepreneurs with a viable project do not possess the general business skills necessary to secure the confidence of the banking community. 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. Furthermore, there is a general difficulty in identifying security for loans. In Dominica, for example, the development bank requires between 133 and 150 percent 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.

While the difficulties faced by the banking community in approving new loans are valid, the commercial banks are accused of complacency in their reliance on traditional short-term consumer lending. 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 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. 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 senior management seminars. Lack of skills in merchandising and marketing is considered by all to be one of the single most significant and important constraints. Skills also need to be upgraded in financial management, business planning, production and materials management, product design and quality control.

NDF business counselors, Peace Corps and IESC 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. The need is for the entrepreneurs to acquire the skills themselves. 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. Working capital is perhaps the single most significant financing constraint. 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 the scheme or how to make use of it. The working capital component of the USAID Small Enterprise Assistance (SEA) Project, operating in Dominica, has only $50,000 to loan and can only be regarded as an experiment.

Outside of the established merchant houses, local investors lack equity and collateral to support loan applications. There is much talk, but little understanding, of venture capital which in any case 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. Debt financing is also constrained by the inability to prepare and sustain credible business plans as previously discussed. The national development banks generally have poor track records. CFSC has been successful, but cannot by itself fill a financing gap that should be filled by commercial institutions.

The Stigma of Failure. In the small communities of the OECS countries, personalities and minor events assume enormous proportions, and business activities come under the most searching scrutiny. Even in developed countries, the failure rate among new business start-ups is high. In the OECS countries, the stigma of failure is so great in terms of standing and respect in the community that even (and perhaps especially) the most stable and secure individuals tend to act only after extensive reflection and analysis. There is a lack of understanding that business failure should is a natural component of innovation and entrepreneurship.

The Role of Micro-Enterprise. Micro-enterprise is regarded by the commercial banks and more established businesses as politically expedient but as having very little real economic impact. In contrast, the national development foundations (NDF's) are enthusiastically committed to their clients. They perceive that enabling a client to run a business promotes self respect and the belief that other ambitions previously thought to be unrealistic may also be achievable. This infusion of belief in the art of the possible is a significant accomplishment. However, even the NDF's acknowledge the difficulty of graduating their clients so that they can function without continuous subsidy.

The Role 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 percent, interest in the venture. The many advantages of foreign investment are widely recognized: Large scale employment generation, foreign exchange earnings, technology and skills transfer, etc. But foreign investment has also generated negative feelings. Foreigners are often viewed as poor corporate citizens, demanding special privileges, incentives and priority access to scarce resources, yet leaving suddenly when it suits them to do so. Loss of control to foreigners over internal economic activity adds to the tension.

In addition, foreign enterprises are characterized as low-tech businesses designed to exploit low-skilled labor, providing unattractive jobs at low pay rates. Enterprises such as garments and electronics assembly provide jobs mainly for females, leaving a major problem in male unemployment.

In St. Kitts, Montserrat and Antigua, the view is expressed that further significant foreign investment in enclave industries such as garments cannot be sustained due to shortages of labor. In some cases, the countries are looking to upgrade 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.

Some assembly operations using s807 of the U.S. Tariff Schedule have been successfully promoted. In general, however, promotion efforts have not been particularly successful. This may be due in

part to the fact that tax reliefs and similar financial incentives, on which much emphasis is placed, probably do not play a significant role in the foreign investment decision. Instead, success with foreign investment promotion should rest on identifying and correcting negatives such as excessive bureaucracy, inefficient tax systems, and transportation constraints.

Infrastructure. With respect to roads, water, electricity, and communications, there is general acceptance of the status quo even though the reliability and availability of utilities is not considered ideal anywhere.

Inadequate airport facilities (short runways, small planes, few carriers) are a major constraint to trade and tourism in St. Vincent, Montserrat, and Dominica. The regional air carrier LIAT uses planes which maximize passenger capacity at the expense of freight. Extra-regional air carriers also concentrate on passengers rather than air freight (especially during the high tourist season), and are expensive. CARICARGO, a public sector air cargo carrier, is more economical but considered unreliable.

Sea transport is not as seriously constrained but is also expensive, both for extra-regional and, even more so, for intra-regional trade. For a number of reasons it is more expensive to ship goods from the Caribbean to the United States than from East Asia to the United States. Many large carriers pass through the islands, primarily to carry freight in and out of the region, but also conducting some intra-island trade. Privately-owned inter-island schooners operate but are more costly and are not always reliable. More costly still is WISCO, a regional public sector marine shipping company which operates on a more reliable schedule.

Ready availability of factory space is a constraint on attracting foreign investment. Under the Caribbean Development Bank financing program (begun with assistance from USAID), construction is undertaken only in response to firm indications of demand, rather than for inventory. Long lead times for construction (in some cases more than a year) have resulted in at least a few lost investments. Not all OECS countries are currently eligible to particpate in the program, due to repayment problems.

Labor. Labor relations are generally considered good; there are only isolated complaints. Entry-level wages for unskilled labor vary by island but are in the neighborhood of $1.00 U.S. per hour, more in the Leewards. In general, skilled labor is in short supply throughout the region, and unskilled labor in short supply in the Leewards. As is the case with other workplace-related skills, the work ethic and attitude is of regional concern.

Specific Contraints to Tourism. There is general acceptance that tourism has a major role to play in economic development. Growth of tourism traffic depends upon expansion of the accommodation sector, however, and since that expansion requires large amounts of capital, it is likely to depend upon foreign investment, an area in which the OECS has not had great success. Growth of tourism traffic also 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 have 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. While infrastructure may be adequate though not ideal for present demands, substantial growth in the accommodation sector places very large incremental demands on these resources which may require more ambitious expansion plans.

The extent of the economic benefits of tourism development depends upon the degree to which the foreign exchange earnings can be 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 there is demand from visitors.

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. A pre-requisite for tourism development is tourism master planning at the national and even regional level, which must address issues such as investment promotion and incentives; marketing and promotion (including how to deal with the seasonality of Caribbean tourism); air access and aviation policy; infrastructure planning and development; and environmental planning.

Governments need to carefully consider complaints by the hospitality industry regarding import licensing and negative lists, high levels of taxation, inadequate funding of promotional campaigns, restrictions on work permits, and poor quality service from immigration and customs officials.

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. There is an urgent need for enhanced public/private sector consultation and cooperation in planning for development of the tourism sector.

Linkages Between Tourism and Manufacturing. Given the small size of domestic markets, some form of rationalization of manufacturing is needed within the OECS to allow industries of economically viable scale to be established. 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.

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. Part of the solution may lie in promoting 807-type operations in which the majority of the output is destined for an extra-regional market in the U.S. or elsewhere.

Another constraint arises from the expressed reluctance of hoteliers, including local investors, to purchase local products. In part this is because local products often are not competitive with respect to price or quality. Even given the same quality at the same price as imports, however, 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 taxes (e.g. through under-invoicing). The manufacturers are also to blame for not aggressively marketing and merchandising their products.

Linkages Between Tourism and Agriculture. Unlike the case of manufactured items, hoteliers express less concern with the quality and price of local fruit and vegetable produce; their main difficulty is unreliability of supply which is due in part to the small nature of most of the farmers who are producing food crops and to the lack of market discipline as discussed earlier in this paper.

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 might 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 penalties on farmers who break contracts and so bring some discipline to the supply side.

Public Policy Issues. There are a number of areas in which government policies act as constraints to private sector development. These include:

- Privatization. There is little previous history of privatization in the OECS, and state-ownership does not generally pose a major constraint to development in the region. A few opportunities for privatization do exist, however, which could serve to mobilize savings into productive investments rather than remaining in commercial bank deposits.

- Tax policies and fiscal incentives. There is a general concern in the private sector that taxation policies need to be overhauled and rationalized. In many cases, it is felt that new, indirect forms of taxation have been imposed without the promised relief from direct forms. There also is widespread support among the private sector for a revision of tax policies to encourage export industries. Tax provisions which discriminate against new forms of foreign investment such as management contracts, licensing agreements and franchising also require review and modification.

- Investment promotion. Local and especially foreign investment promotion should take as its starting point the elimination of constraints inherent in policies and practices which create negative perceptions of the country's investment climate, e.g.: complex administration, bureaucratic delays, and petty regulation. It also 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.

- 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. There are complaints as well that public officials do not appreciate the implications of their decisions due to lack of practical experience. 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, though this has improved in recent years.

- Legal framework. 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. Tax law in particular consists of a long series of measures passed at budget time but never consolidated. It is difficult, even impossible, for the average business to obtain a copy of the tax laws and regulations as they currently stand.

THE NEW STRATEGY

Objective. 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 to contribute to overall economic growth.

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 the following areas:

- Reducing constraints related to government inefficiency;
- Promoting the ability of the private sector to develop policy alternatives in partnership with government;
- Sustaining private sector institutions that can effectively influence governments, improve the business climate, encourage growth and help to improve the work ethic;
- Assisting the private sector in developing bankable projects;
- Mobilizing local money for investment and working capital; and
- Providing training and technical assistance for management and business skills, supervisory and vocational skills, and pre-vocational training.

USAID RDO/C - PRIVATE SECTOR STRATEGY

OBJECTIVE	**IMPROVE GENERAL BUSINESS CLIMATE**			
STRATEGY	**TOURISM** Promote growth	**AGRICULTURE** Promote channels of distribution to discipline supply side	**MANUFACTURING** Seek solutions to constraints and foster implementation	**SERVICES** Monitor growth in response to other sectors
PROGRAM COMPONENTS	**TRAINING AND TECHNICAL ASSISTANCE**	**PUBLIC POLICY DIALOGUE**	**FINANCE**	

Achievement of this objective will 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.

Strategy. The strategy used to achieve this objective 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 impact 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. The thrust of the program will no longer be to promote investment or exports through direct action programs such as investment promotion agencies and industrial estates. Investment will flow in response to the creation of a healthy business climate rather than through contrived efforts on the part of governments and development agencies.

Tourism. 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. The strategy will also seek means of maximizing the retention of foreign exchange earnings within the region.

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 relatively small scale enterprises that require less expertise and capital to establish than manufacturing enterprises. They are likely to be typical of many of the existing clients of the NDFs which have performed so successfully in recent years. Tourism thus offers an opportunity to leverage the success of the NDFs and to develop an expanded local market which will permit their clients to proliferate and grow.

While tourism offers opportunities, it is not an economic panacea. Agriculture can be encouraged and assisted to respond to the expanded local 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, but 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 lead to a better investment climate for hotels. Similarly, finance would not be provided for a new hotel, but rather for the businessman who will make furnishings or raise vegetables 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.

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 reaching the product reliability and quality that both the tourism and export markets require.

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. However, tourism alone cannot provide a sufficiently expanded market to sustain many manufacturing industries. Manufacturing must be developed 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.

The strategy for manufacturing will be to focus on business 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. 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 services sector will be to simply monitor 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 and will not require significant direct inputs and supports from the private sector strategy. Yet this sector is included in the strategy description because it plays an important role in a healthy tourism-based economy, and the importance of monitoring the sector should be explicitly recognized by USAID.

PROGRAM COMPONENTS

The strategy will be accomplished by activities in three areas:

- Public policy dialogue
- Training
- Finance

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.

Training will benefit all sectors of the economy, as well as governments 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, continued effort is needed, especially in the areas of equity and working capital.

The following paragraphs describe the activities within each area that will contribute to the strategic objective of creating a robust business climate. The extent to which each of the activities is implemented will of course depend to a large extent on the level of funding available from time to time. Thus, the activities are intended to be implemented or deferred, expanded or contracted as required without compromising the overall integrity of the strategic approach.

PUBLIC POLICY DIALOGUE

USAID's efforts in this area with host country governments will be leveraged by involving the host country private sector in setting the policy agenda and conducting dialogue.

Public/Private Sector Dialogue. Increased public/private sector dialogue is needed to guide the agenda for public policy research and reform, and to create the consensus needed to successfully deal with problems related to improving the business climate. The dialogue should be formalized but not necessarily institutionalized. It could be accomplished through the formation of ad hoc study groups to deal with specific problem areas, or through the establishment of more formal public/private sector councils. The most important elements are balanced and broad-based public and private sector participation and getting the right people together with the commitment to get things done.

USAID would establish a technical consultancy fund administered by a regional organization to support business climate improvement activities. Technical assistance services would be offered to OECS governments with the proviso that a balanced public/private sector study group or council be appointed (with USAID approval of composition) to work with the consultants in formulating and, with appropriate approvals, taking action on recommendations to the government and private sector for improving the business climate. This would not be an institution-building exercise, in that no funds would be provided to the groups for staffs, equipment, or office

space. However, it would support established private sector organizations such as chambers of commerce, hotel and manufacturers associations by including representatives of these bodies in the study groups or councils.

In keeping with our strategy, USAID would initially encourage activities in the area of tourism development, such as tourism master planning (see below). Some funds could be earmarked for tourism. However, many factors influencing the climate for tourism development are actually broad problems affecting other sectors. Thus, action areas for these groups would include the following:

- Constraint identification, analysis, and prioritization
- 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
- Maximizing foreign exchange retained from tourism
- Investment promotion

The specific agenda will de determined in concert by USAID, the private sector, and host governments on a country-by-country basis.

On a regional basis, the OECS and CAIC could instigate the formation of a regional public/private sector group to deal with problems that have regional ramifications, such as trade policies, investment incentive harmonization, an OECS enterprise regime, and regional capital mobilization. The project would need to provide travel funds. Occasional regional meetings would be useful in any event for sharing the results of technical consultancies.

Each of the following components may also be regarded as areas for joint public/private section investigation and action.

Tourism Master Planning. Tourism master planning is needed at the national and possibly regional level 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 term "master planning" does not imply a statist approach, but is merely intended to ensure that adequate attention is given to coordinating the complicated elements involved in successful development. For example, it is desirable that infrastructure development plans take account of the likely location and pace of hotel developments. It is generally desirable that land use plans be developed to ensure an appropriate scale and mix of hotels in a particular area. Tourism marketing and investment promotion strategies should be guided by an overall development concept to be effective, and so forth.

Issues which would 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
- 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

Law Reform. Through the vehicle of the Caribbean Law Institute, laws governing commercial activities need to be reviewed with a view to modernization, consolidation and facilitation of private sector activity. Of particular concern is updating the company laws to facilitate new types of corporate entities and allow for modern business practices; facilitating the formation of OECS regional corporations; facilitating the flow of capital between countries in the region; and encouraging formation of more sophisticated capital markets that will enable companies to mobilize local investment capital and utilize the region's excess liquidity for productive investment.

Privatization. USAID has discussed privatization with regional governments in the past, with no great success, and will continue to be alert to opportunities for advancing privatization through policy dialogue and the provision of technical consultancy services. Since state ownership is generally not a major impediment to private sector development in the OECS, this is not expected to be a priority issue for policy dialogue.

Financial Institutions. There is a need for strategic planning and the development and implementation of an action plan for strengthening linkages between the various financial institutions which make up the capital markets of the region. The purpose would be to discover ways of making financial institutions more responsive to the needs of the private sector, to mobilize new sources of capital, and to push for changes in the policy guidelines of governments, banks and other institutions. RDO/C has made a start in this area with a capital markets development study funded for the Eastern Caribbean Central Bank; the results of the study must now be digested by the ECCB and RDO/C, and follow-on activities developed.

TRAINING

There is need to continue the development (begun under the Regional Management Skills Training Pilot Project) of an umbrella group to plan and coordinate a comprehensive business skills training program in the OECS region. A small executive directorate for the group could be formed and affiliated with the University of the West Indies. This organization would not actually carry out the training but would contract with its member agencies or other specially qualified groups or individuals.

The scope of effort could gradually be expanded to cover the spectrum of needs from the micro-enterprise level to the senior executive level, and the spectrum of business size, but with special emphasis on medium size business which has so far not benefited from training opportunities to the same extent as the large and micro sectors. Training should be accompanied by in-plant technical assistance (essentially one-on-one training) and follow-up where needed to insure that the lessons of the classroom are implemented at the production site, a universal weakness of training programs in the West Indies. Training is needed for government employees alongside of their private sector counterparts (as well as in specific programs tailored to their needs) to increase efficiency and professionalism in the civil service and to improve dialogue between the public and private sectors.

One area that requires special emphasis under this strategy is training for hotel and restaurant employees, government employees with tourism-related responsibilities, producers and distributors for the hotel and restaurant industry, and tourism service providers. Training is needed at all levels, from entry-level to senior management, in order to improve the tourism "product" to international standards, foster backward linkages, and increase productivity. Such specialized training might best be provided through the Caribbean Hotel Association or similar group. There also is need for developing a vocational tourism studies curriculum in secondary schools, but this is a lesser priority.

FINANCE

Micro-Enterprise. An increase in the credit guarantee levels for the NDFs in addition to the ability to provide working capital is needed. There also may be a development opportunity in providing feasibility study/business plan funding and seed capital to encourage the start-up of privately-owned business incubators, possibly with involvement of the NDFs. This approach could be applied to the tourism sector's ancillary services on the lines of the Pelican Village in Barbados. Investigation is needed to determine the types of services and support needed in-common by small scale manufacturers in the OECS (clearly not identical to what is provided in U.S. models) that could best be provided in an incubator environment. Coordination with UNDP efforts in this area is necessary to share knowledge and conserve resources.

Working Capital. Access to working capital is a critical need of middle-sized companies. 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. This need may be met through provision of technical assistance to help companies make their case more persuasively to commercial banks and/or through an export or raw material credit guarantee scheme.

USAID will monitor the effectiveness of the new ECCB working capital scheme in meeting the needs of the private sector. However, insofar as this scheme is only available to exporters, we believe the creation of an additional facility is necessary irrespective of the success of the ECCB effort. The pilot working capital scheme financed by USAID and managed by the Dominica National Development Foundation can be expanded to a regional program.

Equity Financing. The shortage of equity capital is a critical problem. The new CFSC equity window funded by the European Investment Bank will help meed this need and should be assisted however possible by USAID. The HIAMP Agricultural Venture Trust will continue to expand its equity investments in agribusiness.

However, the need for equity financing is part of the broader problem of mobilizing local money for productive investment. (This is an area for policy dialogue activities in capital market development, commercial law, taxation, etc.) Means or mechanisms are needed to allow for public participation in investment opportunities made available through privatization or through the flotation of public companies. With respect to the latter, the reluctance of family-owned firms to take on outside investors must be addressed through education and the demonstration effect. One method of encouraging the larger, family-owned companies to allow public equity participation might be through tax incentives for the issue of shares to employees.

Business Plan Development. There is a continuing need for technical assistance to OECS companies in feasibility study/business plan development and the successful implementation of plans once they are formed and adopted, e.g., on-going, long-term follow-up. The Caribbean Project Development Facility (CPDF) of the World Bank's International Finance Corporation will be relied upon to meet some of the needs in this area, should it continue to operate in the region with centralized USAID funding. However, many of the companies which need assistance in the Eastern Caribbean are effectively under the project scale threshold of the CPDF, and must compete for the organization's attentions with firms in larger Caribbean islands. Furthermore, the CPDF is concerned with but does not focus on long term project implementation assistance.

Linkages to Agriculture. Provision of direct support (either in the form of working capital or business development funds) to food distributors or co-ops is needed to assist them in providing training to local farmers and in gaining sufficient capacity to adequately service both tourism and export markets. This activity should focus on existing companies if possible rather than starting new entities, and could be linked with an agriculture project or in some other way access agriculture funds.

Infrastructure. As detailed in the constraints analysis, there are infrastructure deficiencies in the region that impede private sector development. For both tourism and intra- and extra-regional trade, air and sea transportation is problematic in many respects. Many of the shortcomings are beyond the capability of USAID and other international donors to affect within available financing levels. For tourism development, however, utilities need upgrading, particularly waste disposal to protect beaches and coral reefs, and provision of adequate water. The USAID infrastructure sector strategy for the region recommends interventions in a number of these areas.

Finance Priorities. Given likely program funding levels, RDO/C may not be able to implement all of the finance-related needs identified in this strategy. The following is a list of priority interventions that will help address finance constraints within expected budgetary limits:

- Technical assistance and policy dialogue on financial markets development, especially with respect to creating a unified financial market and OECS Enterprise Regime, to mobilize the substantial liquidity in the region for productive investments.

- Training and follow-on technical assistance in business plan development and implementation.

- Expansion of the working capital pilot project.

- Use of the HIAMP project to leverage the formation and expansion of agribusiness firms.

- Assistance to the NDFs and local chambers of commerce at least through the remainder of the SEA Project to identify new funding sources and adopt measures for self-sustainability.

- Small-scale tourism-related infrastructure projects. Policy dialogue efforts and related technical consultancies can be used to ensure that government policies in areas such as aviation access, port management, and utility management (including measures for cost containment and cost recovery) maximize the benefits to be derived from the available infrastructure and are supportive of private sector development.

USAID-RDO/C
AGRICULTURAL SECTOR STRATEGY

1990-1994

BEST AVAILABLE

Annex IV

USAID RDO/C AGRICULTURAL SECTOR STRATEGY

1990-1994

FEBRUARY 18, 1989

BRIDGETOWN, BARBADOS

BEST AVAILABLE

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I

THE RDO/C AGRICULTURAL STRATEGY

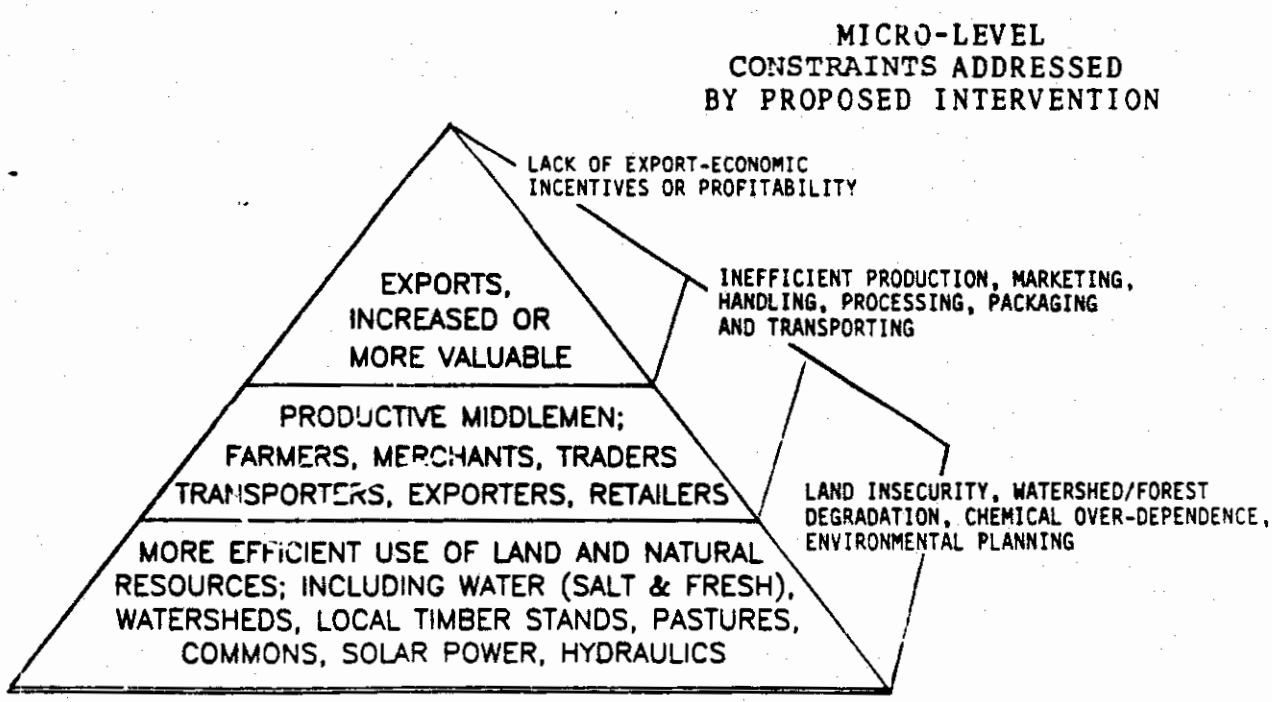
SYNOPSIS:

The strategy will support selected initiatives in the agricultural sector in order to increase exports & export earnings from traditional and non-traditional crops by assuring that:

- Land, natural and forest resources are protected,
- The micro-economic climate and related policies become more favorable for agriculture, and
- Public and private research, extension and marketing institutions become more productive---meaning more efficient for every unit handled from farmers to consumers through the agricultural production-marketing chain.

