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ANTIGUA COUNTRY SUPPLEMENT TO THE CARIBBEAN REGIONAL CDSS 1986 to 1990

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I. AID Strategy

A. Overview

1. The Antiguan/Barbudan Development Model

Antigua differs significantly from the other OECS states in terms of its economy, politics and even natural resources. The island of Antigua is flat and relatively arid, surrounded by natural harbors and beautiful white sand beaches. It is estimated that approximately 40%-50% of GDP is directly or indirectly related to tourism. Light industry plays a growing but distant second place role in the economy and agriculture follows with a third place position and less growth potential. In 1981, the year Antigua gained its independence, it achieved a real GDP growth rate of 3.8%. During the world recession years of 1982 and 1983, Antigua achieved real GDP growth rates of 1.7% and 3.3% respectively. Meanwhile the other countries of the Eastern Caribbean were suffering negative growth rates. The estimated real growth rate in 1984 was between 4.5 and 5.0%, and in 1985 it is expected to exceed 6.0%. Between 1983 and 1984 tourist arrivals increased by 30% and initial figures for 1985 indicate a further 16% increase. With a population growth rate of only 1.3% per year, Antiguans have been able to enjoy a fairly steady increase in standard of living. The per capita GDP of $1,700 is the highest within the OECS (except Montserrat).

When one looks at the Government and politics of Antigua, it is tempting to conclude that Antigua's remarkable growth has been achieved in spite of the public sector. The Antiguan Labour Party (ALP) has no effective opposition, and none is on the horizon. In last year's election the ALP won all 16 of the Antiguan parliamentary seats (Barbuda's one seat is held by an independent). Vere Bird Sr. has been Prime Minister since independence and was premier for years before that. His two sons occupy two key cabinet positions. Political power is wielded effectively, while Government institutions and formal management and control systems are relatively weak. The Government is in substantial arrears to creditors and regional organizations. For example, it has been cut off from further borrowing by the Caribbean Development Bank. Despite the fact that a large portion of the Government debt and arrears relate to commercial borrowings, and despite the apparent unorthodox attitude toward fiscal responsibility, the Government still manages to line up financing for major projects.

The co-existence of weak Government institutions with a vibrant private sector and growing economy is the paradox of the Antiguan development model. The explanation lies in the congenial environment provided to investors, particularly the expatriate investors who dominate the tourist and manufacturing sectors. There is no personal income tax in Antigua and corporate tax, which is not high, is often not paid due to tax holiday concessions or evasion. The tax system is primarily based on consumption taxes, including import duties, but waivers are common and a significant amount of imports reportedly enter the island illegally. In terms of regulating, controlling or otherwise interfering with private

Table 1
ANTIGUA STRATEGY SUMMARY
1986 - 1990

Goal of the AID Strategy:
Maintain the continued expansion of the private productive sectors

Benchmarks:
- 5% annual growth in GDP
- 3.3% annual growth in employment
- unemployment reduced from 20% to 15%

Sectoral Strategies		
Agriculture	Manufacturing	Tourism
Objective: Stabalize the agricultural (including maricultural) contribution to GDP to avoid further skewed dependence on tourism and to maintain employment opportunities	Objective: Attract new enclave manufacturers and stimulate the development of small enterprises to exploit the local market	Objective: Ensure continued high growth in the sector and increase the benefits accruing to Antiguans, both within the hotel industry and in supporting economic activities
Benchmarks: - 6.0% annual growth in agriculture - 2.1% annual growth in employment	Benchmarks: - 7.5% annual growth in manufacturing - 5.5% annual growth in employment	Benchmarks: - 7.0% annual growth in hotel and restaurant sector. - 5.8% annual growth in hotel/restaurant employment. - Comparable growth in related sectors, such as construction.
Program Interventions High impact interventions for one or more of the following: - Vegetable production (tourist market) - Drought resistant grains (domestic livestock) - Edible legumes (regional market)	Program Interventions - Improvements in water systems - Improved maintenance of other infrastructure - Continued factory shell construction - Small enterprise assistance - Management and vocational training - Public management and policy planning technical assistance.	Program Interventions - Regional tourism marketing/planning program. - Improvements in water system - Improved maintenance of other infrastructure. - Small enterprise assistance - Management and vocational training - Public management and policy planning technical assistance
Policy Agenda None	Policy Agenda - Increased financial viability of public utilities - Increased attention to infrastructure maintenance - Improved Governmental financial management and revenue collection	Policy Agenda - Increased financial viability of public utilities - Icreased attention to infrastructure maintenance - Improved Government financial management and revenue collection
Constraints - Irregular and low levels of rainfall - Expertise and/or connections to market outside	Constraints - Infrastructure in need of upgrading - No vacant factory shells - Skill shortages of vocational and management levels - Lack of credit and marketing constraints for small businesses - Potentially precarious government financial situation - Government formal investment promotion agency	Constraints - Infrastructure in need of upgrading - Skill shortages of vocational and management levels - Lack of credit and marketing constraints for small businesses - Potentially precarious government financial situation

businesses, the Government has little inclination, and therefore has not concentrated on developing its control/regulation apparatus. In short, laissez-faire capitalism prevails in the tourism and manufacturing sectors.

2. Potential Problems with the Antiguan Development Model

The tourism industry in Antigua has proven itself to be immune to external shocks, such as the recent worldwide recession, due largely to the fact that Antigua promotes and attracts the upscale market. Internal disturbances, however, could have a disastrous impact on the sector, and thus the economy as a whole. The development of a more balanced economy would reduce the damage of a downturn in the tourism industry, but growth of the agriculture sector is not expected to be as rapid as tourism growth, and growth in the manufacturing sector, while it is expected to be marginally higher than growth in the tourism sector, will not significantly reduce the percentage of GDP attributable to tourism.

There would appear to be some possibility of internal instability arising from a succession struggle following the eventual departure of the ageing Prime Minister. However, most observers do not view this as a serious threat. The more serious long term threat is a potential backlash by the Antiguan population against an economic system in which most of the businesses are owned and managed at the upper and middle levels by expatriates. At present, most Antiguans are appreciative of the fact that foreigners bring in the capital and expertise to provide jobs, but with the steadily rising expectations of the populace and the limited opportunities available to receive the training necessary for advancement, this situation is unlikely to continue.

The second area of major vulnerability is Government finance. It is difficult to determine how long the Government can continue its present financial practices and policies. When the crunch comes and the Government runs out of new creditors, it could be faced with the need to drastically cut back Government employment and abandon efforts to expand and upgrade the infrastructure upon which the productive sectors depend. This would result in a fairly rapid deterioration and possible collapse of the economy.

3. AID Strategic Objective

RDO/C's strategy objective for Antigua is to support the continued expansion of the private productive sectors. As Antigua is already fairly advanced in terms of private sector lead growth, the strategy will focus on addressing the more serious vulnerabilities of the present economic model, i.e. inadequate infrastructure and under-representation of indigenous Antiguans in managerial, technical and ownership positions in the private sector.

The major components of the program strategy are:

a. The provision or improvement of infrastructure required to support private enterprise;

b. The development of indigenous human resources to meet the various requirements of a dynamic private sector;

c. The improvement of Government financial management and public sector investment planning, operation and maintenance; and

d. Activities specifically aimed at each of the productive sectors, such as tourism promotion, manufacturing investment promotion and small enterprise asssistance, and assistance with the production, processing and/or marketing of food products consumed in the tourist sector.

B. Sectors

1. Tourism

Tourism is expected to remain the leading sector of the economy indefinitely. Average growth rates of 7% are expected through the planning period. Within the sector, the large hotel complexes aimed at the up-market tourists are the greatest contributors to growth. Investment financing for the sector has been predominantly from off-shore private sources, although the Government has been involved in several projects, including the Deep Bay project, which is in its initial stages of development.

The RDO/C objective for the tourism sector is to help ensure continued high growth and to increase the benefits accruing to Antiguans, both within the hotel industry itself and in supporting economic activities.

AID will contribute to achieving this objective as follows:

- Upgrading or expanding key supporting infrastructure, primarily water production and distribution; addressing maintenance problems affecting the road and power systems; and possibly marking reefs to facilitate boat navigation and technical assistance to support airport upgrading;

- Provision of training programs in management and technical areas for Antiguans employed in the sector and those operating or aspiring to operate small businesses such as restaurants, guest houses and watersports service activities;

- Providing complementary credit and technical assistance for small enterprise development;

- Providing technical assistance to improve Government financial management;

- Augmenting OAS, CTRC and UNDP technical assistance on development of the five year economic development plan to ensure that the future needs of the tourism sector are adequately addressed. Particular concerns are land use planning, public sector investment plans and human resource development planning; and,

- Assistance through PDAP, if needed, for the divestment of the planned Deep Bay tourism facilities.

2. Manufacturing

Following several years of robust growth on the basis of production for the intra-regional market (particularly Trinidad), the manufacturing sector had no growth in 1982 and negative growth rates of 15% and 12% in 1983 and 1984, respectively. In 1984, despite the significant net loss of production and employment related to the contraction of intra-regional trade, particularly with Trinidad, new enterprises oriented toward the extra-regional market began operation. With the painful part of the transition behind it, the manufacturing sector should grow at a healthy 7.5% per year average through 1990. The projection for 1985 is 10%. This growth will be achieved through the further development of export-oriented enclave industries and, to a lesser-degree, through the development of small enterprises which can exploit the local market.

AID will contribute to achieving this objective as follows:

- Continue PDAP investment promotion efforts, including institutional development support for the Industrial Development Board (IDB) if and when the Government should decide to give the IDB a real role in industrial development.

- Upgrading or expanding key supporting infrastructure, primarily water production and distribution and factory shells. Other possibilities include road and power systems' maintenance activities.

- Provision of training programs for orienting Antiguans to the disciplines of manufacturing sector employment, for providing basic skills, for developing supervisory and managerial abilities and for providing Antiguans the skills necessary to operate small enterprises.

- Providing technical assistance and credit to small and large enterprises.

- Providing technical assistance to improve Government financial management.

3. Agriculture

The small size of the agricultural sector in Antigua, both relative to the other economic sectors and relative to the agricultural sectors of the other OECS countries, and the numerous constraints in the sector weigh against designating agriculture as a priority sector in RDO/C's strategy for Antigua. Between 1978 and 1983 the agricultural sector's contribution to real GDP has decreased from 11% to 7.5%. In 1984, the drought contributed significantly to a 10% reduction in output from the agriculture sector. In 1985 production is expected to return close to the 1983 level. With the demand pull from the tourism sector and recent modifications in the Government's land leasing policy, the agriculture sector may achieve an average annual growth rate of 6% through 1990. However, judging from the fact that agricultural employment was fairly stable through the years of declining production, it is assumed that average employment growth through 1990 cannot be expected to exceed 2% per year.

Although Antigua does not warrant an agricultural sector program, there are opportunities that can be exploited, such as irrigated vegetable production and mariculture for the internal tourist market, edible legume production for the regional market, agricultural enclave production for the U.S. or U.K. markets, and draught-tolerant grain production for domestic livestock production. One or more of these opportunities will be exploited in the latter years of the planning period, after experience has been gained on other islands with RDO/C's regional high impact agriculture strategy.

II. KEY DEVELOPMENT OPPORTUNITIES, CONSTRAINTS AND POLICY ISSUES

A. Development Opportunities

Antigua's economic growth pattern reflects its comparative advantage. The RDO/C strategy does not call for a shift in emphasis between sectors, rather it addresses constraints that could limit the rate of growth of the economy. The key factors favoring each of the sectors are as follows:

1. Tourism - Relatively developed infrastructure; international airport; port facilities for cruise ships; good harbors for yachting; white sand beaches; dry warm climate and conducive Government investment policies.

2. Manufacturing - Conducive Government investment policies; fairly good worker productivity relative to wages; regional trade advantage in terms of being the most developed of the countries receiving special LDC treatment under the CARICOM agreement; extra-regional opportunities through LOME (EEC), CBI and U.S. section 807 arrangements; good transportation linkages and relatively developed infrastructure.

