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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

CARIBBEAN REGIONAL

PROJECT PAPER

TRADE SUPPORT

AID/LAC/P-222

Loan Number:538-K-602
Project Number:538-0131

UNCLASSIFIED

CLASSIFICATION:

AID 1120-1	AGENCY FOR INTERNATIONAL DEVELOPMENT	1. PAAD NO. 538-0131 Grant No. 538-K-602
PAAD	PROGRAM ASSISTANCE APPROVAL DOCUMENT	2. COUNTRY Caribbean Regional
		3. CATEGORY Cash Transfer
		4. DATE
5. TO: AA/LAC, Victor Rivera		6. OYB CHANGE NO.
7. FROM LAC/DR, Dwight Johnson		8. OYB INCREASE
		TO BE TAKEN FROM: Economic Support Fund
9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 4,328,000		10. APPROPRIATION - LESA-84-35538-KG 31/LESA-84-25538-KG 31
11. TYPE FUNDING ☐ LOAN ☒ GRANT	12. LOCAL CURRENCY ARRANGEMENT ☒ INFORMAL ☐ FORMAL ☐ NONE	13. ESTIMATED DELIVERY PERIOD FY 1084 / 14. TRANSACTION ELIGIBILITY DATE

15. COMMODITIES FINANCED

16. PERMITTED SOURCE	17. ESTIMATED SOURCE
U.S. only:	U.S.:
Limited F.W.:	Industrialized Countries:
Free World:	Local:
Cash: $4,828,000 ~~[illegible]~~	Other:

18. SUMMARY DESCRIPTION

The objective of this program assistance is to assist in revitalizing regional trade. Grant funds will be disbursed, through three grant agreements, to the governments of Barbados and Jamaica and to the East Caribbean Central Bank (ECCB); the latter will apportion local currency equivalents to the governments of Antigua and Barbuda, Dominica, St. Kitts/Nevis, St. Lucia, and St. Vincent and the Grenadines in amounts specified in the approved PAAD. Each recipient will covenant to expend, within 12 months from the date of disbursement of this grant, (a) an amount of foreign exchange equivalent to its portion of the grant on eligible imports from other CARICOM trading partners, and (b) an equivalent amount of local currency on mutually agreed trade-related activities.

19. CLEARANCES		DATE
LAC/DP:JOleson	JE	
LAC/DR:ILevy		
LAC/CAR:MDagata		
ARA/ECP:RBeckham		
M/FM:CChristensen		
GC/LAC:RMeighan		
D-AA/LAC:MBrown		

20. ACTION

☒ APPROVED ☐ DISAPPROVED

AUTHORIZED SIGNATURE — DATE 1/27/84

TITLE

CLASSIFICATION:

Trade Support Grant (538-0131)

PAAD

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I. Summary and Recommendations

A. Recommendations

The Regional Development Office/Caribbean and USAID/Kingston recommend that a $4.828 million Trade Support Grant be made, utilizing ESF resources, to the governments of Barbados, Jamaica and selected members of the Organization of Eastern Caribbean States (OECS).The fund will be furnished in one tranche and will be allocated as follows: Antigua/Barbuda - $197,500, Barbados - $1,125,000; Dominica - $215,500: Jamaica - $2,380,000; St. Kitts/Nevis - $156,000; St. Lucia - $469,500; St. Vincent - $284,500.

B. Grantees

The Grantees will be the governments of the seven states cited in the preceding paragraph, acting through their respective central banks. The Eastern Caribbean Central Bank (ECCB) will administer the grants for the five OECS states.

C. Program Summary

The purpose of the recommended assistance is to facilitate trade within the region by alleviating fiscal and balance of payments pressures currently being faced by some of the region's key trading countries. These countries have endured a series of shocks, internal and external, in recent years, from the collapse of commodity prices, the world-wide recession, continual pressures on the public sector budget from much-needed investment programs and a growing wage bill, and a fall-off in regional trade resulting from shrinking markets in Trinidad and Tobago and problems with the CARICOM trading facility.

Added to these pressures has been the cost to some of the countries in the region of participating in the Caribbean Peacekeeping Force (CPF) in Grenada. Jamaica, Barbados, and five of the OECS states (Antigua/Barbuda, Dominica, St.Kitts/Nevis, St. Lucia, and St. Vincent) have all volunteered to finance the costs of personnel and materiel needed in support of the CPF over nearly 18 months. These expenditures were extraordinary and unanticipated, and came at an inopportune time for these governments, adding to their already heavy fiscal and foreign exchange burdens.