Visually, the strategy can be thought of as a pyramid, with the base being the land and natural resources upon which agriculture depends. The middle of the pyramid represents all the building blocks of the agricultural sector---farmers, transporters, retailers, suppliers, exporters, traders and so on. The pinnacle of the pyramid can be thought of as the output desired; increased and/or higher valued production. At each level of the pyramid specific obstacles, mostly at the micro-level, will be addressed by the USAID or other donors.

DIAGRAM 1



The RDO/C agricultural strategy recognizes that AID resources are inadequate to address all, or even most, of the *macro-level constraints facing the sector*---the combined resources of other donors will sometimes be required to deal with the most significant obstacles, say, macroeconomic reforms such as currency devaluation. Because of the severe reductions in AID resources during the planning period, the strategy thus deals with clearly identifiable micro-level obstacles to sector goals. Recognizing our funding constraint, the USAID also prioritized its interventions, as summarized below.

Diagram 2 lists the constraints being addressed (in the pyramid), with a list of projects, and a number (1-8) showing the likelihood (1 being greatest) of projects receiving funding during the planning period. Note that these project ideas were distilled from many prepared during the agricultural sector review and that all are deemed desirable if funds become available. Some very important projects are ranked as lower priority, such as the Agriculture Sector Program/Land Tenure Policy Reform and Natural Resources Management Projects, simply because they involve or require a new AID investment significantly larger than any envisaged at this time.

DIAGRAM 2

CONSTRAINTS	PROJECT		FUNDS LIKELY
Lack of Export-Economic-Incentives or Profitability	TROPRO	(new)	2
	CATCO	(old)	8
	HIAMP	(old)	1
Inefficient:	TROPRO	(new)	2
Production	AREP	(new)	1
Marketing	CATCO	(old)	8
Handling	CATCO	(old)	8
Processing	HIAMP	(old)	
Packaging	HIAMP	(old)	1
Transporting	TROPRO	(new)	2
Land insecurity	Ag. Sector Prog.	(new)	7
Watershed/forest degradation	"	(new)	7
Chemical over-dependence	AREP	(new)	3
Environmental Planning	Country Env. Profiles	(old)	4

NOTES: List of constraints is not all-inclusive, nor does it equate only to the project listed against it---most constraints will be addressed by all projects in a cross-cutting fashion.

There are only four new project starts in this list---old projects are listed only to show continuity.

II. STRATEGY'S RELATION TO AGENCY/BUREAU GOALS.

Commensurate with Agency and Bureau objectives to: (A) maintain, and to the extent possible raise, incomes of the rural poor; (B) stabilize or increase foreign exchange earnings/savings from agriculture; and, (C) maintain and enhance the natural resource base, the RDO/C agricultural sector goal is to increase exports and export earnings through attention to the Agency's agricultural objectives. This will be achieved by improving efficiency in traditional agriculture and increasing diversification into non-traditional crops, by maintaining rural incomes while protecting natural resources, and by pursuing policy reform.

A. Agricultural Efficiency

In support of the retention of traditional intra-regional and international markets as well as the diversification of exports, RDO/C will: (1) apply productivity-enhancing technology to traditional export commodities to lower unit costs; raising quality to reduce grading loss and retain market share; and differentiating products through grading to raise average prices and, (2) provide long-term support for market-led diversification of exports through market identification and specification of quality and quantity requirements, and improved production and marketing efficiency directed at those specifications.

The rationale for the above approach . . .

Retention of traditional intra-regional trade in root crops, fruits and vegetables in the face of protectionist tendencies is essential in order to maintain both foreign exchange earnings and small farm income.

Competitive participation in international markets for traditional exports of bananas, cocoa and spices requires lower unit cost structures and improved quality. Maintenance of income in the face of probably lower prices will require addition of value throught trademarking, grading and packaging.

Entry into non-traditional agricultural export markets requires a thorough understanding of that market requirements and potentials, as well as an ability to meet those requirements.

B. Protecting Rural Incomes and their Resource Base

In support of maintaining rural incomes while protecting natural resources RDO/C will: (1) encourage the

development and maintenance of a policy environment that provides incentives for efficient resource use; (2) emphasize the development and transfer of low-input soil and water conservation technologies to hillside producers, which increase productivity while preserving the resource base; (3) remove bottlenecks to efficient acquisition of productive inputs, including debt financing and technology, by small farmers; and achievements of greater economies of scale through promotion of farmers' organizations; and, (4) protect bio-diversity in natural habitats, primarily through control of effluents from both urban and agricultural areas.

The rationale for the above approach . . .

Land in small farms is almost completely utilized. Misuse of this land, leading to erosion and loss of fertility will reduce its productive capacity. Low input soil and water conservation technologies not only preserve these resources but raise output as well.

The limited purchasing power of small farmers reduces their influence in both product and factor markets and makes the delivery of credit, inputs and other services very costly. Alliance of farmers into service oriented associations provides a means for capturing the economies of scale which reduce unit costs and provide a basis for greater market influence.

Erosion (and consequent siltation), chemical-laden agricultural effluent, and petroleum and sewage-laden urban effluent damage fragile ocean ecosystems, threatening not only wildlife and fishing, but the tourism industry as well.

C. Policy Reform

In support of pursuing macroeconomic changes which will favorably impact the agricultural sector, RDO/C will: (1) Encourage market-oriented macroeconomic and sector policies that rely heavily on private sector initiative in a competitive environment, fostered by public institutions which behave in a supportive, rather than restrictive, manner; (2) Improve the effectiveness and operational efficiency of regional agricultural sector institutions by focusing resources on the most essential regional services, and within them on the most important objectives; stabilizing the financial base of these institutions through regional and donor collaboration; improving the networking of regional and national sector

agencies; and, (3) Encourage countries to modernize land titling and registration in order to provide greater security for rural investment and facilitate land consolidation, and to establish policies which encourage rational land use.

The rationale for the above approach . . .

With regard to objectives (c) above, RDO/C proposes to:

1. Encourage market-oriented macroeconomic and sector policies that rely heavily on private sector initiative in a competitive environment, fostered by public institutions which behave in a supportive, rather than restrictive, manner.

2. Improve the effectiveness and operational efficiency of regional agricultural sector institutions by focusing resources on the most essential regional services, and within them on the most important objectives; stabilizing the financial base of these institutions through regional and donor collaboration; improving the networking of regional and national sector agencies.

3. Encourage countries to modernize land titling and registration in order to provide greater security for rural investment and facilitate land consolidation, and to establish policies which encourage rational land use.

III.

BACKGROUND TO STRATEGY SELECTED

Agriculture is a central element in RDO/C's multi-sector development strategy in the Eastern Caribbean. It is based on the premise that agriculture is a major employer and earner of foreign exchange as well as a complement to tourism and services development. Agriculture remains an important sector in the OECS islands, equal to tourism and surpassing it in some respects, with a large number of products already having profitable international markets or demonstrating clear market potential.

Traditionally, agricultural development projects in the Eastern Caribbean concentrated on increasing production without much concern to the how, when, and where this increase in production would be marketed. During the RDSS planning period this approach will change more to a demand-driven development mode. This new focus grows out of the belief, repeatedly substantiated, that agricultural development can only be successful if the process is based upon a market-driven approach to production. Increases in agricultural production and/or product changes through further processing must be consumer-oriented, cost effective over the long run, and accompanied by a marketing system capable of moving the production and/or products from the point of production and processing to the final consumer at the time, to the place, and in the form desired.

The successful conversion from a traditional "production approach to marketing" to a "market-oriented approach to production" required analysis of factors affecting both domestic and international markets. During the RDSS planning exercise, the Mission contracted for an Agricultural Sector Overview, which Chemonics, Inc. completed on November 15, 1988. This report, along with a detailed agricultural sector economic and policy analysis by Roger Norton, complement the December, 1988 comprehensive study Biological Diversity and Tropical Forest Assessment for the Eastern Caribbean, which the Center for International Development and Environment prepared for RDO/C. Within the region governments also completed major assessments, including the 1988 OECS Diversification Plan and the Regional Agricultural Plan of the CARICOM Secretariat. Each of these studies focus on particular components making up the agricultural sector, and those desiring greater detail on each components should refer to the guide in Diagram 3, below:

DIAGRAM-3

QUICK-GUIDE TO AGRICULTURAL SECTOR COMPONENTS

COMPONENT	REFER TO:
Natural Resources Biological Diversity Tropical Forests	Center for International Development and Environment
Land Use Land Tenure Production regimes Crop Yields Research & Extension Human Resources	Chemonics, Inc. Study
Economic performance	Roger Norton
Non-Traditional Exports Economic policy Political policy Possible strategy interventions	OECS Diversification Study

The following discussion is divided into three sections of the Diagram I pyramid:

(VI) Bio-diversity and Natural Resources, the Base of the Pyramid

(V) Greater Efficiency in Mid-Level production and marketing and

(VI) Strategy to Improve the Micro-Economic and Policy Climates for Agriculture.

These sections discuss the most universally accepted constraints to growth in the agriculture sector. Because of funding limitations and the Agency's comparative experience, AID is least likely to be able to directly intervene at the base of the pyramid and most likely to directly address the top, i.e., in the micro-economic arena.

IV. BIO-DIVERSITY AND NATURAL RESOURCES

A. RDO/C's STRATEGY TO DEAL WITH NATURAL RESOURCE ISSUES. Many issues discussed below cut across and are affected by activities of the different development sectors addressed by RDO/C. For instance improper use of pesticides not only can affect the profitability of agriculture, but presents health risks (Health Sector) and jeopardizes the tourist

industry (Private Sector) if coral reefs and/or fish populations are degraded. There is a need to educate and inform policy makers about what pesticides to import and the need to train farmers about their proper handling, application and disposal (Education Sector). In many instances, there is need for legal and policy reform in this area (Legal Sector).

As a result, RDO/C's NATURAL RESOURCES STRATEGY for the 1990's is, at a minimum level, to thoroughly integrate natural resources management/environment (detailed on pps 9-10) into all projects of its development program including the following areas:

*Education and Health
*Agriculture
*Private Sector
*Legal Policy
*Infrastructure

Close contact will be maintained with other donors and Peace Corps so that RDO/C's program complements their activities. Where appropriate, joint efforts will be undertaken in which costs may be shared. Likewise, innovative ways of extending RDO/C's budget allocated towards natural resources management will be investigated, such as matching grants with NGO's. RDO/C will not invest in areas where other donors are heavily involved, such as fisheries, mariculture and livestock.

Attempts will be made to work with and strengthen the capabilities of regional institutions such as the Caribbean Agricultural Research and Development Institute (CARDI), the Caribbean Environmental Health Institute (CEHI), Bellairs Marine Lab and the Caribbean Conservation Association (CCA) to deal with natural resource management issues, and to monitor the effectiveness on RDO/C's and other developmental programs aimed at improving the environmental quality of the Region through proper planning, extension and management of the natural resource base.

B. AGRICULTURE CONSTRAINTS IN THE NATURAL RESOURCES AREA. RDO/C completed a comprehensive assessment of bio-diversity and natural resources and findings of that survey are summarized below.

1. Farming On Marginal Lands And The Need For Agricultural Reform. Currently, many small farmers, because of limited land space and skills are farming steep sloped areas in a manner that promotes severe soil erosion, (i.e. St Lucia, St

Vincent, Dominica, and Grenada). Initially this problem stemed from the colonial legacy that placed the most productive lowlands into large estates, leaving the small farmer with the marginal steep sloped agricultural lands from which to eke out an existence. The consequent loss of top soil not only decreases long term agricultural production but eventually washes top soil into nearshore waters smothering the coral reefs and grass beds, which are environments extremely important to tourism and fish production. Currently, many estates are in government control and have fallen into disuse. This offers the possibility of taking pressure off of marginal lands by resettling the small farmer onto these old estate properties.

2. Inappropriate Soil Conservation And Watershed Management. Cropping on steep sloped marginal lands by the small farmer results in only a few years of production from a plot of land. There is a need to develop grass root programs that work directly with the small farmer on his land using the "Diffusion of Innovation Theory" as developed by the US Department of Agriculture in the 1920's for the purpose of extending new ideas and technologies to small farmers.

3. Pesticide and Fertilizer Misuse And The Need For Integrated Pest Management. Along with eroded soil, high levels of fertilizers and pesticides are also carried into the coastal waters of the Eastern Caribbean, causing degradation of reefs and grass beds. The misuse of pesticides and fertilizers has potentially high costs not only to the environment but to farmers and the sector. Inappropriate pesticides may not adequately control pests and may not be the most cost effective solution. Even appropriate pesticides, when used by untrained farmers are often applied at excessive rates. This can result in increasing pest resistance, thereby neutralizing what was once a cost effective treatment. Likewise, inappropriate handling of pesticides by untrained farm workers, especially USEPA classified restricted pesticides, such as paraquat, has been demonstrated to result in worker contamination and the loss of manpower in the labor force from sickness, which is often not perceived as pesticide poisoning.

4. Deforestation By Small Farmers. Unsustainable agricultural practices on steep slopes are the prime reason for the deforestation of many watersheds in the Eastern Caribbean. This is primarily an issue on the islands of St. Lucia, Dominica and St. Vincent and Grenada where subsidized prices for bananas and the inacessability to prime agricultural lands

continues to push small farmers higher and higher up the hillsides in important watersheds. Inappropriate soil conservation and watershed management practices result in only a few years of production on this steep sloped marginal land. Deforestation continues as new land is cleared to replace that which has gone out of production. Although land taken out of production will rapidly be covered in vegetation, it will be years before the full fertility of the land returns although in some cases this fertility is lost forever. In many instances, these moves result in squatting within national forests that have been established not only to protect biological diversity but to ensure water supplies of the islands.

5. Charcoal Production. In a number of the Eastern Caribbean Islands (i.e. St. Lucia, St. Vincent and Dominica) charcoal is still an important source of energy. Much of the wood from charcoal production comes from secondary forests. The forestry departments see their role primarily as policemen protecting national forests from squatters and illegal woodcutters, rather than managers who work in collaboration with the rural community to rationally exploit secondary forests.

Agriculture's role as a long term sustainable sector of Caribbean island economies, requires that resources be applied to the above constraints. By addressing these important issues, RDO/C will help to preserve the natural resource base and biological diversity of these fragile island ecosystems. It is understood that the changes which RDO/C will be attempting to bring about will not come overnight, since they will involve changing land use management policies and cultural practices, and will require research in Integrated Pest Management practices.

6. Fishing Potential in the Eastern Caribbean. RDO/C plans no strategic interventions in this area because other donors contribute heavily to this activity. Canada has a lead role in developing fisheries of the Eastern Caribbean. Other donors include the Taiwanese, Venezuela and FAO, primarily in stock assessments and in appropriate gear technology, and some freshwater shrimp culture. RDO/C sees its role as complimentary to that of other donors.

a. Mariculture. RDO/C has, with limited success, ventured into mariculture. Mariculture, although greatly advanced in some areas (i.e. shrimp and oyster culture) is still primarily in the early stages of research and not ready to go commercial in the Eastern Caribbean, (i.e. lobster and crab culture). One exception is the culture of sea moss in St. Lucia and Grenada as a health food and as agar. The Taiwanese are also working in freshwater shrimp culture in St.Lucia and Dominica.

b. Nearshore Fisheries And Habitat Degradation From Landbased Pollution. Currently, nearshore dimersal fish stocks are being depleted. Most people blame artisanal fishermen who use traps to catch small reef fish; and SCUBA to harvest sea eggs (urchins), lobster, snapper/grouper and other fish of lesser importance. However, those who blame small fishermen have most likely never dived to observe the degraded state of the Region's coral reefs, degradation apparently due to land-based pollution (i.e. pollution of coastal waters by sediments, pesticides and fertilizers and sewage from urban/tourist zones). This pollution is smothers reefs in silt and algae, and decreases light penetration through the sea. Coral reefs form habitats which must be healthy to support a viable fish population.

Nevertheless, there is a need to decrease fishing on nearshore coral reefs while attacking land-based pollution and while managing reef fisheries to give both reefs and dimersal fish populations (especially grazers which control algal cover on the reefs) a chance to recover. RDO/C could play a role in addressing these issues through an integrated marine resources/watershed management program, although funding limitations are likely to hamper our capacity to address the issue.

c. Pelagic Fisheries. To date, island fishermen have not fully exploited pelagic fisheries (swordfish, yellowfin and bigeye tuna, dolphin and kingfish). However, ships from foreign nations, including the United States, France, Taiwan, Korea, Venezuela and Japan ply Caribbean waters, often without permission, to capture these fish. The danger is that this can also become over-exploited if uncontrolled. The OECS Fishery Unit, with assistance from the Canadians, is beginning to develop a surveillance program using United States donated coast guard vessels and rented airplanes. With Canada, they are also developing a catch assessment program to begin managing the Region's fisheries. The Canadians are also planning additional fisheries programs including exploratory fishing and the development of appropriate gear.

d. Artisanal Fishing. Currently, most fisheries in the area are artisanal in nature, with fishermen using the same canoes used by the Carib/Arawak Indians and/or their African ancestors hundreds of years ago. Currently, the Canadians, Taiwanese, Venezuelans and FAO are working with artisanal fishermen to find appropriate technologies to harvest underexploited stocks.

On a number of islands (i.e. Dominica, Grenada and St Lucia), artisanal fishermen need financing to go to an intermediate level of technology, e.g. using ice boats as in Barbados. By this means they can extend their range to exploit and properly preserve pelagics and deepwater snapper/grouper, marketable not only to local tourists, but with export potential.

e. Commercialization And Marketing Of Fish. Currently, there is a window for fish in the United States winter market. The major U.S season, especially for pelagics, is in the late spring, summer and early fall. One of the big shortcomings of the Caribbean Basin Initiative is that Caribbean enterprises which become competitive with US-based firms are quickly confronted with quotas, greatly decreasing potential profitability. This would not be the case with fish from the Eastern Caribbean, because competition for their products is not from the U.S., but from Central and South America.

Nevertheless, many people in the Caribbean are beginning to look to joint ventures with US fishing fleets because of their high level of technology and ability to provide the initial investment needed to exploit some of these fisheries, and for their ease of access into the US market.

7. Grazing/Livestock. On a number of islands, (i.e. Nevis, Antigua and Montserrat), the need to manage grazing associated with large and small ruminants is a pressing environmental concern which must be dealt with in order to protect vegetation and soil cover. A number of islands, such as St Vincent, are net exporters of livestock. It appears that there is some potential for expanding production of small ruminants and poultry. However, given other pressing environmental projects in the Leewards, such as the AID-sponsored bont-tick eradication program, additional activities in this area are currently considered to be a low priority for RDO/C.

In reviewing findings of comparative advantage by product, the livestock subsector cannot be overlooked. There may be significant possibilities for increasing the production of small ruminants in the Windwards and for beef production (as an import substitute) in the Leewards. In the latter case, careful field studies have shown that the main barrier is the lack of dry season forage, but also that alternatives exist that warrant serious field trials. Maize has been successful in Antigua at the field level; the company developing it had other kinds of problems. Sorghum may be viable in the Leewards. Legume trees and cassava are known options that are adaptable to OECS climates. Fish and meat meal present other options, as does chopped cane (currently used in Trinidad on a commercial scale). For beef production, the bottleneck appears to be a lack of entrepreneurial willingness and/or initial capital.

V.

GREATER EFFICIENCY IN MID-LEVEL PRODUCTION AND MARKETING

A. THE STRATEGY: The entire complex of Eastern Caribbean agricultural producers (transporters, packagers, processors, traders and exporters) can significantly improve efficiency, as demonstrated in the Chemonic's Study of obstacles in the agricultural sector. Yields of crops in the region average only one-half of what they should be (as confirmed by farm trials). Post-harvest handling and shipping losses are twice what they should be, especially for high-value perishables. Extra-regional exports fall far short of demands for them in Europe, Canada and the United States, largely because the existing marketing/production system is not capable of consistently moving agricultural products to consumers at the time, to the place and in the form desired. In short, the sector suffers from inefficiency and losses of resources at every level and in every way; it continues to function only because of preferential trade concessions for bananas in the U.K. market and because some government marketing boards indirectly subsidize the agricultural sector by guaranteeing availability of basic food crops (largely imported), such as wheat, rice and dairy products. The region will likely never enjoy a comparative advantage in any of these foods, which will continue to be imported, but it can sell traditionals, especially bananas, and non-traditionals to earn foreign exchange to buy them---but only if it becomes more efficient in marketing and producing these non-traditionals. If it fails to become more efficient, the region will lose what food security it has (now approximately one-half the $135 million/annum food bill), and is at risk of becoming a seriously food-deficit area depending on foreign handouts. In the long term the question is how the Eastern Caribbean will obtain foreign exchange to buy tons of cereals, meats and dairy products required to maintain its food consumption at current levels.

Increased efficiency is the only strategy which will continue to make traditional eastern Caribbean products, such as bananas and sugar, competitive once their favored position is lost in approximately 1992. Whether they lose their political quotas in the U.K. is virtually irrelevant because some studies of bananas demonstrate that overproduction in the entire region will outstrip quotas by 1991, thus forcing them to "dump" their surplus on the world market and to compete with Ecuadoran and Central American products in Europe. These studies conclude that either way foreign exchange earnings from bananas (and the same is true for sugar) may drop by at least thirty percent by 1991 or 1992. The current push for diversification by the Windward states should continue in order to supplement banana earnings. Growth of non-traditional exports has been impressive and in some cases has increased faster than bananas, as Table 1 demonstrates.

During the planning period, while this transition away from bananas is taking place, RDO/C will continue to indirectly support traditional crops through its program with regional agricultural service organizations (CARDI/UWI/CATCO) assisting traditional producers. This will help safeguard earnings from bananas. Also, the proposed TROPRO project will likely assist governments to grapple with banana-trade-policy issues, as discussed in Section VI. B., microeconomic and policy strategies.

RDO/C will promote, through four project initiatives, greater efficiency in non-traditional, diversified agriculture. It will implement this strategy by providing support to strengthen regional institutions most likely to achieve success marketing and/or producing new foreign-exchange-earnings. The first project inititative is West Indies Tropical Produce Support, (TROPRO), which begins in FY89. This market-led endeavor will assist to bring efficiency to local, regional and extra-regional marketing of non-traditional fruits and vegetables. It will assure the availability of efficiency-creating support services, such as market information, and a marketing information system run by trained indigenous personnel, from the private sector. If these support services are available and accessible to all participants of the production/marketing system, and adequate analysis has been made of factors affecting markets and marketing, agricultural development will have a higher probability of success searching for commodities to replace bananas and sugar. Scarce AID resources for TROPRO will be complemented by a similar investment of EEC development funds, which will be used to stimulate production in support of the marketing initiative.

Other-donor coordination is key to implementation of the second project initiative to be taken by RDO/C during the planning period. The second project is the Agricultural Research and Extension Project (AREP) which will provide support to improve efficiency of indigenous agricultural research and extension institutions in the West Indies. After an eight year institution building program, supported primarily by RDO/C, the Caribbean Agriculture Research and Development Institute (CARDI) and the extension program of the University of the West Indies (formerly the CAEP project) are ready to focus their programs so as to maximize support for non-traditional crops in the region. This will not be an easy transition for these regional institutions which are not yet strong in physical or human resources. They are consolidating their resources to eliminate duplication and to save resources, but more training is required, and more resources must be found to cover core operating expenses for running a program spread thinly over 12

Caribbean countries. Whatever their institutional future, these institutions are the only ones capable of providing any kind of agricultural technology system (ATS) to islands which cannot afford strong ministries of agriculture. Additional support will be provided under AREP to regional institutions, but it will be provided to make the ATS more efficient and supportive of marketing and production endeavors in the West Indian private sector. In providing this support, the strategy recognizes that RDO/C cannot carry the financial burden alone, so an unprecedented effort is being made to involve other donors in a collaborative "core funding" scheme.