3. Agriculture - A lot of flat underutilized land; mariculture opportunities in the marshes, coves and coastal waters and a ready internal market provided by the tourism sector.

B. Key Development Constraints

1. Infrastructure

a. Potable Water and Sewerage

As stated earlier, the supply, distribution and quality of fresh water is the Achilles heel of the Antiguan economy. The problem is due to several factors. Rainfall is highly variable and the country is prone to droughts, such as the severe one in 1984. Evaporation rates are high and there is a lack of favorable watersheds, reservoirs and dam sites. Also groundwater aguifers have limited storage capacity and geological structures make locating production well sites difficult. In addition to these natural constraints, there is the problem that the Antiguan Public Utility Authority (APUA) suffers from institutional and financial weaknesses that most clearly manifest themselves in the state of disrepair of the existing supply and distribution system.

Water rationing has been common for years in Antigua, but the 1984 drought caused particular problems, and the donor community had to step in to help finance the barging of water from Dominica. Several of the larger hotels purchased small desalinization plants, while others were forced to close. While the damage to the

agriculture sector was quite evident, it is uncertain what effect the water shortage had on manufacturing production. It is reasonable to assume that even if existing manufacturing production did not suffer, the chaotic water situation was not an encouraging factor for potential investors.

Steps have been taken to improve the situation. The $9.8 million AID-financed Antigua Water Supply Project will rehabilitate inoperative wells, upgrade the treatment storage and distribution system, and address institutional and financial problems in APUA. This project will be completed in late 1986, and by early 1987 the new 2 million gallon per day desalinization plant should be operational. Water tarrifs, which have not covered costs, will be increased by 50 to 60% over the next two years. These initiatives will significantly improve the situation, but additional work will be required within the planning period which will be defined in greater detail under the present AID Project. This will include:

- further institutional development work, particularly with regard to maintenance capability.
- installation of a 16" transmission main from the desalinization plant to Scotts Hill ($2.0 million).
- replacement of the distribution main in the capital, St. John's ($2,250,000).
- investigation of the limestone region for possible ground water ($2,500,000) to meet future demand and to have a safety margin in times of drought.
- Possible development of small water catchment systems for agriculture and livestock.

Sewerage treatment and surface drainage is a problem in Antigua as in all the other OECS states. Where individual septic tanks are not employed, raw sewage runs directly into the drainage systems and then into the ocean. In the capital, St. John's, with its open drainage system, noxious odors are a persistent problem. The potential for coastal pollution damaging the tourist sector is a matter of concern, and in rural areas there is concern that groundwater supplies could become contaminated. CARICOM has begun to set up a system to monitor pollution of coastal waters, but unless the Government contributes to the program Antigua will not be included.

b. Electricity

The desalinization package includes two 9MW steam generators. Fifty percent of the generated power will be required to operate the desalization plant, leaving 9MW to meet the country's growing power through the planning period. Generation capacity is therefore not a problem, but investments are required to upgrade the transmission and

distribution system to provide the reliability of electricity that the tourism and manufacturing sectors demand. Continuing attention to maintenance is also necessary. APUA has a list of required improvements that cost $10 million, but operating surpluses are only anticipated to cover 10% of these costs. Electricity rates are already among the highest in the region.

c. Communication and Transportation

For the last couple of years the telephone switching capacity has been 100% utilized and it has been impossible to add new lines. However, APUA has arranged with TELCON to upgrade the system allowing for an additional 4,500 new lines. This should meet the demand through the planning period.

When Antigua received its independence, it inherited one of the most developed road systems in the Commonwealth Caribbean. However, because of the Government's fiscal problems and institutional and management problems in the Ministry of Public Works, the road system has fallen into a serious state of disrepair. Over 96 miles of major roads need repair and rehabilitation, of which 18 miles will be repaired with financing from the EDF. Whether or not the present state of disrepair of the road system is now a constraining factor vis-a-vis the productive sectors is debatable. However, it is clear that the lack of an effective maintenance system results in unnecessarily large capital expenditure requirements to rehabilitate the road network.

Another area of concern is the Coolidge International Airport, a major air traffic hub in the Eastern Caribbean. The airlines have threatened to stop service unless the Government resurfaces the runway at an estimated cost of $2.0 million. A new taxi-way is required due to the large number of small aircraft based at Coolidge and the traffic control system needs to be upgraded. Financing for these improvements is reasonably assured, but some technical assistance may be required.

d. Land Use and Infrastructure Planning

While most of the other OECS countries have only a few easily identifiable areas that are ideal for tourism-development, virtually the entire coastline of Antigua is suitable for tourism development. Areas suitable for intensive agricultural production are more scarce. Manufacturing operations generally gravitate naturally toward the airport or stockyards. Residential developments, both for Antiguans and the luxury condominiums for foreigners are popping up all over the island. The city of St. John's is the result of unplanned urban sprawl.

Given the small size of the island, the need to avoid incompatible or wasteful land uses, and the need to rationally plan infrastructure development, the Government should sooner rather than later begin to develop a land use planning capability. With land use plans and the establishment of zoning regulations a more orderly development can be achieved and APUA and the Ministry of Public Works can better anticipate future infrastructure requirements.

e. Miscellaneous

(i) Factory Shells - There is presently no available factory space for lease in Antigua. With Antigua being ineligible for further CDB assistance until it pays its arrears, the Infrastructure for Productive Investment Project (IPIP) is the only source of funds for factory shell construction. The Government has embraced the IPIP concept of having the private sector build and operate industrial estates and one leading member of the private sector has already advanced to the construction stage of a facility that will be funded under IPIP. Thus it appears that this infrastructural constraint to new manufacturing development will be resolved.

(ii) Reef Marking - Dozens of bays with white sand beaches are yet to be developed. Experience in Antigua indicates that the profitability of tourist facilities is enhanced if yachts have access to the facilities. The visiting yachtsmen, however, must avoid most of the coast because of the reefs. If the channels were marked this would remove a barrier to private development of new areas.

2. Human Resource Development

The human resource development constraint in Antigua is similar to that of all the other OECS countries. As elsewhere, the educational system is largely academic rather than vocational and is geared to passing tests. As elsewhere, outmigration of skilled people is a problem. One factor that weighs in Antigua's favor is its demography. With its low population growth rate, the percentage of population that is school age is actually dwindling. Thus it should be easier for Antigua than the other OECS states to concentrate its education resources on providing better and more relevant education and training. The tourism orientation of the country also has human resource implications that make Antigua somewhat different from other OECS countries. The relatively good wages and attractive working conditions in the tourism sector tend to discourage many young people from seeking employment in the manufacturing and agricultural sectors and from obtaining the skills to work in these sectors. On the other hand many vocational, technical and managerial skills are required to operate a luxury resort complex and in many areas Antiguans with the necessary expertise cannot be found. The liberal attitude of the Government toward granting work permits to foreigners tends to moderate the impact of skill shortages on the economy. Dominicans are coming in to occupy the lower-level skill jobs in the manufacturing sector while Trinidadians, Jamaicans, North Americans and Europeans form much of the managerial and technical class. Ethnic Syrians are increasingly predominating in the commercial sector, and North Americans and Europeans run much of the tourism sector and provide the specialized expertise required. Clearly if social problems are to be avoided in the future Antigua must harmonize its human resource development policies with the needs of its economy.

While the above discussion is focussed on the private sector, the Government has similar problems finding qualified people. Here again the pattern is similar to other OECS countries. Key positions are left vacant for years for want of qualified candidates. They are

either not available in the country or they will not work for the low Government salaries. Most needed are managers, and administrators/ planners, economists, accountants and engineers. Some gaps have been filled by donor-funded expatriates, and such gap filling will be required for the foreseeable future, but increased attention needs to be given to salary incentives to attract and keep qualified people and short and long term training for existing personnel.

3. Public Sector Institutional and Financial Constraints

The institutional and financial problems of the Government are interrelated phenomena. With greater revenues and more efficient use of revenues, the Government could address some of its institutional problems and some institutional improvements would make it easier to address revenue problems. However, the possibilities for significant change on either front are somewhat limited by the political environment. Government finance, institutions and the political environment are all discussed in detail in the respective annexes to this document. Therefore, only the general conclusions will be included here.

There is a wide gap between the Government leadership on the one hand and the World Bank and IMF on the other, with regard to perceptions of the seriousness of Antigua's fiscal difficulties and the need to improve credit worthiness. Our own assessment falls somewhere in the middle. We note that the high projected GDP growth rates and the present low tax ratio (tax revenue as a percent of GDP) give Antigua a comparatively large margin for maneuvering without the need for painful adjustment measures. On the other hand, if timely incremental changes are not adopted, Antigua could well find itself in serious financial difficulties toward the end of the planning period. This view is largely shared by key Antiguan technocrats. At the political level, we would expect decision making to continue to be highly influenced by political and personal factors, but believe that improved fiscal information, planning and control systems will lead to a more judicious consideration of the fiscal implications of particular decisions.

Listed below are major areas of concern and an assessment of whether AID involvement is warranted and feasible.

a. Creditworthiness

The Government has as explanation for why it is not paying each of the loans for which it is in arrears. In a number of cases, the explanation is that the project for which the funds were borrowed did not generate the revenue expected to pay off the loan. Consequently the Government feels justified in not keeping up its payments. It does not look like this attitude to meeting certain of its obligations will change as long as the Government can continue to find new creditors. The major consequence of this approach to debt management has been the increase in the percentage of total debt financed at commercial interest rates. Intra-Governmental arrearages are also a problem. For example 18% of the APUA Water Division's charges are billable to the Government, and the Government's failure to meet these obligations puts a financial strain on APUA. Resolution of this problem would be a condition of any further AID assistance to APUA.

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b. Public Sector Payroll

The last several years have seen a significant increase in the number of nonestablished workers on the Government payroll. Much of this workforce is nonproductive. Patronage and a sense that the Government is the employer of last resort are the reasons for this wasteful expenditure. Government leaders have stated both that it is not politically feasible to reduce the number of nonestablished workers until the private sector can absorb the excess and that they plan to reduce the number through attrition. The real intent is not clear, but RDO/C judgement is that this is not a fruitful area for policy dialogue. AID's influence can best be exerted through stimulating private sector growth.

Payscales are also a matter of concern. The public payscales for lower skilled workers tend to set the pace for labor rates in the private sector. Pay adjustments in the last eight years or so have gone beyond the inflation rate. An increase of 12.5% has just been granted for the next three years. This is in accord with anticipated inflation.

The problem of attracting qualified professionals to key posts (partly a problem of insufficient incentives) is a matter which AID and other donors will be examining in a regional context through the CGCED, and particularly in discussions of the IARM-EAS transition proposal.

c. Economic Planning and Expenditure Control

While the budget is prepared and managed by the Ministry of Finance, decisions and plans affecting the budget are largely made in the Ministry of Economic Development. Formal procedures for ensuring a proper interrelation between the budgeting and economic planning process are lacking. Operating divisions of the Government also are prone to make financial commitments in advance of receiving Ministry of Finance concurrence. The official Government Estimates (budget) are approved at the beginning of the year without a clear definition of how the gap between revenues and expenditures will be financed. During the budget year, the Ministry of Finance operates on a cash-flow basis, apportioning funds to the various Government divisions as they become available. For most operating divisions this means that less than the total budgeted amount is received and funds are not received when needed. This complicates operational planning and creates inefficiencies. These problems may be addressed through the Public Management and Policy Planning (PMPP) Project.

d. Tax Policy and Administration

Over the past five years, many ad hoc measures have been introduced which have added to the complexity of the tax system and increased anomalies in taxing incomes and transactions. The country abolished personal income tax in 1976 and this undermines the efficiency of the corporate profits tax. The country has a system of partial taxes,

some of which are regressive in nature and not responsive to changes in GDP. There are many unnecessary complications, and in some cases, revenue generated by certain tax categories does not justify their existence as independent taxes.

Tax collection is hampered by the complexity of the system, the dispersion of tax collection and assessment functions in various Government agencies, auditing and valuation weaknesses, legal hamstrings on entities responsible for collection, and mild penalties for nonpayment.