This Trade Support Grant (TSG) will make a small contribution toward easing the balance of payments and fiscal strains caused by these recent developments. Under the TSG, U.S. dollars will be deposited in the participating countries' foreign exchange accounts in their central banks. An equivalent amount of US dollars will be used to purchase imports from within the region, for the purpose of promoting intra-regional trade. In addition, local currency counterpart funds in an equivalent amount of the grant will be provided by each recipient country for the purpose of funding development activities, particularly those related to export development, investment promotion, or other trade-related activities.

D. Conditions and Covenants

It is proposed that this grant assistance be provided to the specified countries with the following conditions and covenants:

a. Imports from the Caribbean Region-- Each grant beneficiary covenants to import from other Caribbean trading partners, during the twelve-month period after execution of the Agreement, goods and services in an amount at least equal to its respective grant under the Agreement.

b. Local Currency Counterpart--Each recipient country also covenants to allocate, within a twelve-month period following the disbursement of Grant funds, an amount of local currency at least equivalent to the U.S. dollar amount of that country's Grant disbursement from the budget to finance development activities acceptable to AID.

II. Analysis of Economic Conditions

A. Background: Regional Economic Setting

The countries covered in this grant proposal are generally diverse in character, as exemplified by the sugar and banana monocultures of the OECS states, Barbados' more diversified export base, and Jamaica's dependence on the mining sector. GDP per capita likewise shows a wide range within the group, from an OECS average of about $1,000, to Jamaica's $1,400, and up to a high of over $4,000 in Barbados.

However, these Eastern Caribbean island nations, and, to a somewhat lesser extent, Jamaica, face a common set of economic conditions imposed by their small size. As described in the Caribbean Regional CDSS, these states confront a range of problems arising from "diseconomies of small scale" which lead to a highly trade-dependent economy, and one which is often dominated by one or two products. All are very open economies, importing goods valued at between 65-95% of their respective GDP.

The "diseconomies of small scale" are also felt in the public sector, where, due to the need for a certain minimum of basic public services, the per capita public sector expenditures are high. Given relatively small private sectors reflecting the small size of their economies, there are serious constraints to mobilizing tax revenues to finance these public expenditures, resulting in continual pressures on their fiscal accounts.

These factors combine to make the Caribbean economies highly vulnerable, with narrow margins in their fiscal or foreign exchange accounts for absorbing external or internal shocks. Declining prices of a key export commodity or a public sector wage settlement calling for a 10% increase can launch one of these small economies into a spiral of increased borrowing and reduced investment which could have serious impact on medium- and long-term growth prospects. Virtually none of the Caribbean countries have been able to escape this pattern, and external financing, much of it concessional, has consequently been a critical element in the region's ability to survive the shocks to which they are so vulnerable.

In the past four years, the region has suffered a number of serious shocks. On the external accounts, the region's export earnings have suffered from the combined impact of a global recession, which has contributed to shrinking markets for traditional and non-traditional exports and to a reduction in tourism, and declining prices for the region's key commodity exports (bananas, sugar, bauxite). In addition, due to the recent appreciation of the US dollar and the growing share of US goods in the region's basket of imports, the terms of trade for the region have deteriorated, further straining the current account in the countries' balance of payments.

There has been, finally, a serious disruption of intra-regional trade owing to the suspension of the CARICOM Multilateral Clearing Facility (CMCF), and the economic problems faced by some key trading partners in the region--notably Jamaica and Trinidad & Tobago--which have reduced their ability to keep their markets open to regional imports or find foreign exchange to finance them.

On the region's domestic accounts, governments continue to be pressured by a fast-growing labor force demanding increased investment to create jobs, and the need to improve infrastructure in order to attract private investment under the CBI. Stagnating tax revenues in most of the countries, in large part reflecting the reduction in exports and tourism, however, are inadequate even to finance the central government's current expenditures, including their large public sector wage bills.

A brief analysis of the impact of these general developments on economic performance is given for each recipient country in the following section.

B. Country Performance

1. Sectoral Trends in Production

Agriculture

OECS: Contributing about 16 percent to GDP, agriculture remains the most important productive sector of the OECS economies. The major crops, bananas (Dominica, St. Lucia and St. Vincent) and sugar (St. Kitts), are leading foreign exchange earners for these countries. The fragility of the economies is underscored by the vulnerability of monoculture to natural disasters and to international price movements. While prices of these crops have generally recovered from their 1979 lows, prices remain unstable, and production levels have not shown much increase. The OECS governments have begun to devote attention to diversification in agriculture and are making some headway, though progress will be slow.

Barbados: Agriculture's position in GDP has been gradually dropping, and now stands at only about 10%, or half that of manufacturing. Though long dependent on sugar as agriculture's mainstay, Barbados has gone a long way toward diversification, and non-sugar agriculture now contributes more than sugar to GDP. Still, sugar remains an important foreign exchange earner, representing nearly 26% of domestic merchandise exports in 1982, continuing to expose Barbados to substantial shifts in levels of export receipts due to price variation.