B. CONSTRAINTS:

This section reviews aspects of the production, processing, marketing and transporting climate of the sector. It summarizes the most important inefficiencies detailed in the Chemonic's Overview and the Norton Report, and is not intended as a detailed survey of the micro issues.

For OECS agriculture in general, the consensus of experts is that yields can be substantially improved via more extensive use of known technologies. Hence the importance of improved extension efforts, as well as ongoing agricultural research efforts. Effectively, the presence of the tourism sector, and its impact on the exchange rate regime, places a greater burden for improved performance on the research and extension network than would otherwise be the case.

Equal importance should be placed on improving productivity in other ways: through better quality control at the field level, and through cost-reducing improvements in the storage and marketing network. As compared to other countries, these last elements have an usual degree of importance in the OECS economies, owing to their export orientation and also owing to the importance of transport between islands and out of the region.

Concretely, detailed examinations of the banana industry have revealed that quality control at the farm level is one of the weakest links in the industry. It appears that more systematic efforts in that area could go a long way toward offsetting the loss of the preferential arrangements in the UK, through increasing the average unit value of the product at the farm level.

Similarly, many exportable products, as well as products that can be shipped between the islands, suffer from lack of cold and dry storage, and lack of regularly scheduled

refrigerated transport. These gaps have led to unusually high rates of wastage and high unit cost for farm-to-market transport. (This conclusion comes out especially clearly in the study of H. Saul for the FAO on the marketing of fresh fruit.) In this area, project interventions can be successful, provided that they do not lead to the inefficiencies often associated with state-owned enterprises. There may be opportunities here for development under the TROPRO or HIAMP projects.

A related bottleneck is the lack of sufficient all-weather feeder roads. Dominica is the main example in this regard, but other islands face this problem as well. The emphasis needs to be placed on all-weather roads, rather than enlarging the current network of roads. This is an area in which it would appear desirable to conduct a detailed study concerning the tradeoff between durability and the extent of the new network of roads. It may be better to spend more per mile of road construction, and construct fewer roads per year, given the observed rate of degradation of road surfaces. The islands are small enough that a reasonable road building program can cover a significant portion of the main needs within a 10-15 year horizon, even if the annual pace is slowed down. This area may be an appropriate one for coordination with other donors, particularly the IDB.

Air transport is, in some cases, also inadequate to handle cargo currently generated, and likely to be generated, by increasing exports of perishable fruits and vegetables. RDO/C will explore creative avenues to enlist the support of local air transport in support of TROPRO and related projects.

Another area that appears to have been underexploited is the processing of fruits and vegetables on a relatively small scale, to be able to reap greater value and from a comparative advantage at the field level. Some successful processing plants have been started up for fruit preserves and juices, and those experiences suggest the possibility of further investments of that nature. Often the plants can be scaled to the production of a single island, but there are instances where the feasibility of pooling the production of the raw material from two or three islands should be explored, as in the case of dessicated coconut. This is an area where the groundwork has been laid by some detailed studies (especially the one by LaGra) and inter-island coordination on investment plans could be useful. Promising work in the processing of exotics has been initiated under the HIAMP project in the Windward Islands.

The crop-level studies appear to indicate that in spite of the unfavorable macroeconomic environment a comparative

advantage exists in a range of products, including traditional exports (spices from Grenada, essential oils, copra, specialty cocoa), traditional foods for export (chiefly root crops and some vegetables), non-traditional foods for export (breadfruit, mango, avocado, guava, citrus, passion fruit, sapodilla, soursop, papaya, cashews, golden apple, and carambola come out strongly in different studies), and some import substitutes (possibly peppers, pumpkins, green beans, cucumbers, cabbage, according to CIDA; and probably not tomatoes, onions and carrots, according to other experts).

The strategic question is not which of these groups of products to select for emphasis, as some observers have suggested, but rather to let market signals and feasibility studies guide the selection of crops in any of the groups (taking appropriate steps to remove the distortions in the market signals). The opportunities exist at the field level, provided the storage and transport bottlenecks can be broken and the appropriate initial guidance (and credit) can be given to farmers. As an ironic example of the opportunities, it should be noted that the Leewards have been importing tannia from the United States, instead of from the Windwards, in recent years!

Regarding the roles of the donor institutions in this area, generally AID is supporting the marketing of exotics and the EC is supporting their production. There is room for substantial coordination on the selection of products.

At the product level, a good example of inefficiency is found in St. Kitts sugar industry. The growth of the St. Kitts economy is jointly constrained by two factors: foreign exchange and labor. Labor is an essential input into the generation of foreign exchange, via both the sugar industry and the tourist trade. Cane harvesting has been declining in recent years, because of a labor shortage, so much so that the milling capacity is being underutilized with a consequent increase in unit milling costs. As a consequence, the implicit premium on foreign exchange has been recently translated into an explicit wage premium (of 15%).

The problem is that if the wage premia are in excess of gains in productivity, then the island's competitiveness is further weakened and a vicious cycle is perpetuated, with a continuously rising implicit premium on foreign exchange because of the rising domestic cost structures.

A possible solution would involve the liberalization of the restrictive legislation concerning the immigration of labor from the other islands, taking care to allow for adequate

complementary investments in housing and other infrastructure in the national budget (financed by taxes on the immigrant labor). Use of immigrant labor in cane harvesting would reduce somewhat the net foreign exchange earnings from sugar, owing to the remittances that those workers would send back to their home islands, but nonetheless there could be a net gain to the economy of St. Kitts.

The sugar industry of St. Kitts cannot face much more reduction of the harvest or it will have to phase out entirely because milling costs would be too large. It's an all-or-nothing proposition. This consideration raises the importance of the migrant labor option.

Another implication is that the diversification efforts for the present should not center on sugar lands, but rather on underutilized public lands that are not dedicated to cane. It may be important in this context to convey usufruct for those public lands to individual farmers, via long-term leases or sales. The land tenure situation varies greatly from island to island, and in some cases (e.g., Grenada) progress has been made in land titling in recent years. However, a significant proportion of the land still is not owner-operated, in other islands as well as Grenada. In the Leewards, the problem takes the form of a tradition of public ownership of agricultural land, which tends to discourage private investment in improving the land.

Unless additional funds become available during the planning period for an Agriculture Sector Program/Land Tenure Policy Reform Project, RDO/C will, without other donor support, be unable to impact upon this basic land use problem.

Institutional Issues

Without going into detail, there appear to be four important areas in which institutional barriers are impeding the development of the agricultural sectors in the OECS:

i) the aforementioned restrictive legislation against labor movement among the islands,

ii) the existing companies acts, which observers say are antiquated and discourage private investment,

iii) the land tenure situation, in which more efforts at titling (Windwards) and divestiture of public lands (Leewards) are needed, and

iv) the monopoly marketing situation for bananas that is enjoyed by the Geest company.

Regarding the latter, there are important doubts in the trade whether Geest is in fact the most efficient organization for banana marketing from the islands, and the loss of the UK preferences would eliminate whatever special advantages Geest enjoys by virtue of its UK base. Given the crucial role of bananas, it would be important for the OECS to conduct a review of the banana marketing arrangements with a view to considering opening the marketing to competitive international bidding in the future. If Geest proves indeed to be the most suitable company, then it would be well placed to win the bid; the point is that this hypothesis has not been explored or tested.

The constraints discussed above are labeled, for convenience, as public and private inefficiencies---They are important enough that their removal, or at least their weakening, should form a part of an agricultural strategy for the OECS, along with initiatives in the area of economic policy, such as improvements in trade policy and removal of domestic price controls, and initiatives at the level of infrastructure investments and product development. These economic constraints are discussed in the following final section of the strategy.

VI. ECONOMIC AND POLICY CLIMATE FOR AGRICULTURE

A. THE STRATEGY

The above discussion on the negative impacts of the current macroeconomic environment on the agricultural sector of the OECS countries highlights the negative impact the development of tourism has on profitability in the agriculture sector, and discusses the microeconomic policies and instruments available to counteract this negative impact.

While RDO/C will not directly address these macroeconomic policy constraints, it is expected that, through improved donor coordination in setting the macroeconomic policy dialogue agenda with the OECS countries together with policy leverage capabilities of the IMF and the World Bank, the macroeconomic structural distortions will be addressed.

The major area where RDO/C can play a significant role is at the micro level, through project interventions to increase productivity in the marketing and production of farm products, to improve extension and research and to assist in reducing institutional barriers.

Examples include:

- privatization of marketing boards,
- reforms to liberalize migration of agricultural labor throughout the region,
- increase profitability of agriculture through compensatory trade policy reform,
- identify and support incentives for exports of traditionals and non-traditionals.

B. CONSTRAINTS IN THE MACROECONOMIC AND POLICY AMBIANCE

1. Aggregate Growth, Agriculture and Tourism

In overall terms, the OECS countries have been fairly successful in promoting economic growth in the 1980s. While the rest of Latin America and the Caribbean experienced aggregate real GDP growth of 0.8% per year during the 1980-85 period, the corresponding figure for the OECS states was 4.2%. The growth has been export-led. The two leading sectors have been tourism and agriculture.

Agriculture's share of GDP in 1985 was 14.4% for all the OECS states and 18.8% for the four Windward Islands of Dominica, St.Lucia, St.Vincent and Grenada. However, when the role of agroindustry and agricultural marketing is taken into account, those shares rise to 22.0% and 27.1%, respectively (Table 2).

Agriculture's importance as an earner of foreign exchange has been proportionately greater. In 1986, agriculture accounted for 75.6% of the value of all domestic exports of goods (that is, excluding re-exports) and 32.9% of all foreign exchange earnings. Excluding Antigua, which is exceedingly oriented toward tourism, the latter figure rises to 47.5% (Table 6).

During the period 1965 to 1983, OECS agricultural exports increased from $22.5 million to $87.9 million, for an annual growth rate of 7.9%. In more recent years, exports have continued growing even more rapidly. From 1982 to 1986, agricultural exports expanded at an annual rate of 19.0%.

In per capita terms, the agricultural export levels are among the world's highest. In 1984, the OECS exported about $217 worth of agricultural products per capita. In a reasonably representative world-wide sample of small and large countries (presented in Table 7), only Malaysia exports more agricultural products on a per capita basis. Countries that

are well-known for the volume of their agricultural exports, such as Colombia, Thailand and Turkey, come in well below the OECS on a per capita basis. And even some superstars in agricultural exports, such as Argentina and the Ivory Coast, rank somewhat below the OECS by the same criterion.

These data help explain some of the concern in the OECS over the prospect of losing their preferential access to the UK market in bananas, which appears likely to occur in 1992. Another reason for concern is that, in spite of the dependence of their economies on agricultural exports, the OECS states are not among the most competitive producers of their two main export products, bananas and sugar. Various aspects of these issues are reviewed below.

Tourism also has grown rapidly in the OECS in recent years, particularly in the Leeward Islands of Antigua and St. Kitts. For the six countries as a whole, tourism receipts rose from $147.4 million in 1982 to $286.3 million in 1986. Of the latter figure, 62% was earned by the Leewards.

In gross terms, tourism earns more foreign exchange for the islands than agriculture does, perhaps not surprisingly given their unique natural advantages for tourism. However, the picture is different in net terms, when the leakages to imported inputs are accounted for. Table 6 shows that, under commonly accepted assumptions about the ratio of imported inputs in both agriculture and tourism, that agriculture is the largest net earner of foreign exchange, and it is very much larger when Antigua is excluded.These figures do not deny the important role of tourism in the economies of the islands - a role that any development program must take into account - but they suggest that the islands are equally dependent on agriculture. Given the weight of agriculture in these economies, programs that succeeded in further improving agriculture's performance could contribute substantially to overall economic growth.

2. Regional Considerations within the OECS

Each member country of the OECS has its own special economic characteristics, but generally there is a strong regional distinction between the two Leeward states and the four Windward states. The Leewards have relatively smaller populations and are more prosperous; their per capital GDP is twice as high as that of the Windwards (according to World Bank statistics). The Leewards are much more tourism-oriented, especially Antigua, but St. Kitts is moving in that direction

with a major new tourism development project underway. In spite of having only 22% of the population of the OECS, in 1985 the Leewards earned 61% of the tourism-related foreign exchange.

These differences are partly attributable to natural features: the terrain of the Leewards is flatter and more conducive to tourism development. At the other extreme, Dominica in the Windwards is very mountainous with little accessible shoreline. For both Dominica and St. Vincent, even the gross foreign exchange earnings are less in tourism than in agriculture.

Differences in terrain and rainfall also have led to sharply different crop mixes. In the Leewards, sugar and molasses, and to a lesser extent cotton and coconut, are the leading agricultural products, but agriculture is struggling there. Antigua is the only OECS state to have experienced a drop in agricultural exports in the last twenty years. In the Windwards, bananas are dominant, followed by root crops (yams, dasheens, tannias), cocoa, copra, spices, plantains, citrus, and a wide variety of other crops. In the OECS, only two of the Windwards (Grenada and St. Vincent) are free of the fruit fly.

The Leewards now are net importers of agricultural products and the Windwards are net exporters. A part of the non-banana exports of the Windwards goes to supply the hotel trade in the Leewards, especially from Dominica but also from St. Lucia and to a lesser extent the other Windwards.

These and other differences in the structures of the economies have been reflected in the labor markets. The Leewards are experiencing labor shortages while the Windwards still generally have labor surpluses. (There is significant on-going net out-migration from all the islands, so that population growth rates are very low.) In St. Kitts, the labor shortage is making it increasingly difficult to sustain the sugarcane harvest at levels sufficient for an economically efficient amount of throughput in the sugar milling process. In Antigua, the labor shortage is manifested in wage rates that are about 40% higher than the average for the Windwards (as of 1987); see Table 4. Throughout the OECS, the labor markets have an important bearing on the prospects for agriculture, as discussed in the following section.

3. The Macroeconomic Environment for Agriculture in the OECS

The macroeconomic environment affects the agricultural sector by influencing cost-price relationships. The main elements of the macro environment are the exchange rate, trade policy, wage structures, and instruments of fiscal policy, particularly tax rates on exports and other commodities.

Recent research in many countries has shown that agricultural prices are very sensitive to the exchange rate. Specifically, real agricultural prices (the ratio of agricultural prices to an index of economy-wide prices) tend to decline when an exchange rate becomes overvalued. (See, for example, the 1986 World Development Report of the World Bank.) This effect occurs because a high proportion of agricultural goods are tradeable internationally, or are substitutes in demand or in supply for goods that are tradeable. Hence their prices are sensitive to export and import prices, expressed in domestic currency via the exchange rate.

The OECS countries have a unified exchange rate which has been tied to the U.S. dollar since mid-1976. The common currency, the Eastern Caribbean dollar, appreciated in real terms along with the U.S. dollar in the period 1981-85. In this period some of the OECS agricultural exports became threatened because of poor price competitiveness, for example, grapefruit from Dominica, but generally their place in world markets was sufficiently strong that they continued to expand in volume, especially as their competitiveness vis-a-vis the U.S. market was not prejudiced at that time.

In late 1986 the Eastern Caribbean dollar began depreciating and by the first quarter of 1988 had returned approximately to its 1980 level. However, as the individual OECS countries have experienced different rates of internal inflation, and have different external trade volumes with trading partners, the real effective exchange rate in early 1988 still remained somewhat above its 1980 level in the Windwards but was below its 1980 level in the Leewards (Table 5).

During the 1980s, there were suggestions on the part of IMF that the EC$ should be devalued. That suggestion has been shelved as a result of the real exchange rate movements of the last two years. However, it still is true that the OECS economies have high cost structures (as they had in 1980 also) relative to other countries of the region. In 1987, wages in Antigua, for semi-skilled workers in manufacturing for export were 120% higher than in Jamaica and 75% higher than in the Dominican Republic (Table 4). Wages were lower in the other OECS countries than in Antigua, but they still are higher than in the rest of the Caribbean. And this year a significant real wage boost has occurred in St. Kitts in an effort to overcome the shortage of labor for the cane harvest.

This situation has arisen as a result of the growth of one export-oriented, high-wage sector: tourism. It is analogous to the situation of Holland in the 1950s, with the discovery of exportable quantities of natural gas, and Nigeria, Mexico and Venezuela in the 1970s, with their petroleum sectors.

In these circumstances (called the "Dutch disease" syndrome), the leading export sector supports the exchange rate at a level higher than it would otherwise be, and at the same time it puts upward pressure on the domestic wage structure. Both effects are damaging to the international competitiveness of the economy's other tradeable-goods sectors: agriculture and manufacturing.

In Nigeria and Mexico, the solution involved a devaluation, but only after other, severe problems emerged, chiefly an unserviceable level of international debt. In the OECS, debt servicing levels so far generally are manageable; the only doubt may concern Antigua. At present, it would not be appropriate to suggest a devaluation, because of the recent real effective devaluation of the EC$, owing to movements in the US$, and because of the apparent political impossibility of achieving a consensus on that issue among the six states.

The problem remains of how to counteract the negative effects on agriculture's profitability that arise from the development of the tourist industry and are transmitted through the exchange rage mechanism. At a macro level, there are only three economic mechanisms available: a devaluation, a policy of letting real wages decline over time, and compensatory trade policies. As mentioned, devaluation has to be ruled out at the present time. Also, given the growing role of the tourist industry, a deflationary wage policy does not appear feasible, although it would be useful to urge a policy of restraint on wage increases (and perhaps, relatedly, restraint on hotel room rates as well). The last alternative of trade policy therefore merits review.

In this context, compensatory trade policies refer to a coordinated system of tariffs and corresponding incentives to exports. Tariffs on imports of agricultural goods would help offset the downward pressure on agricultural prices that results from the exchange rate regime, and export incentives would have the same effect on the prices in domestic currency of exported goods. Obviously it is important to ensure that the tariff schedules are not so high that they begin to induce inefficiencies in production, and that they are consistent with the existing tariff framework of CARICOM.

As of this writing, the CARICOM tariffs are undergoing revision, and it appears that many agricultural products may initially have tariffs in the range of 45% with movement toward an eventual level of 30%. Those levels are high, enough so that it would not be appropriate to urge increases. There are two other kinds of problems with the schedules:

i) They are not uniform; a significant number of agricultural products have zero tariffs; and

ii) There is no corresponding incentives on exports, so that the system has the overall effect of biasing resource allocation toward import substitution.

The lack of uniformity is damaging to the efficiency of resource allocation over products: the system may encourage resources to flow into products in which the OECS does not have a comparative advantage, or away from those that do. Even though for some products there may not appear to exist possible domestic substitutes, there frequently is indirect substitution through changes in consumption patterns.

Other kinds of distortions also arise from the lack of uniformity. For example, with tariffs on wheat at zero and on wheat flour at 45%, windfall gains are provided to wheat mills, at the expense of national treasuries and/or consumers.

The lack of corresponding support for the export sectors is the more serious flaw in the system. It will have direct effects on the economies of the OECS when the UK's preferential policy on bananas comes to an end. Export prices may drop approximately 15%, according to informed estimates.

This line of reasoning leads one to conclude that reform in fiscal policy is required, since the tariff revenues now are absorbed in the national budgets, rather than being directed into activities which support improved efficiency in the export sectors. Another step would be to reduce export taxes, especially in the Windwards, and possibly replacing them with land taxes or other resources of revenue. The question to be answered there is whether or not to let the banana sector absorb the brunt of the external shift marked by the termination of the preferential UK access, or diffuse the burden through the economies of the Windward states by raising additional tax revenues and channeling them into support for the export sectors.

The choice affects not only bananas, for in the long run the existing framework of fiscal and/or trade policy favors import substitution over all classes of fiscal and/or exports. From a reading of the detailed crop-level studies, it would appear that many (though not all) of the agricultural products that have a comparative advantage in the OECS are in fact export products.

Trade policy is in effect a major instrument of agricultural pricing policy. With the impending revisions of trade policy, and possible additional ones for the export side, it would be important to eliminate at the same time domestic price controls. They are especially prevalent in St. Vincent and Grenada. With the degree of openness of the OECS economies, international prices, as modified by the exchange rate and the tariff/export incentive schedules, effectively determine domestic prices, and attempts to additionally control those prices can only be distortive. Even the prices of products that are not directly traded internationally will tend to respond to international influences via substitution effects in production (farmers choosing to plant more of the more profitable items) and in demand (shifts in consumption patterns).

TABLE 1

VALUE OF TOTAL EXPORTS OF FRUIT, VEGETABLES AND ROOT CROPS
(Excluding bananas and coconuts)
(EC$)

	1981	1982	1983	1984	1985	1986	Annual growth rate between endpoints	Annual growth rate between end points (bananas only)
Dominica	2,944,016	4,060,902	4,893,652	5,523,941	5,184,349	8,522,500	23.7%	22.6%
St. Lucia	-0-	1,012,766	1,064,198	1,487,784	1,113,629	5,237,376	50.8%	37.3%
St. Vincent	12,208,504	15,262,391	22,233,971	50,196,841	70,840,410	N/A	55.2%	15.5%
Grenada	1,350,000	4,590,000	11,070,000	12,960,000	17,280,000	15,390,000	62.7%	5.6%*
Fruit only (without bananas):								
Dominica	2,076,585	3,155,786	3,466,951	3,799,145	3,972,952	7,253,939	28.4%	22.6%
St. Lucia	-0-	717,464	979,953	1,432,558	1,013,845	5,142,092	63.6%	37.3%
St. Vincent	2,826,791	2,842,031	2,863,801	6,212,560	7,674,635	-0-	28.4%	15.5%
Grenada	1,350,000	4,590,000	11,070,000	12,960,000	17,280,000	15,390,000	62.7%	5.6%*

Notes: (1) The Grenada data include only fruit (without bananas).
(2) These aggregates cover more than 40 individual products.
(3) The growth rates are compound annual growth rates.

Source: Compiled from data in J. Schuur-Castenmiller, Trade of Fresh Produce in the Eastern Caribbean, FAO, Barbados, Sept. 1988.

* Compiled from IBRD Economic Memoranda , April 1988.

TABLE 2
AGRICULTURAL AND TOTAL GDP, 1985, IN OECS STATES
(in million EC$)

	Population	Total GDP	Agric. GDP	Agric. Divided by GDP (a)	Agric. Divided by GDP (b)	GDP Per Cap (US$)
GRENADA	100,341	260.4	42.5	16.3	22.9	961
ST. VINCENT	110,192	239.1	45.9	19.2	28.9	804
ST. LUCIA	136,952	388.8	58.3	15.0	23.3	1051
DOMINICA	84,249	221.3	62.4	28.2	36.6	973
WINDWARDS	431,734	1109.7	209.1	18.8	27.1	952
ST. KITTS	43,665	166.1	17.0	10.2	19.3	1409
ANTIGUA	80,927	457.4	23.2	5.1	10.5	2093
LEEWARDS	124,592	623.5	40.2	6.5	12.8	1853
TOTAL	556,326	1733.2	249.3	14.4	22.0	1154

NOTES:

(1) Population is end of year, except for St.Lucia, which is mid-year.

(2) For the agricultural share of total GDP:
(a) the ratio refers to primary agric., livestock and fishing;
(b) the ratio includes 60.1% of manufacturing, plus a share of wholesale and retail trade which is proportionate to the ratio [Ag. + (.60)(mfg) divided by GDP]. This represents a conservative estimate of the share of economic activity directly linked to agriculture. The total share including indirect effects would be about 1.7 times the figure in column (a), in general, although it could be higher in some cases. (A factor of 50% of manufacturing value added is used in the Leewards).

(3) GDP is at factor cost, not at market prices.