AID will encourage the Government to request PMPP assistance to examine these problems.

C. Policy Dialogue Agenda

The relatively successful performance of the Antiguan economy, combined with Government pride at being able to do things their way (as opposed to the IMF way or another donor's way), tends to narrow the field for potential policy dialogue. While there may be exceptions, it is expected that policy dialogue will be project-related. The following is indicative of the policy issues that may be addressed.

1. Infrastructure

The proposed follow-on water system project will provide an opportunity to reinforce institutional development and financial viability initiatives started under the on-going project. Two issues of particular concern are water rates and the failure of the Government to pay APUA amounts owed for water services provided to the Government.

The proposed regional maintenance project may provide the opportunity to address the problem of inadequate Government resources dedicated to maintenance.

2. Human Resource Development

The OAS Non-Formal Skills Training Project, which is beginning in Antigua in late 1985, will present the opportunity to dialogue with the Government on their policy for continuing to provide this type of relevant vocational training after the project ends. Of particular interest is establishing a permanent capability to identify the skill needs of the economy and translate this into relevant training programs.

3. Public Management, Finance and Planning

The FY 85 Public Management and Policy Planning Project will be the vehicle for addressing policy concerns in this general area. It is still unclear what specific areas will be of interest to the Government. Topics of interest to RDO/C include simplifying and improving enforcement of taxes, improving expenditure control and debt management and achieving better integration of planning and budgeting. The Inter-Agency Resident Mission may also address some of these issues.

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

1. Infrastructure

a. By FY 87 better water rate collection and Central Government payment of outstanding bills owed to APUA should be in place.

b. By FY 88 Government commitment to maintenance of infrastructure should be evident in adequate budgeting for various maintenance needs and the introduction of better recordkeeping and maintenance systems.

2. Human Resource Development

a. By FY 88 Government will have taken steps to further course offerings directly relevant to tourism and manufacturing and to initiate an industrial arts program which reflects actual manpower needs.

b. By FY 88 Government will have made provision for institutionalizing a skills development program which includes on-the-job training modules relevant to private sector growth.

3. Public Management, Finance and Planning

By FY 86 or FY 87 agreement should have been reached with the Government on specific interventions for improving fiscal management, including tax administration and collection, and debt management.

* Not for public dissemination.

ANTIGUA
ECONOMIC ANALYSIS

I. RECENT PERFORMANCE

A. Income and Employment

After increasing at a brisk 6.6% per year during 1978-80, real GDP growth in Antigua per Barbuda slowed to about 2.9% per year during 1981-83. Led by two very good back-to-back tourism years, and significant increases in construction activity, the economy bounced smartly back last year. GDP may have grown by some 11% in nominal terms, and by a very respectable 5% in real terms. 1984 GDP evaluated at market prices, probably reached $158 million, equivalent to just under $2,000 per capita.

Prospects are excellent that the economy will continue this year with the momentum achieved last year, driving real GDP growth to 6% or more. Assuming continued economic recovery in the OECS countries, and timely development of the tourism and export-oriented manufacturing activities, it is reasonable to expect average real GDP growth of around 5% per year through 1990. Provided that the recovery can be sustained at average GDP growth in the 5% per year range, employment should increase by 5,400 jobs: from about 24,700 last year to 30,100 by 1990, or some 3.3% per year. The growth in employment will be significantly faster than growth in the labor force, expected to rise from 30,900 persons last year to 35,500 in 1990, or 2.4% per year. The net number of unemployed should decline by about 800 persons: from 6,200 last year, to 5,400 in 1990. The unemployment rate will fall from just over 20% of the labor force to about 15%.

The leading sectors are expected to be tourism and export-oriented manufacturing. Value added from tourism will need to grow at roughly 7% a year, increasing by about 50% over the 1985-1990 period, from some 25% ($34 million) of total GDP, to about 28% ($51 million). This will create about 2,200 new jobs, of which 1,500 will be directly employed in the hotel, restaurant and travel sectors, and 700 in supporting activities.

Value added from manufacturing should increase about 7.5% per year, from $6.7 million 1984 to $10.4 million in 1990. This will result in about 600 new jobs, as employment in manufacturing increases from some 1,550 persons in 1984 to 2,150 in 1990. The increase in employment by 1990, compared to 1984, will be in the range of 29% for both tourism and manufacturing activities.

Although value added by construction is expected to grow at the same sustained levels as tourism and manufacturing, and is expected to generate 1,100 new jobs during the 1985-1990 period, about 14% of the total expected increase in employment. Some 500 jobs, nearly 60% of the total, should be available during 1985 and 1986.

Value added from agriculture in 1984 was less than 75% equivalent value added in 1980. In fact, the total value of all agricultural output, including fishing, cattle and forest, has declined every year since 1979. The fall in value added averaged about 7% per year over the 1980-84 period, and was an especially severe drag on last year's recovery, when drought contributed to a decline in value added of over 10%, rivaling the 12% drop registered in manufacturing output (due to the disappearance of previously satisfactory CARICOM markets). In 1980, agriculture and related activities accounted for 7.5% GDP; for 1984, these activities accounted for perhaps 4.9% GDP, evaluated at constant prices.

Despite agriculture's difficulties, agricultural employment has remained stable at about 2,100 persons since 1980. In 1980, this level of employment represented 9.3% of the employed working population; in 1984, 8.5%. Prospects are good, however, for significant employment increases in agricultural activities over the next five years, as agricultural diversification away from sugar and cotton and into crop production of fruits and vegetables proceeds.

Provided that an adequate land tenure system (such as long term leases, or preferably, the sale of free-hold titles) is implemented soon, and severe drought can be discounted, significant increases in root crops, vegetables, and fruits can be expected.

Although the stringent price controls legally imposed on imported substitutes would normally be a major disencentive to agricultural diversification aimed at efficient import substitution, there is little evidence that the mandated price controls are consistently adhered to"

Indeed, despite the array of apparent obstacles facing the typical farmer, substantial increases in volume occurred during the three years preceding last year's drought. The annual increase in root crop production averaged 4.5%; vegetables, 17.0% and fruits, 13.0%; representing, over-all, a significantly better performance than recorded for most economic activities during the period.

On the other hand, fishery and livestock production declined over the period. Despite the substantial implied demand from the hotel and restaurant sector, and a growing resident population, production of beef, mutton and pork fell 5.4% per year, and fish and lobster landings declined, on average, 10.5% per year.

Price controls on fish and meat are more comprehensive than the margin controls applicable to fruits and vegetables. Canned and frozen meat and fish imports are subject to margins over landed value of 10-15% wholesale and 15-22-1 per 2% retail. In addition, local fresh fish and meats are subject to fixed price maximums ranging from $0.55 to $1.11 per pound for meats, including steak; and from $0.61 to $1.30 for fish.

Given the significant potential demand for fresh fruits and vegetables, and meat and fish for the hotel and restaurant trade, and the need for efficient import substitution in agriculture generally (food products imports in 1983 amounted to about $36 million, or one-third the total value of imports), value added from agriculture is expected to grow by some 6% per year during the period 1985-90. Agriculture's contribution to GDP will increase from $10.6 million in 1984 to $15.2 million in 1990. New employment of the order of 400 jobs will be created in the sector. Much of this growth will occur despite continued inappropriate government policies and possible periodic drought; and will largely be confined to crop agriculture, as the severity of price controls on meat and fish, coupled with the absence of grading and quality standards for these products, limit commercial viability, especially for the lucrative tourism trade.

It is assumed in the analysis that Government employment will decline by about 400 jobs net, over the period, from 7,400 persons to 7,000. The existing Government work force consists of 2,700 established workers, 3,800 unestablished workers, and some 900 employed by the statutory boards. Established and Statutory Board employment is expected to increase by some 200 workers. However, many unestablished workers have been employed because alternative employment has not been available. With the new employment opportunities that accompany the economic recovery, this practice is expected to stop. The reductions in the size of the unestablished work force will occur mainly by attrition.

TABLE 1
ORIGIN OF GDP AT FACTOR COST
1984 Prices

	Millions of EC$				Percentage			
	1984	1985	1987	1990	1984	1985	1987	1990
Agriculture and Related	28.6	31.3	35.2	41.1	7.8	8.1	8.2	8.5
Manufacturing	18.2	20.0	23.2	28.1	5.0	5.1	5.4	5.8
Construction	30.5	32.8	36.4	38.2	8.4	8.4	8.5	7.9
Transport & Commun.	63.3	68.4	75.9	87.2	17.3	17.6	17.8	18.2
Trade	41.7	43.8	46.5	50.7	11.4	11.3	10.9	10.5
Hotels and Restaurants	63.6	68.8	79.4	95.4	17.4	17.7	18.6	19.8
Government Services	54.5	55.5	57.0	59.6	14.9	14.3	13.4	12.4
Other, Net	65.0	67.8	73.2	81.4	17.8	17.5	17.2	16.9
Total	365.4	388.4	426.8	481.7	100.0	100.0	100.0	100.0
Memorandum Item								
Tourism Value Added	92.1	100.2	116.1	138.1	25.2	25.8	27.2	28.2

TABLE 2
SECTORAL COMPOSITION OF EMPLOYMENT
1977 - 1990

Sector	Past Trends[1]			Estimated[2]		Forecast[3]		
	1977	1980	1983	1984	1985	1987	1990	
Agriculture & Related	2,366	2,092	2,100	2,100		2,250	2,350	2,500
Manufacturing	1,355	1,619	1,750	1,550		1,650	1,800	2,150
Construction	2,044	2,564	2,700	2,950		3,200	3,600	4,300
Government	5,741	6,618	7,300	7,400		7,350	7,150	7,000
- Establishe9	2,528	2,633	2,700	2,700		2,700	2,750	2,800
- Unestablished	2,313	3,185	3,700	3,800		3,700	3,450	3,200
- Statutory Boards	900	800	900	900		950	950	1,000
Tourism[4]	n.a.	n.a.	n.a.	5,300		5,650	6,350	7,500
- Direct				3,700		3,850	4,350	5,200
- Indirect				1,600		1,800	2,000	2,300
Other[4]	n.a.	n.a.	n.a.	5,300		5,500	5,850	6,650
Total Employment	20,233	22,491	24,096	24,600		25,600	27,100	30,100
Labor Force	25,418	28,378	30,424	30,900		31,500	32,800	35,500
Unemployed	5,185	5,887	6,328	6,300		5,900	5,700	5,400
% Unemployed	20.4	20.7	20.8	20.4		18.7	17.7	15.2

1 Based on World Bank Report No. 5279-CRG, 1/3/85
2 Based on past trends and employment-GDP relationships by sector; C. Karch, Trip Report, 4/85; Beasley-Orr trip to Antigua, 4/85
3 Based on information referred in 2 above; expected structual change, per AID-Antigua CDSS strategy and 5% growth in real GDP.
4 Not available

B. Consumption, Savings and Investment, and Public Sector Finances

Gross domestic expenditure, averaging 133% of GDP during the 1979-83 period, seems, high. However, this largely reflects the country's ability to attract foreign private investment.

Despite a trade deficit averaging 75% of GDP, and a current account deficit of some 27% of GDP during the period, the overall balance of payments deficit averaged less than 3% of GDP, comfortably financed by accumulation of external arrears of roughly equivalent amounts. Net private capital inflows over the period amounted to $87 million - 58% of total net foreign savings inflows of $150 million.

Consumption spending accounted for less than 90% of GDP; of which 75% was private, and 25% public. Led by an aggressive private sector, gross domestic investment averaged $49 million per year, equivalent to 43% average GDP. Public sector investment, $12 million per year, accounted for less than 25% of the total. Financing for this investment was provided exclusively by the country's private sector and foreign savings - about 60% foreign, 40% local.