Jamaica: Agriculture represents a somewhat smaller share of GDP at 8%, and accounts for only 4% of export earnings. Serious production declines in domestic crops in the past have led to substantial food import requirements. During the past year, however, with the exception of sugar, the major agricultural commodities showed substantial production increases. In the cases of cocoa, copra, and meat, the level of output was the highest in five years, signalling the beginning of a broad-based recovery in production. The net effect of these increases was a rate of growth in the sector's output of 5.5%, reflecting productivity increases estimated at 6%. Export earnings also went up substantially in 1983, up 35% from the 1981 low. Following the November, 1983 foreign exchange rate adjustment, however, some decline in earnings may be expected, compounded by a substantial drop in production of sugar, citrus, and bananas in 1984.

Industry

OECS: Between 1979 and 1982, manufacturing has risen from 5 percent of GDP to over 10 percent, and in Antigua, Dominica, and St. Lucia, over 40% exports are manufactures. In part, this movement reflects a conscious effort by the countries to utilize their comparative advantage in labor-intensive, export-oriented production and diversify away from reliance on monocrop agriculture. The very small size of the OECS states puts them at a natural disadvantage in strictly import substitution manufacturing, because domestic markets are far too small to take advantage of economies of scale. Hence, governments are looking to foreign investors to provide capital and ready external markets for processing activity that will provide jobs for the large ranks of unemployed. Substantial progress has been made in this area under the auspices of the CBI, but benefits from off-shore production assembly operations remain vulnerable to world market conditions and to competition from other off-shore sites.

Barbados: While the outlook for manufacturing remains positive, output has fallen in the past three years. It nevertheless remains the largest productive sector of the economy (12 % of GDP in 1983), and a fast-growing export earner (representing, as of 1983, almost 90% of merchandise exports), reflecting an astonishing growth in the electronics assembly area. It has, however, been hard hit by regional trade problems, notably Trinidad and Tobago's import licensing scheme, which caused a 20 percent drop in Barbados' exports to that country in the first quarter of 1984. As in OECS countries, manufacturing development is critical to solving Barbados's significant unemployment problem.

Jamaica: Mining and manufacturing together account for 22% of GDP, and close to 90% of exports. The manufacturing sector grew slightly in 1983, showing generally mixed performance. Investment in the sector grew modestly, as did employment. Mining, however, continued its steady decline, and Jamaica registered its lowest level of bauxite production in twenty years, further reducing employment and resulting in a 35% decline in export earnings, the third successive annual decline in these indices. Having experienced a nearly 45% decline in the bauxite sector's export earnings since 1981, when it constituted 78% of total earnings, Jamaica has yet to develop an alternative source of export receipts to compensate for the losses in this sector.

Tourism

OECS: In the OECS states, tourism earnings are nearly as large as foreign exchange revenues from merchandise exports and are thus an important means of defraying the countries' high import bills. Conditions conducive to tourism are not uniformly distributed across these countries: Antigua, St. Lucia and St. Vincent receive the majority of tourists, while Dominica and St. Kitts have less potential. Tourism earnings have faltered due to the global recession and the current recovery is somewhat dampened by the appreciation of the U.S. dollar-linked East Caribbean dollar against European and Canadian currencies.

Barbados: Barbados, like the OECS states, depends heavily on tourism for foreign exchange and these revenues exceeded merchandise exports in 1982. Tourist arrivals peaked in 1979 and had dropped off by nearly 20 percent by 1982. Last year's arrivals were up slightly, reflecting an improvement in arrivals from the U.S., but revenues did not increase due to the fall-off in typically higher-spending European arrivals. Barbados has the most successful marketing approach in the East Caribbean and the global economic upturn is expected to provide fertile ground for the country's promotional efforts.

Jamaica: During 1983, there was a continuation of the upward trend which has characterized the tourism sector since 1981. The number of visitors increased by over 15% during the year, increasing hotel occupancy rates, visitor expenditures, and employment. Occupancy rates, however, remain low, at less than 60% and tourism receipts have yet to regain previous levels.