TABLE 3

OECS FOREIGN TRADE, 1986
(million EC$)

	TOTAL EXPORTS GDS/NFS	DOMESTIC EXPORTS GOODS	AGRICUL-TURAL	BANANAS	SUGAR	OTHER	MANUFAC-TURED	OTHER DOMESTIC EXPORTS	RE-EXPORTS	TOURISM RECEIPTS	IMPORTS	EXPORTS LESS IMPORTS
ANTIGUA	461	25	2	0	0	2	17	6	28	409	560	(99)
DOMINICA	145	105	79	68	0	11	4	22	12	28	151	(5)
GRENADA	150	71	68	13	0	55	2	1	6	72	225	(76)
ST. KITTS	140	64	27	0	25	1	36	1	7	69	174	(34)
ST. LUCIA	367	213	167	142	0	25	44	3	11	143	418	(51)
ST. VINCENT	224	170	148	53	0	95	20	2	3	52	236	(11)
OECS	1,488	648	490	277	25	188	123	34	67	773	1,764	(276)

Source: OECS Statistics.

Table 4

A Comparison of Hourly Wages in Several Countries, 1987

	Wage Rate US$/Hr.	Index Based on U.S.	Index Based on Jamaica
United States	13.66	100.00	21.7
Portugal	2.36	17.3	3.8
Korea	1.54	11.2	2.4
Brazil	1.14	8.3	1.8
Dominican Republic	0.79	5.8	1.3
Jamaica	0.63	4.6	1.0
Barbados	1.72	12.6	2.7
Antigua	1.40	10.2	2.2
St. Vincent	1.15	8.4	1.8
Grenada	1.02	7.5	1.6
St. Kitts	0.93	6.8	1.5
St. Lucia	0.92	6.7	1.5
Dominica	0.92	6.7	1.5

Note: These wage rates are for semi-skilled production workers in export manufacturing industries.

Source: International Economics Department, World Bank, Caribbean Exports: Preferential Markets and Performance. Report No. 7207-CRG, World Bank, Washington, D. C., May 27, 1988.

Table 5

REAL EFFECTIVE EXCHANGE RATES (INDICES)

	1980	1983	1984	1985	1986	1st Quarter 1987	1st Quarter 1988
Antigua	100.0	109.2	113.8	103.2	101.2	91.8	91.3
St. Kitts	100.0	108.3	112.1	104.8	102.9	95.2	92.1
Dominica	100.0	125.0	134.1	122.8	121.2	107.7	106.2
St. Lucia	100.0	116.4	121.4	110.7	111.5	103.0	97.5
St. Vincent	100.0	115.5	118.8	110.9	110.6	102.3	101.3
Grenada	100.0	135.2	143.9	130.9	124.3	109.1	110.3
Leewards	100.0					92.4	
Windwards	100.0					104.7	
OECS	100.0					99.89	

TABLE 6

FOREIGN EXCHANGE EARNINGS FROM TOURISM AND AGRICULTURE, 1985
(Million US$)

	Tourism					Agriculture		Net Agriculture - Tourism	
		Net						(b)	(d)
	Gross	(a)	(b)	(c)	(d)	Gross	Net		
Grenada	24.4	6.1	8.1	9.8	9.8	8.1	7.3	0.90	.74
St. Vincent	17.5	4.4	5.8	7.0	7.0	39.8	35.8	6.17	5.1
St. Lucia	44.3	11.1	14.8	17.7	19.9	31.5	28.4	1.92	1.4
Dominica	9.8	2.5	3.3	3.9	5.9	13.4	12.1	3.67	2.1
Windwards	96.0	24.1	32.0	38.4	42.6	92.8	83.6	2.61	1.96
St. Kitts	20.1	5.0	6.7	8.0	9.0	7.3	6.6	0.99	.73
Antigua	134.4	33.6	44.8	53.8	53.7	0.5	0.45	0.01	.01
Leewards	154.5	38.6	51.5	61.8	62.7	7.8	7.05	0.14	0.11
Total	250.5	62.7	83.5	100.2	105.3	100.6	90.7	1.09	0.86
(Total w/o Antig.)	(116.1)	29.1	38.7	46.4	51.6	100.1	90.2	2.33	1.75

Assumptions in the net/gross rates for tourism earnings:

(a) 25% (75% leakages to imports)
(b) 33% (67% leakage to imports); preferred assumption)
(c) 40% (60% leakage to imports)
(d) From Arthur Young Tourism Study:
Antigua - (60% leakage)
Dominica - (40% leakage)
Grenada - (60% leakage)
St. Kitts - (55% leakage)
St. Lucia - (55% leakage)
St. Vincent - (55% leakage)

TABLE 7

PER CAPITA VALUE OF AGRICULTURAL EXPORTS - 1984
(U.S. Dollars)

Latin America		Africa		Asia	
Mexico	22	Senegal	22	Thailand	76
Brazil	79	Ivory Coast	188	Malaysia	303
Argentina	201	Ghana	32	Philippines	30
Chile	37	Sierra Leone	9	Indonesia	15
Colombia	83	Malawi	46	Bangladesh	2
Costa Rica	41	Kenya	38	Turkey	50
Honduras	125	Madagascar	28	India	3
Guatemala	90	Nigeria	4	Syria	41
Dom. Republic	93	Cameroon	47	Sri Lanka	56
Jamaica	75	Mauritius	210		
Trinidad & Tobago	40	Togo	26		
Barbados	192	Zambia	1		
OECS	217	Liberia	61		

Source: IBRD

ANNEX V

BIOLOGICAL DIVERSITY AND TROPICAL FOREST

Regional Development Office/Caribbean

1990-1994 CDSS

BEST AVAILABLE

BIOLOGICAL DIVERSITY AND TROPICAL FOREST ASSESSMENT FOR THE EASTERN CARIBBEAN

PREPARED BY

THE CENTER FOR INTERNATIONAL DEVELOPMENT AND ENVIRONMENT
A CENTER OF THE WORLD RESOURCES INSTITUTE

FOR THE

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL DEVELOPMENT OFFICE FOR THE CARIBBEAN
BARBADOS

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BIOLOGICAL DIVERSITY AND TROPICAL FOREST ASSESSMENT
FOR THE EASTERN CARIBBEAN

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likely to come from projects and activities that both benefit conservation and strengthen the critical economic sectors of tourism, agriculture, fisheries, and forestry.

Natural resource conservation is an investment in the sustainability of key economic activities, especially in the context of the fragile ecosystems of the Eastern Caribbean islands. The potential for conservation to protect future economic opportunities which are now untapped or underdeveloped is important to the success of projects and developments in the region. Nature tourism, forestry for sustained production, and the harvest or cultivation of new crop species for food, pharmaceuticals, forestry, and other uses are examples of future economic potential that depend on conservation now.

USAID, as with all other organizations active in planning and implementing development projects in the region, can more effectively address the challenges to sustainable development and biological diversity protection. Already USAID has contributed substantially to improved natural resource management through support for nature tourism, agroforestry, and fisheries management training projects. There are many opportunities to build on these successful efforts that combine environmental protection with economic development. Given the accelerating rate of soil loss and sedimentation, habitat destruction, and pollution, it is none to soon for development agencies to place environmental protection as a top priority in their development efforts in the Eastern Caribbean.

The Resources

Terrestrial and marine habitats of the Lesser Antilles are dominated by two of the world's most diverse ecosystem types, the tropical moist forests and coral reefs. They also contain less extensive habitats of other ecosystem types including mangrove, elfin, montane, and Caribbean dry forest, cactus scrub, freshwater wetlands, saltponds, estuaries, seagrass beds, and freshwater stream and lake ecosystems. Species diversity includes over 2,000 species of flowering plants, 300 tree species, 33 mammal species, 8 species of amphibians, and at least 60 species of reptiles, 100 species of resident birds and as many as 150 or more migratory bird species. Coral species diversity (about 28 species) is limited in comparison to reefs found elsewhere, but supports a high diversity of demersal fish and marine invertebrate species.

The importance of the Eastern Caribbean's biological diversity is not wholly defined by the number of species present. Regional biodiversity exhibits a richness in endemic species (species found no where else in the world), and forests with unusually high species diversity, despite their very limited

extent. The geographic position of the islands between the tropics in South America and the sub-tropical and temperate regions of North America has merged important flora and fauna taxa from both continents. Coupled with the endemic species which have evolved in the islands, the Lesser Antilles are characterized by numerous assemblages that are unique.

The significance of this uniqueness goes beyond mere curiosity value. The scientific understanding of speciation, extinction, and the geographic movement of life is based to a large extent on research carried out on the biota and ecosystems of the tropics. An important part of the data used to make advances in our understanding of evolution and biogeography has come from research on the flora, fauna, and ecological communities found in the islands of the Lesser Antilles.

The loss of biological diversity in the Eastern Caribbean is not only a loss for science, but could represent lost potential for agriculture, forestry, fisheries, pharmaceuticals, and other economic activities in the region and around the world. Traditional medical uses of hundreds of native plant species are illustrative of this potential. Claims made for their usefullness range from treating dysentery, venereal disease, and malaria, to causing remission from certain cancers. Very little systematic research on the pharmaceutical potential of plants native to the region, however, has taken place.

Threats to Biological Diversity and Tropical Forest Resources

A less fortunate distinction for the biological diversity found in the West Indies is the rate at which it is being lost. Since the arrival of man approximately 4,500 years ago, nearly 40% of the global extinction of vertebrate species has occurred in this region. The three major causes of these extinctions are habitat destruction, the introduction of exotic species, and overexploitation. While there are a myriad of human activities that threaten biological diversity and tropical forests in the region, those associated with tourism development and agricultural practices are felt to be the most serious and prevalent.

Tourism is playing an increasingly important role in the economic growth of the region. At the same time, some of the most serious degradation of coastal ecosystems is caused by activities associated with the development of tourism facilities. Inadequate sewage treatment, the clearing of mangroves, the filling of coastal wetlands, and mining of beach sand are common legacies of such development. As a result, coral reefs are smothered by sedimentation and algae growth stimulated by excess nutrient inputs, and habitats vital to migratory birds, sea turtles and other marine life are on the verge of complete elimination on some islands.

- **Collaborate with other U.S. Government Agencies.** The Environmental Protection Agency, the U.S.Forest Service, and other federal agencies with environment or natural resource management responsibilities will often collaborate with USAID for the cost of travel and per diem. Close collaboration with the Peace Corps in the design and implementation of natural resources management projects should be considered whenever possible.

- **Promote activities that are self-financing.** There are a variety of conservation activities which can pay for themselves by imposing user fees, service charges, and taxes.

The seriousness with which environmental degradation is threatening biological diversity and tropical forests in the region suggests that consideration be given to several initiatives which are addressed specifically to environmental concerns. Based on interviews and observations made in each of the seven OECS states, the assessment team has identified several regional program areas informed by local realities. These initiative areas conform to four general strategic considerations including policy reform, institutional strengthening, better natural resources data for environmental management, and public education. Any one of these programs could make a significant contribution to facilitating the conservation of biological diversity and tropical forests at a local level. More complete summaries of these program areas can be found in Part I, Section IV of the assessment.

Briefly, the proposals recommended for USAID RDO/C's consideration are:

- **Environmental and Economic Development Policy Reviews.** By encouraging environmental and economic development policy reviews, USAID can help identify critical relationships between the environment and different types of sectoral development activities, and work with governments to design appropriate packages of policy incentives to promote sustainable activities. Through policy dialogue, collaborative policy research, workshops for policy makers and specialized training for planners and program managers, USAID can take the initiative to highlight the critical interrelationships and devise practical approaches for addressing them.

- **Regional Environmental Education.** Throughout the Eastern Caribbean, professional resource managers and conservationists in government, regional institutions, and in the private sector, cite the building of a constituency for environmental quality as their highest priority. A regional initiative to raise the visibility of environmental and conservation issues, and what can be done about them, could be mounted through mass media programming on Radio Antilles, workshops for journalists, and strengthening environmental education in the public schools is essential to creating the conditions for sustainable conservation in the region.

- **Regional Agro-forestry and Watershed Management.** Coastal ecosystem degradation is endemic throughout the region. In the Windward islands, forest reserves and watersheds are subject to deforestation, and serious erosion. Agroforestry and strengthened protection of forest areas through recreation management can help with both problems. This initative would promote rural enterprise and income generation from agroforestry and forest recreation by improving technical, and financial assistance to farmer groups and entrepeneurs, provided by island forestry departments, extension divisions, and NGO's.

- **Steps Toward the Implementation of Appropriate Pollution Control Technologies in the Eastern Caribbean.** Land-based pollution is a massive and complicated problem in the region. Technical solutions that are frequently employed are extremely expensive, and often inappropriate in the context of the Eastern Caribbean. This program would develop concise technical guides, and workshops for planners and policy makers that could help islands to identify the appropriate technologies for handling liquid waste and pesticides, and how to find financial resources to implement them.

- **Revision and Implementation of Protected Area Priorities.** Very little is known about the biological features of most protected areas in the Eastern Caribbean, making it dificult to know how adequately they protect the area's biological diversity. This initiative would reexamine protected area priorities based on the presence of biological diversity and other sensitive or unique natural features. The results could be designed to initiate a follow-up pilot project.

- **Integrated Marine Resources/ Watershed Management** Program. Based on a key marine area and watershed identified by the Protected Areas Priorities Program, a pilot project would be established. This project would simultaneously promote watershed management practices while implementing management strategies in a marine protected area to protect biological diversity, enhance local fisheries, and promote recreation.

Conclusion

The viability of development projects throughout the Lesser Antilles - whether government, NGO, or international donor activities -is threatened by unplanned growth, mismanagement of natural resources, and pollution. This is not just a problem of saving trees, coral reefs, bird habitats or germplasm. Increasingly, the conservation of biological diversity and tropical forests in the Caribbean Islands is vitally connected to the sustainability of tourism, agriculture and fishing. The present and future livelihoods of local peoples, the stability of nations, and the strength of the region's economy depend on the health of the natural environment just as does the survival of indigenous species.

ACKNOWLEDGEMENTS

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The USAID Regional Development Office for the Caribbean was especially helpful in getting the project off the ground under difficult circumstances. Thanks go to the several people in the RDO/C who contributed to this effort.

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ANNEX VI

HOUSING AND LAND USE MANAGEMENT

Regional Development Office/Caribbean

1990-1994 CDSS

19 October 1988

LAND USE MANAGEMENT AND INFRASTRUCTURE DEVELOPMENT IN THE EASTERN CARIBBEAN

I. Problem Statement

Among the most critical constraints to economic development in the Eastern Caribbean region is the very limited supply of easily developable land with ready access to water, sanitation and road infrastructure. The relative smallness of island countries in this region makes land among the scarcest resources. Limiting topographical features, such as mountains, further restrict the amount of land area which can be put to productive use and complicates infrastructure delivery.

Demand for land with services from all economic sectors far outweighs its availability. This demand is in part the result of economic policies of diversification which most of the region is pursuing. It is also the result of population growth and the need for shelter and related services. At the same time, the employment opportunities created by economic diversification and population increases are placing further pressure on land as families relocate in response to employment opportunities and seek to house themselves.

The result of this increased demand is intense competition for the limited supply of land available among the traditional users in the agriculture and tourism sectors on the one hand and manufacturing, industrial development and shelter development users on the other.

Uncontrolled or undirected growth, through squatter settlements and haphazard location of industrial uses, also poses environmental dangers in terms of untreated liquid and solid wastes as well as problems with environmental aesthetics. These factors are negative impacts on the future of tourism development in the E. Caribbean, the principal economic activity in most islands.

Detailed studies in Trinidad and Tobago, Dominica, St. Vincent and the Grenadines, Barbados, St. Kitts and Nevis and St. Lucia indicate that difficulties in land use management and infrastructure delivery exist in all these countries to varying degrees. In all cases, these sectoral constraints have resulted in problems with environmental degradation, squatter settlement development and extreme competition for land resulting, in some cases, in inappropriate and conflicting land uses.

II. Chief Constraints

The inability of most Eastern Caribbean countries to come to grips with land use management and infrastructure delivery is rooted in a number of constraints at the levels of policy, institutions, programming and regulations. They include:

A. The lack of land development policies and plans to guide land use and infrastructure delivery for better managed economic and population growth

There currently do not exist policy statements in most countries. Where some policy-level guidance has been furnished by the public sector, it is rarely useful enough to be made operational through action-oriented planning, establish mechanisms, define institutional responsibilities and functions and provide for institutional coordination in the delivery of land with access to basic services such as potable water, sanitation and roads.

B. Weak institutional capacity.

Region-wide, land, shelter and infrastructure delivery institutions such as water and sewerage authorities, town planning departments, housing and public works ministries are not able to deliver basic infrastructure (water, roads and sanitation) and market serviced land.

The result is that provision of water and sewerage and marketing of land have not kept pace with economic demands and population growth. The servicing of land which has taken place has neither been done cost-effectively nor according to environmentally sound parameters, in most cases.

C. The lack of rational shelter development policies

In addition to a lack of land development policies, few countries have national housing policies or shelter development institutions which are viable. The result has been a lack of access to land for shelter development leading to widespread squatter development. Lack of access to land also results in overcrowding of the existing stock and places stress on already overused existing services particularly water and sanitation.

Lack of coherent shelter policies has also resulted in no differentiation in the roles for private and public sectors for shelter delivery. Inefficient public sector agencies have become overly involved in shelter construction. The result has been overpriced construction and high levels of subsidy at the expense of public budgets in order to make units affordable. This performance record region-wide confirms that public sector provision of shelter is not sustainable.

D. Inefficient project approvals, land registration and transfer procedures and their high costs cause excessive delays and financial hardships in shelter and infrastructure development programs and in acquiring title and security of tenure.

The lengthy delays in getting subdivisons approved, whether for shelter or other land uses, as well as the high construction costs required in order to comply with excessively high construction standards, imposed by outdated codes, provide major disincentives for private sector-led land development and have a negative impact on affordability of services, land and shelter by lower income users.

E. Limited cost recovery

Marketing procedures and policies currently in force in most of the region do not maximize recovery of investments for land servicing, shelter development or infrastructure delivery and maintenance. Land is not, in most cases, sold at fair market values. Shelter is heavily subsidized. Water rates established by water and sewerage authorities do not provide sufficient resources to fully finance all operation and maintenance expenditures nor the capital required for systems expansion. The result is reliance on public sector subsidies or external donor financing, compromising the self-sustainability of these systems.

III. Strategy Statement

A. Strategy Objectives

This proposed strategy supports four AID developmental goals in the Eastern Caribbean region:

1. Protecting the natural resource base

Rational land use and infrastructure delivery policies should manage economic and population growth in such a way that negative environmental impacts are overcome.

2. Maintaining economic growth

The provision of a self-sustaining system for provision of access to serviced land provides further opportunity for economic diversification and expansion while minimizing competition across other sectors. This is particularly the case in small islands where land is among the scarcest resources.

3. Wider sharing of the benefits of economic growth

The provision of a self-sustaining system for affordable and appropriate infrastructure delivery and land servicing increases opportunities for individual households to gain access to land and home ownership as well as providing sites for business development, including small-scaled and informal sector.

4. Developing the human capital base

Strengthening the institutional capacities to plan for rational land management, to operate the systems for infrastructure delivery to service land and to market and sell land on a self-sustaining basis is to be achieved through training specialized personnel and through improved organizational management in order to elaborate the necessary policies, plans and investment procedures.

B. Strategy Implementation

This strategy will implemented through the following means:

1. Cross-cutting Sectoral Policy Dialogue

The focus of AID's intervention in land use management and infrastructure delivery will be to promote policy, programmatic, institutional and regulatory changes by both public and private sectors such that a self-sustainable system for infrastructure and serviced land delivery is established.

2. Institution Building and Training

In addition to establishing the necessary policy framework for rational land use management and infrastructure delivery, this strategy will focus on improving organizational management and the technical capacity of personnel to administer a self-sustainable land and services delivery system.

3. Technology Transfer

The strategy proposes the introduction of affordable yet environmentally sound design standards, lower cost construction building technologies and a streamlined planning approval process such that cost recovery is maximized to provide the necessary financing for a self-sustainable system for infrastructure delivery and land servicing.

4. Support to Regional Development Institutions

The strategy proposed herein lends itself to possible implementation by regional development institutions in the Caribbean region working in collaboration with AID. AID development assistance, ESF and Housing Guaranty financing could provide the means to leverage increased resources in the land and infrastructure development sector through these institutions. Particularly noteworthy is the interest of the Caribbean Development Bank in borrowing under the Housing Guaranty Program for shelter-related land and infrastructure development in the region.

C. Strategy Description

1. Land Use Management and Policy Development

a. Action-oriented Land Development Policies

Assistance to governments is required to prepare, review and adopt policies which establish the provision of land with water, sanitation and road services to all sectors and income groups. There is also a need for these policies to assign institutional responsibilities, identify funding sources, target subsidies, if required, and define cost recovery mechanisms. These policies should also define roles for the public and private sectors in land and infrastructure development, including both the formal and informal private sectors.

b. Action-oriented Land Use and Infrastructure Development Plans

There is a need for the elaboration of action-oriented land use management plans which draw to the maximum extent possible on available data to develop an existing land use plan and land inventory. These action plans are to be developed quickly and not be exhaustive. They are to be complete enough so that decision-makers have some basis upon which to make land use decisions and be responsive to pressing demands for limited land. The purpose of these plans is to provide a basis to control growth and reduce competing, irrational and environmentally unsound land use practices among sectors and users. These plans will also have to anticipate and plan for the shelter needs of the influx of low and moderate income households attracted by employment opportunities generated by investments in manufacturing, tourism and agriculture. As part of the development of these action development plans, a certain amount of land market and affordability analysis will have to be undertaken.

c. Sites and Services Development

Access to land with some level of water, sanitation and road services is one of the most effective ways of guiding population growth and the spatial distribution of economic sectors. Access to land has also been cited as the single most important constraint to shelter development in most of the region's countries. As such, the strategy will promote the provision of serviced sites for guiding population growth and responding to shelter needs. Construction of dwelling units will be the responsibility of households whether through their own savings, local mortgage facilities, self-help, informal sector construction or remittances from abroad.

d. Appropriate Development Controls

Planning and infrastructure agencies will be encouraged to adopt flexible and affordable and environmentally sound land development and building standards. Cost savings through appropriate standards and explicit development codes which can facilitate project approvals will enhance cost recovery of land management operations. Governments should be assisted to research and develop coherent guidelines and parameters for incremental site development. Minimal servicing of land is provided at the outset in order to guide growth while addressing public health and environmental concerns at affordable costs. In time, as resources become available, public and private investments can be used to upgrade services.

e. Designated Land Development Function

A coordinated approach to land development and infrastructure delivery will be promoted. This will provide for designing, implementing, marketing and selling land serviced at infrastructure levels in accordance with the needs of the broad range of income groups and economic sectors. Land development procedures will provide for coordinated input from all public and private sector bodies involved in land development and operate on the principal of maximum cost recovery and self-sustainability without substantial outside assistance. In most cases, the establishment of a land development agency will probably be required to provide for long term sustainability of this function.

f. Rationalizing Means for Security of Tenure

Legalization of tenure through formal land titles, particularly in the case of squatter settlements, is a long, laborious and expensive process. It is probably not the most cost effective solution to providing security of tenure in most countries. Nonetheless, security of tenure, overcoming the fear of potential expulsion from a site, is necessary in order to permit households and businesses to invest personal resources in shelter or economic activities. Flexibility is required to provide for regularization of tenure. Certificates of occupancy or long term leases might be pursued as well as legal provisions so that these instruments might be the basis of collateral among financial institutions.

2. Institutional Development and Training

Training and technical assistance would contribute to sector-wide policy formulation, institutional strengthening, and sound and effective operational procedures. Training in the land use management and infrastructure delivery sectors, both as part of individual skills development and institutional strenghtening, will be addressed as part of the RDO/C Human Resource Development Strategy. Specific areas of assistance include the following:

a. Institutional coordination is required for more effective program design and policy development.

b. There is a need to assist governments to recognize the importance of funding recurrent budgetary line items for those agencies responsible for land use planning and infrastructure development. There is a need for these institutions to augment staff as necessary and fill staff vacancies. AID can assist these institutions directly through training and technical assistance opportunities in the technical, administrative and financial aspects of land and infrastructure development.

c. A variety of infrastructure and land development agencies in the region have had severe management and production difficulties for both financial and technical reasons. In some cases, management audits of these institutions could provide helpful recommendations to get these institutions back on firmer footing.

d. There is also an opportunity for AID to assist small private land developers, builders and infrastructure contractors in:

- the upgrading of their technical construction skills and
- their ability to better serve the informal private sector and to respond to the public tenders through instruction in the management of labor and materials

e. In some cases, private voluntary and community-based organizations have been involved in or expressed strong interest in becoming involved in the design, delivery and maintenance of basic infrastructure services in their communities. AID should assist host governments in indentifying potential roles for these institutions and definition of a working relationship for these institutions.