Public sector savings has been negative in recent years, even though the Social Security and Medical Benefits Schemes annually yield surpluses of some 3% of GDP. State enterprises typically produce deficits of the order of 1% of GDP. The Central Government's current account deficits amount to about 3% of GDP. This excludes build-ups of arrears - about 50% to state enterprises and the Social Security and Medical Benefits Schemes - that, on an accrual basis, add to the Central Government's recurrent deficits, amounts averaging 4% of GDP. On a cash flow basis, the nominal amount of negative savings by the consolidated public sector is equivalent to 1% of GDP; on an accural basis (since current account averages to non-public sector entities typically amount to about 2% of GDP) the consolidated public sector dissavings amounts to 3% of GDP. Exclusive of the operating results of state enterprises and the Social Security and Medical Benefits Schemes, Central Government dissavings average 6% of GDP. Not only does the Central Government not make timely contributions to these schemes, it has borrowed about 50% of the contributions made by others in recent years. By non-payment and borrowing, the Central Government seems to have effectively accessed at least 75% of the Schemes' accumulated surpluses and used them to finance current operations.

Reliance on the Social Security and Medical Benefit Schemes' surpluses to finance recurrent expenditures is not prudent, and aggravates the ability of the consolidated public sector to contribute to national savings - even though the public sector investment program typically requires funding equivalent to 11% of GDP.

The economic recovery last year resulted in a 14% increase in Central Government Revenues; consequently, the current account deficit declined from 3% of GDP to nearly nil, on a cash flow basis, and from 4% of GDP to under 1% of GDP on an accrual basis. Some 40% of the year's Social Security Scheme contributions were paid, but nothing was paid into the Medical Benefits Scheme. In 1983, no payments were made into either scheme.

Expected increases in Government revenues this year, including interest earned on foreign deposits, should be sufficient to generate a surplus of the order of 2% GDP on Central Government current account. However, perusal of the 1985 fiscal budget, published in March 1985, contemplates recurrent and capital spending levels far in excess of likely revenues. The recurrent budget amounts to some $51 million, and the capital budget an additional $24 million - 29% and 13% of likely GDP, respectively.

Revenue estimates are not presented, but the budgeted increase in recurrent expenditures over last year is some 38%, whereas revenue bouyancy will likely be limited to an increase of 30%; accordingly, a current account fiscal gap of 2% GDP, and perhaps more, seems likely for the 1985 budget year.

Public sector capital expenditures of the order of 13% GDP, or greater, are expected throughout the 1985-90 period. Spending for on-going projects havings to do with directly productive investments in agriculture, industry and tourism, and basic economic and social infrastructure is expected to total about $5 million this year. Financing of these projects will consist of about $2.8 million in foreign grants, and the remainder can probably be arranged through local commercial banks ($1.8 million) and external commercial banks ($0.4 million).

The remaining $19 million of expected capital spending this year will probably (this is not confirmed) be largely associated with work on: 1) a new water disalinization plant and two new diesel generators for electricity, with a combined cost of about $40 million; and 2) continued work on the Deep Bay tourist complex, which will eventually consist of a 200 room luxury hotel, a casino, a yacht marina, a convention center, and 178 condominium units - with a combined total cost of the order of $70-90 million.

Financing is in place for the water desalinization plant and diesel generators. Financing for the Deep Bay Project, however, is not known to be assured. Feasibility studies, preparatory engineering work and needed land purchases have already been done.

Over the period 1979-83, the over-all Central Government deficit, including capital investment spending, amounted to some $67 million, equivalent to 12% GDP. Financing was mainly by accumulation of arrears and foreign borrowing, as indicated below:

TABLE 3
FINANCING OF CENTRAL GOVERNMENT
OVER-ALL BUDGET DEFICIT
1979-83

Source	$ Millions	% Total
Accumulation of Arrears	29.1	44
Net Foreign Borrowing	20.1	30
Net Local Bank Borrowing	8.0	12
Net non-Bank Domestic Borrowing	7.3	11
Net Borrowing from ECCA and Changes in Foreign Assets	2.0	3
	66.5	100

Of the $29 million in accumulated arrears as at the end of 1983, about $11 million, 38% of the total, corresponded to arrears on outstanding external debt of some $66 million. By the end of 1984, Central Government external debt was reduced to about $38 million, although external averages increased to some $14 million. Combined total outstanding Central Government and Government guaranteed external at the end of 1984 amounted to $51 million, and total arrearages, including interest payments, about $19 million. Total external debt at end 1984 was equivalent to roughly 33% of GDP; total external debt arrearages, about 12% of GDP.

The structure of the country's external debt at end-1984 is summarized below:

TABLE 4
ANTIGUA-BARBUDA EXTERNAL DEBT AND ARREARS
END-1984

Type	Total Debt 1/ $Millions	%	Total Arrears 1/ $Millions	%
Commercial	30.8	60.3	17.1	91.4
- Central Government	21.6 2/	42.3	12.5	66.8
- Government guaranteed	9.2 3/	18.0	4.6 5/ per	24.6
Official	20.3	39.7	1.6 6/	8.6
- Central Government	16.4	32.1	1.1	5.9
- Government guaranteed	3.9 4/	7.6	0.5	2.7
Total	51.1	100.0	18.7	100.0

1/ Excludes private debt to Government guarantee
2/ Of which, $6.8 million, ENMBANK
3/ Of which, $4.5 million, ENMBANK
4/ Of which, $0.2 million, USAID
5/ Of which, $2.1 million, ENMBANK (Port Authorization)
6/ All CDB

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Total debt outstanding in 1984 was equivalent to 56% of exports of manufactured goods and non-factor services. Total arrearages, which ought to be eliminated soon amounted to 20% of exports of manufactured goods and non-factor services. Since it is unlikely to be able to pay these arrearages off soon, efforts should be made to reschedule. A cleaner balance sheet in this regard will be helpful as financing is sought for the various components of the Deep Bay project, which the Government has decided to implement.

The public sector investment budget is expected to average about 13-14% of GDP over most of the 1985-1990 period. Public sector savings should b generated to finance at least 50% of the public sector investment cost by 1990.

It is understood that the Government is considering new revenue measures, equivalent to some 5% of the landed value of imports, in connection with assured servicing of external debt associated with the new desalination plant and diesel generators for electricity. This kind of measure, together with a commitment to constrain public sector recurrent spending to roughly present levels, or real value added by Government during the period 1986-1990, will permit public sector savings of 5% of GDP by 1987, and 7% GDP by 1990. Recurrent public sector spending should decline from the unprecedented 33% of GDP expected this year to 28% of GDP, recorded in 1981. Current revenues would increase from 31% of GDP anticipated this year to 35% of GDP.

The following table illustrates the expected results:

TABLE 5
ANTIGUA-BARBUDA FISCAL BUDGET
1984-1990

	Estimated % GDP		Recommended	
	1984	1985	1987	1990
Recurrent Expenditure	27.6	33.2	31.1	28.3
Recurrent Revenues	27.4	31.2	36.3	35.3
- Existing Structure	27.4	31.2	30.6	29.8
- New Revenue Measures			5.7	5.5
Current Savings	- 0.2	- 2.0	5.2	7.0
Public Sector Investment	-13.0	-13.0	-14.0	-14.0
Overall Balance	-13.2	-15.0	- 8.8	- 7.0

NOTE: Central Government only

Gross domestic investment of the order of $85 million per year is indicated for the period 1985-1990. This can be achieved if past consumption and investment patterns continue to hold throughout the period, and provided that foreign savings of the order of $26 million will be available. National savings must be mobilized for financing about 50% of the gross domestic investment requirements and be shared roughly 60 per 40 between the private and public sectors. The expected financing sources are approximately as follows:

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TABLE 6
ANNUAL SAVINGS
1985-1990

Savings Source	Annual Amount US$ Millions	% GDP	% Distribution
Gross National Savings	41.5	22	48.9
Public Sector	15.1	8	17.8
Central Govt Current Surplus	9.4	5	11.1
Soc Sec. & Med. Benef. Schemes' Surpluses	3.8	2	4.4
State Enterprises Surpluses	1.9	1	2.2
Private Sector	26.4	14	31.1
Foreign Savings, Net 1/	43.5	23	51.1
Official Transfers & Loans, Net	18.9	10	22.2
Direct Private Investment	24.6	13	28.9
Total	85.0	45	

1/ Equivalent to current account deficit of Balance of Payments - distribution of foreign savings expected to be similar to distribution of past five years.

Antigua-Barbuda has been very successful in recent years at attracting foreign investment. There is no persona income tax and corporate income tax is a low 40%, when imposed. New investors may qualify for fiscal incentives, including tax holidays, of up to 15 years; enclave industries qualify for the maximum tax holiday. Exporters can qualify for additional tax relief, even after the formal incentive period is over. There are no restrictions on profit repatriation of approved enterprises, although a foreign exchange levy may be imposed. Imports of new materials, equipment and spare parts may be imported duty free by approved enterprises.

C. Prices and Wages

Inflation in Antigua-Barbuda in recent years has been similar to inflation in other East Caribbean countries. Moreover, since the country is relatively small and open, inflation has generally followed patterns evidenced by its major trading partners. Increases in the consumer price index have averaged just over 5% per year since 1980; since 1982, the CPI measure shows inflation at an average annual rate of 3.1%. As measured by the GDP deflator index, and primarily reflecting changes in underlying cost structures inflation has averaged about 7% per year since 1980, falling to an annual average of 5.0% during 1983 and 1984. For 1984, the CPI reflected inflation at 3.9%, and the GDP deflator index, 5.8%. Expectations for 1985 are for about 4% growth in the CPI, and 7% in the GDP deflator index.

Wages, on the other hand, have far outstripped all other measures of inflation in recent years. Average annual wage increases of the order of some 20% per year resulted in a doubling of average wages for 1984, compared to 1980. Wage increases in 1981 averaged some 30%; 1982 - 22%; 1983 - 16%; and last year, just under 12%. Prospects are for average wage increases in the 9% range during 1985; however, since a number of contracts are subject to negotiation this year, and some employers face labor shortages in some categories of skilled labor as the economic recovery gains momentum, this estimate may be on the low side.

The last wage adjustment for central government employees was in late 1981. The large increase in recurrent spending reflected in the 1985 budget likely anticipates significant large wage increases this year. The Port Authority and the Public Utilities granted wage increases, to be phased in over a three year period, of up to 40% during 1983.

Antigua's main industry, toiurism, has experienced sharp increased in costs and prices in recent years. The IMF estimates that the cumulative increase in average prices paid by tourists during the 1981-1983 period was some 37%. Notwithstanding such hefty increases, hwever, tourism value added soared by 18%-20% in real terms in 1983 and again in 1984; foreign exchange receipts rose some 25-28% per year during 1983 and 1984.

Public utilities services are not subsidized; onaverage, the Public Utilities Authority generates operating surpluses, primarily due to the surpluses from electricity sales. Water rate increases have been approved, which will result in significant surpluses from water distribution operations in 1987. The Antigua Sugar Corporation has been incurring substantial losses. Detailed information on the corporation's operations is not available.

Price controls, as indicated in Section 2 of this Attachment, apply to a large number of basic foods, mostly imported. These controls seem to be harmful, however, only for local production of meats and fishing. There is no evidence that price controls have deterred agricultural diversification and expansion.

D. Money and Credit

Since Antigua-Barbuda does not have its own Central Bank, but is a member of the East Caribbean Central Bank (ECCB) and subject to the same constraints as other ECCB members with respect to required resumes, currency in circulation and the like, this discussion will deal with the operations of the country's eight commercial banks, six of which are foreign owned.

Growth in commercial bank liablities to the private sector (deposits) averaged 18.5% per year during the period 1981-84, increasing from $54 million to $104 million (including non-resident deposits). This growth significantly outstripped growth in nominal GDP, estimated at 10.7% per year.

These funds were largely on-lent to the private sector. Lending to the private sector increased from an outstanding portfolio of $40 million in 1980 to nearly $80 million in 1984, an average increase in 1984, an average increase of some 18.7% per year.