2. Trade and Balance of Payments

OECS: Virtually all of the OECS group have sustained deficits on current account in each of the past four years, due to growing impact bills and unstable and depressed export receipts. This has usually led to overall balance of payments deficits, which have been by and large financed by concessional external resources (although Antigua has recently assumed substantial commercial debt to finance its fast growing overall deficit). Compounding these problems has been the breakdown in regional trade in the past year. The inability of Jamaica to meet its foreign exchange obligations ultimately caused production dropoffs in OECS states. For example, Dominica, which exports soap in quantity to Jamaica, had to cut back production when Jamaican importers could no longer get foreign exchange. St. Lucia also experienced similar difficulties in its exports of limes to Jamaica. In addition, the Eastern Caribbean Central Bank (ECCB, the central bank to the OECS countries) reportedly has $8.9 million in foreign exchange assets tied up in the suspended CARICOM Multilateral Clearing Facility (CMCF). Although the CARICOM states are searching for ways to reactivate that facility, the OECS assets in the CMCF are not at the moment readily usable foreign exchange.

Barbados: Barbados's balance of payments position has been considerably stronger, showing generally a surplus on current account. Given the country's well-diversified, export-oriented economy it has weathered the external shocks of the past few years. However, a large overall deficit in 1981 led to an IMF Stand-by Arrangement, and regional trade problems have seriously affected the country's ability to put its balance of payments in order. First, the suspension of the CMCF has frozen about half of Barbados's foreign exchange assets and the country's gross assets are already at a low level equivalent to only two months' imports. Second, Barbados was affected by Jamaica's foreign exchange difficulties. Though Barbados is a net importer of goods from Jamaica, some Jamaican importers are unable to obtain foreign exchange to meet payments. Consequently, Barbados recently had to move to essentially a month-to-month barter situation with Jamaica, refusing to export any goods to Jamaica that were not balanced by a comparable cash level of imports from Jamaica. This has led to a reduction in Barbados's exports.

Jamaica: Before 1983, the performance of the export sector was disappointing, and imports were rising rapidly. This led to a sharp widening of the current account deficit on the balance of payments, to $400 million in 1982, or nearly 13% of GDP. In 1983, however, Jamaica's current account deficit was significantly reduced, by nearly $60 million, or 15%. Imports, constrained by the shortage of foreign exchange and restrictive import policy, dropped in 1983. Export earnings also dropped, in large part reflecting the troubled bauxite sector, contributing to a slight decrease in the merchandise balance over 1982. The rebound in the tourism sector only partly compensated for the trade deficit, resulting in a deficit on current account of $-342.8 million. On capital account, net official inflows declined, and private capital movements registered a substantial net outflow, leading to a dramatic reduction in the overall balance of payments from a $73.4 million surplus in 1982 to a $431.4 million deficit in 1983.

3. Public Finances

OECS: The OECS states as a group generate negative public savings on recurrent fiscal account in spite of the fact that the average revenue/GDP ratio is a very high 30 percent. Consequently, the governments must look elsewhere not only to pay for public sector investment programs but also to balance their recurrent budgets. On average, about one-third of the overall deficits are paid for by domestic borrowing while the remainder are externally financed. The bulk of the latter comes from external grants and concessionary loans, although a portion must be commercially financed abroad. The only one of the OECS group which has substantial debt obligations on commercial terms is Antigua, which has seen a rapid build-up of arrears to 11.5% of GDP in 1983.

Barbados: Barbados is in better shape fiscally than the OECS states: the current account budget has shown a surplus in each of the last four years, reaching a projected $136.6 million Barbados dollars level in 1983/4 (6.4% of GDP). Still, the public sector investment program is ambitious, keeping the overall public sector accounts in deficit. This investment program aims to provide substantial support to private sector development, essential to enable the private sector to take advantage of the improving international economic situation, and the market opportunities afforded under the CBI.

Jamaica: In 1981/82, The Jamaican Government recorded a modest surplus on current account, due primarily to an upturn in tax receipts. While tax receipts have continued to rise, revenues from the bauxite levy dropped dramatically in 1982/82, and currrent expenditures have not been dampened, leading the government into a large ($208 million) current account deficit in 1983/84. The overall deficit has steadily increased, hovering at 13-14% of GDP since 1981. The government seeks to reduce the public sector deficit by containing current expenditures, increasing domestic revenues, and by raising higher levels of foreign financing to release domestic resources for the private sector. While some success is being achieved on all three fronts, it has not accomplished any measurable reduction in deficits. In fact, holding the overall deficit to the current level was accomplished at the expense of a 35% reduction in capital expenditures.

4. Stabilization and Growth

OECS: As a group the OECS states averaged about four percent growth in 1978-81, but growth rates are down in the most recent two years. In part, the downturn is due to natural disasters and the states' heavy dependence on crops whose prices have fallen substantially in recent years. With the end of the global recession, the gradual improvement in economic policies, and the potential benefits of the CBI, growth rates should return to those seen in the late 1970s and early 1980s. In short, prospects look considerably more favorable, but will be dependent upon a strenous attempt by these countries to make necessary adjustments in their economies.