LIST OF STUDIES UNDERTAKEN IN SUPPORT OF RDSS PREPARATION

1. C. Bovet (DH&S): USAID Housing Guaranty Program-On-Lending Opportunities to Regional Organizations in Selected Eastern Caribbean Countries

2. L. Baker (PADCO): Preliminary Assessment: Constraints and Opportunities, Infrastructure/Shelter Sector

3. L. Ishmael: Informal Sector Activities in the Shelter Sectors of Dominica and St. Vincent

4. F. Braithwaite (UWI): Informal Shelter Sector in Barbados

5. C. Billand (Urban Institute): Regional Development Opportunities in Vieux Fort, St. Lucia

6. J. Miller and H. Garnet (ABT Associates): Land Use Management and Infrastructure Delivery in St. Lucia

ANNEX VII

TOWARDS HUMAN RESOURCES STRATEGY

Regional Development Office/Caribbean

1990-1994 CDSS

BEST AVAILABLE

APPENDIX TO THE RDSS

HUMAN RESOURCES DEVELOPMENT STRATEGY FOR RDO/C IN THE 1990's

A. Executive Summary

Overview: The RDO/C strategy for the Eastern Caribbean seeks to promote growth by improving productivity in agriculture, tourism, manufacturing and service industries. Success with this strategy requires a pool of skills within the respective countries related to the development needs in each of the four sectors. An analysis of the human resources capabilities and constraints of Eastern Caribbean countries, suggests that the region does not have in place the pool of skills to undertake and sustain the development program RDO/C wishes to pursue. The evidence suggests that RDO/C's development strategy requires human resources development strategy which seeks to improve basic education, vocational skills and management education and training, and other advanced technical training.

Basic Education: The importance of basic education to the development of the LAC region is underscored by the LAC Bureau's recent initiative to develop a strategy for investment in basic education. Two important elements of the draft strategy are efficiency and quality. The basic education constraints in the Eastern Caribbean are more directly related to quality. The high enrollment of children of primary school age in Eastern Caribbean countries since the 1960's outstripped the availability of resources to provide (a) classroom space (b) essential supplies (c) qualified teachers and (d) improved curricula. Individual countries have attempted to respond to these problems in a number of ways, including the introduction of double shifts to deal with

inadequate classroom space and the recruiting of secondary school graduates to meet the demand for teachers. These measures have, in turn, created other difficulties. The quality of education continues to suffer at both the primary and secondary levels. Employers complain about the lack of functional literacy, numeracy and problem solving skills in the work-force. While a USAID-funded Caribbean Education Development Project initiated some activities (primarily between 1979 and 1984) to alleviate these constraints, the major follow-on work required to reap the full benefits of this project was not undertaken. RDO/C will assist in the alleviation of the basic education constraints to development by helping Eastern Caribbean countries develop an innovative teacher-training program, a regional resource development center and standardized grade level testing.

Non-Formal Skills Training: Current development plans of most Eastern Caribbean governments emphasize manufacturing, tourism and agriculture. This requires an appropriately trained work-force. The unavailability of this work-force exists concurrently with a high level of unemployment. A program for the training of entry level workers is required to respond to this dual problem. In 1982, RDO/C funded the Regional Non-Formal Skills Training Project to assist in this area. The project has been a success and has trained over 6,000 young people and placed over 80 percent of them in jobs in the private sector. Measures to institutionalize the skills training program are underway. RDO/C will assist participating countries further with the institutionalization process. This would involve termination

of RDO/C-funded technical assistance from the Organization of American States (OAS) and the provision of annual reducing grants, through the secretariat of the Organization of Eastern Caribbean States, to assist countries in meeting costs associated with the project.

Management: Private sector development in the Eastern Caribbean requires an intensive effort to improve the efficiency with which businesses are managed and to overcome the lack of innovation and competitiveness among managers. In FY 1986, RDO/C designed the Regional Management Training Pilot Project to test a number of interventions aimed at improving management skills, particularly in the private sector. Results of this pilot are encouraging so far. RDO/C will fund the development of a follow-on program which maintains some of the current focus on seminars, symposia and case development, and which addresses private-public sector policy issues and gives greater support to institutional strengthening.

Participant Training: Many studies of the problems of the Eastern Caribbean point to the need for advanced technical training to revitalize agriculture, health and education, and for expanding tourism and industrial development, as well as for modernizing and improving a number of services which are vital for private sector development. Since the inception of USAID's training programs in the Eastern Caribbean in 1979, a total of 1579 individuals have received training in response to these constraints. This has been facilitated through several USAID-funded projects. More recently, the Presidential Training Initiative for the Island Caribbean (PTIIC) and the Partners of the Americas Eastern Caribbean Training projects funded by USAID, have provided short- and long-term training in the U.S. The PTIIC program will continue into the

1990's. However, it has selection criteria which exclude a significant part of the private and public sector persons who require training. In addition, the provision of U.S. training only, under both projects acts as a disincentive to many who require training but cannot leave the region. RDO/C plans to implement another, more flexible training program through the Caribbean Development Training Project (CDT). A major feature of this program would be the provision of third country training.

Conclusion:

The successful implementation of the RDO/C development strategy requires an adequate human resource base. The human resource potential of Eastern Caribbean countries needs to be further developed in order to meet that requirement. Basic education needs to be improved so as to ensure that school leavers have basic literacy, numeracy and problem-solving skills which would render them more easily trainable for the work-force; non-formal skills training must be sustained in order to provide the large backlog of school leavers with marketable skills responsive to current development needs; and management training and advanced technical training must be provided to improve efficiency in both the private and public sector. These are the basic prerequisites for a successful development strategy.

B. Introduction

The RDO/C strategy which seeks to promote growth by improving productivity in the agriculture, tourism, manufacturing and service industries requires a pool of skills which match the development requirements of each of these areas. This pool of skills is a basic prerequisite for the successful pursuit of the RDO/C strategy.

The critical role of human resources development in economic development programs is widely recognized. In a recent report prepared by Smuckler and Berg (Smuckler, R. &. Berg, R. J. New Challenges, New Opportunities: U.S. Cooperation for International Growth and Development in the 1990's), human resources development was identified as one of the four substantive areas in which the U.S should provide development assistance in the 1990's. According to the report, no single factor has accounted for more success in development in general than has education. The focus of the human resources development effort as defined in this report is relevant to RDO/C. According to the report:

"The mobilization of educated human resources is critical to development. Suggesting that we focus on human capital does not mean a focus only on school systems, but they are included. We do mean, in general, a focus on practical training, specialized education, advanced training and degree programs."

Consistent with the Smuckler and Berg focus, RDO/C will adopt a human resources development strategy which focuses on the key areas of specialized management education and training, advanced technical training including degree training, vocational skills training and basic education.

C. Basic Education

Rationale for Strategy: The importance of basic education to development is now widely accepted. According to IBRD's World Development Report of 1987, the rate of return to investment in primary education in developing countries is 26 % compared to 13% for the investment in physical capital. This suggests that investment in primary education contributes more to economic growth than investment in physical capital. The alleviation of constraints to the provision of basic education is, therefore, an important development objective. Its importance to the LAC region is underscored by the LAC Bureas's initiative to develop a strategy for investment in basic education within the LAC region.

Under cover of a memo of September 2, 1988, LAC/DR provided RDO/C with a copy of the draft strategy for review and comment. The draft was developed not only in recognition of the critical importance of education to development, but also in response to Congressional interest in an increased agency-wide role in basic education. While the strategy document was intended to be flexible and non-prescriptive, one of its purposes was to provide practical guidelines to field missions for designing and implementing programs in basic education. Within the document, and in subsequent LAC/DR communication, missions were encouraged to initiate projects in basic education. The draft recommended activities to improve the quality and efficiency of educational systems throughout the region. In addition, it placed strong emphasis on policy dialogue aimed at creating the climate for improved efficiency and quality in basic education. State 323320 defined basic education as programs relating to both primary and secondary education activities. An RDO/C human resources development strategy for the 1990's must give due recognition to the draft strategy.

Relationship between the draft strategy and basic education constraints in the Caribbean: Two important foci of the draft strategy are efficiency and quality. Efficiency is defined as "the relationship between inputs and outputs, with a view toward achieving the desired level of output at mimimum cost". Three measure of efficiency are defined. They are: (a) the efficiency factor which is in essence the ratio of average pupil years of attendance to average pupil grades completed, (b) the promotion rate or its opposite, the

repetition rate which is concerned with the flow of students through the educational system and (c) the completion rate which is concerned with the percentage of students entering first grade who complete a desired final grade.

Although efficiency in its broader context is an important consideration in improving the provision of basic education in the Caribbean, for most Eastern Caribbean countries, the three indicators may not be appropriate for measuring improvement in basic education. In most of these countries, there is an increasingly popular practice of promoting students to the next grade once they remain enrolled in a particular grade for one academic year. This practice, coupled with legal provisions for compulsory primary education beginning at a prescribed age-level, would obviously yield satisfactory measures of efficiency based on the three indicators mentioned in the draft strategy. Indeed, it should be noted that as a consequence of the promotion practice in question, the widely used criterion of years of school as an operational definition of literacy and numeracy is rapidly becoming misleading when applied to Eastern Caribbean countries.

Much of what remains in a more generic definition of efficiency in basic education, may be achieved by placing emphasis on the quality of basic education, including the quality of the organizational and institutional framework for its delivery.

Although the draft strategy does not have a clear definition of the concept of quality, by focusing on ways in which quality was measured in some recent studies, it implies that quality may be illustrated by (a) educational level of teachers, (b) textbook availability, (c) class size, (d) expenditure per pupil and (e) number of primary schools per capita. Without doubt, these are variables which are important in helping to define quality of education. Others would include student-teacher ratio as well as number of educational supervisors and their level of training.

Improvement of the quality of basic education in the Eastern Caribbean is an important and relevant strategy for RDO/C. The primary and secondary education systems in the Eastern Caribbean are still in transition. The British legacy which provided basic education for a few and advanced education for an even smaller number is being gradually replaced. Curricula at various levels are undergoing changes to make them more relevant and responsive to the cultural and development needs of the region. A number of factors, however, offer resistance to such change.

Well over 90 percent of the children of primary school age in the Eastern Caribbean are enrolled in regular school programs. This level of enrollment was achieved through a deliberate effort on the part of Governments, particularly from the 1960's, to provide basic education for all. However, with increased enrollment, governments were faced with a demand for increased capital and recurrent expenditure to provide (a) classroom space,

(b) essential supplies, (c) qualified teachers and (d) improved curricula. These demands outstripped the resources of most countries within the region.

Overcrowding is now commonplace, facilities in most schools are poor, and due to the lack of maintenance, are often in an advanced stage of deterioration. Teachers are often not adequately equipped professionally for their jobs. Less than 50% of those who teach at the primary level have completed a basic teacher training course. At the secondary level, less than half of the teachers have received university training. Relevant Caribbean-oriented student materials are scarce or non-existent in many subject areas and teachers are often forced to dictate notes to students or provide summaries on the chalkboard for transfer to their notebooks. Not only is this an inefficient use of teaching time, it also promotes rote-memorization as students try to learn the limited information available to them through note taking. Research and problem-solving skills cannot be developed or enhanced by these approaches.

Under these circumstances, it is not surprising that even the most basic skills of literacy and numeracy are on the decline. Indeed, a paper presented by the Caribbean Community Secretariat (CARICOM) to the Seventh Meeting of the Standing Committee of Ministers Responsible for Education held in Guyana in May, 1988, pointed out that "foremost among the concerns which have been expressed about the output of the education system in the region in recent times, from both primary and secondary levels, is an observed decline in the

levels of functional literacy and inadequate skills in numeracy". Yet, it is universally recognized that basic education is essential to equip individuals to play desirable social and political roles and to improve their potential to contribute to national economic development.

According to an RDO/C Eastern Caribbean Human Development Sector Assessment undertaken in 1985, numerous employers complain that weakness in basic literacy and numeracy as well as in problem-solving skills, leave a significant proportion of the work-force poorly prepared for job-specific training. The Assessment also pointed out that the overly academic orientation of the curriculum means that most of the secondary school leavers who enter the labour force have no specific preparation for work. This suggests the need to strengthen the technical-vocational aspect of the secondary school programs in the region, a postion clearly supported by the abovementioned paper presented by CARICOM to the meeting of Ministers of Education in May, 1988. The paper noted that "the classical criticisms of the education system have been that it is largely oriented to produce clerical skills, at the expense of technical vocational education".

A recent CARICOM Survey of Technical and Vocational Education and Training (May, 1988), found that primary school teachers rarely have training in technical-vocational education, and that at the secondary school level where a much greater emphasis on technical vocational education is required, the facilities are inadequate, teachers are untrained, materials are lacking,

visual aids are in short supply and funds available for the maintenace and repair of equipment are insufficient. These constraints to producing a trainable work-force need to be addressed.

RDO/C basic education strategy: The problem of inadequate basic education, including technical vocational education, requires a multifaceted response encompassing (a) the construction and rehabilitation of classrooms to provide or improve the environment for basic education, (b) the development or revision of curricula, (c) the development and provision of appropriate equipment, materials and teaching aids and (d) the training of teachers and administrators.

In 1979, a $10 million Caribbean Education Development project was authorized by RDO/C to improve the quality of the learning environment in primary and secondary schools. A grant to the University of the West Indies (UWI) facilitated curriculum improvement in four core subjects taught in primary schools; a grant to the Caribbean Examinations Council (CXC) developed new and improved syllabi and examinations for end of secondary school programs; and a grant to the Caribbean Development Bank (CDB) financed the rehabilitation of selected primary schools. Fourteen countries benefitted to varying degrees from this project.

Most of the planned project activities were completed by 1984. The terminalevaluation indicated that the project satisfactorily achieved its

purpose. It resulted in the preparation of revised curricula and supporting materials for primary schools, new and revised syllabi and an improved examination process for secondary schools, and the rehabilitation of a few primary schools.

However, at the end of the project, it was evident that significant follow-up work was required to reap the full benefits of the project: but the project was not designed to leave in place a mechanism which would sustain the work which was initiated. Follow-up work is still required in the areas of materials development, teacher training and the maintenance of achievement standards.

Currently, several initiatives are underway to assist in the improvement of basic education. The most notable ones are: (A) an Eastern Caribbean program proposed by CIDA to train educational planners and educational administrators so as to improve the efficiency with which the education system is managed, (b) a technical-vocational education project for five Eastern Caribbean countries focusing primarily on construction, renovation and equipment of workshops, and participant training for teachers, funded jointly by the World Bank, the OPEC Fund for International Development, and the Caribbean Development Bank (CDB).

These initiatives, though helpful, leave a number of significant gaps. Neither the proposed CIDA program, nor the World Bank/OPEC/CBD program,

focuses on the existing need for quality ongoing teacher training programs which are essential for addressing improvement in basic education. Most notably, a Caribbean textbook development project which the OECS countries planned for implementation with technical assistance provided by UWI has been virtually aborted for want of financial and other resources. There is, however, a critical need to develop a sustainable capacity in the Caribbean to produceappropriate teaching-learning aids to improve the qaulity of education offered in primary and secondary schools. Closely linked to this, is the need to develop a capacity to monitor and assess improvement in educational quality at critial grade levels. All of these activi .es should be undertaken with special attention to the development of technical-vocational and job related skills. In support of basic education, RDO/C will therefore assist in the development of an innovative teacher training program, a Regional Resource Development Center, and standarized grade level achievement testing. In all three programs, special emphasis will be placed on technical-vocational education and job-related skills. These programs fall within the guidance of the LAC draft strategy which recommends that new basic education projects be patterned after successful projects in LAC for which a brief description is provided in the appendix of the draft strategy document. Teacher training, for example, is provided in 12 LAC countries; materials production and dissemination is undertaken in 14 LAC countries; and achievement testing is pursued in three countries.

D. Non-formal Skills Training

The development constraints: The Governemnts of the Eastern Carribeean islands are currently seeking to modify the monoculture, plantation economy inherited from British colonization. Current development plans suggest an emphasis on manufacturing, tourism and agriculture. While governments encourage expansion of local investment in all sectors, they also actively pursue policies aimed at attracting foreign investors particularly in manufacturing and tourism. The implementation of these development efforts is, however, hampered, at least in part, by the existence of an apparent manpower paradox which faces these island states - "the coexistence of the very high percentage of youth unemployment with present shortages of skilled workers in some sectors, and a growing need for skilled workers if planned economic ... expansion is to occur." (Franklyn, G. Education and Training. Paper presented at the Caribbean Association of Technical - Vocational Educational and Training (CATVET), St. Lucia, October, 1987).

Unemployment rates in these isalnds are estimated to range from 10 to 25 percent. Among the 15 to 25 year age group, these rates are estimated to be even higher. Yet the unavailability of an appropraite by trained labor force remains a serious constraint to the expansion of manufacturing, agriculture and the service industries.

This seeming paradox is attributable principally to the failure of the primary and secondary education systems to place greater emphasis on technical and vocational education. Recent studies of the islands' education systems have, in fact, urged the provision of technical-vocational alternatives to supplement, or replace, more academic programs offered at both primary and secondary levels, especially for the large majority of students whose formal education terminates at one of these levels. (See for example, the Education Sector Surveys of the Eastern Caribbean States conducted by UNESCO in 1982). While structural adjustments in the formal education system can, in the long term, produce a highly skilled and easily trainable population to supply the countries' manpower needs, there is an immediate need to provide the skilled labor required to carry out current development programs.

Local investors invariably do not have the expertise nor the experience to provide training for large numbers of entry-level workers. Multinational companies, unfamiliar with the social and cultural mores of Eastern Caribbean youths, have been reluctant to assume full responsibility for providing such training. Nevertheless, both local and foreign investors require semi-skilled workers to fill entry-level positions as they expand existing operations or initiate new ventures. There is no doubt that increasing the supply of individuals to assume entry-level positions in both locally-owned and international companies would be an important stimulus to development. It would also contribute to the reduction of the high rate of unemployment and the social and political problems often associated with widespread

unemployment. Apart from the demand for semi-skilled entry-level workers, there is a growing shortage of qualified artisans and craftsmen. Self-employment opportunities exist in these fields. However, few of the young unemployed possess the skills to initiate income generating activities in these areas without some assistance. Here too, training is required to fill a service gap in the Eastern Caribbean while alleviating the unemployment problems of the region.

Additionally, there is a growing need to address the issue of work ethics or attitudes among those who can potentially provide the semi-skilled labor required for the development programs of the Eastern Caribbean countries. The need to inculcate desirable work attitudes among youths in response to the changing economic programs of Caribbean countries in general has been frequently discussed. Nurse, for example, pointed to the need to equip "unemployed members of the labor force with the requisite skills, attitudes and work habits to enable them to successfully bid for jobs in industry, and to continue employment". (Nurse, L. Non-Formal Skills Training and Employment in the Informal Sector - A Commonwealth Caribbean Perspective. University of the West Indies, Cave Hill, Barbados, 1980). These sentiments are continually echoed by employers, educators and politicians in Eastern Caribbean countries.

<u>The strategy</u>: The USAID-funded Regional Non-Formal Skills Training Project which is currently implementated through the OAS, seeks to respond to these constraints. The project is implementated in six Caribbean countries: Antigua

and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. The goal of the project is to improve the employability and income of unemployed and underemployed youths in these countries. The purpose is (a) to provide appropriate non-formal skills training and support services to individuals, particulary 15 to 25 year olds, who are seeking improvement in their incomes and employment conditions and (b) to institutionalize the capacity within the governments of the six participating countries to carry out non-formal skills training programs. Training under the project is demand driven. To date, over 6,000 young people, have been trained and placed more than 80 percent of them have been placed in jobs, either as wage-earners or as self-employed persons. In view of the widely recognized need for appropriate work attitude, every trainee in the Non-Formal Skills Training Project benefits from mandatory social skills training. This training includes work ethics and employer-employee relations.

Since October, 1987, special emphasis was placed on the implementation of measures which would result in the sustainability of skills training program. The staff of OAS specialists was gradually reduced and the national staff provided by participating governments gradually assumed greater responsibility for project implementation. Each country developed a plan, approved by the OAS and RDO/C, for the sustainability of the program beyond the current PACD.

From the plans completed, it is clear that each of the six countries will have

the technical and administrative capacity required for the institutionalization of the project. It is evident, however, that none of them will be able to meet the full cost of sustaining the program at the current or planned level. The six countries have been unanimous in their request for further financial support from USAID to meet some of the costs associated with the program of skills training and job placement.

The skills training program has helped significantly in the alleviation of the youth unemployment problem and its potential social and political consequences. The project has also enhanced the development and expansion of the private sector by recruiting and training the semi-skilled workforce required by local and foreign entrepreneurs and by training young entrepreneurs, many of whom have successfully initiated their own micro-businesses. This latter group includes artisans and craftsmen. It is not surprising that Governments and the business community have consistently and publicly lauded the efforts and achievements of this program.
All six participating Governments have unambiguoulsy stated their commitment to continue the skills training program despite their inability to raise the financial resources locally to meet the projected costs. Already, some countries have approached other aid-agencies for financial assistance to help sustain the program. It appears imprudent for USAID to terminate financial support to participating countries at the September, 1989 PACD. In view of

the foregoing RDO/C will maintain its support for non-formal skills training by providing additional funding for such training in the six OECS countries on a reducing basis annually. Funding should be provided under the following conditions:

1. Allow the relationship with the OAS to expire. Over the life of the project, the OAS supplied full-time staff to proivide coordination, management and technical assistance to the Skills Training Project as well as to train local staff to assume full responsibility for the technical, administrative and financial management of the skills training program. By September, 1989, the national staff will be fully capable of managing the program without OAS assistance. The OAS staff and the high cost which this entails will no longer be necesssary.

2. Provide countries with reducing annual technical assistance grants: From October 1988, in keeping with the terms of the current Project Agreement, participating countries will assume additional responsibility for project costs. This should be encouraged. From FY 1990, RDO/C will provide addditional assistance (with phased reduction) through the OECS office in Antigua. Under this arrangement (a) the OECS office will manage the disbursement of funds

to the six countries thus reducing the management burden on RDO/C, (b) greater symbiosis will be facilitated between the skills training program and the Eastern Caribbean Investment Promotion Services (ECIPS) project which is implemented through the OECS office in Antigua, (c) this arrangement will help to sustain and strengthen the regional links in the skills training program (d) the participating countries will gradually assume full responsibility for the program thus assuring its sustainability and (e) use of the OECS office in this way is consistent with, and supportive of the Mission's strategy of working through regional instituitons.

E. Management

Development constraints: Private sector development in the Eastern Caribbean requires an intensive effort to improve the efficiency with which businesses are managed and to overcome the lack of vision and competitiveness among managers. A study financed by RDO/C in 1985 (An Assessment of the Need for Management Training and Development in the English-speaking Caribbean) identified very substantial and urgent needs for specialized training of owners and top managers of existing enterprises. According to the study, a substantial number of opportunities for existing industries to achieve quantum productivity increases are being missed for lack of entrepreneurial and managerial skills among present owners and senior managers. The study also revealed that even when top management possessed the requisite skills, many opportunities could not be fully realized due to the insuffificency of

complementary skills at the middle management level. Not much has changed since that study was completed.

At present, owners of factories and hotels, investors in agriculture and utilities, and businessmen, all constantly complain about the lack of capable managers and supervisors. In general, public sector organizations, many of which impact directly on the operations of the private sector, also operate at a low level of efficiency due to the absence of competent administrators.

The Strategy: As part of its efforts to alleviate the mangement constraints to the development of the region, RDO/C in FY 1986 designed the Regional Management Training Pilot Project to test a number of interventions aimed at improving management skills, particulary in the private sector.

Under the project, several needs assessment were conducted to determine the nature of the management training issues which should be addressed in symposia and seminars. So far, two of the four symposia planned for Company Directors and Chief Executive Officers, and three of the five seminars planned for Senior Managers and Owner Operators, were held. The project also conducted one of the two conferences for Managers and Management Educators and a planned case writing workshop was completed in three phases. Thirty case studies have so far been completed and the management training capabilities of the University of the West Indies (UWI) has been evaluated. The evaluation of the capabilities of the Barbados Institute of Management and Productivity (BIMAP) and the Caribbean Centre for Development Administration (CARICAD) will take

place shortly. All remaining project activities are scheduled for completion within the July, 1989 PACD.

The results of project implementation have so far been encouraging and it is appropriate to consider additional support for advanced management training. Experience to date from the pilot project suggests that certain project activities should be sustained and expanded. These include seminars, symposia and writing and dissemination of Caribbean cases.

There appears to be a market for symposia and seminars for senior executives and managers, using the format tested in the pilot project. Inidcations are that companies are willing to pay significantly more than they have in the past if they continue to perceive the program to be of high quality and practical for improving their business operations. It is probable that the full cost of this type of training could be recovered from fees. RDO/C assistance will focus on the development of a sustainable capability in the region to provide such training.

Manangement training institutions have responded enthusiastically to the extensive use of Caribbean cases in their management training programs. In order to sustain this innovation, it is necessary to develop new cases and to make them available to mangement trainers in the region. This is another area which will receive RDO/C support.

There are at least two elements of the pilot project which were given superfical treatment but which require more substantial attention. They relate to (a) the design of training programs to foster private-public sector partnership in responding to management and policy issues which constrain private sector development and (b) the enhancement of existing management training institutions to provide middle level and supervisory training to complement the advanced training which the current project provides to senior executives and senior managers.

Within the Caribbean, there is a critical interdependency between the private and public sector. Private sector development cannot be successfully undertaken in isolation from the public sector. As the Arthur D. Little mid-project evaluation report of October 6, 1988 acknowledges:

> "Much of the success of overall private sector development depends on the guidance and cooperation that businessmen receive from local government. The environment within which business operates is by and large defined through public sector policies - minimum wage laws, import/export duties and tariffs, infrastructure ... etc."

It is important not only that representatives of each of the two sectors gain a better understanding of how the other side operates, but more importantly, that they work closer in the resolution of management and policy issues which constrain development. RDO/C will provide support for programs which facilitate this. Finally, RDO/C will assist existing management training institutions to improve their capability to provide training in areas in which they have a comparative advantage. This requires several institutional strengthening measures.

F. Participant Training

Development constraints: Virtually every study of the problems of the Eastern Caribbean has argued that the lack of personnel with appropriate technical training is a critical constraint to development. It affects the private sector as well as the public sector. Technical training is needed to revitalize agriculture, health and education, and for expanding tourism and industrial development, as well as for modernizing and improving a number of services which are vital for private sector development.

Most of the English-speaking Caribbean governments and private sector, experience severe problems in recruiting qualified personnel. Apart from the problem of recruitment, there are considerable difficulties in retaining technical staff. Because of the higher wage rates of the private sector, the

public sector frequently loses its staff to the former. Both sectors, however, lose staff through emigration and because of more lucrative opportunities available within regional and international agencies in the Caribbean.

Opportunities for pre-service and other formal specialized training are fairly limited in the Caribbean. Also few enterprises or public agencies are of a sufficient size to set up economically viable in-house training programs.

The shortage of trained technical staff has seriously impeded the ability of Caribbean countries to plan and implement development activities.

The strategy: Participant training is a major means of assisting the development of high level skills and institutional leadership. Such training is an essential component of USAID's development strategy in all sectors, complementing other forms of assistance and continuing to have an impact long after other investments of capital, commodities or technical assistance have been expended. Since the inception of USAID's training programs in the Eastern Caribbean in 1979, a total of 1579 individuals have received training.

More recently, following the U.S. President's visit to Grenada in February, 1986, the Presidential Training Initiative for the Island Caribbean (PTIIC) was launched. Since the summer of 1986, the project placed a total of 334 short term and 130 long term persons in training in U.S. instituitions. The areas of placement include Agriculture and Natural Sciences, Business Studies, Economics, Education, Engineering, Hotel Management, Mathematics and Statistics. Three hundred and sixty seven of those placed have completed training and have returned home. The efforts under PTIIC have been supplemented by another RDO/C participant training project - Partners of the Americas Eastern Caribbean Training Project which has, since July of 1986, provided short-term technical training for a total of 126 persons in areas which include business, tourism and non-traditional agriculture.

The PTIIC training program will continue into the 1990's. The principal considerations in selecting candidates for this program relate to "leadership potential" and "economically disadvantaged status" not to the direct development needs of the respective countries from which candidates are drawn. Many key private and public sector persons who could benefit significantly from the training provided under PTIIC and who also can make invaluable contributions to the development programs of Eastern Caribbean countries, do not satisfy the principal selection criteria of the PTIIC program.

Moreover, the PTIIC scholarship program provides training in the U.S. only. Third country training is not allowed. This effectively excludes several public and private sector persons who need additional training which can be provided within the region and who, because of domestic considerations, are unable to travel outside the region for such training. A more flexible training program is needed. Through the Caribbean Development Training Project (CDT), RDO/C will provide for such a program in its development strategy for the 1990's.

A flexible training program would have the advantage of (a) getting more training done for less training dollars through the heavy use of third country training, thereby spreading the benefits of training to larger numbers (b) permitting more key private and public sector personnel access to the training they require to meet specific development needs. In using existing third country training institutions for some of the training, RDO/C should seek to strengthen the capacity of those institutions, where necessary, to provide training appropriate to the region's development needs. This proposed new direction finds easy support from Smuckler and Berg (Smuckler, R. H. & Berg, R.J. New Challenges, New Opportunties: U.S. Cooperation for International Growth in the 1900's) who wrote: "We endorse a strong educational role for U.S. institutions, but Third World institutions must also be strengthened so dependency on foreign advanced education declines". A flexible training program can achieve these ends.

ANNEX VIII

A STRATEGY FOR ADVANCED DEVELOPING COUNTRIES OF THE EAST CARIBBEAN

Regional Development Office/Caribbean

1990-1994 CDSS

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Executive Summary

The Project

To determine whether Antigua, Barbados, Trinidad & Tobago qualify as ADCs, becoming targets of an AID strategy to build associations of mutual interest to the US and the ADC, with special attention to science, technology, investment, education, training and human resources. To assess eligibility for ADC status by means of specified criteria including income per capita, health, education standards, institutional development, political maturity. To suggest potential areas of collaboration and to identify opportunities currently available. To summarize the strategy.

Do Antigua, Barbados and Trinidad & Tobago qualify? Yes.

- Income per head for Barbados-Trinidad & Tobago well above eligibility range, Antigua within range.

- Barbados, Trinidad & Tobago have modest institutional strength, limited by small size; also many weak institutions, only a few of long standing and good repute (UWI, Bellairs). Antigua very weak on institutional development; not up to ADC standard.

- All 3 register high educational achievement, but below par in technical education.

- All score very high in health, housing, amenities.

- Good capability to mobilize financial resources, domestic and foreign; also capable of mobilising human resources, but less dependably.

- Independent democratic governments.

Potential Collaboration

Science and technology research, development and production:

- Activities in collaboration with UWI, Bellairs Research Institute, CARDI, BSTU, WI Cane Breeding Station, Caribbean Meteorological Institute, CCA.

Institutional reinforcement:

- CECM, Caribbean Law Institute, Securities Exchanges, environmental education and legislation, tourism marketing.

Education, training, human resource development:

- Health management, financial services, family life, services for the handicapped, attitudes of workers, industrial relations.

Networks:

- Energy, problems of aging, public health education, information technology, producers' associations, consumers' groups.

Overall strategy objectives

- Develop enduring personal/institutional links US-ADC, leading to long-term trade, investment and cultural association.

- Build up local institutions so they can absorb more goods, expertise and services from US and provide other services in return.

- Strengthen the human resource base in ADCs and improve/establish networks to disseminate information and provide wide contact.

- Develop further the scientific and technological capabilities of ADCs.

A STRATEGY FOR ADVANCED DEVELOPING COUNTRIES OF THE EAST CARIBBEAN

INTRODUCTION

Defining a Strategy for Advanced Developing Countries

This study defines a strategy for the Latin American and Caribbean Bureau to nurture the relationship between the US and advanced developing countries (ADCs) of the East Caribbean. Advanced developing countries are defined by a level of per capita income which takes them beyond that for which direct aid financing is available. They enjoy fairly sophisticated levels of health services, education, institutional development, human resource development and a capability for internal financing. The advanced developing countries are in an intermediate stage towards mature relationships which are characterised by "broad and deep linkages in trade, science and technology and finance, a variety of professional, scientific, technical and business associations, personal ties fostered through tourism and cultural exchange and sophisticated communications networks". (Dagata p.2). The advanced developing countries have not yet reached that stage but they have arrived at a position where they are "more partners than clients in the development process" (Bissett p.3).

The objectives of the strategy are to familiarize a ADCs with US democratic values, to facilitate trade and investment relationships, to promote the use of US technology and to promote foreign policy concerns which are shared between the US and the ADC - for example in the control of narcotics.

The LAC aims to facilitate interchange and to exploit available opportunities for collaboration between US institutions and those in the ADCs. In this way it will reap the greatest mileage from the personnel and finance that can be committed to these programmes. RDO/C has already initiated programmes which lead in this direction; they are to be built upon and incorporated into a deliberate stragegy.

The areas with which the program will be concerned include the following:

Policies and facilities to enhance trade and investment;

The exchange of technical information and scientific collaboration linking institutions in the US and ADCs;

Education and technical training;

short and long term exchanges;

Joint research and academic proceedings.

The LAC will assist relatively well developed institutions in ADCs to join hands with institutions in the US.

The projects currently being undertaken elsewhere in LAC which point the way towards the desired activities for the East Caribbean include the following:

Technical transfer projects, services of the office of the science advisor, voter education (in Chile), provision for housing guarantees and ad hoc mobilisation of disaster relief, for example in Mexico.

Other appropriate areas would include institution strengthening and ADC activities which have direct benefits to LDCs.

In order to develop a strategy the present study will first outline the characteristics of countries which are considered candidates for the category of ADC. These characteristics will be economic, social, institutional and political. Country analyses are undertaken for the three candidates, Antigua, Barbados and Trinidad and Tobago, focussing on the extent of private sector activity, indices of public sector intervention, the development of human resources, and institutional capacity. Potential areas for collaboration are suggested and from these is drawn a list of the immediate opportunities which might be exploited by RDO/C. The suggested activities are those which might best contribute to the development of the countries in the 1990s.

SECTION I

ELIGIBILITY CRITERIA FOR CANDIDATE COUNTRIES

An advanced developing country is one whose relationship with the US has evolved to a stage where some reciprocity may be contemplated. The country will have developed its human resources to a modest extent and will have shown some institutional capability and technical capacity. Living standards will be at an intermediate level between poor countries and industrial countries. The countries should have stable, democratic political arrangements and a vibrant private sector.

Individuals and institutions in such countries may contribute to the enrichment of US society and economy. They may work with corresponding groups in the US to further common interests and to provide services for poorer countries. However, ADCs are a long way from the relationship of equality which the US enjoys with mature industrial societies. They are still in need of considerable technical assistance; their institutions need to be broadened and deepened and a more solid foundation laid on what are at present limited areas of excellence. These countries need help to keep up with the rapid advance of technology.

The criteria of eligibility for ADC status will therefore include per capita income, the extent of development of scientific, technical and business institutions, levels of education and social indicators such as health and housing. The economy should show capacity to mobilize its own as well as external resources, human and financial. Its Government's development program should be consistent with the foreign policy goals of the United States and it should boast an independent democratic government (or alternatively there must be good prospects that a continuing relationship with the US will lead to the emergence of democratic institutions). These are the criteria we shall employ to assess the suitability of Antigua, Trinidad & Tobago and Barbados for the status of Advanced Developing Countries.

Antigua

Per capita income in Antigua lies within the range which is suggested for Advanced Developing Countries, i.e. US$1,500 to US$2,500 per year. (See Table 1). However, the country is relatively weak in terms of its institutions. There is only one small scientific or technical institutions located in Antigua (CARDI) and only half a dozen business institutions. Levels of education are thought to be above the average for middle income LDCs with a very small percentage of illiterates. Most people have completed five years of schooling. Levels of technical education are generally inadequate and there is a shortage of skilled persons at the intermediate and higher levels.

Antigua boasts favorable social indicators with life expectancy of 73 years at birth and just over 2,000 people per physician. (Table 2). Each Antigua physician services 4 times as many people as in the US but only half as many as for Grenada and St. Vincent and only a quarter as many as for Dominica. Surprisingly, the reported calorie intake is short of the minimum requirements by about 15% (Table 3). Almost all Antiguan households have electric supply and own TVs and radio; there is generally access to water (Table 4). Housing is basic but generally adequate and there is no widespread dilapidation. Public utilities are fairly reliable.

Antigua has demonstrated adequate capabilities to mobilize international funding. Capital inflows for 1985 and 1986 have averaged 34% of GDP (Table 13). The domestic savings ratio is an acceptable 12.3% and Antigua has attracted private capital for investment in hotels, marinas and ancillary tourism services. It has also attracted private and public funding for airport development and improvement. Relatively high levels of investment have sustained economic growth in the 1980s based on tourism.

Democratic institutions are in place and functioning in Antigua. A smooth transition was made from internal self government to independence. The legal framework was maintained and the rule of law observed. Elections have been held on schedule during the entire period of self government and there are legal guarantees for freedom of speech and assembly.

However, there is a need to deepen the culture of democracy and to provide stronger institutional support. There is a state monopoly on the broadcast media and antiquated and primitive legislation has been used to put some limits on their freedom of expression. Professionalism in public service is threatened particularly by the blurring of the separation of administrative and policy functions. It is necessary to foster an independent, professional cadre of public administrators and strong institutional support must be given to open debate about alternative paths of development.

Antigua qualifies as an Advanced Developing Country on the strength of its per capita income, its educational standards, social conditions and its tradition of free elections. It does not stand up to the ADC criteria in respect of its institutional development and in terms of professional public management. There is a question mark about health standards, even though most of the indicators would seem to qualify the country. Because of the small size of Antigua, institutional development should focus on regional institutions and professional associations. There will be too few local practitioners and too little demand for specialized services for Antigua alone. Improvement in the institutional framework and in the quality of public management should be priorities in US/ Antigua relationships.

<u>Trinidad & Tobago</u>

Income per head in Trinidad & Tobago is about twice the maximum indicated for the Advanced Developing Country range. There is a useful variety of institutions in the private sector covering areas such as science and technology, professional associations, business, voluntary service and culture. There is also a campus of the University of the West Indies with professional faculties of Engineering and Agriculture and Institutes for the Social Sciences and International Relationships. Some of the existing

institutions still need to find their feet and they may be helped in this by links with counterparts elsewhere. Others are already fairly well established and may benefit from international cross-fertilization. There are many gaps, some of which need to be filled, particularly where there are significant numbers of practicing professionals with no association to link them together. However, Trinidad & Tobago is too small to boast comprehensive diverse institutional base and it would make sense to support institutional excellence in selected areas, an argument which holds with even more force for Antigua and Barbados, both much smaller than Trinidad.

Trinidad & Tobago boasts a full educational enrolment at the primary level and enrollment at the secondary level of 76%, which is very respectable. Enrolment at the tertiary level is only 4% which is below Advanced Developing Countries in South East Asia. However, in addition, there is available substantial tertiary education outside Trinidad & Tobago through longstanding reciprocal educational arrangements and scholarships. The beneficiaries of tertiary education would be at least 10% of the eligible age cohort. The proportion of illiterates is small, 7.8% at the 1980 census and about 7% who either have no schooling or do not state the extent of their schooling in the most recent report (World Bank 1988c). The quality of general education reaches standards which are comparable with those in industrial countries but the sciences and technical studies are below those of other Advanced Developing Countries.

Social conditions are generally favorable. Life expectancy is 70 years at birth. The number of hospital beds is comparable to the provisions in Puerto Rico and there are one-third as many doctors for any given number of citizens as there are in United States. The calorie intake is 20% above minimum requirements. There was something of a housing deficiency at the 1980 census, with an average of more than one person per room. Electricity is available to 92% of urban homes and 76% of rural homes and there are high levels of coverage for piped water and urban sewerage (Table 8). Most households have TV and radios and the density of cars is five times the level for OECS countries. The phone service, though comparable to Advanced Developing Countries is relatively poor compared to the rest of the Caribbean.

The domestic savings ratio is in the region of 12%, enough to support a modest sustained rate of growth. There is a full range of domestic institutions to mobilize and disburse finance. Commercial banks are of long standing with branches spread over the entire country. The ratio of deposits and money to GDP was in the range of 35 to 42 percent for 1983-86 (World Bank 1988c). Finance companies emerged in the late 1970s and grew very swiftly. Many were the victims of over expansion and at present they are in a phase of consolidation. There are a few building societies of some prominence who have served for many years and

some small cooperative financial institutions, such as credit unions. A Securities Exchange has been in operation since 1981. Activity has been episodic and it has played very little part for mobilising funds for new investment. From 1982 to June 1987, only TT$ 52.5 million of new issues were placed on the Exchange. The Exchange has acted mainly as a means of transferring the shares of foreign banks and a few large companies which diversified ownership to include local private individuals. These transactions amounted to TT$175.2 million over this entire period.

Trinidad & Tobago has been able to tap international financial centres for loans; borrowings have been made in yen, US dollars, french francs, swiss francs and deutsche marks. Funds have been raised by international bond flotation, export credits, syndicated loans and leasing arrangements (World Bank 1988b, Table 30). The amounts secured fell short of requirements from 1985 onwards, however. Net private capital inflows dried up to nothing in the late 1980s. Small amounts of accumulated earnings were reinvested but this amount was often offset by other capital outflows.

Trinidad & Tobago maintains acceptable international credit ratings in the middle of the world wide standings of such organizations as Institutional Investor. The debt service ratio for 1986 including public and public guaranteed private debt was 15.8%. The country has an unblemished record of debt service. However, it is actively seeking rescheduling in order to reduce the burden of foreign debt.

Overall, investment in Trinidad & Tobago has been in the region of 20 to 28 percent of GDP in the 1982-86 period with private investment equivalent to 15-19 percent. The problems of investment finance seem to be confined to particular sectors and activities. There is inadequate finance for fledgling innovative companies and for export-oriented, non-traditional activity alongside an overabundance of funds for traditional activity and for well established firms. The need is for more venture capital.

Trinidad & Tobago has a quite strong human resource base. The percentage of the labour force in the professional and managerial categories is quite significant (Table 10). In some aspects of culture and the arts, the talent of Trinidadians has made a strong impact beyond the region - for instance, in costume design, musical instruments and folk music. The calypso transcends the narrow bounds of folk idiom in the same way that country music does, though the impact is not of the same order of magnitude. The country boasts considerable resident expertise in selected technical areas, such as minerals and social sciences, but there are many areas of weaknesses such as foreign languages and public management (See World Bank 1988c, p. viii).

Established technical institutions and training programs supply skills at the rate of several thousand per year of technical students while the University's technical faculties produce over 100 qualified graduates per year. Many are lost to emigration but the net supply rises each year by more than 50% of those newly qualified. The quality of trained personnel has been maintained at an internationally competitive level. Graduates of Trinidadian institutions perform acceptably in institutions in North America and Europe.

The entire range of institutions for training and human resource development is available in Trinidad from primary through tertiary including technical and professional. However, the balance of various disciplines and levels of achievement is not what the authorities would like to see. The primary level is producing insufficient qualified applicants for available technical facilities, for example.

The Trinidad economy is mixed with private activity accounting for most of the economic production. The Government sector's contribution to GDP in 1985 was 15.3% and its contribution to capital formation was 12.2% (Table 14). Private firms are dominant in the manufacturing, agricultural, finance, distribution and construction sectors. There have been a number of large and conspicuous government investments in producing firms. This is a direct outfall of the very rapid increase in oil revenues in the mid-1970s. Government had to find employment for burgeoning surpluses and they invested heavily in a limited range of very large enterprises.

The government administration elected in December 1986 embarked on a program which is intended to provide a more important role for the private sector. State enterprises are being reorganized to reduce their burden on government and government has undertaken to ensure greater public accountability and more effective use of national resources (World Bank 1988c, p.i).

Since the institution of internal self government in 1956 Trinidad and Tobago has maintained an open electoral system which it is generally accepted remains free from fraud. Elections have always been held on schedule as required by the constitution. There is freedom of expression with an untrammelled media. The change of administration in 1986 after 30 years of uninterrupted rule by the current opposition party was effected without incident.

Trinidad & Tobago has the characteristics of an Advanced Developing Country. In some areas where it may fall short of the criteria the reason may be small size. Trinidad & Tobago's income per capita suggests that it might be a very advanced developing country. It has reasonable institutional development-

as wide a range as institutions as a country this size might be expected to have - though the actual present mix may not be the most desirable and not all the institutions are soundly based. Educational levels are above those of many developing countries though not up to industrial country standards if one takes the population as a whole. However, people with equivalent training and qualifications in Trinidad and un-industrial countries would perform on par. There are unhealthy gaps in the education system particularly with respect to languages and science and technology.

Social conditions are generally superior, the country is able to develop its human resources, mobilize domestic financial resources and tap a wide variety of foreign financial resources. However, the allocation of these finances could be improved. Government's programs stress a greater role for the private sector, reorganization of enterprises and tighter government administration. The country boasts a stable, democratic political environment.

Barbados

Barbados' income per head is above the stated range for Advanced Developing Countries and it has a range of institutions as diverse as might be expected from a country that is so much smaller than Trinidad & Tobago (See Appendix B). However, all but a few of these institutions are very young in their active life and some lead a rather erratic existence with periods of activity interspersed with periods of quiescence. Expertise in the effective functioning of institutions is only slowly being built up and is still relatively scarce. There are insufficient ongoing linkages with similar institutions outside Barbados. Such linkages are essential for the viability of these small entities and to provide them with a transfusion of ideas and techniques.

Barbados' educational facilities are superior with an illiteracy rate of 0.7% at the 1980 census. All children of primary age are enrolled in school and teacher student ratios are low at primary and secondary level (See Saunders & Worrell, 1981). There is a range of tertiary institutions providing academic, technical and professional training. These have links to foreign institutions and the ongoing scholarships and external connections provide a full range of educational opportunities. The main deficiencies are in the area of science and technology, where not enough able graduates are produced at the secondary level to take up available tertiary options. Standards at the secondary level are highly variable. The best of the graduates are internationally competitive but the worst are barely functionally literate.

Barbados scores well on social indicators with life expectancy at birth of 74 years and calorie intake on the average 33% above the recommended minimum. There are half as many physicians for a given population as in North America and hospital bed availability is 50% below what it is in the United States. There is no overcrowding in housing and all households have access to piped water and electricity. The use of automobiles is at the Trinidad & Tobago level, the use of TV and radio close to the level obtaining in Puerto Rico and phones are available more widely than in Puerto Rico.

The ratios of savings and investment to GDP are both in the region of 16% (World Bank 1988b). Financial institutions are reasonably well developed (See Prescod & Worrell, 1983). Commercial banks are long established and have successfully attracted private savings on deposits. They offer a wide range of loans. Finance companies which grew prominent in the 1970s are involved in housing, the finance of consumer durables and some equipment. Other financial institutions have been expanding in the 80s, particularly credit unions. A Securities Exchange opened in June 1987. Only one new issue has been handled on the Exchange. There was considerable activity at the opening but trading has been intermittent since then. As in Trinidad & Tobago there is a surplus of finance for large firms and for firms with a track record, doing business in familiar areas. There is inadequate capital for new ventures and for export activities. The Securities Exchange faces limited potential if its activities are to be confined to Barbados.

The Barbados government has been able to maintain access to the international private financial market with recent borrowings in London and Japan in sterling, yen, swiss francs and US dollars. Its credit rating is comparable with that of Trinidad & Tobago and debt service ratios are 25% for all external debt, public and private. Payments have always been made on schedule. There has, however, been an outflow of private capital on a net basis. Inflows have been very slow and in the 1980s there has been heavy repayment on earlier loans for the development of public utilities.

Barbados is close to Trinidad & Tobago in the percentage of the working population in professional and managerial jobs. It is well served in some areas such as law, medicine, accountancy and teaching but poorly served in languages and science. Training institutions are in place but institutional strengthening may be desirable in many areas.

Private firms account for the vast majority of economic activity in Barbados and the Barbados government has a tradition of less intervention than most other Caribbean countries, whatever the

administration in power (Chart 1). Policies have been introduced to improve incentives for private investment sequentially over many years. They include tax concessions, specific duty exemptions, lower utility costs and most recently, rebates on stamp duties. Government has concentrated on improvements to infrastructure, such as roads, fishing harbours, educational institutional rehabilitation, and so forth. A comprehensive system of incentives for foreign investment is a long tradition in Barbados. There are a number of institutions that Government has established to assist the private sector in specific areas, including the Agricultural Development Corporation, the Barbados Marketing Corporation, the Barbados Development Bank, the Industrial Development Corporation, the Barbados Tourist Board, the Barbados Export Corporation, the Industrial Credit Fund and the Export Guarantees Department of the Central Bank. Government has provided vehicles for a partnership between itself and the private sector, including an annual consultation with the private sector.

Barbados has had a smoothly functioning democratic process since 1953 with the introduction of self government. Elections have been held on schedule and there have been uneventful transitions of administration. The media is free to discuss issues and there is a general commitment to a democratic process.

SECTION II

AREAS FOR COLLABORATION

The areas of potential collaboration between Caribbean ADCs and the US may be grouped in four categories, as follows:

Education, training and the development of the human resource; science and technology; strengthening ADC institutions; and networking. In each of these areas there are some new suggestions, some at the conceptual stage while others have already been brought to project stage and are awaiting funding. In other cases, existing projects need to be continued or extended and there are some projects which are already underway in collaboration with other agencies which might be of interest to USAID.

Education and training to enhance the human resource in ADCs is perhaps the most cost effective way to spend limited assistance funds. By investing in enhancing human resources the US may provide the skills and management needed for individuals to contribute to the increase of output of ADCs. Moreover, the training they acquire in the US provides personal and other linkages which develop into opportunities for trade, investment and cultural ties. Inadequate skills and management are a crucial bottleneck in Caribbean ADCs. Unless there is a greater supply of individuals with high capabilities in these areas Caribbean ADCs will be unable to sustain the levels of achievement so far recorded. Capable individuals will help to sustain the educational and institutional bases which form the foundation for the relationship between the US and ADCS. Interaction on a personal basis through training and educational opportunities and exchange of personnel provide are the most effective ways to transmit ideas. Durable trade, investment and technical links may be built up on the basis of individual contacts multiplied manyfold.

There is scope for scientific and technical collaboration and research between institutions in the US and in Caribbean ADCs. The areas to be explored are those where there are common concerns as well as significant gaps in our knowledge. They might include the marine environment, coastal ecology, meteorology and vulcanology. Advanced Developing Countries in the Caribbean may provide locations for research and experimentation together with some local expertise, mainly associated with the University. Joint activities might also aim to adapt existing technologies for levels of operation typical in the Caribbean. This may involve the redesign of manufacturing systems and processes. There is already a very little activity of this kind, e.g. the machinery introduced by Barbados-based Carib Agro-Industries. Joint research and collaboration may also be used to strengthen local institutions by involving them in global networks for research on tropical problems. This initiative would build in a long standing tradition in the region. The origins of the St. Augustine campus of the University of the West Indies are in the Imperial College of Tropical Agriculture established in the inter-war period. Areas where Caribbean institutions might become part of a global network of institutions dealing with particularly tropical aspects of their disciplines include agriculture, medicine, pharmacy and herbal medicine, architecture and island ecosystems.

The strategy towards ADCs should aim to strengthen resident institutions. The strategy tries to move ADCs closer to a relationship of partnership with the US. At the moment, the institutional partners in ADCs are often weak and their continued existence seems insecure. If they fail to survive there is nothing to anchor one end of what ought to be a mutual strategy. The stronger the hard core of each local institution, the larger

a programme of collaboration that it may support. It may administer more joint programmes, provide more services in kind to match outside financial contributions and it will develop a more capable institutional "brain" with accumulated knowledge that may improve its services and get new programmes off to a quicker start.

Networking is another very cost effective device which could play a vital role in enhancing the competitiveness and capability of ADCs but which is inadequately provided at the moment. Managers, professionals and administrators in the Caribbean are all overwhelmed by the information explosion. A great deal is possible if one knows where to seek the information to bring to bear on particular problems. Computers and communications have made it possible to establish low cost information bases and information distribution system, but the Caribbean lags in these areas. An effective information network can immediately result in more efficient production. It is also an important contribution to human resource development. In discussions with individuals in Barbados and Antigua, mainly in the private sector, several suggestions were made in each of these areas.

Education, Training and Human Resource Development

Ongoing training opportunities must be part of any continuing programme. A range of facilities already exists and there are no substantial areas where one may identify a complete absence of training activity. Training programmes should be constantly re-assessed and they should be flexible enough to meet new needs as they emerge. The training requirements of Advanced Developing Countries will become more sophisticated as they face the challenge of remaining competitive and improving their standards of living.

Industrial relations is an area where new ideas and strategies must be forged to address the changing production structures of ADCs. There are opportunities for more dialogue between labour and business organizations in the US and the ADCs, and for the exchange of practical experience in new forms of industrial organization. Management training institutes and universities in US and ADCs might also be involved.

There is a specific proposal for training in efficient attitudes to work which has been prepared in Antigua for the OECS. It focuses on video presentation and specialized counselling for schools and for workers on the factory floor.

In Barbados the Family Planning Association identifies a need for training of counsellors, for adolescents and on the sexuality of handicapped persons. The Association is in search of assistance to enhance its general programme of family life education.

The Caribbean Conservation Association hopes to introduce training in natural resources management and a programme for natural resource management in its member countries.

The University of the West Indies (Cave Hill) is exploring the possibility of education in financial services in view of the growing importance of offshore financial services in the Caribbean.

The University is seeking funding for a programme in health management which is identified as a deficiency by the Barbados health authorities. The programme has been devised in collaboration with the Pan American Health Organization.

Training programmes for bankers: possible extension of current Regional Management Training Project, specifically to produce material on the banking sector. Most existing studies have an industrial or commercial bias, and the banking business is rather different. Training in banking and finance might be linked to law reform and the codification of laws (see below); much of the practice of banking and finance needs to be explained within the legal framework of the Caribbean.

Support for regional participation in the programmes of the American Institute of Management, along with opportunities for on-the-job experiences of American management practice through short-term attachments (about 3 months).

Assist regional governments in making public sector training more effective in order to realize the full benefit of the recently concluded public sector training project: develop materials from that project into publishable case studies, exchange of trainers between islands, ongoing provision for training of trainers via OECS Secretariat.

Training in management for officers of parastatals (e.g.) utility companies, port and airport authorities).

Ongoing workshops on training methodology and on the training of trainers.

Science and Technology Research

The Caribbean Conservation Association, the University of the West Indies and Bellairs Research Institute in Barbados are interested in research on coastal zone management.

A US researcher is interested in collaborating with Bellairs Research Institute (Barbados) on a research programme which will use new techniques to determine the age of corals. These techniques could make an important contribution to the global effort to arrest the erosion of coral formations.

The Bellairs Research Institute would like to mount a programme to test for the effects of pesticide use on the marine environment and coastal ecology. This is an area of general concern about which almost nothing is known.

The Bellairs Research Institute has forthcoming a project proposal on the mariculture of seaweeds in collaboration with an expert on the subject of seaweeds at a US university.

Ongoing opportunities exist for collaborative research in agriculture, in association with the Caribbean Agricultural Research and Development Institute (CARDI), the University of the West Indies Faculty of Agriculture, the Barbados Sugar Technology Research Unit, the West Indies Cane Breeding Station (Barbados) and the Research Units of the Ministries of Agriculture. There is an urgent need for information data bases where the results of such research may be stored for retrieval via networks that would cover the Caribbean and, through the US, the rest of the world. In Barbados the areas of interest are specialty products from sugar, yams, sweet potatoes, vegetables, selected fruit and cotton.

Institutional Development

In Antigua there is concern over the future of the fledgling Council of East Caribbean Manufacturers, which is seen as an institution with the potential to provide important services for manufacturers in the OECS region. In particular, it was suggested that an export promotion arm might be added to the Council.

A suggestion currently under study by officials of the OECS region is for the establishment of a permanent OECS Trade Center, possibly in Antigua. The recent OECS Expo has been judged a considerable success and manufacturers would like to see a permanent facility where such trade exhibitions could be mounted from time to time and where ongoing information and advice on export marketing might be made available.

In the area of law reform and the administration of justice, a significant programme is already underway with two components, a law institute and a justice programme project which provides for infrastructure as well as for documentation. The law institute (which only recently got underway) should provide an important resource for the region. The documentation and codification of legislation for the Caribbean is a pressing need. In the process of law reform the experience of one Caribbean country can be of benefit to the others, if that experience can be brought to bear through good documentation and legal research.

It has been suggested - most notably in the context of the recent survey of OECS financial arrangements - that the Securities

Exchange in Barbados might be used to service the entire OECS region. Some technical assistance and expertise on the implications of such a move might be desirable. The possibility of Caribbean mutual funds might also be looked into.

The Caribbean Conservation Association is interested in the establishment of regional center (or centres) for environmental education. They also envisage a project to ensure adequate environmental protection legislation throughout the Caribbean region.

The new Vice Chancellor of the University of the West Indies has mooted the idea of a science park. This facility, which would be of a commercial nature, could draw on and develop the technical and research facilities already available in Barbados and Trinidad through the University of the West Indies, the Sugar Technology Research Unit, the West Indies Central Cane Breeding Station, the Bellairs Research Institution, the Inter-American Institute for Cooperation in Agriculture and other research institutions. It could do work for firms interested in agriculture research, communications, information systems, marine research and island ecosystems.

There is an initiative underway to provide for joint tourism marketing services. The proposal is being jointly considered by the CAIC, the Caribbean Hotels Association and the Caribbean Tourism Research and Development Center.

Networking

There is already the embryo of a networking service in the energy field, largely under the initiative of the Barbados Light & Power. Such a network could be further extended to enhance the technical services being provided through the BL & P to the OECS region.

In the area of public health education, institutions in Barbados such as the Barbados Cancer Society and the Barbados Family Planning Association have devised and implemented highly effective programmes. Networks could be established both to link them with US institutions more firmly (links already exist) as well as to allow them to provide services and training to less well developed groups in other East Caribbean countries.

The Barbados Council on Aging has already developed networks in the Commonwealth through the agency of the Commonwealth Secretariat. Similar networks with US institutions concerned with the problems of the elderly might make a significant contribution to the strengthening of the institution and provide it with the capability to provide services on a regional basis.

Networks might be developed among business associations in the Caribbean and the US. Many links already exist, through individual firms, service clubs and PVDs. An information network to which they all had access might serve to enlarge the scope of contact and intensify collaborative activity. Included would be general business groups (Chambers of Commerce) as well as specific interest groups such as growers associations in agriculture and industry groups.

Networks of consumer organizations might serve to strengthen Caribbean ADC institutions in this area; there are no vigorous consumer groupings in these countries, though the need for them is keenly felt.

SECTION III

SUMMARY OF STRATEGY

The strategy outlined in this document is designed to foster a symbiotic relationship between institutions in the US and those in Caribbean countries designated as Advanced Developed Countries. This relationship should lead to enhanced capability of ADC institutions. The strategy emphasizes human resource development and networking so as to get most mileage from any given outlay of finance. The strategy places special emphasis on science and technology and on organization and management, both because these are areas where institutions in the US are very strong and where there is a very urgent perceived need in the ADCs. The strategy must also build on the considerable investment USAID has already made in institutions and organizations in the East Caribbean region. The result of this strategy should be to develop enduring links between persons and institutions via joint activities, visits, conferences, training and programmes which will lead to long lasting trade, investment and cultural ties.

The activities contemplated include science and technology, involving among other local institutions, the University of the West Indies and its research institutes, Bellairs Research Institute, the Caribbean Meteorological Center, CARDI, the Caribbean Conservation Association and agricultural research units. Areas of particular concentration which deserve attention include marine ecology, agriculture, health, energy, information systems, environmental issues, meteorology and vulcanology. The countries under consideration are the location of a number of institutions whose capabilities might be enhanced through

collaborative activity. They include the Council of East Caribbean Manufacturers, the OECS Secretariat, the University of the West Indies and its institutes - the Institute for Social and Economic Research, the Institute for International Relations, the Caribbean Law Institute and the Faculties of Engineering, Agriculture and Law - the Securities Exchanges of Trinidad and Barbados, the Caribbean Conservation Association and numerous professional associations and organizations.

There is substantial ongoing training which needs to be continued. Information systems need to be further developed and enhanced information technology services provided. Training can be facilitated via joint research projects, workshops and exchanges of personnel. All these programmes are tied into existing efforts to provide enhanced capability in the private sector and to provide private firms and individuals with the skills, know how and assistance to follow up on initiatives of their own. The programmes will directly involve decision makers, especially in the private sector and they will assist in the nurturing of a new generation of leaders who will have strong affiliations and ongoing working links with US institutions.

DeLisle Worrell

October 31, 1988

APPENDIX A

List of Persons Consulted

Antigua

Mr. Iftekhar Ameen, Director, CARDI Office, Antigua
Mr. John Benjamin, Antigua Commercial Bank
Mr. Jack Kelsick, OECS Secretariat
Dr. Carlyle Mitchell, Director Economic Affairs Secretariat, OECS
Ms. Ermine Spence, Training Officer, OECS Secretariat
Mr. Brian Stuart Young, Council of East Caribbean Manufacturers and Antigua Manufacturers Association
Mr. Ed Sandberg, Counsellor, US Embassy

Barbados

Dr. Wayne Hunte, Director, Bellairs Research Institute
Sir Keith Hunte, Principal, Cave Hill Campus and Pro-Vice Chancellor, University of the West Indies
Mr. Michael King, Executive Director, Caribbean Conservation Association
Mr. Frank McConney, Chief Executive, Barbados Light & Power Co.
Mr. Tony Johnson, Director, Barbados Securities Exchange
Mr. Charles Alleyne, Barbados Family Planning Association
Mr. Bob Taylor, National Council on Aging
Ms. Velma Newton, Deputy Librarian, University Law Library
Dr. Trevor Carmichael, Attorney-at-Law
Mr. Pat Thompson, Executive Director, CAIC
Dr. Basil Springer, SYSTEMS Ltd.

List of Potential Contacts in Trinidad & Tobago

Mr. Frank Rampersad, National Institute of Higher Education
Mr. Hollis Charles, CARIRI
Dr. Maxwell Richards, Principal, St. Augustine Campus and Pro Vice-Chancellor, University of the West Indies
Mr. William Demas, Governor, Central Bank of Trinidad & Tobago
Mr. Michael De La Bastide, The Trinidad & Tobago Bar Council
Mr. Joseph Scotland, Trinidad & Tobago Economic Society
Dr. Pomina, Ministry of Health

APPENDIX B

ASSOCIATIONS AND INSTITUTIONS IN ANTIGUA, BARBADOS AND TRINIDAD AND TOBAGO

(A Partial List)

Antigua & Barbuda

List of Associations:

- The Antigua & Barbuda Manufacturers Association
- The Antigua Chamber of Commerce
- The Antigua Employers Federation
- The Antigua Hotel & Tourist Association
- The Council of East Caribbean Manufacturers

Voluntary Service Organizations:

- The Lions Club
- The Rotary Club of Antigua
- The Antigua Planned Parenthood Association
- The Caribbean Association for Rehabilitation of Disabled
- The World Scout Bureau
- The YMCA

Cultural Institutions:

- The Venezuelan Institute for Culture & Cooperation

Barbados

Business Associations:

- The Barbados Chamber of Commerce
- The Barbados Employers Confederation
- The Barbados Hotel Association
- The Barbados National Association of Cooperative Societies
- The Caribbean Association of Industry & Commerce
- The Caribbean Research & Development Center
- The Insurance Association of the Caribbean
- The Small Business Association
- The Barbados Manufacturers Association
- Barbados Agricultural Society

Professional Associations:

- The Barbados Association of Professional Organizations
- The Barbados Association of Medical Practitioners
- The Barbados Association of Professional Engineers
- The Barbados Bar Association
- The Barbados Library Association
- The Barbados Sugar Technologists Association
- The Barbados Economics Society

Voluntary Service Organizations:

- The Barbados Family Planning Association
- The Caribbean Conservation Association
- The Caribbean Council of Churches
- The Barbados Association for the Mentally Retarded
- The Barbados Association for the Blind & Deaf
- The Barbados Cancer Society
- The Barbados Museum & Historical Society
- The Barbados National Trust
- The Kiwanis Club of Bridgetown
- The Lions Club of Barbados
- The Rotary Club of Barbados
- The YMCA
- The YWCA

Science & Technology Institutes:

- Bellairs Research Institute
- The Sugar Technology Research Unit
- The W.I. Cane Breeding Station
- The Caribbean Meteorological Institute
- The University of the West Indies, Cave Hill

Trinidad & Tobago

Business Associations:

- The Agricultural Society of Trinidad & Tobago
- The Association of Trinidad & Tobago Insurance Companies
- The Cocoa Planters Association of Trinidad
- The Cooperative Credit Union League
- The Employers Consultative Association of Trinidad & Tobago
- The Federation of Consumer Cooperative Societies
- The Junior Chamber of Port of Spain
- The La Brea Consumers Cooperatives Society
- The Lumber Manufacturers Association
- The Shipping Association of Trinidad & Tobago
- The South Trinidad Chamber of Industry & Commerce
- The Trinidad & Tobago Businessmen Association

Business Associations (Cont'd):

- The Trinidad & Tobago Chamber of Industry & Commerce
- The Trinidad & Tobago Hotel Association
- The Trinidad & Tobago Manufacturers Association
- The Trinidad & Tobago Vendors Association
- The Works Credit Union

Professional Organizations:

- Institute of Chartered Accountants of Trinidad & Tobago
- The Insurance Association of the Caribbean
- The Quantity Surveyors Society of Trinidad & Tobago
- The Registered Nurses Association
- The Secondary School Teachers Association of Trinidad & Tobago
- The Trinidad Pilot and Berthing Masters Association
- The Trinidad & Tobago Medical Association
- The Trinidad & Tobago Society of Architects

Science & Technology Institutes

- The Caribbean Fisheries Training & Development Institute
- The Caribbean Food & Nutrition Institute
- The Caribbean Industrial Research Institute
- The Caribbean Meteorological Organization
- The University of the West Indies, St. Augustine

Voluntary Service Organizations:

- The Chinese Association of Trinidad & Tobago
- The Family Planning Association
- The Road Safety Association of Trinidad & Tobago
- The Trinidad & Tobago Association for Mental Health
- The Trinidad & Tobago Association in Aid of the Deaf
- The Trinidad & Tobago Development Foundation
- The Trinidad & Tobago Friendly Society
- The Trinidad & Tobago Legion Hall
- The Trinidad & Tobago Red Cross Society
- The Chest & Heart Association of Trinidad & Tobago

Cultural Groups & Associations:

- The Caribbean School of Dance
- Carnival Development Committee
- The Indian Music Center

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Table 1

Basic Indicators

	Amount	Barbados	Trinidad & Tobago	Year	Source
Income per head (US$	2,380	5,150	5,360	1986	World Dev. Report 1988
Life Expectancy (yrs)	73	74	70	1986	" " " "
Education		(1)	(2)		
Savings Ratio (% of GDP)	12.3	16 (3)	12.7	1985	Bourne et al (June 1988)

(1) Barbados Enrollment 1979: sch. pop. = 116.4% of pop. aged 5-15 yrs (Saunders & Worrell, 1981)

(2) T.T. Enrollment 1985: primary - 95%, secondary - 76%, tertiary - 4%. World Development Report 1988, table 30.

(3) World Bank, Economic Memorandum on Barbados, 1988

Table 2

Availability of Medical Services

	Population/ Hospital Bed	Population/ Physician
Antigua (1978)	113	2,187
Barbados (1982)	120	1,167
Trinidad & Tobago (1979)	257	1,488
Canada (1978)	129	548
Puerto Rico (1980)	246	907
United States (1980)	171	549
Belize (1979	232	3,261
Dominica (1973)	224	8,000
Grenada (1980)	188	4,400
Montserrat (1980	194	1,428
St. Lucia (1975)	202	2,750
St. Vincent (1972)	170	4,737

Source: UN Statistical Yearbook 1983/84

Table 3

Caloric Intake

Calories, % of min. daily needs, 1981-83			
Antigua	83.4	Belize	117.1
Barbados	132.9	Dominica	98.8
Trinidad & Tobago	120.0	Grenada	94.7
St. Lucia	98.6		

Source: ECLAC Statistical Yearbook for Latin America & the Caribbean 1987.

Table 4

Amenities

	TV/1,000 pop. (1982)	Radios/1,000 (1982)	Phones/100
Antigua	234	247	n.a.
Barbados	201	706	30 (83)
Trinidad & Tobago	250	291	9.6 (83)
Canada	460	758	66 (83)
Puerto Rico	238	582	20 (80)
US	646	2,133	76 (82)
Belize	n.a.	450	n.a.
Dominica	n.a.	442	7.7 (84)
Grenada	n.a.	327	6.7 (84)
Montserrat	n.a.	483	28.2 (84)
St. Kitts	66	309	n.a.
St. Lucia	16	746	n.a.
St. Vincent	n.a.	n.a.	5.9 (84)

Source: UN Statistical Yearbook 1983/84.

Table 5

Automobiles

Cars/ 1,000 population		
Barbados	1980	200.4
Trinidad & Tobago	1984	207.3
Belize	1975	39.3
Jamaica	1981	18.7
Dominican Republic	1985	18.1
St. Lucia	1984	43.3

Source: ECLAC Statistical Yearbook for Latin America & the Caribbean 1987.

Table 6

Percentage of illiteracy

Barbados	1970	0.7%
Trinidad & Tobago	1970	7.8%

Source: UN Statistical Yearbook 1983/84

Table 7

Health Indicators, Barbados

OECS patients referred to
Queen Elizabeth Hospital 1982: 138 1983: 131 1984: 118

Piped water: house connections 88.9%, others easy access

Medical Personnel 1984:

	Number	One per no. of pop.
Physicians	220	1,145
Dentists	25	10,080
Nurses	537	469

Source: Annual Report of Chief Medical Officer for 1984, Barbados Ministry of Health, 1986.

Table 8

Housing Conditions

Persons/room:		
Barbados	1970	1.0
Trinidad & Tobago	1970	1.7
Access to piped water, c. 1980:		
	Urban	Rural
Barbados	87.5	n.a.
Trinidad & Tobago	78.6	92.5
Urban pop. served by sewerage:		
Trinidad & Tobago 1980	95.7%	
Homes with electricity, c. 1980:		
	Urban	Rural
Trinidad & Tobago	91.6%	75.5%

Source: ECLAC Statistical Yearbook for Latin America & the Caribbean 1987.

Table 9

Trinidad & Tobago: Education (1980)

Highest School Attended	% of Population	Highest Exam. Passed	% of Population
None	13.5	None	82.9
Primary	55.6	Primary	4.2
Secondary	26.3	Secondary	10.6
University	1.4	Degree	1.0
Other, Not known	3.2	Other, Not known	1.3
Total	100		100

Source: Trinidad & Tobago Central Statistical Office, Population & Housing Census 1980, Vol. II and Vol. V.

Table 10

Trinidad & Tobago: Occupational Groups (1980)

	% of employed
Professional, technical and related	8.0
Administrative & Managerial	2.1
All Others	89.9

Source: Trinidad & Tobago Central Statistical Office, Population & Housing Census Vol. III part 2.

Table 11

Barbados: Education 1980

Highest Exam. Passed	% of Adults	
	Male	Female
None	75.9	75.4
Primary	2.7	2.9
Secondary	14.2	16.5
Degree	2.5	1.1
Other, not known	4.7	4.1
Total	100	100

Source: A Forte & B. Zaba Preliminary Analysis of the 1980 Census Data, Caricom Secretariat.

Table 12

Caribbean Examinations Council Results 1987

	% of Passes (Grades I & II		
	Antigua	Barbados	Trinidad & Tobago
Sciences			
Physics	18	47	36
Chenmistry	27	53	45
Biology	45	57	50
Maths*	31	46	28

* General proficiency

Source: CXC Administration and Finance Committee, Jan. 1988

Table 13

Antigua: Capital Inflows

EC$ Million

	1983	1984	1985	1986*
(1) Capital Inflows **	21.9	47.9	116.7	217.9
(2) GDP, Factor Costs	331.3	392.6	454.5	509.9
(3) = (1)/(2) (%)	6.6	12.2	25.7	42.7

* Provisional
** Including unidentified inflows

Source: Central Bank of Barbados, Annual Statistical Digest 1988

Table 14

Trinidad & Tobago: Government Activity

	1982	1983	1984	1985	1986*
(1) Gross Capital Formation (TT$M)	5,417	4,969	4,119	3,889	4,000
(2) Government Investment (TT$M)	2,320	1,899	1,265	1,160	489
(3) = (2) /(1) (%)	42.8	38.2	30.7	29.8	12.2
(4) Govt. Contribution to GDP (%)	14.3	13.2	13.9	14.5	16.6

* Preliminary
Source: World Bank, 1988c.

State ownership

Monopolies	Antigua	Barbados	Trinidad
Elec.	○	○	●
Phone	○	○	●
Telecomm.	○	○	●
Water	●	●	●
Ports	●	●	●
Refining	n.a.	○	n.a.
Oil Prod.	n.a.	●	n.a.
Sugar	n.a.	○	●
Flour	n.a.	◐	◐
Cement	n.a.	●	n.a.
Fertiliser	n.a.	n.a.	●
Steel	n.a.	n.a.	●

ANNEX IX

SHELF OBJECTIVE FOR EXPAND AND IMPROVE INFRASTRUCTURE

Regional Development Office/Caribbean

1990-1994 CDSS

OBJECTIVE # 7 EXPAND AND IMPROVE INFRASTRUCTURE (Depends on ESF funding)

		By 1995
Target (A):	Miles of Roads under A.I.D.-Supported Programs	15
Target (B):	Sewage Collection System Installed (miles)	5
Target (C):	Common Services organization serving Eastern Caribbean electric utilities established and functioning effectively	100%
Target (D):	Effective Road Maintenance Program Established in St. Vincent	100%

Strategy: A revised infrastructure strategy was presented in the 1989-90 Annual Action Plan. The main points of that strategy are repeated here. It is difficult to formulate a meaningful medium-term strategy in an environment of high uncertainty, volatile funding levels and undefined funding sources. There are vast differences in the profile of the infrastructure portfolio that the mission would desire, depending upon: the overall level of mission funding, the mix of available loan and grant money, the balance between the functional accounts, and the levels of SDA and ESF funding. Some courses of action are not possible or desirable without significant ESF funds, others are achievable only if grant money is available. With all of these issues largely unsettled at this time, the following should be viewed as a contingent strategy, reflecting mission preferences under alternative funding scenarios.

With reduced ESF funding levels, RDO/C infrastructure strategy in the short term has shifted from a bilateral to a regional focus emphasizing basic human needs and infrastructure maintenance. The Basic Needs Trust Fund Project, in addition to providing basic amenities, contributes to strengthening the private sector by improving the capability of indigenous private consultants and contractors to design and implement infrastructure projects. It enhances the Mission's growth objective by improving the health and the productivity of the labor force through its impacts on education and health, and directly supports the Mission's portfolio in the latter two areas.

The Regional Electric Utilities Management Project, initiated in FY 88, will continue through the RDSS period to protect the enormous investment in existing power systems in the eight targeted Eastern Caribbean countries. The resulting improvements in electric service should have a profound effect on the tourism product and investment environment. As developed under this project, a self-supporting regional "Corporation" will provide common services for the targeted group of utilities that are essential to safe and efficient operations. The organization will be controlled by the utilities and will obtain revenues through collection of fees for services performed and training provided. Dues will be collected to cover minimal fixed cost. The organization will provide a corps of local trainers who will establish training as an on-going activity for the duration of the project, and

will ensure training resources for the future. It will oversee development of local resources to conduct needed engineering and management analysis, and will act as an organization through which the targeted utilities can conduct joint purchasing. The savings gained will be largely passed back to the utilities, except for a portion to cover the Corporation's costs.

In the medium-term, if expanded SDA or ESF resources permit, the mission will again undertake larger bilateral projects, but with a focus on those which will directly increase the capacity of the private sector to export those products and services for which each island has a comparative advantage and those which will support environmental preservation efforts. Conditionality will be used to ensure that the policy environment is consistent with optimal private sector export performance; adequate provision is made for maintenance; private sector views are incorporated into the project selection process; and opportunities for private sector solutions to infrastructure needs are increased.

Until now, RDO/C infrastructure strategy has emphasized restoration and construction of basic infrastructure, including rehabilitation and construction of roads, ports/airports, water supply, sewerage systems and power generation and distribution facilities, as well as more directly productive infrastructure such as industrial parks and factory shells. During the RDSS period the mission will focus and modify the strategy. Many of the shortcomings in the region's infrastructure have now been corrected or at least partially alleviated through the major infrastructure projects undertaken since 1980. Deficiencies can still be identified in each of the islands: Inadequate water supply continues to plague Antigua; St. Kitts-Nevis will need additional power generating capacity in a few years and irrigation to support agricultural diversification; water quality improvements are urgently needed in Grenada; several of the islands need additional factory space and improved international transportation facilities. During the RDSS period, it is likely that most of the islands will require improvements to their sewerage systems. However, compared to much of the developing world, the region is now relatively well-endowed with basic infrastructure and in the future these kinds of projects will be accorded relatively lower priority. RDO/C's medium-term infrastructure strategy will narrow the focus of its interventions by shifting from a rather wide-ranging set of activities to a portfolio which will give still higher priority to projects that help to support the needs of the productive sectors, increase foreign exchange earnings and protect the environment. Regional needs (e.g. facilities to support regional economic diversification or integration) will receive increasing weight in project selection.

The strategy places increased emphasis on each island's comparative advantage in tourism or the production of goods or services for the export market. There are fundamental differences among the islands which render some of them unlikely candidates for major growth in one or more

directly productive sectors. Effective integration of the region's economies will require that each country diversify its economy with particular attention to producing those goods and services in which it has a comparative advantage. Bottlenecks in transportation and in handling and moving cargo and people must be identified and reduced. Probable areas of pivotal importance in a more integrated region will receive particular attention.

Based on a planned evaluation of the infrastructure portfolio, the Mission's Program, Infrastructure, and Project Development offices, will continue to assess the comparative advantages of each island and the role of infrastructure in reinforcing those advantages. From this analytical base, the Mission will set island-specific sectoral priorities for its infrastructure interventions. We will emphasize maintenance, training, technical assistance and institution-building to enable host governments to maintain the expensive inventory of infrastructure accumulated in recent years. RDO/C policy dialogue and project selection will help governments become increasingly aware of the importance of maintenance in the development process. Through policy dialogue and project selection, RDO/C intends to put the infrastructure subsector on a more sustainable basis through institution-building and technical assistance designed to improve the technical, managerial and financial capabilities of the governments to develop and implement effective maintenance programs.

Privatization objectives will also be advanced in this strategy. Countries around the world are beginning to realize that efficiencies can be obtained by contracting private firms to perform functions heretofore thought to be the sole function of government. This approach to providing public services reduces the burden on government finances while generating opportunities for new private businesses. RDO/C will begin a sustained effort to make governments aware of the opportunities open to them in privatizing certain construction and maintenance functions.

Where a project is sufficiently large to justify doing so, it will be

ANNEX X

OTHER STRATEGIC CONCERNS

Regional Development Office/Caribbean

1990-1994 CDSS

ANNEX X

Other Strategic Concerns

1. Grenada.

Grenada will retain its special concern status during most of the RDSS period. The prospects and issues surrounding Grenanda's future are presented in more detail in the separate Country Annex. Grenada's economic prospects are moderately good, perhaps better than those of its Windward neighbors, provided that early and decisive action is taken to address several key issues, including: restoring the government's fiscal solvency; improving the PSIP process; removing price controls; reexamining the tariff structure and removing harmful disincentives; a more vigorous program of privatization of parastatals; removing red tape and other disincentives to investment; and a general improvement in the business climate and attitudes toward private investment. As with most of the other OECS islands, given their tiny size and limited fiscal resources, it is probably not reasonable to expect Grenada to provide from its own resources more than a fraction of its Public Sector capital needs through the mid-1990's. External assistance will therefore necessarily be an important part of the country's development during this period. Much of this can be provided from external sources other than the U.S., including an anticipated large role in the region by Canada and Great Britain in agriculture, fisheries, forestry and water-related infrastructure as well as available infrastructure funds from CDB.

Fortunately, much of the large basic infrastructure is now in place, thanks to previous AID assistance. Future infrastructure needs will be more modest and the mission proposes that these be tied to government's ability to maintain its infrastructure or to one or more policy-conditioned sectoral structural adjustment programs.

Maintenance of political stability and government fiscal solvency are perhaps the two most urgently needed interventions to improve the business climate. In this context, there is need for training at all levels, but in Grenada more than in other states, emphasis needs to be placed on basic education and training and community development activities aimed at youth and the unemployed. This may be addressed on a project or a sectoral basis.

The mission's overall private sector strategy points out the region's lack of sufficient cooperation between the private sector and government as well as fragmentation of the private sector itself. This problem is especially critical in Grenada and special efforts will be made to improve coordination within the private sector and to establish a constructive dialogue and more mutual trust between the private sector and government.

Experience suggests that bilateral macroeconomic and general budgetary support outside the context of a multidonor structural adjustment program will be counterproductive. It runs a serious risk of building a dependence on U.S. assistance that will preclude the structural reforms that are essential to future economic growth.

Future nonproject assistance for Grenada, if funding permits, will therefore be for bilateral sectoral structural adjustment. The sectors to be targeted are tourism, agriculture and education/training. Given its potential for early and significant impact, tourism will be the focus of the first such program. The sectoral program will consist of a mix of policy level technical assistance and advice, targeted tourism-related (or other sector-related, as appropriate) infrastructure projects, and training programs through which to work with the Grenadian public and private sectors to develop and implement agreed comprehensive private/public sector policies and policy reforms. Technical assistance at the senior policy/organizational levels will be the lead element of our bilateral strategy. Ideally, and to be fully effective, such a program should be developed in the context of a TCG program, though there may be some opportunities for bilateral leverage at the sectoral level. Policy dialogue will focus on improved government efficiency, eliminating price controls and other government disincentives to investment, production and export, and on increasing the sustainability of sector support institutions.

2. Biological Diversity/Tropical Forests

The mission will address environmental issues under two broad headings: land use management and environmental protection. More detailed treatment of these two subjects is contained in Annex VI and Annex V, respectively.

a. Land Use Management

RHUDO HG funds channeled through the CDB will leverage policy dialogue and institution-building to develop a sound land use management system which is essential to meet the varied multi-sectoral requirements for agricultural, industrial, tourism and residential land at affordable prices.

If an agreement is concluded, the program will assist the region's governments to prepare flexible, island-wide land policies which reflect the limited availability of land for agricultural, industrial, tourism and residential purposes which attempt to balance allocation of this scarce resource among the various competing sectoral users and which define the means whereby lower income households can achieve access to land and basic services for private sector housing construction.

It will include dialogue emphasizing the importance of host government funding of those agencies responsible for land use planning and land development and encouraging government to promote training and technical assistance opportunities in the latest land use planning techniques and methodologies.

The program will assist governments to research and develop a coherent set of incremental site planning and engineering standards for land development which address public health and environmental concerns while providing developable land to low and moderate income households at affordable prices.

b. Environmental Protection

The mission's environmental strategy will focus on strengthening each island's non governmental organizations (NGOs) which already have a major stake in natural resource or environmental management, helping them assess and monitor significant environmental impact resulting from growth and economic development, so that they can argue effectively for policy change and enforcement. Biodiversity activities will be included in ongoing mission projects. In addition, during the RDSS period the mission will develop and implement at least one environmental project.

Environmental Education will be at the top of the mission agenda because it is the first priority among all parties recently interviewed in the OECS Islands. This may include mass media environmental education and Environmental Education in Primary and Secondary Schools. The mission will also explore means of cooperating with the Peace Corps to adapt and develop an environmental education program for the primary and secondary schools.

RDO/C will encourage National Conservation Strategies and improved environmental planning capabilities. We will continue to assist the Caribbean Conservation Association update island by island environmental profiles to guide host country governments in formulation of national strategies.

The mission will also explore means of implementing an integrated marine resources/watershed management program. For example, coral reefs important to tourism could be set aside as national parks. A monitoring program would be established and associated problems with land-based pollution in the watershed of each marine park would be addressed. If ESF funding is available, we will help fund waste treatment maintenance programs.

Policy dialogue will be employed to gain recognition of the importance of user charges for irreplacable resources, including appropriate water and sewerage charges. The Caribbean Law Institute project may be used to update and develop a harmonized system of environmental laws.

3. Women in Development

The high suggests of female participation as salaried workers in the labor force reflects that Eastern Caribbean women face very little discrimination in education or training and little overt discrimination when they compete for rank and file jobs. However, the social definition of female responsibility for childcare severely limits the ability of women to compete for upper level jobs. The burden of child care affects educational attainment, capital formation and other foundations for socio-economic advancement. RDO/C family planning initiatives, perhaps combined with self-financing day care centers, may have more impact on the mass of Eastern Caribbean women than any other intervention. All mission training activities will continue to emphasize female participation and will encourage women to enter fields of training normally identified with upward mobility. Small enterprise development and other assistance to female entrepreneurs will continue to make credit available to women who are pursuing self-defined roads to economic advancement. The WID Action Plan, which is due in AID/W in March, 1989, will provide a more extensive explanation of the socio-economic forces which affect the WID issue in this region.

During the RDSS period, the mission will make a conscientious effort to disaggregate project data by gender in order to ensure that WID issues are given the highest practical focus. Project design documents will include information on women's social and economic roles as well as an analysis of how the project will relate to these roles. Evaluation documents will begin to assess the extent to which women participated in and benefitted from the project. In order to assure that the mission addresses WID issues in a systematic way, PPC/WID will carry out a TDY to RDO/C early in 1989 to set up a computerized information system and to examine methods for improving WID input into project design.

4. Support for Advanced Developing Countries

RDO/C recommends that AID take steps to declare Barbados and Trinidad-Tobago as "Advanced Developing Countries" thereby making them eligible for the kinds of programs available to ADC's.

RDO/C contracted a well-known regional economist to assess the eligibility criteria ADC status of three regional countries: Antigua/Barbuda; Barbados and Trinidad-Tobago. His report is attached as Annex VIII. Each of the countries qualifies, or nearly qualifies, for ADC status on the basis of several of the established criteria, including income levels, social indicators, democratic institutions, educational standards, institutional development and professional public management.

While Antigua qualifies on most counts, the mission does not recommend at this time that it be included in the list of potential ADC countries. The mission feels that this would be premature, based on the country's level of development of its institutions and its public management capabilities.

Barbados exceeds the ADC income criterion. However, the mission recommends that it be given ADC status because a number of its nascent institutions are at a stage where they could benefit greatly from stronger institutional ties and networking with outside institutions. This, in turn, has the potential to benefit the OECS region, since Barbados serves as a regional technical and training center, being the home of the CDB, one campus of the University of the West Indies, the Barbados Institute of Management and Planning, and several other important regional institutions. It promises to furnish a vital link to the OECS in technology transfer and advanced training and research.

Trinidad-Tobago is recommended for ADC status on grounds similar to those advanced for Barbados. Although the country is well above the income criterion (though deteriorating rapidly), its institutional base is well developed and ripe to benefit from the kinds of interchanges available to an ADC country. The country's recent economic misfortunes have had a serious negative impact on the rest of the region. The country is about to embark on a structural reform effort which, if successful, will remove one of the most serious constraints to OECS growth: the disappearance in the 1980's of one of their most important regional markets. ADC assistance to Trinidad would therefore directly benefit the OECS region for which RDO/C has responsibility. Additional strategic concerns are discussed in Annex X.

5. Expand and Improve Infrastructure

While there are identifiable shortcomings in the region's infrastructure, it is difficult to formulate a meaningful medium-term mission strategy in an environment of high uncertainty, volatile funding levels and undefined funding sources. There are vast differences in the profile of the infrastructure portfolio that the mission would desire, depending upon: the overall level of mission funding, the mix of available loan and grant money, the balance between the functional accounts, and the levels of SDA and ESF funding. Some courses of action are not possible or desirable without significant ESF funds, others are achievable only if grant money is available. With all of these issues largely unsettled at this time, infrastructure was not selected as a separate objective for the RDSS period. Rather, a contingent "shelf" objective is attached as Annex IX, in light of the "accordian" nature of the mission strategy. That objective is derived from the revised infrastructure strategy presented in the 1989-90 Annual Action Plan and is consistent with the private sector thrust of this RDSS.

Meanwhile, with reduced ESF funding levels, RDO/C infrastructure strategy in the short term has shifted from a bilateral to a regional focus emphasizing basic human needs and infrastructure maintenance. The Basic Needs Trust Fund Project, in addition to providing basic amenities, contributes to strengthening the private sector by improving the capability of indigenous private consultants and contractors to design and implement infrastructure projects. It enhances the Mission's growth objective by improving the health and the productivity of the labor force through its impacts on education and health, and directly supports the Mission's portfolio in the latter two areas.

The Regional Electric Utilities Management Project, initiated in FY 88, will continue through the RDSS period to protect the enormous investment in existing power systems in the eight targeted Eastern Caribbean countries. The resulting improvements in electric service should have a profound effect on the tourism product and investment environment. As developed under this project, a self-supporting regional "Corporation", controlled by the utilities, will provide common services that are essential to safe and efficient operations.

In the medium-term, if expanded SDA or ESF resources permit, the mission will again undertake larger bilateral projects, but with a focus on those which will directly increase the capacity of the private sector to export those products and services for which each island has a comparative advantage and those which will support environmental preservation efforts. Conditionality will be used to ensure that the policy environment is consistent with optimal private sector export performance; adequate provision is made for maintenance; private sector views are incorporated into the project selection process; and opportunities for private sector solutions to infrastructure needs are increased.

Without ESF funding, the mission will focus only on selected, carefully targeted small projects that support the strategy emphasis of improving the business climate for tourism, agriculture, manufacturing and services. DA funding will be used for limited project interventions. Targeted infrastructure will be part of sectoral structural adjustment programs.

6. Stablizing Financial Structures

Short-term economic stabilization was not selected as a central addressable objective for the RDSS period. While the mission will maintain an active policy dialogue agenda, its activities are better described under Goal 2, Basic Structural Reforms Leading to Rapid and Sustained Growth. Short-term economic stabilization has not been a mission priority in recent years. The only instances when it has been important were in Dominica's early recovery period from the 1979/80 hurricanes and in Grenada following the Intervention. In recent years, this objective and its related targets have included long-term structural adjustment programs in both Dominica and Grenada, rather than stabilization per se.

Barring a natural disaster or other external shock, such as utter collapse of the banana market, it is not anticipated that stabilization, as opposed to structural adjustment, will be an important mission goal in the RDSS period. Continued Structural adjustment will remain a high priority, but during the RDSS period the mission's strategic focus will shift to sector-specific structural adjustment, targeted to complement the private sector thrust of the overall portfolio. Through policy dialogue RDO/C will continue to press for more vigilant control of recurrent public expenditures, simple and bouyant revenue systems, and removal of tax incentives that distort investment and efficient resource allocation decisions.

In addition to project assistance, the mission intends to use DA sector grants and loans to leverage policy reforms aimed at stimulating investment and export growth. With limited funding, these interventions must be made on a highly selective basis (for example only in one country per year on a rotation) or at a very modest level, which would provide little or no leverage. To fully implement this program, ESF funding will be needed.

7. Collaboration with Peace Corps and Regional PVOs

At present, Peace Corps has volunteers working the Eastern Caribbean in the area we call Small Enterprise Development (SED). This initiative undertaken in the past two years was mainly in response to local and Eastern Caribbean regional expressed needs to actively develop the business sector with a special emphasis on the small entrepreneur. At the same time Peace Corps Washington launched a world-wide initiative to promote and encourage the development of local entrepreneurs and businesses for income generation. SED Volunteers work throughout the Eastern Caribbean with cooperatives, chambers of commerce, ministries of community development (crafts and marketing), IICA, and WID Limited (Barbados).

AID and Peace Corps will explore ways to consolidate their efforts to build a strong, replicable higher impact program by working through the NDFs, SBAs and SMAs and C.A.I.C. in assisting the micro enterprise sector.

8. Supporting Regional Integration

RDO/C's objective in supporting regional economic integration is to encourage self-sufficiency and to reduce dependency of regional organizations on outside resources. At the OECS level, increased cooperation and integration of markets for resources and products is an essential step toward increasing efficiency in resource allocation to make the region's products competitive in outside markets.

Movement toward Caribbean regional integration has been persistent if uneven--a tribute to the importance as well as difficulty of the endeavor. The West Indies Federation, established in 1958, collapsed in 1962 with the withdrawal of Jamaica and Trinidad/Tobago. The Caribbean Community Secretariat (CARICOM) and the Caribbean Development Bank (CDB) were established in 1967. The Caribbean Free Trade Association (CARIFTA) was formed in 1968. In 1981, the Organization of Eastern Caribbean States (OECS) was established as a sub-regional grouping to consolidate and deepen efforts toward economic integration and functional cooperation.

Throughout the 1970's and 1980's, West Indian economic experts as well as politicians continued to sound the call for political union. In 1987 several OECS Prime Ministers began to lobby for development of a process toward political unification. However, as of this writing, no national referenda on the issue have as yet been scheduled.

The RDO/C strategy is to continue to work in partnership with a few key regional organizations which provide the intellectual underpinnings and exchange of information for future economic and political integration. A selected list of regional organizations, by function, is presented in a table in Annex 1.

9. Disaster Preparedness

Each of the OECS states is subject to potential disasters resulting from hurricanes, seismic activity and torrential rains which periodically cause major floods and landslides. Disaster preparedness activities intended to mitigate the efforts of these hazards are normally the responsibility of disaster relief organizations within each country.

The Pan Caribbean Disaster Preparedness and Prevention Project (PCDPPP), an Antigua-based unit managed by the United Nations Disaster Relief Office (UNDRO), with technical support from the Pan American Health Organization, disseminates information on disaster management and research and coordinates training activities in the Eastern Caribbean. PCDPPP is funded by the Governments of the Caribbean states, the Netherlands, the U.K. and Canada. RDO/C's disaster relief office maintains close contact with PCDPPP and disaster relief coordinators in each of the OECS states. The Mission Disaster Relief Officer participates in periodic meetings with other organizations, PAHO, UNDRO, CIDA, and BDD, to exchange information on methods of responding to requests for disaster relief assistance.

RDO/C also receives, reviews and comments on proposals for research activities which are submitted by country or regional organizations for consideration by AID's Office of Foreign Disaster Assistance (OFDA). Landslide hazard assessments and seismic research activities have been funded in the past. The Mission disseminates information on disaster preparedness training programs sponsored by OFDA and other international organizations and coordinates travel arrangements for participants funded through OFDA. Thus, while Mission funds are not specifically allocated for disaster preparedness activities, RDO/C has and will continue to act as an intermediary between the Office of Foreign Disaster Assistance and other organizations concerned with disaster management in the Eastern Caribbean.