On the other hand, lending to the Central Government has not been significant, growing slowly from an outstanding balance of $14 million in 1980 to about $16 million in 1984, to post an average annual increase of just 3.5%. In 1980, private sector lending amounted to 75% of depostit liabilities and the Central Government, 27%. By end-1984, the private sector's share had incresaed marginally to 76%, but the Central government's borrowing accounted for just 16%. Accordingly, total net credit outstanding grew only by 13.5% per year, from $51 million to $85 million. The difference between net domestic assets at end-1984 of $85 million (largely credit portfolios) and private sector liabilities (deposits) of $104 million is primarily accounted for by holdings of ECCB currency ($3 million) statutory, reserve requirements with the ECCB ($5 million), and other deposits with the ECCB ($13 million). Although Antiguan commercial banks had net liabilities with banks abroad exceeding $8 million as recently as 1982, these liabilities have now been largely paid down.

Total deposit liabilities at the end of 1984 represented 66% of estimated GDP for the year, and net credit outstanding of about 54% of GDP. 1984 loan balances with the private sector, of about 50% of GDP, represents a significant increase over relative levels at the end of 1980 of 38% of GDP.

Prospects are good that deposits and private sector lending will continue to grow faster than GDP over the next five years. Nominal GDP will likely increase by about 14% during 1985. Deposit liabilities and private sector lending will likely increase in the 17/18% range.

Interest rates paid to depositors in Antigua/Barbuda were generally negative in real terms during the period 1980-1982, and not competitive by international standards. By end-1983, however, interest rates paid on savings deposits were increased by some banks to as amuch as 8%, and minimum rates paid on time deposits were also increased and range from 17.5% to 14.0%. As inflation has been relatively modest recently, interest rates paid to depositors are broadly positive. Lending rates are generally in the 9.0-18.0% range, and are competitive by regional and international standards.

E. External Sector

Antigua/Barbuda's current account deficit increased marginally last year over 1983, from $15 million to $17 million. The deficit in both years was approximately 11% of GDP. Over the period 1985-1990, the current account deficit can be expected to increase significantly, and average some 23% of GDP. During the five year period, 1979-1983, current account deficits averaged about 26% of GDP.

Merchandise exports, excluding re-exports, are expected to grow in real terms from $13 million in 1984 to some $23 million by 1990; this growth will be roughly in line with growth in value added from manufacturing activities.

Foreign exchange earnings from tourism will grow by about 7% per year, from $82 million in 1984 to $124 million (1984 prices) by 1990. This growth corresponds to the expected development of the hotel and restaurant sector over the period.

Also significant, at an average 7.8% GDP are private transfers, expected to increase from $12 million in 1984 to perhaps $15 million in 1980.

The largest component of the current account, imports, reflects the import requirements of the tourism sector, projected investment requirements, as well as increased consumption needs. The import bill will generally exceed 100% of GDP over the period.

The Capital Account balance, on average, reflects financing on the current account deficit. The composition of the capital account balances is expected to consist broadly of official transfers and loans (mostly commercial) and direct private investment. Loans and transfers will average 10% of GDP, and direct; private investment some 13% of GDP. These items will contribute some 50% to the financing required for the country's investment programs over the 1985-1990 period.

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TABLE 7
BALANCE OF PAYMENT SUMMARY
1984-1990

(Millions US$)
1984 Prices

	1984	1985	1987	1990
Current Account	-17	-49	-50	-35
Trade Balance	-108	-147	-162	-168
Exports FOB	22	23	27	32
Domestic	13	14	18	23
Re-exports	9	9	9	9
Imports CIF	-130	-170	-189	-200
Services (Net)	79	85	98	118
Tourism	82	89	104	124
Other (Net)	-3	-4	-6	-6
Private Transfers	12	13	14	15
Capital Account	9	41	44	26
Net Transfers & Borrowing	2	28	29	4
Private Capital	7	13	15	22
Overall Balance	-8	-8	-6	-9
(Probably accumulation of arrears)				
Memorandum Item				
GDP at Market Prices	158	168	184	211
	As a Percent of GDP			
Current Balance	-10.8	-29.2	-27.2	-16.6
Trade Balance	-68.4	-87.5	-88.0	-79.6
Exports	8.2	8.3	9.8	10.9
Imports, CIF	-82.3	-101.2	-102.7	-94.8
Capital Account and Balance	5.7	24.4	23.9	12.3
Overall Balance	-5.1	-4.8	-3.3	-2.8

ANTIGUA
PRIVATE SECTOR PROFILE

I. Private Sector Overview

The local private sector in Antigua is among the most vibrant in the OECS states. The growth of local entrepreneurs is especially encouraging given Antigua's history. Until twenty years ago the private sector was comprised almost entirely of traders. The larger mercantile houses were owned by expatriates, recent Syrian traders from Trinidad and local whites. These houses dominated the commercial sector and were the primary creditors of black small business persons engaged in the retail trade or domestic agricultural production.

The dramatic shift in the economy from sugar plantation monoculture to tourism and light manufacturing has witnessed a shift in the types of businesses operating in Antigua. The service sector (excluding Government services) now constitutes the largest source of GDP; hotels and restaurants contributed some EC$63 million in 1984 while 23% of employment is in tourist and distributive trade activities. Although there has been considerable upward mobility for black Antiguans resulting from the shift in economic activities and a new black middle class of entrepreneurs has developed, there are still important social cleavages between black and white in the private sector. Black Antiguans tend to be concentrated in businesses with smaller capital and tend to be skilled craftsmen or retail traders. In the tourist sector Antiguans are the owners of guest houses and apartment hotels; all the large hotels are owned either by the Government or by expatriates. Antiguans are heavily involved in tourist ancillary activities such as taxi drivers, handicrafts and beach vendors of wearing apparel. The informal sector of tourist related activities is, however, quite seasonal and income erratic.

There has been significant growth in the numbers of Antiguans engaged in manufacturing. However, they have been financially hurt by the problems with the Trinidad market as the majority of local industries were producing for the CARICOM market. With a shift to enclave industries catering to the U.S., it is not clear that Antiguans will be able to gain a significant share of the new thrust.

One positive sign is the successful negotiations to establish a privately owned industrial estate under the Infrastructure for Productive Investment Project (IPIP). It is hoped that this estate will provide a needed boost to the local manufacturing sector. The Government has also declared its intention to encourage "Antiguanization" in manufacturing through the provision of many of the same incentives offered to foreign investors. A key factor in the successful "Antiguanization" thrust will be the availability of long term credit.

Major constraints facing the private sector in Antigua include lack of marketing intelligence and expertise in selling Antiguan products abroad. To a certain extent this constraint is being rectified by the AID-funded Investment Promotion and Export Development Project (PDAP) which includes aiding the local private sector in its 1985-86 work plan; additionally Antigua has a representative at UNIDO in New York.

Other constraints include problems of long term credit, the need for training and probationary periods for workers unaccustomed to factory discipline, and problems of transportation of imports due to long delays at Customs and the Port.

II. Private Sector Institutions

There are a number of private sector institutions in Antigua/Barbuda fairly successfully representing sectoral interests. These include: The Antigua Chamber of Commerce, the Antigua Manufacturer's Association, the Employer's Federation of Antigua, the Antigua Hotel and Tourist Association, the Small Farmers' Association, and the National Development Foundation of Antigua/Barbuda. Each of these organizations represent differing enterprises in a wide range of size, capital and interests. There is no all-embracing umbrella organization representing the private sector. Attempts to create such an entity failed to materialize largely because of Government disapproval. The Government was quite sensitive to political backlash from its trade union support base who feared a coalition of private sector interests. During the political campaign for the April 1984 elections the Antigua Labour Party (ALP) in its manifesto called for the creation of a Tripartite National Planning Commission comprising Government, private sector organizations and trade unions. Very little has come of this, although the Government has appointed individuals from the private sector to sit on the Board of the recently reconstituted Industrial Development Board. Unfortunately, this entity remains a paper corporation with no budget allocations.

Support for private sector organizations in terms of institutional strengthening goes largely to the Chamber of Commerce through the Caribbean Association of Industry and Commerce (CAIC) and the Caribbean/Central American Association (CCAA) and Partners of the Americas and to the local manufacturing sector through PDAP. Presently, CAIC gives very little support to the local manufacturing sector. Support for small enterprises has recently developed through the creation of a National Development Foundation (NDF) established along the lines of the successful Dominican model.

Training of personnel in key private sector institutions, including training in and introduction of data processing systems, will continue to be the most pressing constraint throughout the planning period. The need for managerial training exists at both the firm and institutional level.

III. Characteristics of the Private Sector in 1985

The private sector in Antigua as presently constituted can be divided into several sub-sectors. The major sub-sectors for discussion include manufacturing, tourism, commerce and small enterprises. The private sector in Antigua employs some 60% of the labor force. Employment in all kinds of services accounts for 66.3% of the working population followed by 16.4% in manufacturing and 15.7% in construction.

A. Manufacturing

The manufacturing sector in Antigua is a mix between foreign enclave producers and local entrepreneurs producing for the domestic and CARICOM markets. This is a relatively recent development as up to 1983 the majority of firms were either locally or regionally owned and engaged in import substitition activities. Antigua's investment incentives afforded a high degree of protection even for products with low value added. Importation of a number of products is prohibited including specific clothing articles, bedding, furniture, stationery, paints, stoves, refrigerators and batteries.

However, from 1983 through 1984 these firms producing for the regional market were severely hurt by the import restriction imposed by Trinidad and Tobago and the foreign exchange problems of Jamaica. During this period two companies closed completely (Caribbean Biscuit and Antigua Hosiery) and many others were forced to operate at much reduced levels. Of the fourteen export oriented companies operating during this period, nine were almost totally dependent on the Trinidad market. During this period, employment in those factories decreased by nearly 70%. This downward trend is expected to continue through 1985.

Recent foreign owned export operations include Maidenform's expansion to a second factory employing an additional 150 people; CANAM, a Section 807 garment operation employing 80, Computer Products employing 50 with plans to add 110 new employees by the end of 1985 and Brooks Manufacturing, a Philadelphia based company producing electrical outlet strings for the US market. By the end of 1985 the manufacturing sector should have employed an additional 300 persons.

This shift to foreign enclave industries has not solved the problem for local manufacturers who also need to redirect their markets. Two local companies, Sealy Mattress and Electronic Technology International, weathered the storm as they diversified into new product lines in the former, and in the latter developed extra-regional sales through successful negotiation of an electronic sub-contracting business with two US companies. Local companies are being encouraged to examine the prospects of sub-contracting, particularly in electronics and data processing which will provide opportunities for building up technological expertise and knowledge of the US market.

There are approximately seventeen local manufacturing firms producing for the domestic and regional markets. Altogether these companies employ over 400 persons. Products manufactured are diverse and include paper products, PVC furniture, small electrical appliances and garments.

The main problems for local manufacturers continue to be associated with relatively high costs of production, including wages and abnormally high freight rates which place Caribbean producers in a negative competitive position. Another serious problem facing local as

well as foreign manufacturers are their training needs and the costs associated with training workers. Marketing constraints occasioned by lack of marketing information is being met to a large extent by PDAP and the UNIDO representative in New York.

B. Commerce and Trade

Commerce and trade contribute approximately 11.4% of GDP employing approximately 3,000 persons in both established firms and as over account workers/hucksters in the distributive trade. This sector includes not only large firms engaged in several commercial activities such as car dealerships and wholesale and retail activities in a number of products varying from food to electronic equipment, but also around 11% of the self-employed who are estimated to be street vendors. The commercial sector in Antigua is quite active, although the majority of firms continue to stock, display and retail goods in very traditional patterns. There are high numbers of shops, pharmacies, insurance companies, banks and boutiques for a small island of nearly 80,000 people. All of these enterprises are located either in St. John's and its environs or in the area of English Harbour.

The majority of large firms in this sector are owned by Antiguans, but a high percentage of these are local whites and ethnic Syrians. Afro-Antiguans tend to be found in smaller businesses and owner operated enterprises.