The large foreign grant component in the OECS budgets has to some extent shielded them from the stabilization problems facing other developing countries. In spite of their generally low debt service ratios, some states have taken disorderly or extraordinary financing steps. Antigua has borrowed relatively heavily at commercial rates and has accumulated significant arrearages. St Lucia and St Vincent have availed themselves of IMF purchases, primarily through the Compensatory Financing Facility. Dominica, which recently completed a three-year Extended Fund Facility, is reportedly preparing to draw down on a new Stand-by arrangement with the IMF. Dominica has performed well under both the EFF and the concurrent AID economic stabilization grant.

With these stabilization programs has come a growing appreciation on the part of the OECS states of the critical importance of structural adjustment. All the states have learned the lesson that diversification away from monocrop agriculture is crucial to their ability to withstand external price or demand shocks. The states are looking toward other agricultural opportunities and toward export-oriented manufacturing possibilities. Relatively low wage rates (given easily trainable work forces), attractive investment incentives, and easy access to the CBI-sweetened US market all increase the likelihood that adjustment will occur, defusing the explosive potential of high and rising unemployment. But the OECS countries will have to continue to exercise fiscal restraint and promote growth of a resilient and competitive export sector.

Barbados: After three successive years of zero or negative growth (averaging -2.5 percent), there are unmistakable signs of an initial upturn in 1984. Leading this incipient recovery in Barbados's well diversified economy are sugar production and tourism, and an expansion in non-sugar agriculture and manufacturing. It is still to early to judge the strength of this recovery and Barbados will have to steer the economy carefully if the country expects to return to a stable growth path. Unemployment is a critical problem; at roughly 16 percent it is disturbingly high and will continue to pose a problem until the recovery picks up speed.

From the foregoing sections, it must be clear that the government of Barbados has taken sound policy steps in the past few years to protect the economy from external or internal blows. Still, the current account of the balance of payments moved heavily into deficit in 1981 and 1982 and the government entered into a stabilization arrangement with the IMF. The government continues to emphasize an outward-looking development strategy and will continue to pursue structural adjustment priorities so that the economy can better avail itself of opportunities created by the global economic upturn and the CBI.

Jamaica: The Jamaican economy is slowly emerging from the decline suffered in the 1970s, registering growth rates of 3.3%, 0.2%, and 1.8% in 1981, 1982, and 1983, respectively. This return to positive growth reflects the government's stabilization efforts, which were intensified in 1983 with a devaluation of the exchange rate, and continuing attempts to broaden the export base. The realignment of the country's exchange rate significantly enhanced the competitiveness of Jamaican goods in international markets. At the same time, the escalating prices of imports greatly improved economic viability of local production of many items, including basic food stuffs. Import targets were revised downward and the composition of the import budget was shifted toward capital goods and raw materials and away from consumer items.

The prospects for the economy for the rest of the decade are, to a significant degree, influenced by factors outside Jamaica's control, notably the rate of growth in the industrial countries which are the primary markets for the country's bauxite products. Other factors of crucial importance will be the government's stabilization and economic recovery program, where particular importance will be on the need to maintain the competitive position of the country's exports. Progress in this area will be necessary because of the need to reduce the fiscal and balance of payments deficits from their presently unsustainable levels in an orderly fashion. GDP is expected to grow by about 3% per annum on an average over the decade.

5. Summary:

As the preceding sections illustrate, none of the countries in this group is on sure economic ground. The productive economic base on which these countries depend are themselves fragile, subject to weather and world economic conditions, and highly concentrated in one or two sectors. As shown below in Table 1, they all have a substantial share of their GDP in the trade sector and most are highly dependent on one or two exports. With recent price declines and the global recession affecting these key exports, there have been continuous pressures on their balance-of-payments accounts. All but one of the countries have shown a substantial overall deficit in their balance-of-payments in at least three of the last four years.

OECS member countries and Jamaica are, in addition, on precarious fiscal ground. As described earlier, none generates public savings, in spite of relatively high rates of taxation (about 30 percent

Table 1: Characteristics of External Trade Sector

	Barbados	Jamaica	Antigua	Dominica	St. Lucia	St. Vincen
Exports as % of GDP: 1983	65	87	72	44	66	70
Imports as % of GDP: 1983	70	91	90	66	84	94
Principal Exports as % of Total Foreign Exchange Receipts: 1983						
Tourism	35	21(b)	66	6	40	21
Bananas	--	--	--	23	20	11
Sugar (a)	4	4(b)	--	--	--	--
Bauxite/Alumina	--	32(b)	--	--	--	--
Manufacturing	29	7(b)	15	37	13	--

(a) Includes sugar by-products (rum and molasses)
(b) 1982 data

Source: IMF statistics

Note: Data not available for St. Kitts/Nevis in the OECS). And Barbados, though it has a surplus on current fiscal account, must borrow to pay for an ambitious public sector investment program. A contributor to the fiscal woes of these very open economies has been the global recession.