C. Small Enterprise

According to data presented by the Social Security Board only 10% of the labor force are self-employed, that is around 2,000 persons. Of this number, approximately 1,000 are small and micro business personnel. The private sector as a whole employs around 12,000 persons; thus the small business sector is not very large in Antigua. 60% of small businesses are engaged in service activities, the rest in manufacturing - such as bakeries, and furniture and small farmers. The service occupations tend to be concentrated in mechanics, retail operations, beauty salons, seamstresses, tailors and shoe repair and leathercraft. There is little link between small business activities and the formal manufacturing sector. The link with tourism is primarily found with 14 firms engaged in crafts and a number of owner-operated taxi drivers. The average number of employees per firm is small (2) and average sales amounted in 1983 to around EC$29,000.

Antigua has a Small Business Association and a National Development Foundation designed to meet credit and technical assistance needs of the micro-business sector. The implementation of a regional Small Enterprise Assistance Project in 1986 should address several of the major constrints affecting the private sector which are market information, credit, and technical assistance in modern business practices and general bookkeeping skills. High cost of raw materials also negatively affects small producers who often lack information on best sources. Despite these constraints, the specialized services that small businesses perform appear to have a solid niche in the Antiguan private sector.

D. Tourism

Tourism is the most important economic activity in Antigua, employing the largest number of persons in the major economic sectors and contributing the most to GDP. The tourism sector directly contributes over 17.4% through hotels and restaurants; indirectly it is estimated that the percentage is as high as 40%. Over 12% of the labor force is directly employed in this sector. Taxes on hotels, guests and cruise ships ammounted to over EC$8 million in 1983, over 9% of current revenue. There are nearly sixty resort complexes in Antigua. They range from large 400 room hotels like Tally Beach to several smaller guesthouses. Antigua has concentrated on being an "up market" destination, and the highest percentage of its tourist plant is invested in exclusive resorts such as Curtain Bluff and St. James Beach Club. There are also growing numbers of condominiums and apartment hotels functioning as timesharing operations. Occupancy rates in Antigua are nearly 100% during the primary season.

It is difficult to get an accurate picture of the breakdown in ownership between local and foreign investment and size of establishment. However, it is fair to say that the overwhelming number of foreign owned hotels are luxary hotels. Antiguans are concentrated in guest houses and increasingly in condominium developments. This is not to say that Antiguan participation is negligible. Antiguans are making sizeable investments in tourist facilities, often in partnership with foreign investors.

In tourist ancillary activities such as yachting, water-sports, tour operators, car rentals, tourist shops, and nightclubs ownership is also mixed. Expatriates tend to dominate such activities as restaurants, tourist shops and yachting facilities. With the growth of apartment hotels additional opportunities for local investment are occurring in services such as mini-marts and car rentals. Real Estate and land development are also providing lucrative investments for Antiguans and can be expected to accelerate throughout the planning period. There are fairly large numbers of persons operating as beach vendors in Antigua. This portion of the informal sector is difficult to quantify, as it is somewhat seasonal in nature. There are perhaps 500 people plying the beaches and tourist areas on a full-time basis. Handicraft activities are not that important in Antigua, although there are growing numbers of artists and craftsmen, especially in the English Harbour area.

IV. Prospects for the Private Sector by 1990

Prospects for extensive private sector growth to 1990 appear very likely given the present momentum of both tourism and manufacturing. We are projecting a 5% per annum growth rate for the entire economy with tourism increasing by 50% over the 1985-1990 period to about 19.8% of GDP. Value added from manufacturing should increase about 7.5% a year. The increase in employment for both tourism and manufacturing should be in the 19% range.

These prospects are based on several positive factors encouraging growth which include:

- attractive geographic location and good transportation infrastructure for both tourism and manufacturing.

- Government policies which facilitate private sector development including tax laws, incentives, and the provision of productive infrastructure.

- provision of training programs to aid tourism, manufacturing and small enterprise activities.

- apparently elastic tourist potential until 1990 facilitated by Antigua's comparative advantages for up market resort tourism.

With these interventions in place the private sector in Antigua should continue to experience a healthy growth in tourism and manufacturing. In 1990 we would expect that the basic economic configuration which characterizes Antigua today would remain. However, within the high growth sectors of tourism and manufacturing some restructuring will have occurred which should result in a greater share of the decision-making process and projects residing in Antiguans.

In tourism we expect to see a healthy growth in tourist support industries. Within the hotel sector itself, training programs should witness more representation at the upper and middle management levels. In manufacturing, the problems associated with producing for the regional market should have been somewhat resolved by redirecting several companies from that market and successfully making the transition to external markets. We also expect, as a result of Government policy, to see even a larger percentage of Antiguan joint ventures in manufacturing with the successful implementation of the IPIP project. In agriculture, there will be a modest increase in intensive production for the tourist market with the establishment of a dozen or so significant agribusiness firms. Meat production and marketing for both domestic and tourist markets will also be in place. Thus by 1990 better backward and forward linkages should be in place between and among the primary economic growth sectors.

ANTIGUA
LIST OF CURRENT INDUSTRIES

NAME	EMPLOYEES	MARKETS	OWNERSHIP
Garments			
Antigua Hosiery, Ltd.	8	Regional	Local
Canam	110	Export - USA	USA
Eagle Garment Factory	25	Local/Regional	Local
Knitwear (Antigua) Ltd.	100	Local/Regional	Local
Rachel Needlecraft Ltd.	250-300	Export - USA	Maidenform USA
Boat/Auto Parts and Repair			
Local Batteries Ltd.	6	Local	Local
Construction Materials			
Antigua Masonry Products, Ltd.	50	Local	USA
Lee Winds Paints	18-20	Local/Regional	Local
Electronics			
Electronic Technology International	10-20	CARICOM	Local
Mauser Co. Ltd.	9	CARICOM	N/A
Food & Beverage			
The Antigua Distillery Ltd.	32	Local/Regional	Local
Antigua Winery	11	Local/Reginal	Local
Cari Packers Ltd.	4	Local	Local
Furniture			
Antigua Appliance Industries Ltd.	45	Local/Regional	Local
GiGi Industries Ltd.	10-15	Local/Trinidad	Local
Mauser Co. Ltd.	3	Local/Regional	N/A
Plastic Foam & Furniture Co. Ltd.	25	Local	Local
Sealy Mattress Co. (Antigua) Ltd.	75	Local/Regional	Sealy Mattress Co. (W.I.) Ltd. Jamaica
Paper Products			
Onaia Paper Products	6-15	Local	Local
Plastic Products			
Caribbean Packaging Materials Ltd.	8	Local/Regional	Jamaican
MultiPlast Ltd.	20-25	Local/Regional	Local

ANTIGUA
POLITICAL, SOCIAL, AND INSTITUTIONAL ANALYSES

I. Political Background

Antigua and Barbuda were among the first plantation colonies in the West Indies. Antigua developed into the archtypichal sugar plantation economy, while Barbuda remained the private preserve of an aristocratic family. While Antigua continued to produce sugar for over 300 years, Barbuda gradually developed into a small holder society with land held in common. Common ownership of land, shifting cultivation and open range practices by a tight knit community characterize Barbuda up to the present. Sugar monoculture molded Antiguan society with virtually all land held in large estates by expatriate owners. Until the 1960's, the majority of black Antiguans worked on estates. Village society was an extension of the plantation. The society was polarized between white expatriate estate owners and black Antiguan workers. Consequently, the development of the early trade union movement, which propelled the present Prime Minister into the political forum, was an amalgam of trade union, racial and nationalist issues. These still form the political ethos of the Antiguan Labour Party (ALP), the party in power.

The formation of the Antigua Labour Party was an outgrowth of the trade union movement of the 1940's. This party has always had a mass base in labor. Even with the split in the labor movement in the 1970's and the formation of the Progressive Labour Movement under another trade unionist, George Walter, the mass base of both parties was in trade unions. The Walter regime came under considerable fire with charges of mismanagement and corruption and the Bird's and the ALP were returned to power in 1976. The former Prime Minister was convicted on corruption charges and incarcerated. From that point onwards the official opposition has been in disarray. So much so that the results of the last election in 1984 saw the ALP sweep the opposition to win all 16 seats in Antigua.

The vacuum created by the demise of the PIM/UPM coalition has not been filled. Antigua/Barbuda is presently, de facto, a one party state. The only vocal opposition to the Bird regime is the Marxist Antigua-Caribbean Liberation Movement, ACLM, headed by Tim Hector. The ACLM produces a weekly newspaper, the Outlet, read by virtually every citizen in Antigua. All other media including local television and radio is controlled by the Government. The Bird family owns the island's only other radio station, ZDK. Although Antiguans look to the Outlet for monitoring the activities of the regime, at the moment this has not translated itself into support for the party or its politics. Trade union struggles provide the other arena for expressing opposition to the regime as the largest trade union, supports the limited Peoples Movement of George Walter.

However, Antigua may soon see a departure in traditional party politics. In March 1985 a new political party, the National Democratic Party (NDP), was formed. This party appears to be composed primarily of businessmen, professionals and some individuals connected with the PLM/UPM. The party does not have a mass base associated with labor. While some commentators argue that without such a base, a party cannot be successful in Antigua, it may be that Antiguan society and its economy are changing.

The dominance of the service sector, particularly tourism, and the growth of the light manufacturing sector, may be creating a new balance of social forces. Whereas in the past, the conflict was starkly evident between black and white, expatriate and Antiguan, plantation owner and sugar worker, the modern Antiguan economy has encouraged the development of a small local private sector, in commerce, manufacturing and tourism while independence has meant that the Antiguan Government is now held culpable for its management of affairs of state. If opportunities for black Antiguans do not appear to be increasing in contrast to opportunities for foreign investors, Antiguans will blame the ALP.

Also, independence came to Antigua/Barbuda in a piece meal fashion which seriously affected the indigenous institutional development of the public sector. Antigua and Barbuda continued to stagnate under Crown Colony Government during the era when the larger territories of CARICOM were becoming independent. The road to independence was not only confrontational, but the major party evolved a style of Government akin to its trade union modus which is highly centralized, authoritarian and personalized. All trade unions and political parties in the Caribbean evolved in this fashion. Most countries, however, developed two party systems and have witnessed changes in regimes. Antigua's political style and administration continue to reflect the older era. It may be, with the ageing of the Prime Minister, who is in his eighties, that the population of Antigua/Barbuda which is predominantly young, may be ready for an alternative. Much will depend on the ability of the new NDP to woo the young, the middle class and also the large disaffected ALP supporters who will still need to be convinced that the NDP is not elitist. Elections are not constitutionally due until 1990. By then the various social forces may bring about new balances and political alignments. In the short-term, barring economic collapse, this appears to be the prevailing political climate throughout the CDSS planning period.

II. Social Analysis

A. Overview

During the past twenty years Antiguan society has undergone a significant social transformation from a society based on agricultural production to one based on the provision of services. At the same time even larger numbers of youth have been passing through the school system, including secondary and tertiary schools. However, as in other OECS

countries changes have not been made in curriculum at the primary and secondary school level to correlate with the structural changes in the economy and labor needs. Hence, we find the classic scenario of high unemployment coupled with a skills scarcity.

Changes from a seasonally based sugar economy, which was predicated on conflictual social relations and highly unattractive labor, to a services economy have not necessarily resulted in a changed work ethic or perceptions of life chances. Historically improving one's life chances has meant migrating, and the culture of migration and the psychology of "strategic flexibility" have become bedrocks of the society. Migration is seen as an important component in life education, training and in amassing capital for self-employment. This, in turn, affects attitudes toward the indigenous environment which is viewed typically as less desirable.

The high out-migration rates among the skilled, in turn, have resulted in large numbers of expatriates filling the highest managerial and technical posts, particularly in the private sector. This occurs even as the nation faces an unemployment rate of 20%. In a recent study completed by the ILO for the Caribbean Labour Administration Centre (CLAC) a survey of informants comprised of managers and employers, in both the public and private sectors, concluded that there were critical shortages of Antiguan engineers, technicians, accountants, salespersons, business managers and manufacturing supervisors. In assessing the causes for this manpower imbalance the main conclusions were:

a. Lack of comprehensive training policy which takes into account the real needs of the country, resulting in a permanent shortage of skills required by employers.

b. Lack of a precise policy in granting work permits to expatriates, and follow-up analysis and evaluation of the work they are carrying out, so that Antiguans could be trained to take up these duties in the future.

c. Lack of sufficient training facilities and opportunities to provide workers and jobseekers with a deeper knowledge of the specific skills and qualifications generally enjoyed by expatriates.

d. Many trained nationals who possess similar qualifications and could perform the same duties as expatriates, have emigrated because they are not offered the same respect and attractive salaries, incentives and working conditions to return to their country.

e. The education system is not designed to meet the growing needs imposed by the diversification of the national productive structure.