All these countries have taken steps to shield their economies from external shocks, primarily by diversifying out of monocrop agriculture. However, even well-intentioned structural adjustment takes time and policies put in place now to take advantage of the improved economic environment will only gradually show results.

C. Recent Developments in Intra-regional Trade

Although global economic conditions are on the up-swing in 1984, regional trade problems have affected economic performance in all grantee countries. Of signal importance during the past year is the suspension of the CARICOM Multilateral Clearing Facility (CMCF), set up in 1977 to facilitate regional clearance of payments imbalances. The CMCF, established in 1978, permitted its member states to conduct their daily intramural foreign trade transactions on an efficient basis. Each routine transaction between two member states was cleared through the CMCF, which debited and credited, respectively, the exporter's and importer's accounts in the Facility by the amount of the transaction. This precluded the need for frequent foreign exchange movements between member states. Credit limits for each country were established and settlements with the Facility were made on a semi-annual basis.

In the spring of 1983, the CMCF was suspended: its major debtor--Guyana--had not only borrowed beyond its limit, but was unable to settle its deficits. Two of the creditors were Barbados and the ECCB and about half of Barbados's foreign exchange assets are tied up in the CMCF. The suspension of the CMCF--a condition unlikely to change in the near future--has meant that countries must keep more foreign exchange on hand for trade purposes. This has had a dampening effect on the growth of regional trade.

Second, the economic problems of Trinidad and Tobago and of Jamaica have resulted in a slowdown of regional trade. Barbados has been particularly affected by the problems of these two countries. Recently, in fact, Barbados has gone on a month-to-month barter system with Jamaica, refusing to ship goods unless they are covered by an equivalent amount of goods coming from Jamaica. With Trinidad and Tobago, Barbados's problem has quite simply been that rising protectionist measures in Trinidad and Tobago have resulted in fewer Barbadian sales to that country, thereby reducing manufacturing employment in Barbados. The OECS states were affected by Jamaica's cutback in imports from them (particularly Dominica's soap and St. Lucia's limes), and Dominican manufacturers were forced to cut back production and lay off labor.

D. Nature and Impact of Extraordinary CPF Expenditures

In all the countries discussed in this program assistance document, budgets are tight and external trade problems have become significant. Table 2 provides a summary picture of the budget and balance of payment problems affecting these countries. The table demonstrates that for several years now each country has been faced with the need to obtain foreign financing for its government operating and capital expenditure budgets, and with few exceptions, has been faced with a continuous negative balance of payments situation.

Against this background, this group of countries has willingly undertaken the additional, and unexpected, expense of providing support to the Caribbean Peacekeeping Force (CPF) in Grenada. This support has obliged each of the countries to finance, since November 1983, salaries and subsistence of personnel stationed in Grenada, fuel and vehicle maintenance costs for ground transport, and needed equipment and materials. They have committed themselves to continue this support through March 1985, for a total of 17 months. For Jamaica and Barbados, both outside the E. Caribbean currency zone, virtually all of these costs have been in foreign exchange. While small in absolute terms, these costs represent an increment of close to 5% in the aggregate of the amount of external financing needed by these countries in 1983 to cover budget deficits.

These still-frail economies of the region, saddled with fiscal weaknesses and trade difficulties, can ill afford even the relatively modest outlays involved in the CPF suport, and these unanticipated outlays have exacerbated an already difficult situation. The fungibility of money and the difficulty of gauging what the situation would have been in the absence of the extraordinary peacekeeping expenses makes it difficult to determine precisely the action taken by each country to deal with the financial pressures created by its decison to support the peacekeeping activity. However, it is likely that one or more of the following actions were taken to cover the unexpected expenditures: (1) planned domestic expenditures were reduced; (2) use of nonconcessional external resources was increased; (3) use of domestic commercial credit was increased; and/or (4) money supply was increased to provide governments with the money to purchase needed goods and services. Given the policital pressure against reducing public expenditures in these countries and the already high effective rates of taxation, it is likely that the direct net effect was an increase in foreign debt and some pressure on domestic prices.

III. Program Description

A. Goal and Purpose

In order to relieve some of the balance-of-payments and budgetary pressures described in Section II, the US Government has allocated additional financing for these countries in FY84. These funds will be used in support of AID's overall goal of stabilization and structural adjustment in the region, and will accomplish this goal by facilitating increased intra-regional trade.

While small in absolute volume, trade within CARICOM accounts for relatively large shares of total exports, by value, for most of its members. Intra-CARICOM trade, for example, accounts for over 50% of the exports from the five OECS states, 27% of Barbados' exports (in 1982), and 10% of Jamaica's. For the states in the region aiming at export diversification, moreover, the CARICOM trade can provide an important developmental role, by providing nearby markets in which new products can be tried. Given the growth of merchandise imports in the region, these markets likewise offer good prospects for future expansion. Barbados, which has undertaken a successful program of export diversification, has increased its exports faster to CARICOM countries than to any other trading partner, including the US. Increased intra-regional trade can thus provide exporters with growing markets in a somewhat less highly competitive environment, permitting them to develop experience and expertise to equip them to compete more effectively in larger world markets in time.

B. Implementation Mechanisms

This TSG comprises three grant agreements totalling $4.83 million. Each individual grant is proportional to the grantee's expenditures on Grenada peacekeeping activities in the November 1983 to March 1985 period. The Government of Jamaica will receive $2.380 million, the Government of Barbados will receive $1.125 million, and the five OECS states will receive a total of $1.323 million. The latter sum will be subdivided as follows: Antigua/Barbuda will be allocated $197,500; Dominica, $215,500; St. Kitts/Nevis, $156,000; St. Lucia, $469,500; St. Vincent, $284,500. The funds will be disbursed to the U.S. correspondent bank for each central bank, and the central bank will provide the local curency equivalent to the government.

AID will sign grant agreements with the Government of Barbados, the Government of Jamaica, and the East Caribbean Central Bank (ECCB). AID will agree to disburse funds, using the cash transfer mechanism, to the central banks of Barbados and Jamaica and to the ECCB.

Table 2: Summary Data on Economic Performance

	Barbados	Jamaica	Antigua	Dominica	St Lucia	St. Vincent
I. GDP at Market Prices ($million)						
1983	1,062	1,669	131	79	140	97
1982	1,000	1,432	128	73	134	87
1981	959	1,322	118	67	126	78
1980	865	1,197	104	58	112	66
II. Real GDP Growth Rates (per capita)						
1983	-0.5	0.7	-0.3	3.4	0.5	2.4
1982	-4.5	-1.5	1.4	2.7	1.0	0.8
1981	-2.9	2.0	2.7	7.4	1.2	7.1
1980	4.6	-6.4	6.4	16.3	-2.8	2.6
III. B/P Current Account Balance ($million)						
1983	43.1	-342.8	-15.4	-7.6	-17.8	-7.2
1982	38.6	-400.2	-43.7	-9.6	-37.9	-11.4
1981	97.7	-336.6	-42.7	-22.4	-45.2	-6.1
1980	39.9	-166.2	-27.6	-32.4	-36.8	-13.2
IV. B/P Resource Gap (-indicates surplus)						
1983	-5.7	431.4	6.9	1.9	0.2	0.1
1982	5.7	-73.4	4.9	3.3	-1.2	0.7
1981	24.8	86.3	1.8	5.5	4.3	1.4
1980	-19.9	63.2	1.4	-0.5	3.1	0.3

. Gov't Current Acc't Balance (local currency)						
1983	64.1	-534.0	-22.3	-0.8	-0.5	1.3
1982	30.8	-292.4	-19.2	-4.9	-8.7	2.3
1981	17.6	-238.0	-11.3	-6.0	-2.7	-4.4
1980	45.8	-358.6	-13.3	-17.3	4.4	-2.8
:. Gov't Overall Balance (local currency)						
1983	-78.9	-1050.0	-35.6	-29.3	-7.9	-1.0
1982	-108.8	-965.4	-56.4	-30.1	-18.0	-9.5
1981	-155.3	-881.8	-28.5	-28.9	-14.7	-7.6
1980	-91.4	-830.4	-26.6	-41.9	-23.8	-8.2
II. External Deficit Financing (includes arrears) ($ million)						
1983	15.1	75.9	7.0	17.9	1.1	4.8
1982	26.0	95.2	13.6	13.5	4.0	7.8
1981	52.2	144.7	15.9	16.1	4.6	6.7
1980	39.4	48.6	4.4	12.4	4.7	14.4
[I. Unemployment (%)						
1983	15	28 (1982)	N/A	19 (est)	25	22
1981	11		N/A	18		

urce: IMF Statistics

te: Data not available for St. Kitts/Nevis

In order to fulfill the goal and purpose of this program, the three grantees will agree to undertake certain actions as a condition of this assistance. These actions will be required under two substantive covenants to be included in the grant agreements with the Barbados and Jamaica governments and in side letters with the five participating OECS governments:

1. Imports from the CARICOM trade zone: Each government shall covenant that the country will import from other countries in CARICOM, in the 12 months following disbursement of grant funds, an amount of goods at least equal to the amount granted to the country represented by the covenanting government. In each case, the value will be exclusive of goods for which attribution is made under any other agreements with the U.S. government, or which have been declared not eligible for attribution in satisfaction of this requirement. At some time no later than the end of this twelve-month period, each Grantee will furnish trade records acceptable to AID as documentation that this covenant has been met.