We will pursue some of these problems in human resources development in the following sections.

B. Demographic Profile and Quality of Life

In 1985 the total population of Antigua/Barbuda was estimated to be 78,241. These estimates are based on calculations of the Statistics Division and are "guesstimates" due to the fact that Antigua has not had a census since 1970. This is unfortunate for the seventies witnessed notable demographic changes that are difficult to calculate without data. First, annual emigration from Antigua was quite high throughout the 1970's. Antiguans migrated in large numbers to Canada, the United States and the U.S. Virgin Islands. At the same time, migration into Antigua from neighboring islands is estimated by all observers to have been, and continues to be quite high. United Nations' estimates have assumed that net migration as a result was very low over the decade.

Secondly, fertility also appears to have been quite low throughout the last decade, but again is difficult to ascertain given the paucity of information on the total population. It is estimated that fertility fell from about 26.0 in 1970 to about 17.0 in 1980. The rate of natural increase per thousand is presently estimated to be about 9.3. Total fertility rate in 1980 has been estimated to be 2.4 live births per woman, somewhat above the replacement level.

Thirdly, mortality was reduced during the 1970's. Life expectancy during the previous decade has increased from 62 to 65 years and the crude death rate fell slightly from 7.5 to 6.0 per 1,000 during the same period. Infant mortality has also declined from about 40 per 1,000 live births in 1970 to 32 in 1980.

These factors have created a demographic profile somewhat different from the Windward Islands which are facing problems resulting from population pressures. In Antigua the dependency ratio has declined dramatically over the decade from 96 dependents per active persons in 1970 to 62 in 1980. This remarkable drop over such a short period should have contributed to a higher quality of life for the average Antiguan family. Another important result of declining fertility is the decline in the number of school age population. In 1970 the number of school age children was 18,900, by 1980 this number had steeply declined to 6,810.

The present period has certain demographic features which planners and donors need note. Because of earlier high fertility the numbers of persons in the labor force is growing and will continue to grow throughout the CDSS planning period. During the next five years some 10,000 persons will be added to the total labor force.

Women comprise some 52% of the adult population of Antigua/Barbuda. Nearly 43% of the employed labor force are women and they are disproportionately found in the tourism and manufacturing sectors. A high percentage of families in Antigua, as in the rest of the Commonwealth Caribbean, are headed by women (50%). In addition Antigua/Barbuda has a very high teenage pregnancy rate of 32%. The problem is all the more serious as it is a problem of multiple child births, over one-third of all second births are occurring to girls 15-19. Unemployment is very high among these young women.

Quality of life indicators in Antigua/Barbuda are high by third world standards. Average income based on GNP per capita is approxiately US$2,000. Literacy is around 90%. Health indicators are also above average although, as with other OECS states, Antigua has a growing problem with respect to public health and sanitation due to inadequate sewerage disposal systems. Continuing problems with pure and reliable water supply are also negatively affecting quality of life.

C. Composition of the Labor Force and Unemployment Issues

The transformation of the Antiguan economy away from sugar monoculture to a services driven economy is reflected in the sectoral composition of the labor force for 1946 and 1983. In 1946 over 46% of the labor force was employed in agriculture, almost entirely in sugar production. By 1983 this has been reduced to about 9% and nearly all is in domestic agriculture principally truck farming and livestock. Manufacturing excluding the refinery of sugar and the distillery was practically non-existent. Services, both public and private, employed around 30% of the labor force in 1946. By 1983 over 60% of the labor force was employed in services, including 23% in tourism and trade.

The Government of Antigua/Barbuda is the largest employer employing over 30% of the labor force. This has been a continuing trend rising from 27% in 1978. The number of non-established workers increased by a third in 1980 and continued to rise until in 1983, their share of total public sector employment is 50% as compared to 40% in 1979. The Government's policy on being an employer of last resort is predicated on its trade union ethos, with the Prime Minister in particular extremely sensitive to questions of equity and the political problems of unemployment in an island which has neither unemployment benefits nor much subsistence agriculture. However, increasing fiscal pressures forced the Government to institute a hiring freeze in 1983, and for FY 1986 to begin reducing the non-established workers through attrition.

As there will be continuous significant increases in labor force numbers throughout the planning period, the Government's policy with respect to employment means that healthy growth in the manufacturing and tourism sectors is necessary in order to ensure that unemployment does not rise to intolerable levels. It is estimated that the total labor force will grow by close to 5,000 in the next five years.

At least 600 new jobs should be created in manufacturing. If the Government is more successful in its investment search operations and in working with the local private sector to expand its manufacturing potential, the numbers could be significantly higher. Agriculture should continue to experience a modest growth in employment of some 2% per annum and is not expected to grow proportionately as as percentage of the employed labor force.

Without accurate data on population trends it is difficult to make sophisticated projections or engage in serious manpower planning. However, this is becoming even more necessary in Antigua, especially in light of the large numbers of new labor force entrants and the serious lack of skills in critical sectoral areas. What cannot be ascertained at the moment is what percentage of the new labor force will be native Antiguans and what percentage will be West Indians emigrating from the neighboring islands, particularly Dominica. Our calculations do not account for in-migration and there are no estimates available to make projections.

The large numbers of Dominicans estimated to be presently employed in manufacturing, and smaller numbers in tourist related activities raises the issue of what is the unemployment tolerance threshold? Of the 20% unemployed, it is estimated that 10% are either unemployable, or prefer unemployement to present employment options. If the Government continues its freeze on non-established workers and Dominicans continue to seek factory work in the manufacturing sector, it means that tourism, other services and construction will have to fill the gap. As tourism and manufacturing expand, however, new employment options for small businesses should be created. As Antiguans aspire to self-employment this is an area requiring more attention to training needs.

The same concerns arise when under and unemployment among female heads of household are examined. In the case of teenage mothers who are responsible for over 60% of all first births, over 76% do not have gainful employment. While a simple increase in jobs available will not lead directly to a reduction in adolescent fertility, it will go a long way to redressing an important component of the poverty cycle affecting significantly high percentages of families headed by women in Antigua. More attention needs to be given to the relationships which exist between employment opportunities, skills training and family planning information and programs.

D. Issues Confronting the Present Education System

The educational system in Antigua/Barbuda is affected by a number of constraints which need to be addressed urgently. These constraints are remediable and their continued existence is all the more distressing given Antigua/Barbuda's positive demographic profile which demonstrates that the under 15 age group is dwindling from 32% of the

population in 1980 to 28% in 1990. Therefore, Antigua unlike a number of other OECS, and most third world countries, does not have to address the problem of providing capital stock in school facilities for ever larger numbers of school age children. Instead, Antigua can concentrate on providing quality education, improving school facilities and designing training programs to meet the economy's changing manpower needs.

However, at the moment the quality and direction of education are not fulfilling these needs. Part of the problem lies in funding. Although Government allocations for education are a reasonable percentage of the budget, about 13%, over 60% of this is absorbed in personal emoluments. There is virtually no maintenance, and educational facilities lack critical supplies and furnishings.

Although vocational and technical training has been introduced at the junior secondary level most educators argue that the training is not commensurate with Antigua's manpower needs. While there are courses on home economics, there are no courses related to tourism services, and most trades courses are limited to very elementary metal and woodwork. There are few apprenticeship opportunities for youth.

While Antigua State College offers courses in hotel training, carpentry, masonry, plumbing, mechanics, electrical installation, refrigeration and commercial studies, the focus of the primary educational system is on the passing of examinations. The hierarchical system quickly weeds out the less academically inclined who are relegated to ineffective vocational education at the junior secondary level. Only 8% of the secondary age students passed the London General Certificate Examination in 1983. As passage of these examinations is a requirement for entry into Antigua State College, the majority of Antiguan students are ineligible for job related vocational education offered by the College.

Although there are a number of non-formal and continuing education programs sponsored by non-governmental organizations and the AID-OAS Non-Formal Skills Training Project, there is a need for Government policy on, and coordination of, non-formal education. There is also a need for better collaboration with the private sector in assessing manpower needs and the training modules to be introduced. The recent introduction of the AID-OAS Project is an opportunity to do this. As the Project is being administered by the Ministry of Economic Development there is scope for this to occur in conjunction with overall sectoral planning.

III. Institutional Analysis

A. Public Sector Overview

Many of the institutional constraints and problems of Antigua/Barbuda are held in common with all mini-states and certainly with the other OECS countries. Although the problems are often similar, certain constraints are more dominant in some countries. In Antigua/Barbuda the virtual one-party state has exacerbated the factors

of public management which tend to be overly centralized, personalistic and patronage driven. Civil servants are placed in difficult and awkward situations in a small, highly partisan political environment. Conflict between ministers and permanent secretaries is almost endemic in island states where most decision-making has devolved on ministries and where there is competition for scarce public resources. In many instances permanent secretaries cease being viewed as the chief administrative officers and are seen merely as rubber stampers for Government policy makers.

Partisanship also exacerbates the constraint of lack of skilled management and technical personnel. One sees both large numbers of public servants who are largely unskilled but whose loyalty to the ruling party is unquestioned, in conjunction with a paucity of skilled technocrats at the highest levels. In Antigua, practically every ministry evidences serious vacancies in the upper technocratic levels.

Additional institutional constraints are the outcome of budgetary problems and bureaucratic inertia. Public officials have yet to see the wisdom in adopting modern management practices including the development of modern data collection and systems. The accounting and output procedures are cumbersome affecting productivity and ultimately the high costs of public sector programs.

Further problems are the outcome of little overall planning and inter-ministerial liaising. Few decision-makers have a macro view of the economy and society, let alone of the public sector. Formal mechanisms for liaising are few, and ministerial attitudes akin to "personal fiefdoms" preclude much informal liaising and interaction.

Some of these constraints could be resolved by training programs for public servants. However, opportunities for in-service training are limited. As the EC countries are too small to set up their own in-house training, AID has been funding a regional program through the Economic Secretariat of the OECS. While contributing to training needs, longer term solutions need to be found. Further, neither Antigua nor any other OECS state has a public service institute, a national institute of public management or an executive training center. The most available is a diploma program in public management from the University of the West Indies. This, however, is not the normal career path for public sector managers. In Antigua, minimal resources are allocated to internal training. Lack of adequate training facilities restricts training activities and there is no authorized training policy.

Analysis of specific ministerial constraints follows:

1. <u>Ministry of Economic Development</u>

This Ministry actually comprises External Affairs, Economic Development and Planning, Tourism and Energy. This portfolio is controlled by the Deputy Prime Minister with the assistance of two other Ministers. The scope of this Ministry is wide and covers not only all foreign relations, but planning and management functions and most major sectors of the economy, including the Industrial Development Board.

The Ministry of Economic Development is administered by a Permanent Secretary; External Affairs is separately administered. This Ministry has three departments - planning, industrial development and tourism. There are widespread vacancies throughout each of these departments and much administration is actually done by the three Ministers. For example, an IDC exists on paper, but actually only a Board has been constituted and there is no Executive Secretary. The Tourism Department is also without a Director and the small staff of tourism officers are thereby constrained to provide the direction needed to Antigua's most significant economic sector. The personnel and management problems reflected in this Ministry are among the most serious affecting the public sector investment program of Antigua/Barbuda.

2. Ministry of Finance

The Ministry of Finance in Antigua has responsibility for all public sector finance and investment. The Ministry includes a number of departments including the Treasury, Inland Revenue, the Post Office, Customs and Excise, Property Valuations Division, Statistics Division, and Social Security. Like the Ministry of Economic Development the Ministry is very short staffed. The Financial Secretary and Budget Director are one and the same person. The Financial Secretary and Permanent Secretary are assisted by a few retired civil servants and a small junior staff. Although there is personal liaising between Economic Development and Finance, the present system does not allow for departmental planning, analysis of alternatives, and resource utilization. The budgetary process has become a stop-gap revenue technique and cashflow juggling operation. Antigua is the only OECS state where the Prime Minister is not also the Minister of Finance. In small mini-states the double portfolio has proven to be effective as the Prime Minister has overall responsiblity for macro development issues. In Antigua, while the present system allows for checks and balances, financial management is made more difficult by the numbers of channels through which expenditure must pass before being implemented.

3. Ministry of Agriculture, Lands and Fisheries

The Ministry of Agriculture, Lands and Fisheries has suffered over the years from the transition problems associated with the closure of the sugar industry and the assumption by Government of most of the arable acreage of the island, without provision for its disposal to the private sector. The agricultural sector in Antigua is presently small in acreage, employment and production. The Ministry is also hamstrung by Government indecision with respect to funding the resuscitation of the sugar/ethonol industry versus the need for funding research and extension programs in domestic crops such as the Antigua Black Pineapple, various legumes, truck farming and livestock and fisheries programs. Evidence of Government indecision is reflected in the lapsing of the Agricultural Development Corporation (ADC) which had responsiblity for administering land formerly under cane and for providing land preparation and cultivation services to farmers. This

lapse of funding and personnel to the ADC has not been followed by additional funding to the Agriculture Department of the Ministry. Part of the problem facing the Agriculture Department is an outcome of the Antigua/Barbuda debt situation whereby the Caribbean Development Bank has refused to underwrite a number of projects, many in agriculture, because of the Government's inability to service its debts to the Bank.

However, although suffering from a number of constraints including lack of funding, shortage of skilled personnel and the physical barriers of a dispersed Ministry with the Permanent Secretary located in town and the Agricultural Department located in the outskirts at Dunbars, there have been a number of recent steps taken. Reorganization plans include the formation of a National Agriculture Planning Committee, a result of the successful implementation of AID's CAEP Project and a desire to formally liaise with CARDI. The Ministry also intends to establish its own Planning Unit to do project preparation, monitoring and evaluation. Additionally there are reorganization plans to streamline the Ministry, strengthening the Director of Agriculture's administration of research and development and expanding Extension's role in information and education. Still needed, however, is a plan for resolving the spatial problems of a Ministry spread out over several different locations, exacerbating coordination and planning constraints.

4. Ministry of Communications and Public Works

The Public Works Department (PWD) in Antigua exemplifies in very visible manner most of the institutional problems of the public sector of Antigua. In an overly centralized environment Public Works becomes the extreme, with all maintenance of roads, schools, health clinics and all Government buildings under its purview. Public Works is expected to handle not only major repairs but minor repairs as well. There is virtually no preventive maintenance. Bureaucratic procedures are cumbersome and it is expected that minor repairs will develop into major items of expenditure before PWD will be able to attend to them. Costs for maintaining Government stock are constantly escalating, while PWD's efficiency appears to be eroding.

The Ministry admits to having serious personnel problems, both in terms of job performance and also high turnover rates occasioned by the better pay offered in the private sector for even partially trained artisans. Public Works is in dire need of major reorganization, devolution of maintenance responsibilities and the introduction of modern management practices and training programs for supervisors, foremen and skilled labor.

5. Antigua Public Utilities Authority (APUA)

The Antigua Public Utilities Authority (APUA) is a statutory body established in 1973 to provide the island with water, electricity and telephone service. It is a semi-autonomous body operating under the supervision of the Minister of Public Utilities and Communications. There are a number of problems in combining three critical utilities in one statutory body, particularly when the Corporation operates almost independently of Government fiscal control.

The institution suffers from serious institutional constraints which have resulted in inefficient provision of essential services. Firstly, the corporation is critically short of staff, particularly engineers in the water and electricity departments, but also in the accounting section which services the entire corporate entity. Staff problems are correlated to budgetary problems. The APUA does not offer competitive salaries and the majority of technical staff are not of the highest technical caliber. Secondly, related to the Government's fiscal constraints and compounded by APUA's own inefficiency and lack of good management systems, the corporation operates at a loss. There is little control over billings and accounts receivable. The Government itself is the largest delinquent. Thirdly, these revenue problems have resulted in substantial external debt obligations negatively affecting the utility's ability to make necessary capital investments in improved transmission lines, desalination plants, and expanded telephone service. Fourthly, a factor which became very critical during the drought, is APUA's serious negligence of maintenance resulting in deterioration of existing services. System losses are also related to lack of maintenance systems in the three departments.

The institutional constraints affecting APUA are obviously some of the most serious affecting the development of Antigua/Barbuda as they impact directly on the important economic sectors of manufacturing and tourism. Solutions to these institutional constraints could include completing APUA's reorganization into three separate bodies, the development of maintenance and repair systems, and better management of APUA's accounting systems. Long-term solutions also need to be found to the problems of recruitment of trained personnel at attractive salaries, and the expansion of the utility's capital stock keeping pace with changes in technology.

ANTIGUA
OTHER DONOR ASSISTANCE

I. British Development Division

A. Ongoing
Factory Shell Extension
Urlings School
Courthouse Rehabilitation
Legislative Building
Printery

B. Proposed
Airport Navigation Equipment
Secondary School, Jennings
Government Workshop Extension

II. Caribbean Development Bank

A. Ongoing
Fishing Industry Development
Line of Credit/Equity Investment
Student Loan II

B. Proposed
Small Scale Sugar Development
Fisheries Industry Development
Livestock Industry Development
Small Farmer Irrigation
Industrial Estate Development
Fort James Leisure Center
Student Loans III

III. Canadian International Development Agency

A. Ongoing
Airport Terminal Building
Port Cargo Handling Equipment

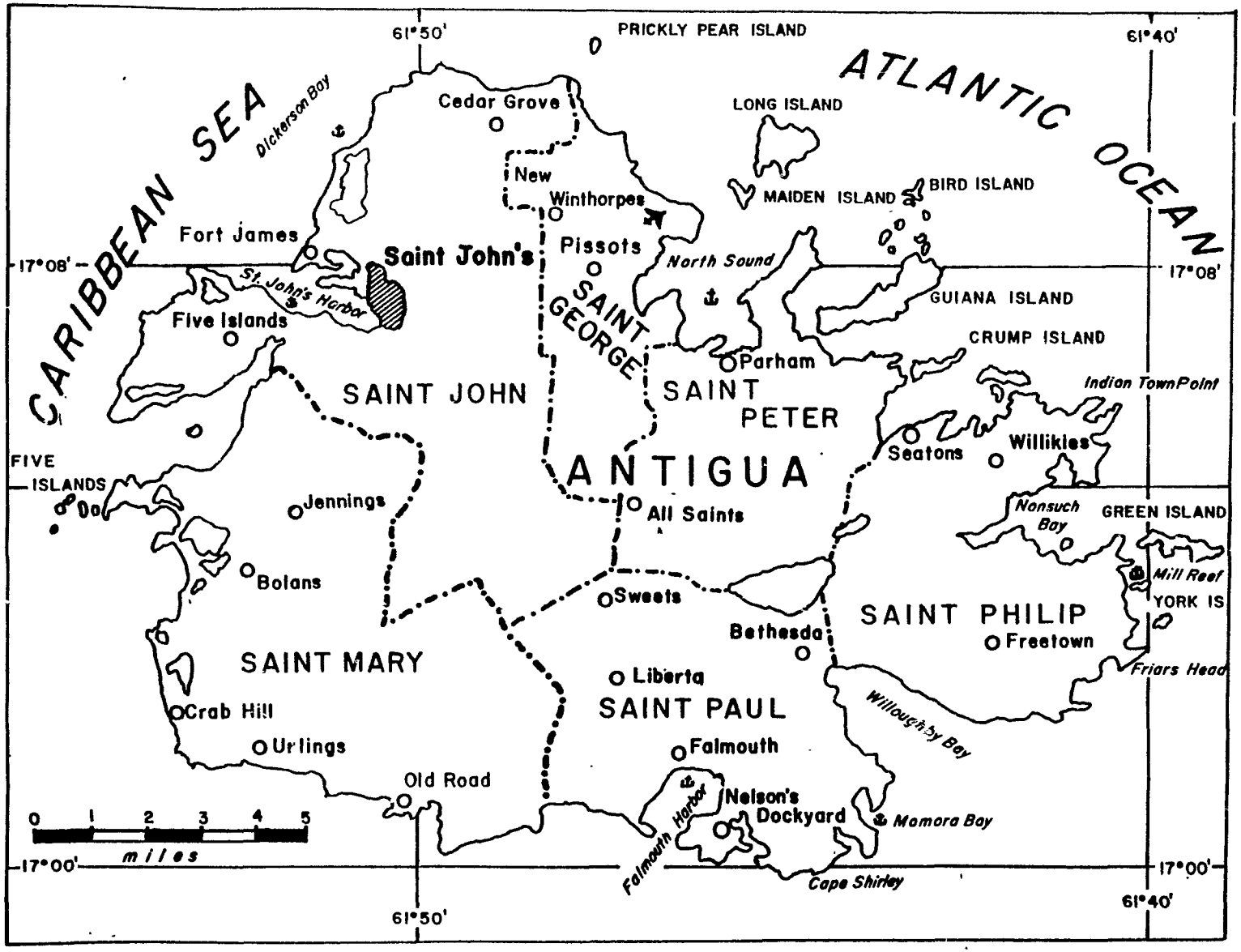
B. Proposed
English Harbor Infrastructure Development

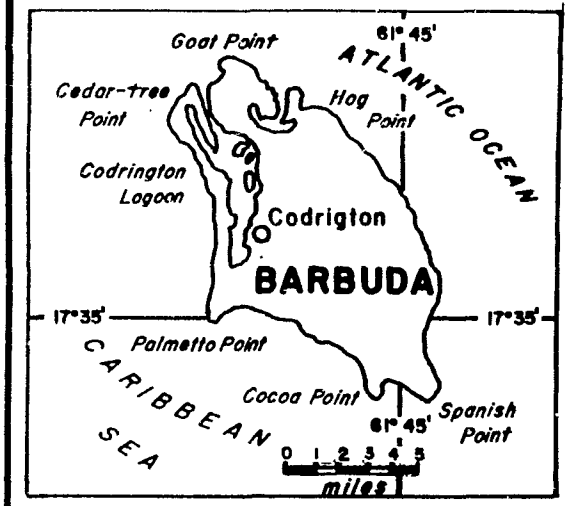
IV. European Economic Community/European Development Fund

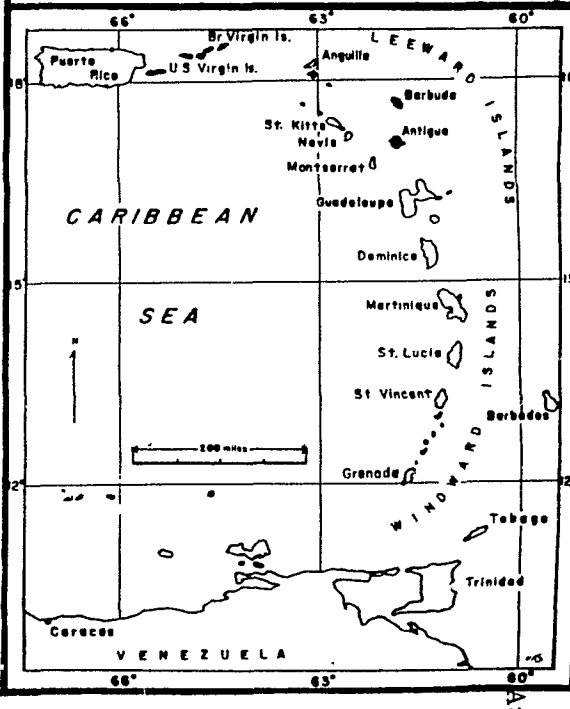
A. Ongoing
Livestock Development Phase I

B. Proposed
Livestock Development Phase II
Abattoir Construction

ANTIGUA & BARBUDA







Attachment E