2. Programming of Local Currency: Each government shall also covenant that, in the 12 months following disbursement of grant funds, it will expend from its budget at least the equivalent of the value of its portion of the grant on development activities which will have been agreed upon with AID, with priority given to activity in support of export development, investment promotion, or other trade-related activities. Each government shall also covenant to provide substantiating documentation acceptable to AID.

In the case of Barbados and Jamaica, when the grant agreements containing these two covenants are signed, grant funds will be deposited in each country's central bank. Thereupon, the central bank will furnish its government with the local currency equivalent of the granted amount.

In the case of the OECS countries, the mechanism will be somewhat different. In the grant agreement with AID, the ECCB will agree that a condition precedent (CP) to disbursement is AID's acceptance of side letters from all the OECS countries benefitting from the ECCB grant agreement committing the benefitting countries to carry out the two substantive covenants described above. The ECCB will also agree that upon disbursement of the program assistance, the ECCB will credit each government with the local currency equivalent of that country's portion of the program assistance.

While not large in dollar value, this assistance will have important regional benefits. Jamaica will have more foreign exchange to buy goods from the OECS states, these states will have more foreign exchange to purchase imports from Barbados, and Barbados will be able to use the foreign exchange to import more goods from Jamaica. While representing only a modest share of the $62 million total triangular trade flow between the grantees in 1983, the grant amount is about one-third of the three-way trade deficit in 1983.

At the same time, the grant assistance will enable the governments to allocate budgetary resources for development investment that will further export development, investment promotion, and other trade-related programs in support of intra-regional trade.

C. Negotiating Status

The proposed grant has been reviewed with each of the recipient governments, and implementation arrangements have been worked out with the respective central banks. Mission and AID/W representatives have discussed the major provisions of the grant agreements with the staff of each of the signatory agencies and final negotiations should be completed with no difficulty, permitting grant agreement signature and obligation of funds by September 30, 1984.

CLASSIFICATION:

AID 1120-1

PAAD

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT

1. PAAD NO.: 538-0131
2. COUNTRY: Caribbean Regional
3. CATEGORY: Cash Transfer
4. DATE:
5. TO: AA/LAC, Victor Rivera
6. OYB CHANGE NO.:
7. FROM: LAC/DR, Dwight Johnson
8. OYB INCREASE:

TO BE TAKEN FROM: Economic Support Fund

9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 4,828,000
10. APPROPRIATION - BUDGET PLAN CODE
11. TYPE FUNDING: ☐ LOAN ☒ GRANT
12. LOCAL CURRENCY ARRANGEMENT: ☒ INFORMAL ☐ FORMAL ☐ NONE
13. ESTIMATED DELIVERY PERIOD: FY 1984
14. TRANSACTION ELIGIBILITY DATE:
15. COMMODITIES FINANCED:

16. PERMITTED SOURCE
- U.S. only:
- Limited F.W.:
- Free World:
- Cash: $4,828,000

17. ESTIMATED SOURCE
- U.S.:
- Industrialized Countries:
- Local:
- Other:

18. SUMMARY DESCRIPTION

The objective of this program assistance is to assist in revitalizing regional trade. Grant funds will be disbursed, through three grant agreements, to the governments of Barbados and Jamaica and to the East Caribbean Central Bank (ECCB); the latter will apportion local currency equivalents to the governments of Antigua and Barbuda, Dominica St. Kitts/Nevis, St. Lucia, and St. Vincent and the Grenadines in amounts specified in the approved PAAD. Each recipient will covenant to expend, within 12 months from the date of disbursement of this grant, (a) an amount of foreign exchange equivalent to its portion of the grant on eligible imports from other CARICOM trading partners, and (b) an equivalent amount of local currency on mutually agreed trade-related activities.

19. CLEARANCES

CLEARANCES	DATE
LAC/DP:JOleson	
LAC/DR:ILevy	
LAC/CAR:MDagata	
ARA/ECP:RBeckham	
M/FM:CChristensen	
GC/LAC:RMeighan	
D-AA/LAC:MBrown	

20. ACTION

☐ APPROVED ☐ DISAPPROVED

AUTHORIZED SIGNATURE DATE

TITLE

CLASSIFICATION: