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CONCEPTS PAPER

STRUCTURAL ADJUSTMENT SUPPORT PROGRAM

THE REGIONAL DEVELOPMENT OFFICE
CARIBBEAN (RDO/C)

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Table of Contents

Recommendations

It is recommended that this concept paper be used as the basis for a delegation to the Director, RDO/C to approve Program Assistance Approval Documents (PAADs) and to authorize Economic Support Fund Grants of a total of US$ 25 million to various Organization of Eastern Caribbean States (OECS) states in Fiscal Years 1987, 1988, and 1989 under the proposed Structural Adjustment Support Program (SASP).

Program Summary

RDO/C proposes this Structural Adjustment Support Program (SASP) to support the efforts of the six countries in the Organization of Eastern Caribbean States (OECS)* to make their economies more viable and to sharply improve their creditworthiness by 1990. Within the past year, the OECS have indicated to the donor community, through the Caribbean Group for Cooperation in Economic Development (CGCED), that they are ready to move in a concerted manner on structural adjustment and that they require injections of external project and program assistance for the 1986-90 period if the costs of structural adjustment are to be met. Donors at CGCED meetings in March 1986 offered their support for structural adjustment in the context of a "tight consultative group" (TCG) process. AID is one of only four donors able to provide program assistance, and the proposed Structural Adjustment Support Program represents the U.S. input to the program assistance requirements of the TCG process.

The total $25 million in FY87, FY88, and FY89 ESF funds will be apportioned among the six countries of the OECS over the course of the three years. RDO/C will for each individual country program prepare a paper that conforms to PAAD-level analysis requirements and that sets forth the conditionality attached to that country program. PAAD-level country analyses are not feasible at this point and this paper is not intended to meet such requirements. In some ways, the SASP is analogous to RDO/C's cluster projects, such as HIAMP and IEMS. The actual apportionment of the SASP is difficult to predict at this time, also, because the TCG process is still in its infancy. RDO/C's determination of the use of the SASP on a country-by-country basis will be governed by a combination of (a) country demand, (b) other resource availability from IMF, IBRD, and other donors, and (c) RDO/C's analysis of country demand and analysis of the country's structural adjustment program.

* Antigua and Barbuda, Dominica, Grenada, St. Kitts-Nevis, St. Lucia, and St. Vincent and the Grenadines. Montserrat, a member of the OECS, is still a dependency.

Program Objectives

The objective of providing this program assistance to the OECS states is to support their attempts, through medium-term structural adjustment programs, to increase economic growth rates and to move toward "creditworthiness." Under the SASP, RDO/C will provide such program assistance on a country-by-country basis as RDO/C deems necessary, to supplement resources available for program assistance from the World Bank, the IMF, and perhaps the Caribbean Development Bank, in the context of the "tight consultative group" process. (As part of that TCG process, RDO/C and other donors will also be assisting through provision of carefully planned and coordinated project assistance.) In some cases, such as Dominica, RDO/C's SASP resources will most likely be applied after the multilateral donors have essentially agreed with the government on a medium-term structural adjustment program for the country. In other cases, such as Grenada, RDO/C's SASP resources will be used at an earlier stage as a bridge to ensure that the country moves rapidly to gain access to World Bank and IMF resources. This latter use is important, because under current plans, the multilateral donors will only be able to assist the OECS countries to develop structural adjustment programs in sequence over the next 18 to 24 months. Thus, RDO/C intends to use the SASP solely within the context of the TCG process.

The nature of the TCG process, which will be the critical factor in RDO/C's decisions on the use of program assistance to the OECS over at least the next three years, argues strongly against following normal AID procedures in preparing program documentation for AID/W approval and for a "cluster approach" to program assistance that would delegate approval authority to the Mission.

First, if AID can demonstrate to the OECS leadership that AID has committed a certain amount of funds (subject to availability, of course) to support the OECS commitment to structural adjustment, this will demonstrate strong USG support for what will clearly be painful attempts to improve financial creditworthiness. In stating this broad commitment, RDO/C would make it clear that actual use of funds would be on a case-by-case basis and would be contingent on recipient performance and on AID's assessment of the viability of the proposed medium-term structural adjustment program.

Second, RDO/C must have the flexibility implicit in a "cluster approach" to program assistance if the TCG is to work. As the multilateral agencies work with other donors and with a potential recipient of program assistance to define a medium-term structural adjustment program, RDO/C will be closely involved in the process. The Mission must be able to react rapidly, within AID/W and other US policy guidelines, to develop a program of support for a particular country's structural adjustment efforts. If the Mission has to forego the proposed "cluster approach," and instead approach AID/W with a full set of documentation to be approved in AID/W for each country program, Mission believes that the usefulness of the TCG approach will be severely undermined. The "cluster approach" will enable us to (a) work with the various parties while they are preparing a particular country's structural adjustment program, (b) rapidly determine how RDO/C can best fit into that program (including both program or project assistance), (c) develop conditionality we believe important to the success of the program, and (d) begin to disburse when necessary.

Third, the amount of funds to be disbursed per country under the SASP are so small, both in terms of AID program assistance worldwide and in terms of RDO/C's program in the Eastern Caribbean, that Mission does not believe that the regular "concept paper plus PAAD" review in AID/W in each country case would be an efficient use of Mission resources.

The funds made available to a given country under the Structural Adjustment Support Program will provide budgetary support to that country as it changes elements of public sector economic management to better stimulate growth. With the assumption that improved economic performance will better enable governments to attain creditworthiness, the funds provided under the Structural Adjustment Support Program should be viewed as tangible US support for Eastern Caribbean creditworthiness. Inasmuch as other program assistance available under the TCG process (i.e., from the IMF and IBRD) will be provided on a loan basis, albeit on very concessional terms, RDO/C proposes to keep options open. RDO/C will in each case we propose a country program under the SASP analyze whether the country in question can service loan terms. If RDO/C determines that loan terms would be unduly burdensome, the country program will be obligated as a grant.

Conditionality attached to the various single-country subprograms under the Structural Adjustment Support Program will (a) require country adherence to specific fiscal guidelines, and/or (b) require changes in a country's overall economic management policy set. Conditionality will not require country adherence to conditionality imposed by any other donor, although the USG participation in a "tight consultative group" process means that our conditionality is aimed at problems or constraints that the donors as a group have identified in a more comprehensive manner.

Program Setting

OECS Financial Problems

Virtually all the OECS countries are faced with large public sector financing gaps over the medium term (see Tables 1.G, 1.H, and 1.I.) Beyond their public sector investment program requirements, largely financed by external sources on concessional terms, there are financing requirements on both recurrent and capital sides of their budgets. Growth of public sector recurrent spending has exceeded GDP growth in the OECS, but budget revenues have been unable to keep up with expenditure growth, partly a result of the effect of a sluggish world economy on these very small, very open economies. Concommitant borrowing, although generally on concessional terms, has resulted in ever-increasing debt service burdens. OECS economic dependence on primary export crop earnings, and those largely from uncertain or failing markets, have combined to point up the need for structural adjustment to beget economic diversification.

Although public savings in most of the OECS have improved over the past year, it is unlikely that sufficient savings will be generated to cover capital expenditures and net lending unless governments take serious measures in fiscal management. Even a cursory examination of public finances in the OECS states shows that most of the revenue systems are quite complex and have not been structured in a manner that provides the best incentives to private sector development, particularly for export. Such an examination also reveals that expenditure budgeting systems are not well developed and that there is little planning for the future implications of current actions taken by government. Given the significant unemployment situation in most of the OECS states, governments are loath to pare recurrent or capital expenditures unless the alternative private sector jobs are clearly available. Consequently, to tackle the public savings problem will require a concerted effort, and will require some external support if governments are to be able to carry out the necessary reforms that (a) provide as much incentive as possible for private sector-led economic growth, (b) enable government to take advantage of this growth to cover carefully considered government costs.

Origins of the "Tight Consultative Group" Solution

A recent OECS/EAS paper (of which more below) proposed that a program assistance facility be set up by the donors and calculated that the overall OECS consolidated public sector financing gap would be between US$ 24-25 million in each year from 1987-1989, or a total of about US$ 75 million. (For RDO/C's estimated of the financing gap, see Tables 1.G through 1.I, below.) In 1987-89, the Structural Adjustment Support Program will provide US$ 25 million to help fill this gap, with possible additional funding in 1989. The IMF's "Structural Adjustment Facility" appears able to contribute about another US$ 15 million of that total. IDA VIII will enable IBRD to contribute an additional estimated US$ 25 million of that amount. These three contributors will therefore go far toward filling the total gap estimated by the OECS/EAS.

That the OECS must develop medium-term structural adjustment programs if their economies are to experience sustainable long-term growth was the consensus view of OECS delegates to the Caribbean Group for Cooperation in Economic Development (CGCED) Ad Hoc Advisory Committee meeting in St. Lucia in March 1986. The consensus view among the donor delegations to the same meeting was that the donor community would assist in any way possible to support design and implementation of such programs. Among the donors, none has mechanisms to provide program assistance except for the USG, the IBRD, the IMF, and possibly the CDB. Those unable to provide program assistance, however, were firm in their commitment to provide any commodity assistance or project assistance deemed necessary to the success of any structural adjustment program initiated by an OECS state.

This consensus view emerged after about a year's discussion at various CGCED and other fora on the best means to provide structural adjustment assistance to the OECS states. An earlier version of the proposal, conceived by the OECS states and developed by them in concert with their Economic Affairs Secretariat (OECS/EAS) in Antigua, would have created a pool of funds available for individual OECS state drawdown over a five-year period. The funds would have covered public sector cash requirements for (a) debt repayment and (b) local counterpart to public sector investment programs. A concept paper was developed by OECS/EAS for that proposal and the paper tabled for discussion at a special meeting in Washington just prior to the March 1986 St. Lucia CGCED meetings. Although donors were virtually unanimous in their approval of OECS commitments to structural adjustment, the concept as then fashioned was deemed unworkable for several reasons. Most bilateral donors had no mechanism for providing program assistance. Neither the IMF nor the IBRD was able to join a pool of funds unless it had control over the pool. Consequently, the USG was unwilling to participate as a lone funder in such a proposal.

At the March 1986 CGCED meeting, delegates discussed an alternative to the OECS/EAS proposal, and that alternative has been dubbed the "tight consultative group" (TCG) process. Under the TCG process, important donors and the recipient country will meet to determine the best mix of assistance to support the country in its structural adjustment aims. The first step in the process is the development of a medium-term structural adjustment program by any interested OECS state, with the assistance of the IBRD, the IMF, and interested donors. Once a program is developed that is satisfactory to the country in question, then the IMF, the IBRD, and the donors will consider the merits of the program. (In point of fact, donors and recipients will conduct their reviews simultaneously.) If the program is satisfactory to the IMF, the country will have access to the new "Structural Adjustment Facility." If it is satisfactory to the IBRD, the country will have access to IDA VIII (and in Dominica's case, IDA VII) funds. If it is satisfactory to donors, individually or in a group, the country will have access to project assistance. Interested donors and the country in question will meet in a "tight consultative group" on a regular (perhaps yearly) basis to discuss (a) donor funding for the structural adjustment program and (b) the country's performance under the program. Country performance will be a strong factor in donors' decisions on whether to continue to support the program in that country. The important point about the TCG is not so much resource additionality, which may or may not occur, but enhanced efficiency in the use of external resources through a comprehensive, thoughtful process.

The USG position on the TCG process, cabled from Washington agencies to the US delegation at the March 1986 CGCED meetings, was one of very strong support for this multidonor approach to development in the OECS. The LAC Bureau's position during RDO/C's AAP review in late March 1986 was to proceed with the Structural Adjustment Support Program in the context of the TCG process.

The "Tight Consultative Group" Process

The TCG concept is still evolving, but it holds promise as an effective means of focusing program and project assistance on structural adjustment problems in the OECS. The focusing of resources should greatly enhance the efficiency of their use in bringing about structural adjustment. Our current understanding of the TCG concept, and what appears to be its composition, is set out below.

(A) Tight Consultative Group Approach. CGCED donors and recipients have agreed, in principle, on a "tight consultative group" approach to coordinating structural adjustment programs in OECS states. For OECS countries interested in embarking on structural adjustment programs that make use of the IMF and World Bank program assistance, the TCG would likely replace the CGCED subgroup meetings held heretofore. The TCG is envisioned as a "tight" group in that participating donors would be limited to those that are actively and financially contributing program or project assistance to the structural adjustment program in the OECS state in question. In addition to the IMF and itself, the World Bank expects the US (as the only other donor able to provide program assistance) to participate in and be guided by the TCG in its decisions on not only program assistance but also project assistance to the OECS state in question. The World Bank also is looking forward to the participation in the TCG by those bilateral donors who expressed their inability to participate in the program assistance inherent in the Eastern Caribbean Development Facility, but who said that they would strongly support structural adjustment efforts in the OECS in any other way they could. The TCG approach promises to better focus external assistance to the OECS states, although it also potentially entails something of a loss of flexibility in deciding what projects to either continue or initiate.

(B) Medium-term Structural Adjustment Programs. In order to gain and maintain access to the resources available under the TCG approach, a country will have to agree to a medium-term (three-year) structural adjustment program. The MTSAP, as presently envisioned, will contain relatively clear-cut targets for the ensuing year and less clearly defined ones for remaining years in the program. The IMF, World Bank, and the recipient country--and presumably other donors participating in the TCG--will all have to agree on the program. The World Bank has offered to assist any country that so wishes to design the MTSAP. In the case of Dominica, the World Bank and the IMF fielded teams in May to begin working on that program. In early June, negotiations to finalize that program were underway.

(C) Structural Adjustment Facility. IMF has decided to make trust fund reflows (about USDOLS 2.7 billion) available to IDA-eligible LDCs worldwide on very concessional terms in a "Structural Adjustment Facility" (SAF). Funds equivalent to 20 percent of (IMF) quota would be available in the first year, with 13.5 percent in each of two subsequent years. A total of about SDR 15 million, equivalent to 47.5 percent of the sum of OECS quotas, would be available to the OECS states as a whole over the three-year period. The funds would be loaned at 0.5 percent interest, with 5-year grace periods and another 5 years to repay. Access by a given country to its share of the funds would be contingent on IMF and World Bank determination that that country has a "sound macroeconomic framework" in place and on that country's having agreed with the World Bank and the IMF on a medium-term (three-year) structural adjustment program. Performance targets would be more like World Bank conditionality than the strict quantitative targets imposed by the IMF in its normal stabilization facilities. IMF Board approved the SAF program in late March 1986, and expects the first disbursement under the program, to Dominica, in July 1986.

(D) IDA VIII Program Assistance. World Bank has decided, pending Board approval and pending the reinstatement of OECS countries as IDA-eligible, to make that amount of IDA VIII that will go to the OECS countries available for program (as opposed to project) assistance. According to rough estimates, that might amount to $20-25 million over the IDA VIII period (July 1987-June 1990). As part of the impending OECS "graduation" from IDA, these funds would not be solely IDA, but would be mixed with regular IBRD resources, thus implying loan terms somewhat less concessional than those under the IMF SAF program. Again, access to these resources by any country would be contingent on IMF and World Bank determination that that country has a "sound macroeconomic framework" in place and on that country's having agreed with the World Bank and the IMF on a medium-term (three-year) structural adjustment program. As an interim experiment, the World Bank has indicated to Dominica its willingness to take $2 million of the World Bank's $5 million IDA contribution to the Dominica hydroelectric project and apply it to Dominica as program assistance. The $2 million is from IDA VII and would be available once all parties agree on a structural adjustment program for Dominica and once the World Bank's Board approves the loan. Current estimates put disbursement in early 1987.

(E) Donor participation in program analysis and design. The World Bank has suggested that interested donors may wish to participate in the analysis and design work on the MTSAP. The World Bank's current thinking on this involvement is to have donors participate in the analysis of the public sector investment program (PSIP), with interested donors carrying out analysis in their particular sector of interest and expertise, if the recipient country does not object. In the Dominica case, the IBRD invited other donors to participate and RDO/C funded one of the PSIP analysts. An RDO/C economist also has attended some of the joint donor-recipient meetings discussing the draft MTSAP.

According to World Bank officials, the World Bank is tentatively thinking of the following order of implementation of the TCG concept: Dominica, St. Vincent, St. Lucia, Antigua, and St. Kitts. The World Bank has not yet decided where Grenada would appear on this list. The list is based upon dealing with "easier" cases first. The World Bank has indicated that between now and the end of this calendar year they will be able to design MTSAPs for only two states. Next year, another two (or perhaps three) would be done.

RDO/C has its own policy agenda in Dominica, and that agenda will guide our assistance under this and any other program assistance provided that Government. However, RDO/C is eager not to have any conflicts between the conditionality we propose under the program assistance that is the subject of this paper and program assistance that flows out of the TCG approach, and we intend therefore to continue to maintain close contacts with the World Bank and the IMF during our period of negotiation with the GOCD. We do not foresee problems, but want to ensure that none develop. As a consequence of accidents of timing and because the funds under this program assistance are urgently needed in Dominica, RDO/C expects that conditionality negotiations will continue up to the signing of the Grant Agreement. RDO/C will maintain frequent contact with relevant AID/W parties to ensure that we all have a common understanding of the conditionality that evolves into that in the Grant Agreement.

Program Description

Introduction

Fiscal and other macroeconomic conditions differ greatly among the six countries of the OECS. ((here footnote the six)) Dominica and St. Vincent have perhaps the soundest fiscal situations, while Grenada and St. Kitts have among the worst. St. Lucia, carefully managed for several years, has begun to evince cracks suggesting fiscal problems. Antigua, with huge external debt management problems, merits special attention. Although it is possible to describe the likely size of fiscal and balance of payments gaps in each of the OECS states over the 1987-88 period, it is beyond the scope of this concept paper to determine how the funds proposed under this Structural Adjustment Support Program will be distributed among the OECS states. The Mission's inability to be more precise at this time stems from the newness of the TCG process. First, it is difficult to be sure in what sequence individual OECS states will gain access to the various program assistance facilities. Second, it is difficult to tell what the precise funding requirements under each country's participation will be.

On the other hand, this concept paper can point with somewhat more precision to the areas of policy reform that the Mission believes are of primary importance in each OECS state. Consequently, although the fiscal analyses that follow discuss each country separately, the decision on distribution of resources will largely follow the progress of the TCG process. (See Annex B for our current understanding of the process and its timetable.) The analysis of policy reforms that follows the gap analyses, however, does provide a series of benchmarks for policy changes in each state. It must be clear, however, that the policy agenda will expand, be refined, and likely change as more precise analysis is prepared on each of the six states in conjunction with the TCG process.

Public Sector Finances, 1986-90

OECS Totals

RDO/C's preliminary calculation of the fiscal gap for the OECS states as a whole is contained in Table 1. For the 1987-89 period, that gap is likely to be about US$ 100 million, the total of the gaps for the five states under the "optimistic scenario" and excluding St. Vincent, which appears to have surpluses throughout the period (see Table 1.I.) Under the "pessimistic scenario," the gap is significantly larger, on the order of US$ 170 million. If the optimistic scenario obtains, RDO/C estimates that all the OECS governments except St. Kitts and possibly Dominica will be able to cover their overall spending requirements by 1990. For that reason, the OECS states must concentrate their efforts to realize the optimistic scenario, if "creditworthiness" is to be attained by the beginning of the next decade.

Even under the optimistic scenario, the gap will be difficult to fill. RDO/C's calculations of the gaps for each state are for the central government alone, and exclude savings (positive or negative) of the remainder of the public sector. Very roughly, non-financial public sector enterprises and national insurance schemes can be expected to provide about US$ 20 million or so for the 1987-89 period. However, these domestic savings should be very carefully used, especially national insurance scheme surpluses, and put into productive investment that can repay the sources of funds in a timely manner.

If domestic savings can cover about one quarter of the gaps, external sources may be able to provide most of the balance. Our information on the funds available under the multilateral facilities connected with the TCG for the 1987-89 period is that the IDA VIII funds will amount to about US$ 20-25 million, and that the IMF Structural Adjustment Facility funds will be about US$ 15 million. Assuming that AID can provide US$ 25 million in the 1987-89 period, this will fill two thirds of the remaining gap. The biggest problem appears to be Antigua, and neither the IBRD nor AID can be expected to fully cover their past excesses.

However, the distribution of the financing gap for the 1987-89 period for the OECS states under the optimistic scenario, and the country-specific nature of some of the means of financing (such as the IMF's SAF), make aggregation less than useful. Antigua contributes to over 50 percent of the gap, St. Vincent has surpluses, and St. Lucia's contribution is negligible. St. Kitts is responsible for 23 percent of the gap, Grenada for about 16 percent, and Dominica for about 10 percent. On the other hand, domestic financing in St. Lucia and St. Vincent cannot be used to fill gaps in other OECS states, and IMF allocations to those two countries cannot be used elsewhere if those two countries do not need them. Thus, though the totality of resources may be sufficient to cover the overall financing gap in the OECS, the resources are not fungible and some countries may be left with unfinanced gaps even if they actually meet the requirements of the optimistic scenario.

RDO/C does not believe that the resources available under IDA VIII and this SASP should be allocated according to the individual country requirements in Table 1.I. To do so would essentially reward Antigua for its large debt arrears. Rather, we agree with the World Bank that funds should be allocated on the basis of not only requirements, but also willingness to take painful action to reduce deficits.

The major difference between the two scenarios in this concept paper is in the calculation of the recurrent side of the budgets of the OECS states. Generally speaking, if recurrent revenues can grow at the same rate as nominal GDP and if recurrent spending can be curbed and its growth held to the rate of price increases in the individual economies, public sector savings for the OECS states as a whole will be on the order of 6 percent of GDP vice the current 1 percent. Under the pessimistic scenario, on the other hand, the methodology assumes that revenues and expenditures will both grow at rates close to the nominal GDP growth rate, as has been the case in the early 1980s. RDO/C believes that the optimistic scenario is not unattainable, and that the fact that external donors are providing about two thirds of the financing requirements can be used to encourage the OECS governments to adjust their finances and their economies in such a way as to make that scenario attainable.

TABLE 1

CONSOLIDATED OECS FISCAL PROJECTIONS

Table 1.A Recurrent Balance/GDP Ratios: Optimistic Scenario

(percent)

	1984	1985	1986	1987	1988	1989	1990
OECS Totals	0.3	0.9	0.8	1.9	2.8	4.3	5.4
Antigua	-0.2	1.3	0.5	1.6	2.2	5.2	6.7
Dominica	.0	1.4	1.4	2.2	2.9	3.6	4.3
Grenada	1.6	0.7	0.4	1.4	2.3	3.2	4.0
St. Kitts	-4.3	-6.7	-10.3	-8.5	-6.8	-5.2	-3.6
St. Lucia	-0.2	1.2	2.6	3.9	5.2	6.4	7.5
St. Vincent	4.2	4.7	5.3	5.9	6.5	6.9	7.4

Source: Derived from individual country data, Tables 2-7

Table 1.B Recurrent Balance/GDP Ratios: Pessimistic Scenario

(percent)

	1984	1985	1986	1987	1988	1989	1990
OECS Totals	0.3	0.6	-0.4	-0.2	-0.3	0.4	0.6
Antigua	-0.2	1.3	-0.5	-0.5	-1.0	1.1	1.8
Dominica	.0	1.4	0.9	0.9	0.9	1.0	1.0
Grenada	1.6	0.7	0.4	0.4	0.5	0.5	0.5
St. Kitts	-4.3	-6.8	-10.5	-9.6	-9.1	-8.6	-8.1
St. Lucia	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1
St. Vincent	4.2	4.3	4.3	4.4	4.4	4.4	4.5

Source: Derived from individual country data, Tables 2-7

Table 1.C Recurrent Balance: Optimistic Scenario

(EC dollars, except where noted)

	1984	1985	1986	1987	1988	1989	1990
OECS Totals	6.1	17.9	15.9	40.5	63.8	105.0	140.2
Antigua	-0.7	6.4	2.8	9.1	12.8	32.9	45.4
Dominica	0.1	3.3	3.4	5.7	8.1	10.6	13.3
Grenada	3.8	1.7	1.1	4.1	7.4	11.0	14.9
St. Kitts	-7.5	-12.4	-20.1	-17.5	-14.8	-11.9	-8.7
St. Lucia	-0.8	5.4	12.2	19.5	27.3	35.8	44.9
St. Vincent	11.2	13.5	16.4	19.6	23.0	26.6	30.5
U.S. Dollars	2.3	6.6	5.9	15.0	23.6	38.9	51.9

Source: Derived from individual country data, Tables 2-7

Table 1.D Recurrent Balance: Pessimistic Scenario

(EC dollars, except where noted)

	1984	1985	1986	1987	1988	1989	1990
OECS Totals	6.1	10.6	-7.1	-4.8	-6.2	8.4	14.9
Antigua	-0.7	6.4	-2.8	-2.7	-5.8	7.0	11.5
Dominica	0.1	3.3	2.2	2.4	2.6	2.8	3.0
Grenada	3.8	1.7	1.1	1.3	1.5	1.7	1.9
St. Kitts	-7.5	-12.4	-20.1	-19.3	-19.1	-18.8	-18.5
St. Lucia	-0.8	-0.8	-0.7	-0.7	-0.6	-0.6	-0.5
St. Vincent	11.2	12.3	13.2	14.2	15.2	16.3	17.5
U.S. Dollars	2.3	3.9	-2.6	-1.8	-2.3	3.1	5.5

Source: Derived from individual country data, Tables 2-7

Table 1.E Amortization: Both Scenarios

(EC dollars, except where noted)

	1984	1985	1986	1987	1988	1989	1990
OECS Totals	-46.8	-61.0	-64.3	-92.1	-135.3	-98.8	-99.9
Antigua	-21.7	-15.9	-18.9	-43.5	-81.5	-40.8	-40.8
Dominica	-6.2	-6.2	-6.8	-7.8	-9.7	-10.3	-9.5
Grenada	-17.0	-25.1	-24.0	-23.2	-23.5	-23.8	-20.8
St. Kitts	-1.9	-2.4	-2.4	-2.4	-2.4	-2.7	-2.7
St. Lucia	0.0	-5.1	-7.8	-10.5	-13.0	-16.5	-21.1
St. Vincent	0.0	-6.2	-4.3	-4.6	-5.1	-4.9	-5.1
U.S. Dollars	-17.3	-22.6	-23.8	-34.1	-50.1	-36.6	-37.0

Source: Derived from individual country data, Tables 2-7

Table 1.F Local Capital Formation: Both Scenarios

(EC dollars, except where noted)

	1984	1985	1986	1987	1988	1989	1990
OECS Totals	-61.4	-49.3	-32.4	-38.2	-40.5	-48.6	-46.6
Antigua	-10.4	-10.9	-4.8	-6.8	-8.3	-9.3	-10.2
Dominica	-15.4	-13.0	-5.1	-10.0	-9.5	-14.9	-10.0
Grenada	-13.6	-14.0	-5.0	-3.3	-3.5	-3.6	-3.8
St. Kitts	0.0	0.0	-4.2	-3.2	-3.2	-3.2	-3.2
St. Lucia	-19.1	-6.9	-7.2	-7.8	-8.0	-8.1	-8.3
St. Vincent	-2.9	-4.5	-6.1	-7.2	-8.1	-9.5	-11.1
U.S. Dollars	-22.7	-18.2	-12.0	-14.2	-15.0	-18.0	-17.3

Source: Derived from individual country data, Tables 2-7

Table 1.G Overall Balance: Optimistic Scenario

(EC dollars, except where noted)

	1984	1985	1986	1987	1988	1989	1990
OECS Totals	-102.9	-94.0	-84.1	-93.8	-115.9	-42.4	-6.3
Antigua	-32.8	-20.4	-20.9	-41.1	-77.0	-17.1	-5.6
Dominica	-22.3	-17.5	-9.0	-12.1	-11.1	-14.5	-6.2
Grenada	-26.8	-37.4	-27.9	-22.4	-19.5	-16.4	-9.8
St. Kitts	-9.4	-14.8	-26.7	-23.1	-20.5	-17.8	-14.6
St. Lucia	-19.9	-6.6	-5.6	-2.9	2.4	11.2	15.6
St. Vincent	8.3	2.7	6.0	7.8	9.8	12.3	14.3
U.S. Dollars	-38.1	-34.8	-31.1	-34.8	-42.9	-15.7	-2.3

Source: Derived from individual country data, Tables 2-7

Table 1.H Overall Balance: Pessimistic Scenario

(EC dollars, except where noted)

	1984	1985	1986	1987	1988	1989	1990
OECS Totals	-102.9	-101.3	-107.0	-139.1	-185.9	-139.0	-131.6
Antigua	-32.8	-20.4	-26.5	-53.0	-95.6	-43.0	-39.5
Dominica	-22.3	-17.5	-10.2	-15.4	-16.6	-22.4	-16.5
Grenada	-26.8	-37.4	-27.9	-25.2	-25.5	-25.7	-22.7
St. Kitts	-9.4	-14.8	-26.7	-24.9	-24.7	-24.7	-24.4
St. Lucia	-19.9	-12.8	-18.5	-23.0	-25.6	-25.2	-29.9
St. Vincent	8.3	1.6	2.8	2.4	2.0	2.0	1.3
U.S. Dollars	-38.1	-37.5	-39.6	-51.5	-68.9	-51.5	-48.8

Source: Derived from individual country data, Tables 2-7

Table 1.I Financing the 1987-89 Fiscal Gaps

(EC dollars, except where noted)

	Fiscal Gap		Domes-				
	EC$	US$	tic	IMF	Gap	IBRD	AID
OECS Totals	295.5	109.4			77.8	25.0	25.0
Antigua	135.2	50.1	7.8	2.4	39.9		
Dominica	37.7	14.0	4.8	1.9	7.3		
Grenada	58.3	21.6	6.0	2.8	12.8		
St. Kitts	61.4	22.8	2.9	2.1	17.8		
St. Lucia	2.9	1.1	1.1	3.6	N/A		
St. Vincent	-0-	-0-	N/A	1.9	N/A		

Antigua and Barbuda

If Antigua is able to follow the optimistic scenario set forth in Table 2.A, the GOAB will be able to gradually turn what is currently an overall budget deficit into a surplus equivalent to nearly 10 percent of GDP by 1990. The optimistic scenario assumes that the GOAB not only holds expenditure increases down to the rate of price increase in the economy, but that the revenue/GDP ratio is allowed to grow slowly by half a percentage point per year during the period. The biggest problem facing the government in the latter half of the 1980s will be making amortization and principal payments on debt and covering past arrears. The GOAB has stated its intention of distributing its arrears payments out over a nine-year period. The overall debt service burden is currently about one quarter of total government revenues, is expected to rise to about one half of revenues in 1988, and to fall to about one fifth of revenues in 1990, assuming no massive additions to the debt.

The GOAB's revenue/GDP ratio is among the lowest in the OECS, which suggests that there may be room for increasing revenues without creating serious disincentives to economic growth. If the GOAB decides to raise revenues, it should be done carefully and after careful study determines what the most efficient way of doing this is.

A serious problem in Antigua, as noted elsewhere in this paper, is that there exist no systems in government to connect spending today on capital projects with availability in future of funds to service the debt incurred in carrying out the projects. RDO/C is at the moment analyzing the matter with the GOAB and will push to have the GOAB install such systems. If the GOAB continues to take on debt at the rate they have over the past few years, even the somewhat grim scenario in the table could well be too optimistic.

TABLE 2

ANTIGUA AND BARBUDA FISCAL PROJECTIONS

Table 2.A Optimistic Scenario

(EC dollars; percent)

GDP GROWTH IS....................	5 PERCENT
INFLATION IS.....................	2 PERCENT
ANNUAL CHANGE IN REVENUE/GDP IS..	0 PERCENTAGE POINTS
ANNUAL CHANGE IN EXPENDITURE IS..	2 PERCENT
ANNUAL CHANGE IN LOCAL PSIP IS...	PERCENT

	1984	1985	1986	1987	1988	1989	1990
GDP (P84)	425.5	452.3	475.0	498.7	523.6	549.8	577.3
PRICE INDEX	100.0	107.0	109.1	111.3	113.5	115.8	118.1
GDP (PCURR)	425.5	484.0	518.4	555.2	594.6	636.8	682.0
REVENUE/GDP	23.5	26.8	26.8	26.8	26.8	26.8	26.8
REVENUE*	100.1	129.8	139.0	148.9	159.5	170.8	182.9
EXPENDITURES*	100.8	123.4	136.2	139.8	146.6	137.8	137.5
CURRENT BALANCE	-0.7	6.4	2.8	9.1	12.8	32.9	45.4
AMORTIZATION***	-21.7	-15.9	-18.9	-43.5	-81.5	-40.8	-40.8
PSIP LOCAL**	-10.4	-10.9	-4.8	-6.8	-8.3	-9.3	-10.2
OTHER OBLIGATIONS							
BALANCE	-32.8	-20.4	-20.9	-41.1	-77.0	-17.1	-5.6

Table 2.B Pessimistic Scenario

GDP GROWTH IS....................	4 PERCENT
INFLATION IS.....................	2 PERCENT
ANNUAL CHANGE IN REVENUE/GDP IS..	0 PERCENTAGE POINTS
ANNUAL CHANGE IN EXPENDITURE IS..	6 PERCENT
ANNUAL CHANGE IN LOCAL PSIP IS...	PERCENT

	1984	1985	1986	1987	1988	1989	1990
GDP (P84)	425.5	452.3	470.4	489.2	508.8	529.2	550.3
PRICE INDEX	100.0	107.0	109.1	111.3	113.5	115.8	118.1
GDP (PCURR)	425.5	484.0	513.4	544.6	577.8	612.9	650.1
REVENUE/GDP	23.5	26.8	26.8	26.8	26.8	26.8	26.8
REVENUE*	100.1	129.8	137.7	146.1	154.9	164.4	174.4
EXPENDITURES*	100.8	123.4	140.5	148.8	160.7	157.4	162.9
CURRENT BALANCE	-0.7	6.4	-2.8	-2.7	-5.8	7.0	11.5
AMORTIZATION***	-21.7	-15.9	-18.9	-43.5	-81.5	-40.8	-40.8
PSIP LOCAL**	-10.4	-10.9	-4.8	-6.8	-8.3	-9.3	-10.2
OTHER OBLIGATIONS							
BALANCE	-32.8	-20.4	-26.5	-53.0	-95.6	-43.0	-39.5

* all on an accrual basis; amort from unpub'd IBRD exc 84 from 85 IMF
** derived from 85 IMF, assuming 85% externally financed for 87-90
*** from yet-unpub'd grey cover, and includes erasing arrears in 9 years

Dominica

Dominica faces potentially serious budgetary problems through 1989, even under the optimistic scenario. Although the recurrent balance is expected to be positive under either scenario, and although under the optimistic scenario public savings will rise to over 4 percent of GDP, the public sector's debt amortization requirements and local investment spending program will exceed central government recurrent savings through 1990. Thus, although savings of the rest of the non-financial public sector may ease the fiscal strain, the problem remains serious.

Government must, therefore, undertake to increase public savings. However, given Dominica's regionally high revenue/GDP ratios in 1984-85, and the potential for this to act to inhibit productive private sector activity, the government should also carefully examine the revenue system to ensure the best incentive structure in light of other financial constraints. We believe that there may be sound rationale, in terms of encouraging growth of the supply side of the economy, to reduce the revenue/GDP ratio. If this is the case, the government will be forced to work even harder to reduce expenditures in order to improve central government recurrent savings. Dominica's improved performance in terms of its fiscal position that has emerged under the encouragement of IMF programs over the past few years has come at the expense of increasing revenues rather than dramatic reductions in expenditures. Government may wish to examine the desirability of future reliance on this strategy.

Dominica's requirements for capital investment on the part of government are higher than in most other OECS states. This partly reflects the country's terrain, which is not hospitable to enhancing infrastructure sufficiently to attract or encourage private investment. At the same time, Dominica's debts consist largely of repurchases from the IMF to cover arrangements over the past four years. Thus, debt rescheduling to reduce its financing gap over the next few years is not a serious option for Dominica.

Dominica, as noted elsewhere in this paper, is the first candidate for use of the tight consultative group mechanism. At this writing, the IMF is discussing with the GOCD a program of fiscal changes over the next three years. RDO/C is preparing to inject some program assistance prior to the end of Dominica's 1985-86 fiscal year, also focusing on an examination of the fiscal system.

TABLE 3

DOMINICA FISCAL PROJECTIONS

(EC dollars; percent)

Table 3.A Optimistic Scenario

GDP GROWTH IS.................... 4 PERCENT
INFLATION IS..................... 2 PERCENT
ANNUAL CHANGE IN REVENUE/GDP IS.. -0.5 PERCENTAGE POINTS
ANNUAL CHANGE IN EXPENDITURE IS.. 2 PERCENT
ANNUAL CHANGE IN LOCAL PSIP IS... PERCENT

(fiscal year beginning July 1)

	1984	1985	1986	1987	1988	1989	1990
GDP (P84)	228.5	233.1	236.6	246.0	255.9	266.1	276.7
PRICE INDEX	100.0	102.0	104.0	106.1	108.2	110.4	112.6
GDP (PCURR)	228.5	237.7	246.1	261.1	277.0	293.8	311.7
REVENUE/GDP	32.6	35.4	34.9	34.4	33.9	33.4	32.9
REVENUE	74.6	84.1	85.8	89.8	93.8	98.1	102.5
EXPENDITURES	74.5	80.8	82.4	84.1	85.7	87.5	89.2
CURRENT BALANCE	0.1	3.3	3.4	5.7	8.1	10.6	13.3
AMORTIZATION*	-6.2	-6.2	-6.8	-7.8	-9.7	-10.3	-9.5
PSIP LOCAL*	-15.4	-13.0	-5.1	-10.0	-9.5	-14.9	-10.0
OTHER OBLIGATIONS*	-0.8	-1.6	-0.5				
BALANCE	-22.3	-17.5	-9.0	-12.1	-11.1	-14.5	-6.2

Table 3.B Pessimistic Scenario

GDP GROWTH IS.................... 3 PERCENT
INFLATION IS..................... 2 PERCENT
ANNUAL CHANGE IN REVENUE/GDP IS.. 0 PERCENTAGE POINTS
ANNUAL CHANGE IN EXPENDITURE IS.. 5 PERCENT
ANNUAL CHANGE IN LOCAL PSIP IS... PERCENT

(fiscal year beginning July 1)

	1984	1985	1986	1987	1988	1989	1990
GDP (P84)	228.5	233.1	236.6	243.7	251.0	258.5	266.3
PRICE INDEX	100.0	102.0	104.0	106.1	108.2	110.4	112.6
GDP (PCURR)	228.5	237.7	246.1	258.6	271.7	285.4	299.8
REVENUE/GDP	32.6	35.4	35.4	35.4	35.4	35.4	35.4
REVENUE	74.6	84.1	87.1	91.5	96.1	101.0	106.1
EXPENDITURES	74.5	80.8	84.8	89.1	93.5	98.2	103.1
CURRENT BALANCE	0.1	3.3	2.2	2.4	2.6	2.8	3.0
AMORTIZATION*	-6.2	-6.2	-6.8	-7.8	-9.7	-10.3	-9.5
PSIP LOCAL*	-15.4	-13.0	-5.1	-10.0	-9.5	-14.9	-10.0
OTHER OBLIGATIONS*	-0.8	-1.6	-0.5				
BALANCE	-22.3	-17.5	-10.2	-15.4	-16.6	-22.4	-16.5

* from ECDF paper

Grenada

Although at first blush Grenada appears to be in a relatively good position compared with some of its sister states in the OECS, this can only occur if Grenada holds down expenditures. As Table 4 shows, revenues amounted to about 35 percent of GDP in 1986. If this very high revenue/GDP ratio is gradually reduced, and if expenditure growth is held to the projected rate of inflation, we estimate that the ccentral government financing gap will nearly disappear in 1990.

However, we believe that this scenario will be difficult for government to follow for several reasons. First, current indications are that the GOG is reducing the revenue/GDP ratio even more rapidly than in Table 4's optimistic scenario, with no attendant evidence that this is being done specifically to encourage increased economic growth. Second, to keep expenditures flat in real terms will be very difficult given recent experience in Grenada. Government has made an informal commitment to attempt to keep the civil service wage bill flat in nominal terms, and this, if done, will certainly help meet this expenditure target. Third, the government must work at reducing -- rather than maintaining -- its economic participation in Grenada if private sector confidence is to grow.

The financing requirements in Table 4 show a calendar year 1987 gap of about US$ 7.6 million with only a negligible gap in 1990. However, these estimates take no account of the short-term emergency borrowing the government has felt compelled to engage in. If government does clear the bulk of these accounts to make way for borrowing by the private sector, the gap rises higher.

TABLE 4

GRENADA FISCAL PROJECTIONS

(EC dollars; percent)

Table 4.A Optimistic Scenario

GDP GROWTH IS....................	4.5 PERCENT
INFLATION IS....................	3 PERCENT
ANNUAL CHANGE IN REVENUE/GDP IS..	-0.5 PERCENTAGE POINTS
ANNUAL CHANGE IN EXPENDITURE IS..	3 PERCENT
ANNUAL CHANGE IN LOCAL PSIP IS...	5 PERCENT

	1984	1985	1986	1987	1988	1989	1990
GDP (P84)	242.3	249.6	258.3	269.9	282.1	294.8	308.0
PRICE INDEX	100.0	103.0	106.1	109.3	112.6	115.9	119.4
GDP (PCURR)	242.3	257.1	274.0	295.0	317.5	341.7	367.8
REVENUE/GDP	37.8	33.7	35.3	34.8	34.3	33.8	33.3
REVENUE*	91.6	86.6	96.8	102.7	109.0	115.6	122.6
EXPENDITURES*	87.8	84.9	95.7	98.6	101.5	104.6	107.7
CURRENT BALANCE	3.8	1.7	1.1	4.1	7.4	11.0	14.9
AMORTIZATION*	-17.0	-25.1	-24.0	-23.2	-23.5	-23.8	-20.8
PSIP LOCAL**	-13.6	-14.0	-5.0	-3.3	-3.5	-3.6	-3.8
OTHER OBLIGATIONS							
BALANCE	-26.8	-37.4	-27.9	-22.4	-19.5	-16.4	-9.8

Table 4.B Pessimistic Scenario

GDP GROWTH IS....................	3.5 PERCENT
INFLATION IS....................	3 PERCENT
ANNUAL CHANGE IN REVENUE/GDP IS..	0 PERCENTAGE POINTS
ANNUAL CHANGE IN EXPENDITURE IS..	6.5 PERCENT
ANNUAL CHANGE IN LOCAL PSIP IS...	5 PERCENT

	1984	1985	1986	1987	1988	1989	1990
GDP (P84)	242.3	249.6	258.3	267.3	276.7	286.4	296.4
PRICE INDEX	100.0	103.0	106.1	109.3	112.6	115.9	119.4
GDP (PCURR)	242.3	257.1	274.0	292.1	311.4	332.0	353.9
REVENUE/GDP	37.8	33.7	35.3	35.3	35.3	35.3	35.3
REVENUE*	91.6	86.6	96.8	103.2	110.0	117.3	125.0
EXPENDITURES*	87.8	84.9	95.7	101.9	108.5	115.6	123.1
CURRENT BALANCE	3.8	1.7	1.1	1.3	1.5	1.7	1.9
AMORTIZATION*	-17.0	-25.1	-24.0	-23.2	-23.5	-23.8	-20.8
PSIP LOCAL**	-13.6	-14.0	-5.0	-3.3	-3.5	-3.6	-3.8
OTHER OBLIGATIONS							
BALANCE	-26.8	-37.4	-27.9	-25.2	-25.5	-25.7	-22.7

* from Art. IV (Nov 85)

** 1984 from ECDF paper, 1985-87 from grey cover

St. Kitts-Nevis

As Table 5 indicates, St. Kitts will have very heavy budget financing needs over the 1986-90 period unless some drastic changes occur. If the changes do not occur, government will probably continue to borrow from the social security scheme, as it has in past years. The basic problem is that the central government takes in far less in tax and non-tax revenues than it spends on recurrent expenditures. Thus, even though the public sector investment program is largely covered by external sources and even though debt amortization payments are not burdensome by OECS standards (see Table 1.E, above), St. Kitts ends this decade with a large financing gap when most of the other states are in the black, according to the optimistic scenario.

A major problem affecting the recurrent balance is the nearly 30-percent wage increase granted the civil service in 1986. Although this was the first wage increase in 5 years, government could not support it. That wage increase alone accounts for the increase in the central government's recurrent deficit from EC$ 12 million in 1985 to EC$ 20 million in 1986 (or 10 percent of GDP). In 1985, the government wiped out its deficits (EC$ 19 million for the consolidated public sector) by borrowing almost the entire amount from the state-owned national bank (and therefore from the social security scheme), and borrowing the balance from the ECCB. At the same time, the nearly EC$ 50 million NACO sugar debt has gone unserviced. These are not characteristics of prudent financial management.

The World Bank has indicated that St. Kitts has far to go before they attain the "sound macroeconomic footing" which is a precondition to access to the "tight consultative group" process's financial facilities. At the same time, RDO/C is actively considering financing a major project in St. Kitts to boost production, primarily in tourism. The implications of that project for the government's financial position are not yet clear, but are currently under analysis. Conditionality will be included in the project agreement to ensure that the project does not add to the government's fiscal problems.

A major policy issue in St. Kitts, therefore, is whether the government has the will to set its financial house in order. There are some positive signs that the government is aware of its problems and wishes assistance in at least analysis of possible solutions. RDO/C's PMPP project has been approached by the government to provide technical assistance in program budgeting, and the government is developing a medium-term plan. Even if most of the nonfinancial public sector enterprises can turn what are now losses into profits, there is scant chance that this alone can significantly improve government's financial position. Improvements in central government revenues can contribute to solvency and should be carefully studied by the government. However, a critical issue facing government is its disproportionately large recurrent expenditure levels, and there is no alternative but to deal with this issue.

TABLE 5

ST. KITTS/NEVIS FISCAL PROJECTIONS

(EC dollars; percent)

Table 5.A Optimistic Scenario

GDP GROWTH IS....................	3.5 PERCENT
INFLATION IS....................	2 PERCENT
ANNUAL CHANGE IN REVENUE/GDP IS..	0.5 PERCENTAGE POINTS
ANNUAL CHANGE IN EXPENDITURE IS..	2 PERCENT
ANNUAL CHANGE IN LOCAL PSIP IS...	PERCENT

	1984	1985	1986	1987	1988	1989	1990
GDP (P84)	174.7	180.8	187.1	193.7	200.5	207.5	214.8
PRICE INDEX	100.0	102.0	104.0	106.1	108.2	110.4	112.6
GDP (PCURR)	174.7	184.4	194.7	205.5	217.0	229.1	241.8
REVENUE/GDP	25.6	23.6	25.7	26.3	26.8	27.3	27.8
REVENUE***	44.7	43.5	50.0	54.0	58.1	62.5	67.2
EXPENDITURES****	52.2	55.9	70.1	71.5	72.9	74.4	75.9
CURRENT BALANCE	-7.5	-12.4	-20.1	-17.5	-14.8	-11.9	-8.7
AMORTIZATION*	-1.9	-2.4	-2.4	-2.4	-2.4	-2.7	-2.7
PSIP LOCAL**			-4.2	-3.2	-3.2	-3.2	-3.2
OTHER OBLIGATIONS							
BALANCE	-9.4	-14.8	-26.7	-23.1	-20.5	-17.8	-14.6

Table 5.B Pessimistic Scenario

GDP GROWTH IS....................	2.5 PERCENT
INFLATION IS....................	2 PERCENT
ANNUAL CHANGE IN REVENUE/GDP IS..	0 PERCENTAGE POINTS
ANNUAL CHANGE IN EXPENDITURE IS..	4.5 PERCENT
ANNUAL CHANGE IN LOCAL PSIP IS...	PERCENT

	1984	1985	1986	1987	1988	1989	1990
GDP (P84)	174.7	179.1	183.5	188.1	192.8	197.7	202.6
PRICE INDEX	100.0	102.0	104.0	106.1	108.2	110.4	112.6
GDP (PCURR)	174.7	182.6	191.0	199.6	208.7	218.2	228.2
REVENUE/GDP	25.6	23.8	26.2	27.0	27.1	26.8	26.5
REVENUE***	44.7	43.5	50.0	54.0	56.5	58.4	60.4
EXPENDITURES****	52.2	55.9	70.1	73.3	76.6	80.0	83.6
CURRENT BALANCE	-7.5	-12.4	-20.1	-19.3	-20.1	-21.6	-23.2
AMORTIZATION*	-1.9	-2.4	-2.4	-2.4	-2.4	-2.7	-2.7
PSIP LOCAL**			-4.2	-3.2	-3.2	-3.2	-3.2
OTHER OBLIGATIONS							
BALANCE	-9.4	-14.8	-26.7	-24.9	-25.7	-27.5	-29.1

* apparently includes obligations on domestic debt; gen'ly jibes w/ Foster's
** from Foster paper data, but much lower than ECDF paper; incl. land loan & rev
*** includes net, not gross, utility revenues, and uses Foster data
**** 1984-86 figures are Foster's

St. Lucia

Under relatively optimistic assumptions about GDP growth (5 percent real growth), growth of recurrent expenditures (no real increases), and capital expenditures (very concessional funding for 85 percent of PSIP), the central government budget in St. Lucia appears healthy enough to have low deficits through 1987 and to turn a surplus in 1988 (see Table 6). Thus, even though government must make arrearage payments and make payments on a rising service burden on domestic and external debt, under the optimistic scenario external funding may not be required. Government should be able to borrow domestically or tap the surpluses of public sector enterprises to fill the gap.

However, the optimistic scenario may be unattainable if the government returns to the ways of the early 1980s, when deficits were much higher and inability to fund led to the borrowing and the arrearages. Government reportedly has borrowed excessively from the social security scheme and might repeat this indulgence. Under the pessimistic scenario, with much sharper increases in government spending, the deficits are unmanageable.

Government should explore options for altering the structure of revenues to determine whether revenues can be increased without acting as disincentives to production. Given the already high share of revenues in GDP, we believe that this may be difficult to effect. More promising would be tackling the expenditure side. The table now shows expenditures flat in real terms through 1988. This itself will be difficult, but government must find ways to further pare revenues.

Implicit in the expenditure data on St. Lucia in the table is no increases over the 1986-88 period in the civil service wage bill. Clearly, government must go even further to actually reduce spending from tax revenues on wages. One approach to this might be for government to consider reorganizing some of the service-providing departments so that they would charge user fees to defray part or all of their operating expenses. If government is willing to take this step, donors should be prepared to assist with concessional funding to cover the short-term costs of such a move.

TABLE 6

ST. LUCIA FISCAL PROJECTIONS

(EC dollars; percent)

Table 6.A Optimistic Scenario

GDP GROWTH IS....................	5 PERCENT
INFLATION IS.....................	1.5 PERCENT
ANNUAL CHANGE IN REVENUE/GDP IS..	0 PERCENTAGE POINTS
ANNUAL CHANGE IN EXPENDITURE IS..	1.5 PERCENT
ANNUAL CHANGE IN LOCAL PSIP IS...	2 PERCENT

(FISCAL YEAR BEGINNING APRIL 1)

	1984	1985	1986	1987	1988	1989	1990
GDP (P84)	408.4	428.8	450.3	472.8	496.4	521.2	547.3
PRICE INDEX	100.0	101.5	103.0	104.6	106.1	107.7	109.3
GDP (PCURR)	408.4	435.3	463.9	494.4	526.9	561.5	598.4
REVENUE/GDP	30.1	30.1	30.1	30.1	30.1	30.1	30.1
REVENUE	123.1	131.2	139.8	149.0	158.8	169.3	180.4
EXPENDITURES	123.9	125.8	127.6	129.6	131.5	133.5	135.5
CURRENT BALANCE	-0.8	5.4	12.2	19.5	27.3	35.8	44.9
AMORTIZATION**		-5.1	-7.8	-10.5	-13.0	-16.5	-21.1
PSIP LOCAL*	-19.1	-6.9	-7.2	-7.8	-8.0	-8.1	-8.3
OTHER OBLIGATIONS***			-2.7	-4.0	-4.0		
BALANCE	-19.9	-6.6	-5.6	-2.9	2.4	11.2	15.6

Table 6.B Pessimistic Scenario

GDP GROWTH IS....................	4 PERCENT
INFLATION IS.....................	1.5 PERCENT
ANNUAL CHANGE IN REVENUE/GDP IS..	0 PERCENTAGE POINTS
ANNUAL CHANGE IN EXPENDITURE IS..	5.5 PERCENT
ANNUAL CHANGE IN LOCAL PSIP IS...	2 PERCENT

(FISCAL YEAR BEGINNING APRIL 1)

	1984	1985	1986	1987	1988	1989	1990
GDP (P84)	408.4	424.7	441.7	459.4	477.8	496.9	516.8
PRICE INDEX	100.0	101.5	103.0	104.6	106.1	107.7	109.3
GDP (PCURR)	408.4	431.1	455.1	480.4	507.1	535.3	565.0
REVENUE/GDP	30.1	30.1	30.1	30.1	30.1	30.1	30.1
REVENUE	123.1	129.9	137.2	144.8	152.8	161.3	170.3
EXPENDITURES	123.9	130.7	137.9	145.5	153.5	161.9	170.8
CURRENT BALANCE	-0.8	-0.8	-0.7	-0.7	-0.6	-0.6	-0.5
AMORTIZATION**		-5.1	-7.8	-10.5	-13.0	-16.5	-21.1
PSIP LOCAL*	-19.1	-5.9	-7.2	-7.8	-8.0	-8.1	-8.3
OTHER OBLIGATIONS***			-2.7	-4.0	-4.0		
BALANCE	-19.9	-12.8	-18.5	-23.0	-25.6	-25.2	-29.9

* 1985-87 from Grey Cover 85; 1984 from Oct 85 Art IV
** converted from US$ data in ECDF proposal
*** from ECDF proposal

St. Vincent and the Grenadines

St. Vincent is in the best financial position of any OECS state for the 1986-90 period, by RDO/C's calculations. If government can hold its current expenditure increases to the same real level as 1984-85 for the balance of the decade, and if recurrent revenues reduce gradually as a share of GDP, then the central government's recurrent balance will easily cover its capital obligations for the period, including both capital formation and amortization of debt. In fact, in 1990 according to this scenario, government's overall balance will be approximately what the recurrent balance is projected to be for 1985. If this optimistic scenario is not realized, St. Vincent appears to be able to cover financing requirements even in the pessimistic scenario. None of the other OECS states, according to RDO/C's scenarios, has this luxury.

St. Vincent is able to do this partly by the government's assumption (and rescheduling) of the country's sugar industry debt. Government is also in an enviable financial position coming into the mid-1980s, largely a result of the current government's resolve in holding down recurrent expenditures since it took office in mid-1984. The nonfinancial public sector, furthermore, is on the whole able to cover its recurrent expenditures. This also is due in part to pricing and other policies introduced by the current government.

A major problem facing St. Vincent is its high level of unemployment. Clearly the economy needs to be producing more, or more efficiently, in order to fully employ its resource base. Our understanding is that St. Vincent will be the second of the OECS states to take advantage of the "tight consultative group" mechanism to access external assistance funding. Preliminary indications are that the World Bank will explore the feasibility of providing assistance to the agriculture sector to reach greater employment of resources, and that the World Bank will look at a sectoral structural adjustment loan to St Vincent. RDO/C will further assess the desirability of that focus alone, and intends to try to determine whether the government can restructure its revenue system (perhaps lowering the revenue/GDP ratio more rapidly) to assist in encouraging higher economic growth rates and consequently greater utilization of resources.

TABLE 7

ST. VINCENT/GRENADINES FISCAL PROJECTIONS

(EC dollars; percent)

Table 7.A Optimistic Scenario

GDP GROWTH IS....................	4.5 PERCENT
INFLATION IS....................	3 PERCENT
ANNUAL CHANGE IN REVENUE/GDP IS..	-0.5 PERCENTAGE POINTS
ANNUAL CHANGE IN EXPENDITURE IS..	3 PERCENT
ANNUAL CHANGE IN LOCAL PSIP IS...	PERCENT

(fiscal year begin ing July 1)

	1984	1985	1986	1987	1988	1989	1990
GDP (P84)	267.0	277.3	289.8	302.9	316.5	330.7	345.6
PRICE INDEX	100.0	103.0	106.1	109.3	112.6	115.9	119.4
GDP (PCURR)	267.0	285.7	307.5	330.9	356.2	383.4	412.7
REVENUE/GDP	31.4	30.9	30.4	29.9	29.4	28.9	28.4
REVENUE	83.9	88.3	93.5	99.0	104.8	110.9	117.3
EXPENDITURES	72.7	74.9	77.1	79.4	81.8	84.3	86.8
CURRENT BALANCE	11.2	13.5	16.4	19.6	23.0	26.6	30.5
AMORTIZATION*		-6.2	-4.3	-4.6	-5.1	-4.9	-5.1
PSIP LOCAL**	-2.9	-4.5	-6.1	-7.2	-8.1	-9.5	-11.1
OTHER OBLIGATIONS							
BALANCE	8.3	2.7	6.0	7.8	9.8	12.3	14.3

Table 7.B Pessimistic Scenario

GDP GROWTH IS....................	3.5 PERCENT
INFLATION IS....................	3 PERCENT
ANNUAL CHANGE IN REVENUE/GDP IS..	0 PERCENTAGE POINTS
ANNUAL CHANGE IN EXPENDITURE IS..	6.6 PERCENT
ANNUAL CHANGE IN LOCAL PSIP IS...	PERCENT

(fiscal year beginning July 1)

	1984	1985	1986	1987	1988	1989	1990
GDP (P84)	267.0	277.3	287.0	297.1	307.5	318.3	329.4
PRICE INDEX	100.0	103.0	106.1	109.3	112.6	115.9	119.4
GDP (PCURR)	267.0	285.7	304.5	324.6	346.1	368.9	393.3
REVENUE/GDP	31.4	31.4	31.4	31.4	31.4	31.4	31.4
REVENUE	83.9	89.8	95.7	102.0	108.8	115.9	123.6
EXPENDITURES	72.7	77.4	82.5	87.8	93.5	99.6	106.1
CURRENT BALANCE	11.2	12.3	13.2	14.2	15.2	16.3	17.5
AMORTIZATION*		-6.2	-4.3	-4.6	-5.1	-4.9	-5.1
PSIP LOCAL**	-2.9	-4.5	-6.1	-7.2	-8.1	-9.5	-11.1
OTHER OBLIGATIONS							
BALANCE	8.3	1.6	2.8	2.4	2.0	2.0	1.3

* from ECDF piece and assumed to include domestic debt

** 1984-85 from Jan 86 Art IV; 86-90 from ECDF paper

Balance of Payments

In this concept paper, we do not include any balance of payments analysis. The primary justification for provision of the program assistance proposed under the SASP is to support the OECS governments in covering budgetary shortfalls so that they may carry out policy changes and restructure their finances. The existence of a currency union for the OECS states, the tying of the local currency to the US dollar, and the very stringent reserve requirements of the Eastern Caribbean Central Bank (ECCB), the central bank for the currency union, all preclude balance of payments crises of the sort the world has witnessed in the late 1970s and early 1980s. The extreme openness of the OECS economies means simply that if a country cannot sell a certain amount of goods abroad, there are problems in importing as much as the country would wish. Balance of payments deficits on current account are largely related to public sector investment programs (PSIPs) and are covered primarily by external funding (mostly on concessional terms) for these investment programs. The source of the current account deficits, therefore, is the lack of sufficient public savings to cover PSIPs, and it is improvement in public sector savings that is an important goal of the proposed SASP.

In preparing individual country PAAD-like papers for each program under the umbrella SASP, however, Mission will prepare balance of payments analyses in concert with the fiscal analysis presented.

Salient Policy Issues

Introduction

The countries of the OECS, it should be pointed out, do not have the serious policy problems that much of the rest of the developing world has. Generally speaking, the OECS governments are very supportive of a private sector-led approach to economic development and growth. The OECS did follow the CARICOM-guided intraregional emphasis on export production, particularly during the 1970s and partway into the 1980s. However, OECS governments are almost unanimous in their shift in focus toward production for export outside the Caribbean. Mounting protectionism in intraregional markets and the collapse of the Caribbean Multilateral Clearing Facility--established to facilitate intraregional trade--have contributed to this awakening to reality.

The policy environment is increasingly supportive of this "free trade" stance of OECS governments. All states have in place fiscal incentives that grant tax holidays to foreign investors producing for export, and some extend these incentives to domestic investors who manufacture exports. Although foreign exchange restrictions exist, they generally do not affect individuals producing for export. Parastatals are a feature of the environment (see Annex C), and all the states have public utilities. In addition all the OECS states have marketing corporations which are involved in both purchasing and selling traded goods. All the states also have parastatals that handle at least some facet of the country's major export crop. Non-traditional tradeables, however, generally are not handled by government.

In many respects, however, it is not policies that inhibit development, but other aspects of the economic environment. First, infrastructure, though improving, is generally poor in the region. Second, government procedures, such as obtaining work permits or dealing with customs, often can be a disincentive to investment, domestic or foreign. Third, diseconomies of small scale play an important role. For example, the unwillingness of domestic banking systems to lend for what they regard as risky ventures, and the consequentially high collateral requirements, would probably be less supportable if the competition possible in a larger economy could exist in the OECS states. Fourth, increases in unit wages in the public sector probably lead to increases in private sector wages, and this may begin to be an inhibitor to investment, particularly foreign. To the extent possible, donors must therefore encourage not only--and not necessarily most importantly--policy changes, but must work at countering these other constraints to private sector-led development. In many cases, changes can be brought about through technical assistance that informs governments of less cumbersome management methods. In many cases, however, even altering procedures will be unpopular because such changes may affect entrenched interest groups in the economy.

What is obvious, however, from the brief fiscal analyses above is that all the OECS governments must strive for financial solvency. Without solvency, there will be little left of domestic savings to put to productive uses. Without solvency, it will be impossible for OECS governments to contribute to the capital formation required to bring infrastructure systems up to more desirable levels. At the same time, as also is noted in the fiscal analyses, solvency should not come from constant increases in taxation and other government revenues, else growth may be compromised. A major focus of the Structural Adjustment Support Program will be to assist the OECS states to work towards that solvency by improving performance on both revenue and expenditure sides of the OECS budgets.

OECS-Wide Issues

Despite the cohesiveness of the OECS states and despite the similarity not only of economic problems facing each, but also of policy issues arising in each, there are only limited areas for a region-wide approach to policy dialogue. One of the most important of these, the exchange rate question, RDO/C has determined is not an issue worth pursuing at the moment, given the sharp depreciation in the US dollar (and therefore the EC dollar) over the past year. Another issue, that of protective tariffs, is in the hands of the larger CARICOM region, and the OECS states must follow that organization's lead on certain tariffs.

The majority of issues that RDO/C includes in its policy dialogue agenda are country-specific, in that each government has full control over maintaining or altering policy positions. However, solutions to these policy questions, as well as the analysis that must precede formulating options for changes, may be able to be dealt with from a regional standpoint in some cases. For example, the OECS states are considering formulating a customs union for the region, and RDO/C is now contemplating providing technical assistance to the Economic Affairs Secretariat of the OECS in customs administration and the establishment of a customs union. As another example, some of the techniques in program budgeting could be presented to countries in the region on a region-wide basis, with detailed work to follow in each country. Generally speaking, however, the sovereign status and attitudes of most of the OECS governments preclude region-wide policy dialogue of a specific nature.

Antigua and Barbuda

Until recently, RDO/C was not optimistic about the possibility of serious policy dialogue with the GOAB, given that government's penchant for seeking their own solutions to problems. In fact, with levels of GDP growth over the first half of the 1980s, and with the smallest degree of government involvement in the economy of any OECS state (in conventional statistical terms), the GOAB has been arguing that there is little need to assess their economic policy set. However, more recent high-level consultations between RDO/C and the GOAB have persuaded the GOAB that it needs to carefully assess its finances, lest future problems occur.

High on the list of issues that require examination (and probably reform) is the GOAB debt position. Over the past several years, the GOAB has been able to fill its financial gaps only by steady delinquencies in current and principal payments on domestic and foreign obligations. Although a rescheduling is now underway, since that package was negotiated GOAB debt has mounted dramatically. An important part of the problem is the lack of coordination between government agencies that incur debt, on the one hand, and the Ministry of Finance which is reponsible for ensuring that sufficient resources are available to pay off debts, on the other.

RDO/C intends, in the course of the regular policy dialogue now instituted with the GOAB, to provide technical assistance to (a) examine ways of increasing central government revenues, (b) instill program budgeting techniques in the budget process with an eye to controlling increases in recurrent costs, (c) improve decisions on assuming new debt and improve management of incurred debt, and (d) enhance ability to assess the recurrent cost implications of public sector investment. In addition, the efficiency of operation of parastatals such as the Port Authority and the Public Utilities Authority needs to be examined by the GOAB, perhaps with technical assistance from RDO/C. Finally, effects on economic growth of the parastatal Central Marketing Corporation must be assessed. As the GOAB becomes more cohesive in terms of financial management, the government should increasingly see the necessity for a comprehensive, strategic assessment of the medium-term prospects for the economy. If the government intends to make use of the various facilities available in the context of the TCG process, such an assessment will be a prerequisite. RDO/C will, during the development of the bilateral policy dialogue, ask the government to begin work on such a document.

Dominica

Of all the OECS states, Dominica is perhaps more intimately involved in discussing policy issues with the external donor community than any other OECS state. As such, it in many ways is the antithesis to Antigua. As is a familiar pattern in the OECS, however, Dominica is having financial problems that result from almost insignificant levels of public savings. Despite this situation, it is vital to remember that the current GOCD has been in a few short years able to turn the government's large recurrent account deficit into a small surplus. The problem is that the GOCD must go a lot further if it is to be considered creditworthy.

Dominica's revenue/GDP ratio is second only to Grenada's in the OECS. Indeed, the ratio is so high that the government would do well to examine its revenue structure and level to assess whether it is not possibly a significant disincentive to increased domestic investment in productive economic activity. RDO/C has already provided short-term technical assistance to the GOCD in fiscal matters, and the advisor suggested strongly that government assess the revenue structure. Government did not wish to pursue that issue at the time (February 1986), but RDO/C intends to include in the conditionality in a currently proposed (FY86) cash transfer to the GOCD that the GOCD avail itself of RDO/C resources to carry out such an assessment.

As a result of the high revenue/GDP ratio, any improvement in public savings must come from expenditure cuts. An important exercise for the GOCD, therefore, is to examine the economic utility of the various functional line items on the expenditure side of the budget. This calls for a program budgeting exercise, and should be started as soon as possible. In fact, conditionality to be included in the agreement for the proposed (FY86) RDO/C cash transfer for Dominica requires the GOCD to examine its expenditures with an eye to improving public savings. With the budget already very tight, the GOCD should improve its investment planning to the point where recurrent cost implications of all public sector investment projects are routinely considered prior to deciding on projects and are routinely included in forward budget planning if the decision is to go ahead with a project. The organization facility for linking capital and recurrent budget decisions will be in place when the Economic Development Unit (the planners) ceases to be a staff office in the Prime Minister's office and are folded into the Ministry of Finance. Conditionality under the proposed FY86 cash transfer also encourages the GOCD to take this step soon.

In addition to a necessity for improving its finances, Dominica would do well to consider modifying the extent to which government is involved in foreign and domestic commodities. Within the past year, the government folded two parastatals into one, the Dominica Marketing Corporation. One of the two, the External Trade Bureau, was responsible for exporting agricultural commodities to external markets, while the other, the Dominica Agricultural Marketing Board, had monopoly powers to sell imported sugar and rice within Dominica. Particularly if Dominica can begin to produce more, non-traditional agricultural products for export, the GOCD should be encouraged to relinquish the external sales function. However, this can only occur if private sector substitutes come forward prepared to carry out this function.

Grenada

In Grenada, RDO/C has been involved in policy dialogue on a formal basis far more intensively than it has in any other OECS state. That dialogue has borne fruit in several respects, but there is still room for government to move in several areas. First, the government has begun the process of privatization of what is a large portfolio of assets. Second, the GOG prepared an initial draft of a development strategy at the end of 1985. Third, government has made some far-reaching decisions on tax reforms to affect the 1986 budget. Fourth, government has published a new set of guidelines on fiscal incentives for domestic and foreign firms that are producing primarily for export. Fifth, government has sharply reduced the number of commodities on which there are domestic price controls. Sixth, the GOG has accepted technical assistance in the Industrial Development Corporation. Finally, the GOG has begun to implement elements of program budgeting in all ministries, in preparation for the formulation of the CY 1987 budget.

Despite discernible movement in all these areas, much remains to be done in policy dialogue in Grenada. While there are now several examples of privatized parastatals, RDO/C must encourage the government to move as rapidly as is productive on privatization. Second, RDO/C must urge the GOG to continue to work on its development strategy, so that it can be useful when the GOG is asked to provide a medium-term structural adjustment program to gain access to the TCG facilities. Third, although the tax reforms were announced in a budget speech, the GOG has been granting exemptions for specific types of activities and this has severely undermined the revenue projections for 1986. Fourth, RDO/C must ensure that the GOG follows through on its assurances to remove all laws that conflict with the new investor code. Fifth, RDO/C should (probably in the context of putting together another draft of the comprehensive strategy) ensure that the GOG carefully considers the effects of, and alternatives to, the current set of price controls. Sixth, the institutional development of the IDC must continue, and the IDC must be granted more authority to make procedural decisions regarding foreign investment. Finally, RDO/C must ensure that the GOG does not falter or hesitate in its plan to undertake program budgeting.

St. Kitts/Nevis

Unlike the other OECS states that have relatively serious financial problems, St. Kitts' inability to cover expenditures comes less from a preponderance of capital expenditures and net lending requirements than it does from a very weak recurrent budget. Prime among the reasons for this are (a) recent sharp civil service pay increases and (b) a very low revenue/GDP ratio, the latter partly a result of the abolition of the personal income tax and partly a result of reduced profits on sugar production. Although government has done relatively well in attracting enclave type manufacturing for export, strong efforts must be made to revitalize the agriculture sector. This appears impossible if the country continues to concentrate on sugar. With a settlement on the ownership question of the sugar lands now in place, the government should move as rapidly as possible to encourage replacement of sugar production with production of non-traditional, exportable crops.

At the same time, the government must seriously consider measures to reduce the level of recurrent spending or increase the level of recurrent revenues, thrown sharply out of balance with one another in the 1985-86 period but hardly stable prior to that. One expectation of government's is that the anticipated southeast peninsula development will provide a boost not only to the economy, but also to government finances. The question of how likely this is to occur is currently under review by RDO/C, which is funding several studies in connection with the proposed road project on the peninsula. A memorandum of understanding between the USG and GOSKN has committed the government to carry out several types of assessment, including a planning exercise and budget studies prior to RDO/C's seriously considering the project. Conditionality attached to the project agreement, if RDO/C decides to go ahead with the activity, will further encourage the government to develop sound fiscal management methods, among other things.

St. Lucia

St. Lucia's major policy-type problems are financial. Despite the GOSL's success in overseeing the country's economic development over the past several years, inadequate public savings have resulted in financial problems that have forced the government to go into arrears on both domestic obligations (primarily the National Insurance Scheme, the ECCB, and domestic suppliers) and foreign obligations (largely treasury bills to public and private entities, and contributions to organizations such as the University of the West Indies). Current GOSL plans are to wipe out arrears by 1990, but increased public savings is critical if government is to manage soundly.

St. Lucia's revenue/GDP ratio, while not as high as Grenada's or Dominica's, is just about 30 percent and can probably not rise without affecting private sector incentives. At the same time, the country's tax structure is fairly complex, and trade-related taxes and tariffs may not provide the best possible incentives to efficient production. RDO/C will, to the extent that we can, urge the GOSL to explore options for revenue-side fiscal reform. (In an attempt to better administer the existing revenue system, the GOSL will receive technical assistance from RDO/C in the coming months in the areas of personal and company income taxes.)

Government must tackle its public savings problem by keeping the growth of recurrent expenditures well below that of revenues. RDO/C attempts to encourage GOSL use of technical assistance in examining policy options have not fared well to date. The GOSL is firmly convinced that it knows best how to deal with policy questions internally. However, if the current activity in technical assistance for tax administration goes well, RDO/C anticipates that the GOSL will be willing to accept technical assistance of an even more sensitive policy-examination sort.

Although there have been some improvements in the finances of the non-financial public sector, the GOSL should be encouraged to work even more diligently on this aspect of improved public savings.

With the depth of development economics skills available in the GOSL (compared with the rest of the OECS states), RDO/C should encourage the GOSL to develop a strategic planning document using their own resources.

St. Vincent and the Grenadines

The GOSV received high marks from the IMF early in 1986 for the current government's success in turning around government finances through a combination of revenue enhancement and expenditure control, beginning in 1984. As a result of that improved performance and with our predictions that that performance will continue, the GOSV does not appear to have the type of financing gap that pervades the OECS' other states. Consequently, RDO/C does not expect to have to put as much pressure on the GOSV as it will have to on other states to remedy financial problems. Still, however, the GOSV has asked for RDO/C technical assistance in customs administration, and we will be providing same. RDO/C will also urge the GOSV to accept technical assistance to examine the incentive effects of its current revenue structure. Although some changes in a positive direction have occurred over the past year and more since the current government assumed control, there may be room for further improvements.

The GOSV has recently been carrying out a strategic planning exercise, the results of which are not yet available to RDO/C. We have been assured by GOSV officials that when feasible we will be given a copy of the document. We expect that that document will guide the GOSV in its impending application for access to the TCG process funding facilities.

St. Vincent's list of public sector enterprises is longer than any other OECS state's except for Grenada. Although the list contains the traditional utilities, it also includes productive facilities. RDO/C will examine with the GOSV the merits of continuing to have such pervasive involvement in production.

One important area of policy change that RDO/C will continue to discuss with the GOSV is functions of the Development Corporation. The organization's current brief extends far beyond investment approval assistance and business facilitation. For example, DEVCO owns factory shells and actively assists local entrepreneurs to obtain credit. RDO/C believes that, given DEVCO's history of problems managing even the normal range of development corporation activities, DEVCO should be encouraged to stick to the minimum and do that well, lest all activities suffer from an excessively large portfolio of activities.

Proposed Policy Indicators, Benchmarks, and Actions

Indicators and Benchmarks

As noted earlier, the objective of providing this program assistance to the OECS states is to support their attempts, through medium-term structural adjustment programs, to increase economic growth rates and to move toward "creditworthiness." The Structural Adjustment Support Program will be but part of a larger support effort involving many donors and entailing both program and project assistance. The focus of the SASP will be on improving growth and creditworthiness by acting on the public sector, and on its policies and procedures that affect the private sector. In this way, SASP complements ongoing efforts of the RDO/C Private Sector Office. Together SASP and efforts of that Office are intended to produce mutually reinforcing public and private sectors in the OECS. RDO/C provides the following indicators of the effectiveness of the TCG effort and, therefore, indirectly of the SASP.

Table 8 Average Annual GDP Growth Rates, 1986-90

(percent)

	GDP Growth
Antigua	5.0
Dominica	4.0
Grenada	4.5
St. Kitts	3.5
St. Lucia	5.0
St. Vincent	4.5

Table 9 Ratios of Recurrent Balance to GDP, 1984-90

(percent)

	1984	1985	1986	1987	1988	1989	1990
OECS Totals	0.3	0.9	1.0	2.2	3.3	5.0	6.3
Antigua	-0.2	1.3	1.2	2.9	4.1	7.5	9.5
Dominica	.0	1.4	1.4	2.2	2.9	3.6	4.3
Grenada	1.6	0.7	0.4	1.4	2.3	3.2	4.0
St. Kitts	-4.3	-6.7	-10.3	-8.5	-6.9	-5.3	-3.7
St. Lucia	-0.2	1.2	2.6	3.9	5.2	6.4	7.5
St. Vincent	4.2	4.7	5.4	6.0	6.5	7.0	7.5

Table 10 Ratios of Recurrent Revenues to GDP, 1984-90

(percent)

	1984	1985	1986	1987	1988	1989	1990
Antigua	23.5	26.8	27.3	27.8	28.3	28.8	29.3
Dominica	32.6	35.4	34.9	34.4	33.9	33.4	32.9
Grenada	37.8	33.7	35.3	34.8	34.3	33.8	33.3
St. Kitts	25.6	23.6	25.7	26.3	26.8	27.3	27.8
St. Lucia	30.1	30.1	30.1	30.1	30.1	30.1	30.1
St. Vincent	31.4	30.9	30.4	29.9	29.4	28.9	28.4

The indicators in Tables 8-10 are based upon RDO/C's "optimistic scenario" for the 1986-90 period. Improved creditworthiness will be measured by improved public sector savings (i.e., the recurrent balance/GDP ratio.) However, growth will be negatively affected if governments attempt to improve creditworthiness by raising revenue growth rather than by reducing expenditure growth. Therefore, RDO/C includes as an indicator the ratio of recurrent revenues to GDP, which should drop in most cases to stimulate growth.

Policy Actions

The country-specific policy actions in the following pages are intended to provide the Mission with a schedule of desired policy actions to be used in guiding our policy dialogue with the OECS states. In some instances, OECS governments will take actions voluntarily. In other instances, they will take actions as a result of encouragement from program assistance provided by donors other than AID. In still others, they will act in response to conditionality attached to project assistance. Finally, in other cases, they will take actions as result of the conditionality attached to funds provided under the Structural Adjustment Support Program. Given the newness of the TCG process, RDO/C has difficulty being more precise about which actions will result from the SASP independent of other encouragement. The following actions are those that Mission currently believes are of primary importance.

Antigua

1.	Government will have settled with RDO/C on a technical assistance program in financial management	FY86, 4th Q.
2.	Technical assistance on financial management commences	FY86, 4th Q.
3.	Government decides on program to eliminate arrearages	FY86, 4th Q.
4.	Reporting system to link recurrent and capital budgets in place	FY87, 1st Q.
5.	Industrial Development Corporation functioning	FY87, 1st Q.
6.	Final control over public investment decisions, particularly those that require incurring debt, rationalized	FY87, 1st Q.
7.	Government begins preparation of medium-term structural adjustment program (five-year plan)	FY87, 1st Q.
8.	Government forms "wage negotiating team" to take stronger position on civil service wage demands	FY87, 2nd Q.
9.	Government presents illustrative plan for privatization of non-financial public sector enterprises	FY87, 3rd Q.
10.	Plan for financial viability of utilities set out	FY87, 3rd Q.
11.	Government completes preparation of structural adjustment program/strategy (five-year plan)	FY88, 1st Q.
12.	Demonstrated government progress in privatization	FY88, entire
13.	Program budgeting techniques incorporated in budget preparation	FY88, 2nd Q.
14.	Plan for financial viablity of utilities begins implementation	FY88, 1st Q.
15.	Government begins work with IBRD and IMF on TCG program	FY88, 2nd Q.

<u>Dominica</u>

1.	Program budgeting advisors begin tenure	FY86, 4th Q.
2.	Government acquires technical assistance from PMPP project to explore ways of restructuring central government revenues	FY87, 1st Q.
3.	Income tax administration advisory program ends	FY87, 1st Q.
4.	Government reassesses plan to combine External Trade Bureau and Dominica Agricultural Marketing Board and examines possibility of abolishing both	FY87, 1st Q.
5.	Government designs development plan, including structural adjustment program designed in course of TCG preparations, and approves plan	FY87, 3rd Q.
6.	Government makes decisions on revenue-side reforms	FY87, 3rd Q.
7.	Program budgeting techniques incorporated into iterative budget process	FY87, 3rd Q.
8.	Economic Development Unit (planning unit) merged into Ministry of Finance	FY87, 2nd Q.
9.	a government-endorsed program for streamlining civil service is proposed	FY87, 3rd Q.
10.	Reforms appear in Dominica's 1987-88 fiscal year budget, which starts July 1	FY87, 4th Q.
11.	Government remains in compliance with targets set forth in "tight consultative group" process agreements, including any AID program assistance	FY87-89
12.	Industrial Development Corporation (or comparable entity) working smoothly to perform functions, grant general investment application approval, and promote investment opportunities	FY88, 1st Q.

Grenada

1.	Government approaches World Bank to determine what must be done to access TCG facilities	FY86, 3rd Q.
2.	Government gives current "investor's code" (i.e., fiscal incentives) the force of law	FY86, 3rd Q.
3.	Program budgeting fully integrated into budget preparations for 1987 budget	FY87, 1st Q.
4.	Government revises "comprehensive development strategy" to conform with requirements of a medium-term structural adjustment program suitable for gaining accessing TCG facilities	FY87, 2nd Q.
5.	Government confers on IDC significant decision-making authority on approving investment applications	FY87, 2nd Q.
6.	Government applies for access to TCG facilities	FY87, 3rd Q.
7.	Perceptible movement on government's privatization strategy, especially in divesting productive assets	FY87-FY88
8.	Government prepares 1987 budget showing at least 2 percent GDP-equivalent in surplus	FY88, 1st Q.

St. Kitts-Nevis

1.	Program budgeting successfully incorporated into iterative budget process	FY87, 1st Q.
2.	Government prepares three-year financial plan describing how necessary expenditures are to be covered, including a review of revenue options	FY87, 1st Q.
3.	Government enacts any fiscal legislation necessary to provide for covering anticipated southeast peninsula infrastructure capital costs	FY87, 2nd Q.
4.	Government enacts Comprehensive Land Use Management Plan recommendations	FY87, 2nd Q.
5.	Industrial Development Corporation formed	FY87, 2nd Q.
6.	Government prepares medium-term economic development strategy sufficiently good to provide basis for TCG-type structural adjustment program	FY87, 2nd Q.
7.	Government conducts "organization and methods" study	FY87, 2nd Q.
8.	Recommendations of O & M study carried out	FY87, 3rd Q.
9.	Industrial Development Corporation functioning as efficiently as IDC in St. Lucia	FY88, 1st Q.

St. Lucia

1.	Personal and company income tax administration significantly strengthened as a result of RDO/C technical assistance	FY87, 1st Q.
2.	Tripartite committee of government, unions, and private sector form to contain wage increases in the economy	FY87, 1st Q.
3.	Government provides credit incentives to domestic banking system to guide investment into productive activity	FY87, 2nd Q.
4.	Government implements recommendations of "organization and methods" study, currently being undertaken, to reduce size of civil service	FY87, 2nd Q.
5.	Government completes medium-term strategy document acceptable in form for applying for access to TCG facilities	FY87, 2nd Q.
6.	Government accepts technical assistance to examine revenue system with an eye to revising structure to better encourage productive investment	FY87, 3rd Q.
7.	Government incorporates program budgeting techniques into FY88-89 budget	FY88, 2nd Q.
8.	Government wipes out arrears on expenditures	FY88, 3rd Q.

St. Vincent and the Grenadines

1.	Program budgeting techniques incorporated into 2nd budget cycle, based upon evaluation of first cycle results	FY87, 2nd Q.
2.	Government accepts technical assistance from RDO/C to assess revenue structure	FY87, 2nd Q.
3.	Government gains access to TCG facilities, with a structural adjustment program in progress	FY87, 2nd Q.
4.	Government enacts any changes resulting from revenue assessment in time for July 1 fiscal year start	FY87, 3rd Q.
5.	Government accepts technical assistance from RDO/C to assess parastatals and possibilities for privatization	FY87, 3rd Q.
6.	Government introduces plan to encourage domestic banking system to increase lending to productive activities	FY87, 3rd Q.
7.	DEVCO (Industrial Development Corporation) reduces scope of activities, and is as efficient as St. Lucia's IDC	FY87, 3rd Q.
8.	Government outlines plan for privatization of public sector enterprises and begins actions on that plan	FY88, 1st Q.
9.	Government conducts "organization and methods" study and acts on recommendations	FY88, 3rd Q.

ANNEX A

OECS ECONOMIC CONDITIONS IN THE EARLY 1980S

A.1. Antigua

Antigua is perhaps the most free-wheeling of the OECS economies. Unlike the other states, where government services contribute about 20 percent of GDP, in Antigua the share is only about half that. Private investment accounts for about four-fifths of the country's investment, not unlike the situation in St. Lucia and St. Vincent; in the other OECS states, public sector investment far outweighs private investment. GDP growth in Antigua in 1983 and 1984 exceeded 6 percent in each year, double the level experienced in any other OECS state. Antigua has, however, paid a price in terms of a massive debt burden, which the government is only recently beginning to come to grips with.

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 1981-82. 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.

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.

Manufacturing contribute the majority of domestic commodity exports, and earlier markets have been within CARICOM. The shrinking of CARICOM markets that has resulted from protectionist tendencies in the larger, economically troubled countries has turned Antigua's export manufacturing outside the region. Enclave-type manufacturing predominates, with non-labor inputs primarily from abroad. Garments and textiles have been the major production items, followed by food and beverages, and fabricated wood products. More bouyant world economic conditions, the CBI, and a deliberate focus on extra-regional markets should stimulate this sector of Antigua's economy.

Tourism is the mainstay of Antigua's economy, larger than any other sector except transport and communications. Although sluggish like much of the rest of the Caribbean in 1980-82, tourist arrivals picked up again in 1983 and have been growing since. And tourism not only contributes to private sector incomes and employment, but also generates significant tax and non-tax revenues for the public sector.

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.

The $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.

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.

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.

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.

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 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.

TABLE A.1
ANTIGUA
ORIGIN OF GDP AT FACTOR COST
Constant Factor Cost
(1977 EC$ Million)

	1980	1981	1982	1983	1984
Agriculture and Related	13.9	12.4	11.7	11.6	10.4
Mining and Quarrying	1.2	1.1	0.9	1.1	1.2
Manufacturing	11.4	13.9	13.9	14.2	14.4
Construction	17.2	18.9	11.7	10.8	11.3
Transport & Commun.	36.3	38.8	40.9	46.7	50.1
Trade	20.6	20.6	21.6	21.9	23.2
Hotels and Restaurants	25.9	25.9	26.1	30.8	38.9
Utilities	6.1	6.9	7.4	8.1	8.0
Banking, Real Estate	25.7	27.0	28.1	28.9	29.3
Government Services	22.0	22.0	22.4	22.8	23.3
Other, Net	9.0	9.2	9.4	9.6	9.9
TOTAL	189.3	196.7	194.1	206.5	220.0
Annual % change in real GDP	8.0	3.9	-1.3	6.4	6.5
GDP @ current factor cost	247.8	274.5	295.7	331.3	369.3

Source: IMF Report - May 1985

TABLE A.2
ANTIGUA
GROSS DOMESTIC PRODUCT BY END USE
Current EC$ Million

	1980	1981	1982	1983	1984
Consumption	260.3	295.5	334.0	305.1	329.0
Public Sector	57.1	68.2	78.7	84.1	
Private Sector	203.2	227.3	255.3	221.0	
Investment	115.8	169.4	175.8	101.8	109.2
Public Sector	24.1	50.3	35.8	20.2	
Private Sector	91.7	119.1	140.0	81.6	
Gross Domestic Expenditure	376.1	464.9	509.8	406.9	438.2
Gross Domestic Savings	20.5	23.3	11.9	48.8	49.7
Balance of Trade	135.9	174.5	173.0	125.5	135.9
GDP at market prices	280.8	318.8	345.9	353.9	378.7

Source: World Bk Econ Memo 1985

TABLE A.3
ANTIGUA
ENTRAL GOVERNMENT FINANCES
EC$ Millions

	1980	1981	1982	1983	1984
Recurrent Balance	-11.1	-9.2	-13.0	-12.6	-0.6
Recurrent Revenue	63.9	79.4	93.6	87.8	100.1
Recurrent Expenditure	75.0	88.6	106.6	100.4	100.7
Capital Expenditures	27.2	28.6	40.6	21.0	17.2
Capital Receipts	11.2	10.2	3.8	1.7	11.4
Overall Balance	-27.1	-27.6	-49.8	-31.9	-6.4
Financing:	23.3	26.1	52.1	31.9	4.0
External Capital	10.2	15.8	15.7	-3.4	-9.7
Net External Borrowing	8.7	0.6	16.3	9.4	
Disbursements	n/a	n/a	n/a	n/a	
Amortization	n/a	n/a	n/a	n/a	
Arrears on payments	4.4	9.7	20.1	25.9	13.7
Other External Financing	0.0	0.0	0.0	0.0	
IMF	n/a	n/a	n/a	n/a	
ECCB	n/a	n/a	n/a	n/a	
Change in Foreign Asset	n/a	n/a	n/a	n/a	
Other					
Net Domestic Borrowing	0.0	0.0	0.0	0.0	
Commercial Banks	n/a	n/a	n/a	n/a	
National Insurance	n/a	n/a	n/a	n/a	
Other	n/a	n/a	n/a	n/a	
Unidentified	n/a	n/a	n/a	n/a	
Memorandum item:					
Debt Service	6.1	12.5	6.0	3.6	3.7
Debt Service/Exp. of Goods & NFS	8.4	14.8	7.3	4.3	4.0

Source: World Bk Econ Memo 1985

TABLE A.4
ANTIGUA
BALANCE OF PAYMENTS
US$ Million

	1980	1981	1982	1983	1984
Current Account	-26.3	-44.3	-48.9	-7.6	
Trade Balance	-75.1	-98.5	-104.2	-76.7	-87.9
Exports of goods (fob)	30.4	38.0	34.4	24.4	24.0
Imports of Goods (cif)	105.5	136.5	138.6	101.1	111.9
Services (Net)	39.8	44.4	44.1	57.1	
Tourism/Travel	42.5	46.6	48.0	60.0	68.2
Other (Net)	-2.7	-2.2	-3.9	-2.9	
Private Transfers	9.0	9.8	11.2	12.0	
Capital Account	25.5	44.0	48.9	7.6	
Official Transfers	4.1	3.6	1.0	1.3	
Public Borrowing	2.9	14.2	6.1	1.8	
Disbursement	n/a	n/a	n/a	n/a	
Amortization	n/a	n/a	n/a	n/a	
Pte Foreign Investment & Errors & Ommissions	19.1	25.4	35.1	7.2	
Commercial Banks	-0.6	0.8	6.7	-2.7	
Overall Balance	-0.8	-0.3	.0	.0	
Memorandum item:					
GDP at current mkt prices	280.8	318.8	345.9	353.9	

As a Percent of GDP

	1980	1981	1982	1983
Current Account	-0.1	-0.1	-0.1	.0
Trade Balance	-0.3	-0.3	-0.3	-0.2
Exports of goods	0.1	0.1	0.1	0.1
Imports of goods	0.4	0.4	0.4	0.3
Capital Account & Balance	0.1	0.1	0.1	.0
Overall Balance	.0	.0	.0	.0

A.2. Dominica

GDP Growth

After a strong recovery from hurricane damage in 1979-80, real GDP expanded at an average annual rate of 2.5 percent in 1982-83, 4.5 percent in 1984. The resource gap declined from 70.7 percent of GDP in 1980 to about 32 percent in 1984. Gross domestic savings went from a negative 21 percent of GDP to a positive 6.6 percent of GDP in 1984.

GDP statistics have not been completed for 1985, but preliminary indications are that there was a distinct slowdown that year, with growth perhaps not exceeding 2 percent. The malaise appears to be continuing into 1986, where growth could be even slower than in 1985, perhaps between zero and 2 percent. Several factors account for this slowdown. The economy started from a very low post-hurricane base in 1980. The relatively high growth rates from 1980 to 1984 were attributable in considerable measure to the large investments required for the reconstruction and rehabilitation program. Public sector investment accounted for nearly 60 percent of total investment during the period. That activity is now ending. A major road construction program, including a major AID project is nearing completion. The economic slowdown has squeezed government revenues, and its own investment program has had to be phased down for budgetary reasons. Private investment has not been forthcoming in suffient quantities to offset the decline.

Agriculture

In agriculture, production still has not reached pre hurricane levels. Bananas are the major export crop but production is still recovering from the adverse effects of the 1979-80 hurricanes and the relative depreciation of the pound sterling against the U.S. dollar. Government had targeted production at 40,000 tons by 1985, but only 33,000 tons were forthcoming. In 1984, while bananas accounted for almost 20 percent of the value of agricultural production, their value was was still 23 percent below its 1978 level. The Dominica Banana Marketing Corporation is encouraging measures to increase productivity. The marketing aspect of the banana industry has been substantially restructured. Field packing accounted for 20 percent of banana exports in 1982, 50 percent in 1984, and is targeted to reach 90 percent by the end of 1986. These and other improvements helped to increase the grower's price as a proportion of export price from 39.5 percent in 1982 to 46 percent in 1984. Coconuts are the basic input into Dominica's soap industry. By 1983, an extensive replanting program had brought coconut output back to 85 percent of 1978 levels. In 1984, a downturn in the fortunes of the soap industry reduced the demand for coconuts by 6 percent. While the rehabilitation program continues, market prospects are limited by developments elsewhere in the region. Dominica is moving to diversify its agriculture into citrus fruits, and the first harvesting of Arabica coffee has begun. Government divestiture of farm lands is proceding and efforts are beginning to bring more land under cultivation.

Manufacturing

Although entrepreneurs are given generous fiscal incentives, and factory shells have been constructed to lure foreign enclave industries manufacturing output has slowed. After increasing rapidly until 1982, manufacturing output grew at only 2 percent in 1983 and declined by 1 percent in 1984. This is accounted for to some extent to the decrease in exports of coconut products, including soap, which faced tough competition from Jamaica and which suffered from the appreciation of the EC dollar vis a vis the Jamaican and Trinidadian currencies. In 1983-84, the adverse developments in coconut related industry were partly offset by the initiation of several new industries, including a galvanized steel operation, garment manufacturing, and several other operations. However, since then a refrigerator assembly operation has shut down, two garment manufacturers have closed town, and the output of the galvanized steel plant has been reduced by 90 percent.

Tourism

Tourism, never a major industry, will probaby continue to show little, if any, growth in the near term. Dominica lacks white sand beaches, and has very limited accommodation facilities. For the time being, the sector will rely on its role as a secondary destination for tourists from other islands who wish to enjoy the natural attractions of the rain forests in the interior. While there is some room for expansion, tourism will contribute relatively little to the economy in the forseeable future.

Balance of Payments

Dominica's trade balance improved steadily each year between 1980 and 1983, but the trend temporarily reversed in 1984. The balance of trade deficit declined from nearly 74 percent of GDP in 1980 to 25 percent of GDP in 1983, before rising to 35 percent in 1984. Exports increased rapidly as production of bananas, coconuts and citrus fruits recovered from the devastation of the 1979/80 hurricanes. This was supplemented by an increase in manufactured exports, as new operations came on stream. With the establishment in 1979 of a larger soap plant, and the 1982-84 startup of several small assembly plants, manufacturing increased from 12 percent of exports in 1978 to 40 percent in 1983-84. From 1980 to 1983, imports decreased as emergency aid was phased down. But, in 1984 exports fell by 7 percent and imports increased by 18.5 percent, partly due to the import requirements of major infrastructure projects. Bananas account for over 40 percent of Dominica's exports. In 1984, the volume of exports increased from 29 thousand to 32 thousand tons. However, since bananas are contracted in sterling, the strong dollar had the effect of lowering the unit price received by 11 percent, leaving the value of shipments virtually unchanged from 1983. Exports of other agricultural crops have been stagnant since 1982. Dominica has had difficulty achieving pre-hurricane levels of citrus fruits and coconut product exports, since it finds itself in competition with producers who can achieve lower production costs because of new techniques. Fresh Vegetable and plantain exports expanded in 1983-84.

Much of the coconut output is processed into toilet and laundry soaps, which are marketed largely in Jamaica and Trinidad. Soap exports increased from 5100 tons in 1980 to 6800 tons in 1981/82. By 1984, exports had fallen to 4200 tons and the value of soap products fell by 27 percent, because of competition from Jamaican producers, and because of the sharp appreciation of the EC$, which is pegged to the U.S. dollar, vis a vis sterling and the Jamaican dollar. The establishment of a corrugated roofing sheet plant and two garment factories led to sharp increases in exports of manufactures between 1981 and 1983. The value of these exports increased from zero in 1980 to US$ 4 million in 1983. In 1984 one of the garment factories closed down, and another began experiencing difficulties in selling its output. Although 10 new assembly plants were brought into Dominica in 1985, exporters will continue to experience difficulty in the CARICOM market in the near term. After the sharp increase in 1984, the rate of increase in imports should return to its long term trend.

Dominica's tourism industry is very small. There are only about 370 rooms to accommodate visitors. Because it lacks white sand beaches, it stands as a secondary destination from other islands for persons wanting to visit its rain forests and natural areas in the interior.

Net private transfers come mainly from Dominicans living abroad, and have remained in the 9 million dollar range for several years. Official transfers declined from 18 million dollars in 1980 to only 4.4 million in 1983, before increasing sharply to 14 million in 1984. Most of the increase was associated with project-related donor grants, and official transfers are projected to diminish during the remainder of the decade.

The public sector increased its external borrowing substantially from 1982 to 1984, largely to finance infrastructure development, including roads, agricultural infrastructure and factory shells. In part as a consequence of this effort, private direct investment increased from nearly zero in 1980 to about 1.6 million in 1984. Short-term capital movements in recent years were dominated by the buildup of arrearages by Jamaican soap importers, which were repaid in 1984.

Between 1980 and the end of 1984, Dominica's external debt, including debt to the IMF, increased from $US 17 million (30 percent of GDP) to $US 43.2 million (50.5 percent of GDP). Net purchases under IMF facilities accounted for nearly one third of this increase. CDB accounted for another 11 million, IDA 3 million, IFAD 1 million and OPEC 2 million. Except for that due to the Fund, most of this debt is on highly concessional terms, with interest rates of under 4 percent, grace periods of 5 years, and repayments of 15 to 20 years. The terms of the Fund debt have been the main reason for an increase in the debt service ratio from 4 percent in 1980 to 12.5 percent in 1984. Government has serviced its Fund debt on a timely basis and has not incurred any additional Fund obligations since the 1984/85 Standby.

Debt service absorbs increasing portions of both export earnings and of the public budget. Interest and amortization payments are equivalent to 20 percent of government's recurrent revenues. With a shortfall in resources to make repurchases from the IMF, government will be faced with the prospect of increasing its nonconcessional borrowing from other sources in order to finance the Fund obligations. Borrowing at nonconcessional terms will increase the debt servicing significantly, and may eventually be harmful to GOCD's credit standing in the international community. Government is obviously anxious to avoid this eventuality. In the short term, debt servicing will impose a cash flow problem, which can be eased by budget support. Long-term health of the public finances, however, will depend upon the ability of the government to foster sustainable export-led economic growth.

Government Finances

When the current government took office in 1980, it faced a situation in which the recent loss of U.K. budgetary support, a previous excessive public employee wage increase, and the revenue loss and expenditure demands imposed by three hurricanes, had combined to create severe budgetary strains. The government approached the IMF and negotiated a three-year Extended Fund Facility. Under that program, the government broadened the revenue base, raised taxes and strengthened the revenue collection mechanism, while pursuing a policy of expenditure restraint. As a result, the Central Government's current account deficit declined from EC$17 million (10 percent of GDP) in 1980/81 to near balance in 1983/84. In addition, improved management of public enterprises has virtually eliminated their previously heavy demands on the public budget. Those entities now require virtually no transfers from Central Government. In spite of these changes, deficits had not yet turned into surpluses, and government had no resources to contribute to a capital program. In 1983/84 Dominica received from AID $US 2 million in program support, the local proceeds of which were applied to capital projects.

The following year, the government's current account balance continued to improve, but its financing requirements increased further as IMF repayments became due. Dominica then entered into a standby arrangement with the Fund for SDR1.4 million for 1984/85.

Dominica's performance under both IMF arrangements was good. Payments were on time, and agreed-upon reform measures were undertaken. Under the 1983/84 program, government was unable to draw its April quota because it exceeded the programmed ceiling on nonconcessionary borrowing. This occurred first because an unseasonable spring storm required emergency spending and second because of substantial tax refunds that the government wanted to make before the end of the fiscal year, which had an unintended effect on nonconcessional borrowing. By September, they were back on stream and were able to draw the remaining balance of the EFF. The 1984/85 standby had to be suspended in February of 1985. On that occasion bad weather made it necessary to spend one million dollars EC to restore damaged communications. Failure to reach agreement on what the government felt to be excessively costly conditionality led to suspension, after approximately 1.1 million of 1.4 million SDR's had been drawn. The current account continued to improve, and showed a small surplus in 1984/85.

Prices and Wages

Inflation, as measured by the Consumer Price index, has moderated each year since 1980. In that year, prices increased at an annual rate of 30.5 percent. In 1981, the rate had fallen to 13.3 percent, and dropped to a little over 4 percent in 1982 and 1983. Since then, inflation rates have been around 2 percent. The main contributing factors to these changes were: import prices, which increased slowly in 1981 and declined from 1982 to 1984; a marked slowing in the increase in wages; and larger food supplies.

The government of Prime Minister Charles has made substantial progress in moderating wage demands. Early in her administration, the PM took steps to sever the automatic link that existed between inflation and civil servants' wage increases. She agreed to pay wage arrearages that had resulted from the the pay accord negotiated by the previous government. In return, the Civil Servant's Association agreed to settle for 10 percent annual wage increases during the 1982-84 period. Wages in the private sector have been held below that 10 percent ceiling, but have been influenced by public sector wage settlements. Even the 10 percent ceiling was considerably higher than the rate of inflation over the same period. Wage costs are still a major source of difficulty in the government's ability to control its finances. Despite improved labor relations in recent years, government was faced with a potentially damanging public employees strike and in December settled a wage agreement in excess of 20 percent over three years. While both government and outside observers are concerned about this, it did represent a considerable improvement over the 47 percent in one year originally demanded by the employees.

OECS ECONOMIC DATA

TABLE A.5
DOMINICA
ORIGIN OF GDP AT FACTOR COST
Constant Factor Cost
(1977 EC$ Million)

	1980	1981	1982	1983	1984
Agriculture and Related	23.7	28.9	29.6	29.9	31.8
Mining and Quarrying	0.7	0.7	0.8	0.8	0.9
Manufacturing	6.2	7.3	8.6	8.7	8.7
Construction	11.9	10.0	8.8	8.3	9.5
Transport & Commun.	5.9	5.5	6.2	8.3	8.7
Trade	11.3	12.0	11.7	11.4	11.6
Hotels and Restaurants	0.9	0.9	1.0	1.1	1.3
Utilities	1.7	1.8	1.8	2.0	2.0
Banking, Finance, Real Esta	7.7	7.8	7.9	8.0	8.1
Government Services	21.1	21.9	22.6	22.9	23.4
Other, Net	1.1	1.1	1.2	1.2	1.2
TOTAL	92.2	97.9	100.2	102.6	107.2
Annual % Change in real GDP	16.4	6.2	2.3	2.4	4.5
GDP @ Current factor cost	143.7	153.0	162.6	175.8	190.3

Source: World Bk Econ Memo 1985

TABLE A.6
DOMINICA
GROSS DOMESTIC PRODUCT BY END USE
Current EC$ Million

	1980	1981	1982	1983	1984
Consumption	181.1	198.2	195.5	196.0	220.7
Public Sector	45.8	47.6	53.4	48.9	54.0
Private Sector	135.3	150.6	142.1	147.1	166.7
Investment	79.7	57.0	52.9	58.8	74.5
Public Sector	17.9	22.2	33.7	33.1	48.1
Private Sector	54.8	34.8	19.2	23.2	26.4
Inventory Change	7.0	0.0	0.0	2.5	
Gross Domestic Expenditure	260.8	255.2	248.4	254.8	295.2
Gross Domestic Savings	-24.8	-19.4	-1.4	14.5	7.8
Balance of Trade	-38.7	-28.3	-20.1	-16.4	-24.7
GDP at market prices	156.3	178.8	194.1	210.5	228.5

Source: World Bk Econ Memo 1985

TABLE A.7
DOMINICA
CENTRAL GOVERNMENT FINANCES
EC$ Millions

	1980	1981	1982	1983	1984
Recurrent Balance	-17.3	-5.9	-4.9	0.2	1.9
Recurrent Revenues	47.8	56.8	57.7	69.7	76.2
Recurrent Expenditure	65.1	62.7	62.6	69.5	74.3
Capital Expenditures and net Lending	24.6	23.0	25.7	34.6	49.7
Overall Balance	-41.9	-28.9	-30.6	-34.4	-47.8
Financing:	41.9	28.9	30.6	34.4	47.8
Foreign Grants	27.5	12.2	14.4	20.5	27.5
Budgetary Grants	12.3	2.2	1.0	0.0	0.0
Capital Grants	15.2	10.0	13.4	20.5	27.5
Net External Borrowing	2.3	3.8	12.0	10.5	13.5
Disbursements	n.a	n.a	n.a	n.a	n.a
Amortization	n.a	n.a	n.a	n.a	n.a
Other External Financing	12.1	12.9	4.2	3.4	6.8
IMF	10.3	8.7	7.6	0.7	-0.9
ECCB	2.0	0.0	0.0	2.0	2.5
Change in Foreign Asset	-2.0	0.3	-0.1	-0.6	-0.7
SDR allocation	0.7	0.0	0.0	0.0	0.0
Other - Residual	1.1	3.9	-3.3	1.3	5.9
Net Domestic Borrowing	0.0	0.0	0.0	0.0	0.0
Commercial Banks					
National Insurance	-				
Other					
Unidentified					
Memorandum item:					
Debt Service	0.6	1.1	1.4	2.6	4.1
Debt Service/Exp. of Goods & NFS	3.8	4.7	4.7	7.9	12.4

Source: World Bk Econ Memo 1985

TABLE A.8
DOMINICA
BALANCE OF PAYMENTS
US$ Million

	1980	1981	1982	1983	1984
Current Account	-32.4	-22.4	-9.6	-8.6	-17.5
Resource Balance	-38.7	-28.3	-20.1	-16.4	-24.7
Exports of goods & NFS	15.7	23.3	29.7	32.9	33.0
Imports of goods & NFS	54.4	51.6	49.8	49.3	57.7
Services (Net)	0.0	0.1	-0.1	-0.7	-2.2
Tourism	-				
Other (Net)	0.0	0.1	-0.1	-0.7	-2.2
Private Transfers	6.3	5.8	10.6	8.5	9.4
Capital Account	0.0	0.0	0.0	0.0	0.0
Official Grants					
Public Borrowing	0.0	0.0	0.0	0.0	0.0
Disbursement					
Amortization					
Private Capital					
Overall Balance	-32.4	-22.4	-9.6	-8.6	-17.5
Memorandum item:					
GDP at current Mkt Prices	156.3	178.8	194.1	210.5	228.5
	As a Percent of GDP				
Current Account	-0.2	-0.1	.0	.0	-0.1
Resource Balance	-0.2	-0.2	-0.1	-0.1	-0.1
Exports	0.3	0.3	0.3	0.2	0.3
Imports	0.3	0.3	0.3	0.2	0.3
Capital Account					
Overall Balance	-0.2	-0.1	.0	.0	-0.1

Source: World Bk Econ Memo 1985

A.3. Grenada

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

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

Agriculture

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

Tourism

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

Manufacturing

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

Other

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

Trends in Consumption, Investment and Savings

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

External Account

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

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

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

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

The Public Sector

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

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

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

OECS ECONOMIC DATA

TABLE A. 9
GRENADA
ORIGIN OF GDP AT FACTOR COST
Constant Market Prices
(1980 EC$ Million)

	1980	1981	1982	1983	1984
Agriculture and Related	35.6	39.5	34.5	38.9	37.9
Mining and Quarrying	1.6	1.9	2.3	1.8	1.8
Manufacturing	4.8	5.0	5.7	4.7	4.7
Construction	8.8	15.8	23.2	18.5	13.6
Transport & Commun.	12.5	12.6	13.8	13.1	13.1
Trade	30.6	30.0	31.9	30.7	31.6
Hotels and Restaurants	7.4	7.4	7.1	7.4	7.8
Utilities	3.7	3.6	3.7	3.6	3.7
Banking, Finance, Real Est.	10.7	10.9	11.9	11.9	11.9
Government Services	35.4	35.8	36.1	36.1	37.7
Other, Net	9.6	10.3	10.7	10.5	10.5
TOTAL	160.7	172.8	180.9	177.2	174.3
Annual % change in real GDP	n/a	7.5	4.7	-2.0	-1.6
GDP at current mkt prices*	175.5	212.9	219.0	224.1	234.6

*GDP data available at market prices only

Source: World Bk Econon Memo 1985

TABLE A.10
GRENADA
GROSS DOMESTIC PRODUCT BY END USE
Current EC$ Million

	1980	1981	1982	1983	1984
Consumption	176.3	195.8	216.2	227.8	241.6
Public Sector	46.8	50.8	51.4	55.0	62.2
Private Sector	129.5	145.0	164.8	172.8	179.4
Imvestment	55.9	96.0	110.0	94.5	79.7
Public Sector	37.1	76.6	95.7	84.4	70.0
Private Sector	18.8	19.4	14.3	10.1	9.7
Gross Domestic Expenditure	232.2	291.8	326.2	322.3	321.3
Gross Domestic Savings	-0.8	17.1	2.8	-3.7	-7.0
Balance of Trade	-56.7	-78.9	-107.2	-96.2	-86.7
GDP at market prices	175.5	212.9	219.0	224.1	234.6

Source:World Bk Econon Memo 1985

TABLE A
GRENADA
CENTRAL GOVERNMENT FINANCES
EC$ Millions

	1980	1981	1982	1983	1984
Recurrent Balance	-1.9	-1.4	2.8	6.9	0.7
Recurrent Revenue	57.7	63.0	74.4	81.3	87.4
Recurrent Expenditure	59.6	64.4	71.6	74.4	86.7
Capital Expenditure	37.5	74.8	103.6	92.2	71.9
Current External Grants	1.4	0.9	2.6	3.2	28.6
Overall Balance	-38.0	-75.3	-98.2	-82.1	-42.6
Financing:	38.0	75.3	98.2	82.5	42.6
External Capital Grants	33.0	34.0	42.4	31.8	39.4
Net External Borrowing	3.5	19.9	24.9	38.6	14.0
Disbursements	4.5	21.7	26.3	40.0	19.7
Amortization	-1.0	-1.8	-1.4	-1.4	-5.7
Other External Financing	0.9	21.6	-0.7	1.7	-4.4
IMF	-	15.6	-2.4	3.2	-3.3
ECCB	0.9	2.2	2.2	-1.3	-
Change in Foreign Asset	-1.1	2.7	-0.5	-0.2	-1.1
Other - SDR allocation	1.1	1.1	-	-	-
Net Domestic Borrowing	-3.0	2.2	31.6	10.6	-6.4
Commercial Banks (net)	-4.6	1.2	29.0	3.8	-12.5
National Insurance	-	-	-	3.1	3.8
Other	1.6	1.0	2.6	3.7	2.3
Unidentified Financing	3.6	-2.4	-	-0.2	-
Memorandum item:					
Debt Service	1.6	1.5	2.4	1.9	5.5
Debt Service/Exp. of Goods & NFS (%)	4.0	3.8	6.3	4.9	13.0

Source: World Bk Econ Memo 1985

TABLE A.12
GRENADA
BALANCE OF PAYMENTS
US$ Million

	1980	1981	1982	1983	1984
Current Account	-13.3	-23.4	-33.7	-29.0	-20.0
Trade Balance	-40.8	-46.2	-56.7	-50.0	-46.4
Exports FOB	19.5	22.0	20.9	24.3	24.9
Imports CIF	60.3	68.2	77.6	74.3	71.3
Services (Net)	17.9	12.4	12.0	10.2	14.7
Tourism	20.1	17.3	17.3	14.7	17.3
Other (Net)	-2.2	-4.9	-5.3	-4.5	-2.6
Private Transfers	9.6	10.4	11.0	10.8	11.7
Capital Account	12.9	15.4	34.0	26.7	20.7
Official Grants	12.7	12.9	16.7	12.8	25.2
Public Borrowing	1.3	7.5	9.5	14.7	5.2
Disbursement	1.8	8.2	10.1	15.3	7.3
Amortization	0.5	0.7	0.6	0.6	2.1
Other (including E & O)	-1.1	-5.0	7.8	-0.8	-9.7
SDR Allocation	0.5	0.4	-	-	-
Overall Balance	0.1	-7.6	0.3	-2.3	0.7
Memorandum item:					
GDP at Market Prices	175.5	212.9	219.0	224.1	234.6
	As a Percent of GDP				
Current Account	-0.1	-0.1	-0.2	-0.1	-0.1
Trade Balance	-0.2	-0.2	-0.3	-0.2	-0.2
Exports	0.1	0.1	0.1	0.1	0.1
Imports	0.3	0.3	0.4	0.3	0.3
Capital Account	0.1	0.1	0.2	0.1	0.1
Overall Balance	.0	.0	.0	.0	.0

Source: World Bk Econ Memo 1985

A.4. St. Kitts

The twin-island state of St. Kitts-Nevis, the most recently independent of the Eastern Caribbean countries, is also the smallest country in the subregion. An extremely open economy like its sister states in the OECS, St. Kitts' reliance on the world economic situation is exacerbated by its virtual dependence on a single commodity (sugar), one that places the country at a distinct disadvantage economically. The country's performance in the early 1980s is closely tied to the performance of that one industry.

Agriculture

By any measure (e.g., acreage sown, productivity, production), the sugar industry deteriorated between 1980 and 1984, resulting in an average 3 percent per year decline in agricultural value added over the period. The government had acquired the sugar plantations from owners in the 1970s when the price of sugar fell sharply and was faced with compensation to these owners in 1980 when sugar prices took a turn for the better. The battle over compensation continued through 1986 when a foreign concern loaned the government the funds to pay off the sugar land owners. The ownership question had precluded the government's making any attempt to sell off the sugar lands to producers who wished to continue with sugar or diversify into other land uses. At the same time, the sugar production parastatal, the National Agricultural Corporation (NACO) continued to operate further and further into the red and government-guaranteed domestic sugar liabilities continued to rise, in part because NACO continued to pay workers for work not actually carried out. The combined sugar debt now (1986) stands at over EC$ 50 million, and represents in large part borrowing for "welfare" purposes. Government's aim is to now ease the country out of sugar into diversified agriculture, while increasing productivity on the land kept in sugar.

Manufacturing

In the early 1980s, about half of manufacturing output has been related to sugar, and that half has declined over the period as sugar production has fallen. The balance of manufacturing is enclave-type production, much of it for extraregional markets, but this type of output has not shown any increase when 1984 is compared with 1980. On the other hand, using 1979 as a base year, growth has occurred. Production for export is in clothing, footwear, and electrical equipment. Government is actively attempting to expand factory shells to attract more enclave manufacturers to the country.

Tourism

The tourism sector, as measured by value added in hotels and restaurants, has grown less than 3 percent per year over the period 1980-84, a signal accomplishment given the world economy in the period. Still, the sector is such a small share of GDP that growth in tourism barely affects GDP growth. The government, however, believes that the sector is important, and has encouraged the development of existing facilities, including those which provide visitors with games of chance. Testimony to the government's belief that the industry may be a panacea for the country's economic woes is the government's tenacity to constructing a road to open the now-fallow southeast peninsula to tourism.

Balance of Payments

On current account, St. Kitts' position deteriorated only slightly over the 1980-84 period. (In 1983, the current account balance turned sharply worse, a discontinuity that is attributable primarily to foreign direct investment in hotel facilities and a foreign veterinary school.) The resource balance did not deteriorate at all, inasmuch as net travel payment increased to balance the decrease in the trade balance. In commodity trade, imports registered hardly any growth, but exports were down, reflecting the drop in sugar and sugar-related trade. Nonfactor service earnings were given a boost by visitor arrivals, and travel receipts increased nearly 60 percent over the period. Private transfers (largely remittances) were also up significantly. On capital account, the most striking difference over the period has been the increase in private direct investment (associated with hotels and the veterinary school). St. Kitts has no external debt problem; this positive situation is balanced by its very serious internal financial problems.

Public Sector Finances

Two elements explain the serious downward spiral in St. Kitts' public sector finances over the 1980-84 period: the sugar sector's problems and public sector pay increases. The sugar levy, which accounted for 30 percent of government's revenues in 1980, had reduced to zero by 1982 as problems in the industry prevented the government from collecting the levy. Increases in import-related taxes (import tariff and consumption duty) were unable to make up the difference. While government revenues went up only a bit over 10 percent, recurrent expenditures rose over 30 percent; the majority of the nominal increase on the expenditure side came from a 70-plus increase in the public sector wage bill. By 1984, the government had turned its balanced 1980 recurrent budget into a deficit equivalent to about 5 percent of GDP.

Wages and Prices

Although wage increases were moderate in 1982-85, the government granted a 50 percent civil service wage increase in 1980. Again in 1986, civil servants were given a 25-percent increase. Although these increases are not conducive to attaining fiscal solvency, St. Kitts' price changes are more likely to follow international price changes, given the openness of the economy. Inflation, high in the early 1980s, moderated to under 3 percent in 1984 and is expected to be below that level in 1985 and 1986.

OECS ECONOMIC DATA

TABLE A.13
ST. KITTS/NEVIS
ORIGIN OF GDP AT FACTOR COST
Constant Factor Cost
(1977 EC$ Million)

	1980	1981	1982	1983	1984
Agriculture and Related	16.6	16.7	16.6	14.1	14.8
Mining and Quarrying	0.2	0.2	0.2	0.2	0.2
Manufacturing	13.5	12.1	13.2	11.7	12.6
Construction	7.7	8.0	7.2	7.8	8.4
Transport & Commun.	6.9	9.3	9.4	9.6	9.8
Trade	7.4	9.0	9.0	9.7	9.9
Hotels and Restaurants	2.6	2.9	2.5	2.5	2.9
Utilities	0.9	0.9	1.0	1.0	1.0
Banking, Finance, Real Esta	6.2	6.8	7.3	7.4	7.1
Government Services	15.4	16.3	17.5	17.6	17.4
Other, Net	3.8	4.3	4.5	4.7	4.8
TOTAL	81.2	86.5	88.4	86.3	88.9
Annual % change in real GDP	4.1	6.5	2.2	-2.4	3.0
GDP at current factor cost	105.4	126.1	139.4	139.5	148.6

Source: World Bk Econ Memo 1985

TABLE A.14
ST. KITTS/NEVIS
GROSS DOMESTIC PRODUCT BY END USE
Current EC$ Million

	1980	1981	1982	1983	1984
Consumption	130.8	176.8	187.4	191.1	201.0
Public Sector	29.3	36.1	37.6	38.3	36.6
Private Sector	101.5	140.7	149.8	152.8	164.4
Investment	40.7	21.1	15.6	44.1	13.5
Public Sector	38.6	18.0	12.9	11.8	10.9
Private Sector	2.1	3.1	2.7	32.3	2.6
Gross Domestic Expenditure	171.5	197.9	203.0	235.2	214.5
Gross Domestic Savings	2.3	-20.2	-26.5	-27.1	-26.3
Balance of Trade	-37.8	-41.3	-42.1	-71.2	-39.8
GDP at market prices	133.1	156.6	160.9	164.0	174.7

Source: World Bk. Econ Memo 1985

TABLE A.15
ST. KITTS/NEVIS
CENTRAL GOVERNMENT FINANCES
EC$ Millions

	1980	1981	1982	1983	1984
Recurrent Balance	6.0	-1.7	-9.5	-8.6	-8.9
Recurrent Revenues	50.9	55.1	49.0	49.4	51.9
Recurrent Expenditure	44.9	56.8	58.5	58.0	60.8
Capital Expenditures	29.1	11.1	10.5	11.3	9.6
Current External Grants	13.0	4.3	5.8	5.8	3.7
Overall Balance	-10.1	-8.5	-14.2	-14.1	-14.8
Financing:	10.1	8.4	14.2	14.1	14.8
External Capital Grants					
Net External Borrowing	10.6	1.4	0.5	2.0	5.9
Disbursements	n/a	n/a	n/a	n/a	n/a
Amortization	n/a	n/a	n/a	n/a	n/a
Other External Financing	-0.5	7.0	13.7	12.1	8.9
IMF	-5.0	7.2	9.3	11.8	9.4
ECCB	--	--	2.6	0.5	--
Change in Foreign Asset	4.5	-0.2	1.8	-0.2	-0.5
Other					
Net Domestic Borrowing	--	--	--	--	--
Commercial Banks	--	--	--	--	--
National Insurance	--	--	--	--	--
Other	--	--	--	--	--
Unidentified					
Memorandum item:					
Debt Service	0.5	0.5	0.8	0.7	1.1
Debt Service/Exp. of Goods & NFS	1.5	1.4	2.5	2.4	3.3

Source: World Bk Econ Memo 1985

TABLE A.16
ST. KITTS/NEVIS
BALANCE OF PAYMENTS
US$ Million

	1980	1981	1982	1983	1984
Current Account	-7.2	-5.2	-6.8	-17.6	-6.3
Trade Balance	-13.9	-14.9	-15.0	-25.0	-13.7
Exports of G & NFS	32.3	35.2	31.8	29.2	33.2
Imports of G & NFS	46.2	50.1	46.8	54.2	46.9
Services (Net)	0.2	0.6	0.4	-0.2	-0.7
Tourism					
Other (Net)	0.2	0.6	0.4	-0.2	-0.7
Private Transfers	6.5	9.1	7.8	7.6	8.1
Capital Account	5.6	5.3	5.1	17.5	6.6
Official Grants	4.8	1.6	2.2	2.7	1.4
Commercial Banks	-	3.5	1.3	0.1	-1.6
Public Borrowing	3.9	1.4	0.6	1.1	2.2
Disbursement	3.9	1.4	0.6	1.1	1.4
Amortization					
Pte Foreign investment & Errors & Omissions	-3.1	-1.2	1.0	13.6	4.6
Overall Balance	-1.6	0.1	-1.7	-0.1	0.3
Memorandum item:					
GDP at Market Prices	133.1	156.6	160.9	164.0	174.7
	As a Percent of GDP				
Current Balance	-0.1	.0	.0	-0.1	.0
Trade Balance	-0.1	-0.1	-0.1	-0.2	-0.1
Exports	0.2	0.2	0.2	0.2	0.2
Imports	0.3	0.3	0.3	0.3	0.3
Capital Account Balance	.0	.0	.0	0.1	.0
Overall Balance	.0	.0	.0	.0	.0

World Bk Econ Memo 1985

A.5. St. Lucia

St. Lucia's economy is the largest in the Eastern Caribbean, and until recently arguably the best managed. However, financial management problems have surfaced and unemployment has been growing since the early 1980s.

Agriculture

The country's agriculture, dependent heavily on banana and, to some extent, coconut production, is the largest productive sector and the largest employer. Over two-thirds of the arable land is sown to bananas, production of which has grown steadily since 1982, primarily through increased small-holder productivity rather than as a result of increased land or labor inputs. (Like other Windward Islands, the banana crop was destroyed in 1979-80 by hurricanes and foreign assistance has been instrumental in rehabilitation.) Coconut production is a significant input to manufacturing in St. Lucia, and cocoa and fruits and vegetables are growing in importance. Although a leading sector, agriculture cannot hope in the near term to ease unemployment.

Manufacturing

Manufacturing has also been designated a leading sector by the Government of St. Lucia, and the twin foci are on processing of domestic coconut for copra, oil, and other coconut-based manufactured goods, and on enclave-type industry. Coconut-based production suffered in the 1979-81 period as a result of the hurricanes, then recovered, but has since faltered as major regional markets have increased their protectionist policies. Enclave production has continued to grow steadily through 1984 and the CBI holds promise for increases in this aspect of manufacturing.

Tourism

St. Lucia's tourism industry, ranked second in size to Antigua's in the Eastern Caribbean, suffered slumps in the early 1980s due to the slowdown in the world economy and to the hurricanes, but has in 1983-84 returned to impressive growth rates.

Balance of Payments

St. Lucia's balance of payments, reflecting the fact that capital formation is largely externally financed, is consistently in deficit on current account. That deficit dropped dramatically as the Hess Transshipment and Storage Facility neared completion in 1983, and the current deficit dropped from 39 percent of GDP in 1981 to a scant 9 percent in 1983. Flat exports in 1984 and an increase in imports, however, brought the current deficit-to-GDP ratio back up to 15 percent in 1984, despite improvement in tourism earnings in 1984. Although domestic exports increased handily (with sharp increases in banana and clothing exports), a large decrease in re-exports resulted in the lack of overall export improvement in 1984. On the import side, the increase in St. Lucia's purchases of foreign goods was primarily in manufactured imports (including machinery and equipment) and stemmed from the nearly 30-percent increase in the public sector investment program.

Public Sector Finances

Central government revenue has grown more slowly than recurrent expenditures over the 1980-82 period, resulting in recurrent deficits of about 4 percent of GDP in 1982. In part this was attributable to very large annual civil service wage increases and in part it was due to the rehabilitation necessitated by the 1979-80 hurricane. In 1983-84, growth of recurrent expenditures moderated somewhat as civil service wages registered lower increases than in previous years. On the revenue side, as external trade began to pick up following the economic doldrums of the early 1980s, recurrent revenues began to improve and the recurrent deficit was nearly wiped out by 1984.

Overall, the central government's position also worsened, on an accrual basis, through 1982 and then turned better. The overall central government deficit swelled to about 8 percent of GDP in 1982, and this was financed by a combination of foreign borrowing (primarily in government paper sold to various regional countries), domestic borrowing (largely from the commercial banks), and a further buildup of the arrears that had begun to emerge the previous year. Although overall deficits were reduced in 1983, increased government spending on capital account for its investment program in 1984 did little to relax the overall deficit. Ultimately, government's outstanding obligations in arrears had mounted to EC$ 34 million by the end of (St. Lucia) fiscal year 1984, equivalent to 28 percent of recurrent revenues in 1984. In part these arrears represent delinquent contributions to the National Insurance Scheme and in part they represent obligations to creditors.

Wages and Prices, and the Exchange Rate

Prices have followed international trends, and inflation has fallen from about 20 percent in 1980 to about 1 percent in 1984, given the extreme openness of St. Lucia's economy. On the other hand, although wage increases have declined somewhat, the civil service salary agreement covering 1983-86 settled on an average annual increase of about 6 percent. In order to help curb increases in government expenditures, St. Lucia must ////what happened to pay rises in 1986?////

Heavily dependent as the economy is on banana exports to the U.K., St. Lucia suffered as did the other Windward Islands from the appreciation of the US dollar, to which the EC dollar is tied, through 1984. However, the subsequent depreciation of the US dollar in 1985 and 1986 has gone far to rectify the appreciation of the EC dollar, as far as St. Lucia is concerned. The difficulty of obtaining the requisite unanimous consent of the members of the currency union for a change in the exchange rate, coupled with the improvement (i.e., re-depreciation) of the EC dollar over the past year, suggest that St. Lucia focus on other approaches to increasing the competitiveness of its economy.

OECS ECONOMIC DATA

TABLE A.17
ST. LUCIA
ORIGIN OF GDP AT FACTOR COST
Constant Factor Cost
(1977 EC$ Million)

	1980	1981	1982	1983	1984
Agriculture and Related	21.6	18.7	24.1	27.5	29.0
Mining and Quarrying	3.3	2.8	2.1	1.5	1.6
Manufacturing	15.5	15.8	17.0	18.8	18.4
Construction	21.8	22.6	21.3	11.7	12.8
Transport & Commun.	19.1	18.5	18.6	20.2	21.5
Trade	30.5	31.2	30.0	30.3	31.2
Hotels and Restaurants	15.4	12.9	13.4	14.6	15.8
Utilities	5.7	5.9	6.0	6.6	7.5
Banking, Finance, Real Esta	2.8	2.4	2.6	3.0	3.0
Government Services	31.1	35.6	39.1	43.1	45.5
Other, Net	16.4	17.2	17.7	18.4	19.0
TOTAL	183.2	183.6	191.9	195.7	205.3
Annual % change in real GDP	-2.9	0.2	4.5	2.0	4.9
GDP @ Current factor cost	264.6	293.8	314.6	328.5	348.2

Source: World Bk Econ Memo 1985

TABLE A.18
ST. LUCIA
GROSS DOMESTIC PRODUCT BY END USE
Current EC$ Million

	1980	1981	1982	1983	1984
Consumption	262.4	319.4	352.0	328.0	353.2
Public Sector	63.7	71.1	92.1	97.5	102.7
Private Sector	198.7	248.3	259.9	230.5	250.5
Investment	181.2	198.8	155.5	127.2	142.4
Public Sector	33.2	33.4	26.1	33.3	39.1
Private Sector	148.0	165.4	129.4	93.9	103.3
Gross Domestic Expenditure	443.6	518.2	507.5	455.2	495.6
Gross Domestic Savings	42.7	21.4	11.4	52.1	55.2
Balance of Trade					
GDP at market prices	305.1	340.8	363.4	380.1	408.4

Source: World Bk Econon Memo 1985

TABLE 19
ST. LUCIA
CENTRAL GOVERNMENT FINANCES
EC$ Millions

	1980	1981	1982	1983	1984
Recurrent Balance	4.3	-3.7	-15.1	-7.6	-0.8
Recurrent Revenues	85.2	90.4	103.7	111.3	123.1
Recurrent Expenditure	80.9	94.1	118.8	118.9	123.9
Capital Expenditure & Net Lending	30.6	34.8	29.5	28.5	39.1
Capital Grants	8.8	14.4	13.2	18.8	26.5
Current Grants	0.2	0.0	0.4	0.3	0.0
Overall Balance	-17.3	-24.1	-31.0	-17.0	-13.4
Financing:	17.3	24.1	31.0	17.0	13.4
External Capital Grants					
Net External Borrowing	0.6	7.0	4.9	0.3	1.5
Disbursements	0.9	7.3	5.3	0.8	2.1
Amortization	-0.3	-0.3	-0.4	-0.5	-0.6
Other External Financing	7.4	8.1	6.1	19.7	-0.5
IMF	4.6	7.8	-5.1	-0.1	-3.9
ECCB	2.3	1.0	0.0	17.1	3.9
Foreign Assets	0.5	-1.2	0.2	-0.1	0.4
Other	0.0	0.5	11.0	2.8	-0.9
Net Domestic Borrowing	9.3	2.7	12.4	-10.6	6.0
Commercial Banks	6.3	3.3	5.6	-11.8	4.3
National Insurance	-	-	-	-	-
Other	3.0	-0.6	6.8	1.2	1.7
Change on Payment arrears	0.0	6.3	7.7	7.6	6.4
Memorandum item:					
Debt Service	1.1	1.2	2.1	2.4	1.8
Debt Service/Exp. of Goods & NFS	1.4	1.7	2.9	2.9	2.0

Source: IMF October 1985

Exp of GNFS	78.9	71.0	74.1	89.4	96.8

TABLE A.20
ST. LUCIA
BALANCE OF PAYMENTS
US$ Million

	1980	1981	1982	1983	1984
Current Account	-40.6	-49.0	-36.4	-12.3	-22.3
Trade Balance	-77.7	-86.8	-76.2	-58.9	-70.6
Exports FOB	46.1	42.1	41.9	47.9	47.9
Imports CIF	123.8	128.9	118.1	106.8	118.5
Services (Net)	27.1	24.2	26.3	32.9	34.0
Tourism (gross)	30.9	26.8	29.7	36.2	40.2
Other (Net)	-3.8	-2.6	-3.4	-3.3	-6.2
Private Transfers	10.0	13.6	13.5	13.7	14.3
Capital Account	38.3	44.8	38.9	12.6	23.9
Official Grants	4.6	7.3	5.8	7.3	10.1
Public Borrowing	1.2	2.8	5.6	2.0	1.3
Disbursement	1.9	3.4	6.9	2.9	2.2
Amortization	-0.7	-0.6	-1.3	-0.9	-0.9
Private Transfers (net)					
Private direct investment	30.9	38.2	26.5	12.0	12.0
Commercial Banks	3.2	-2.9	-0.7	-5.5	1.7
Errors and Omissions	-1.6	-0.6	1.7	-3.2	-1.2
Overall Balance	-2.3	-4.2	2.5	0.3	1.6
Arrears					
Memorandum item:					
GDP at Market Prices	305.1	340.8	363.4	380.1	408.4
	As a Percent of GDP				
Current Balance	-0.1	-0.1	-0.1	.0	-0.1
Trade Balance	-0.3	-0.3	-0.2	-0.2	-0.2
Exports	0.2	0.1	0.1	0.1	0.1
Imports	0.4	0.4	0.3	0.3	0.3
Capital Account & Balance	0.1	0.1	0.1	.0	0.1
Overall Balance	.0	.0	.0	.0	.0

Source: IMF October 1985

A.6. St. Vincent and the Grenadines

After two serious natural disasters in 1979 and 1980--a volcanic eruption and a hurricane--St. Vincent's economy recovered impressively in 1981 and demonstrated relatively good growth during the generally lacklustre (for the region) years 1982-84. In 1984, the current government ascended to power and conducted a crash assessment of the economy with an eye to overcoming serious financial problems.

Agriculture

Major features of St. Vincent's agriculture sector--the largest productive sector--during the early 1980s were bananas, arrowroot, and sugar. Banana production dropped sharply following the natural disasters, and the 1978 peak export volume was not surpassed until 1984. Partly in response to improved prices (resulting from the US dollar's depreciation), banana production grew an estimated 10-plus percent in 1985 and is expected to grow by nearly 20 percent in 1986. The collapse of overseas markets for what was once a major export earner in St. Vincent, arrowroot rhizomes, has resulted in huge stockpiles of arrowroot in the country. The Government resurrected the sugar industry in 1980 to supply domestic demand, but since then the industry has been accruing large losses. The current government closed down the industry in 1985 and is using profits from sales of imported sugar to gradually pay off the sugar debt it assumed as of the closing of the industry. In addition, St. Vincent produces root crops, primarily for export to the Trinidad market. Demand has fallen off somewhat, however, and the country is turning its attention to further diversifying its agriculture sector.

Manufacturing

Manufacturing in St. Vincent is a larger share of GDP than in any OECS state by St. Kitts, where sugar processing accounts for much of industrial output. Growth, however, has been slow, primarily a result of the decline in agroindustries (such as sugar, arrowroot, flour). This decline was not compensated for by strong growth in some enclave-type exporting industries. Government has concentrated its efforts over the past several years on infrastructure improvements in an attempt to support manufacturing development.

Tourism

Tourism did not grow rapidly over the period, and still remains a very modest share of GDP, as measured by value added in hotels and restaurants. St. Vincent's appeal as a tourist destination continued to be for small boat traffic to the Grenadines. However, preliminary returns for 1985 suggest that the hotel and restaurant component in GDP may increase about 7 percent, given an upsurge in overnight visitor arrivals.

Balance of Payments

St. Vincent's current account balance on external account improved relatively steadily over the 1980-84 period. By 1984, the current account balance stood at about 3.7 percent of GDP, well down from the 22.7 percent figure for 1980. Exports have increased handily from 36 percent of GDP in 1980 to 55 percent in 1984, while imports dropped from nearly 100 percent of GDP in 1980 to about 78 percent in 1984. Dramatic changes occurred in 1983 and 1984 with respect to exports of root crops to the Trinidad market and with respect to flour exports, both of which led the export drive. The other major items of increase on the export side have been nontraditional products, including electronic components, sporting goods, and garments, primarily destined for the U.S. Although volume of banana exports increased significantly in 1984, declining dollar prices paid St. Vincent exporters for the crop nullified this increase and export earnings from bananas did not contribute to the improved export performance in 1984. Other flows on current account changed very little over the period, with the exception of imports. However, growth of imports was relatively steady and is accounted for largely by increases in manufactured and machinery and transport equipment, some of which are funded by external grants or concessional loans to the public sector investment program.

On capital account in the 1982-84 period, earnings just covered deficits on current account. There was some reduction in official transfers, given a slowdown in externally funded capital construction; that trend is expected to reverse in 1985 as the Cumberland hydroelectric project begins.

Public Sector Finances

Although St. Vincent's central government recurrent deficit has never in the period been terribly bad, only in 1984 after the ascendancy of the current government has the recurrent balance been sufficiently positive to cover capital costs (other than those projects paid for externally). This positive turn of events is accounted for by the current government's determination not to allow recurrent spending to continue to escalate, and their determination to increase revenues to a level to cover outlays. In 1984, recurrent spending declined in nominal terms while recurrent revenues rose about 15 percent in nominal terms. The government was able to make significant repayments to the domestic banking system. In 1985, the government assumed the debts incurred by the sugar industry at the parastatal bank and agreed to amortize the debt using profits from domestic sale of imported sugar. St. Vincent's parastatals have plagued public sector finances over the past few years, but government is now apparently determined to raise user fees to cover costs of production. St. Vincent's government operates a number of enterprises that are not utilities and are therefore amenable to privatization. Although demand management is not at the moment a problem in St. Vincent, government should examine its revenue system to ensure that tax and nontax revenue mechanisms to stifle or hamper development of the private sector.

OECS ECONOMIC DATA

TABLE A.21
ST. VINCENT
ORIGIN OF GDP AT FACTOR COST
Constant Factor Cost
EC$ Millions

	1980	1981	1982	1983	1984
Agriculture and Related	12.1	17.7	18.7	19.6	20.5
Mining and Quarrying	0.3	0.3	0.3	0.3	0.4
Manufacturing	11.1	11.3	12.0	12.3	12.4
Construction	11.2	11.4	11.5	12.2	12.6
Transport & Commun.	15.8	18.8	20.7	23.2	24.6
Trade	11.1	11.1	12.7	13.0	13.6
Hotels and Restaurants	3.7	3.2	3.4	3.6	3.6
Utilities	3.2	3.3	3.6	3.7	3.8
Banking, Finance, Real Esta	7.7	8.6	8.8	8.9	9.1
Government Services	17.7	17.5	17.5	17.8	18.4
Other, Net of Imputed Svcs	-0.7	-0.6	-0.5	-0.5	-0.5
TOTAL	93.2	102.6	108.7	114.1	118.5
Annual % Change in real GDP	4.3	10.1	5.9	5.0	3.9
GDP at current factor cost	133.5	164.6	188.2	204.3	219.6

Source: IMF 16 JAN 86 Art IV

TABLE A.22
ST. VINCENT
GROSS DOMESTIC PRODUCT BY END USE
Current EC$ Million

	1980	1981	1982	1983	1984
Consumption	161.2	184.4	221.1	231.1	232.7
Public Sector	37.7	45.0	53.1	56.8	57.6
Private Sector	123.5	139.4	168.0	174.3	175.1
Investment	63.0	64.2	68.4	79.0	72.4
Public Sector	24.1	28.4	21.5	23.9	19.7
Private Sector	33.2	30.0	40.7	48.4	45.8
Inventory change	5.7	5.8	6.2	6.7	6.9
Gross Domestic Expenditure	224.2	248.6	289.5	310.1	305.1
Gross Domestic Savings	-3.1	8.8	4.1	15.2	34.3
Balance of Trade	-36.1	-28.4	-29.3	-28.6	-22.4
GDP at market prices	158.1	193.2	225.2	246.3	267.0

Source: IMF 16 JAN 86 Art IV

TABLE A.23
ST. VINCENT
CENTRAL GOVERNMENT FINANCES
EC$ Millions

	1980*	1981*	1982*	1983*	1984*
Recurrent Balance	-0.7	-5.2	2.9	-1.6	11.2
Recurrent Revenues	46.2	57.9	70.2	72.7	83.9
Recurrent Expenditure	46.9	63.1	67.3	74.3	72.7
Capital Expenditures & Net Lending	10.0	15.0	21.0	11.2	9.8
Current External Grants	-	-	-		
Overall Deficit	-10.7	-20.2	-18.1	-12.8	1.4
Financing:	10.6	20.3	18.2	12.9	-1.3
External Capital Grants	8.3	12.8	10.8	7.6	6.9
Net External Borrowing	3.3	0.7	4.7	-0.4	-0.8
Disbursements	3.3	0.7	4.7	-0.7	2.4
Amortization	n/a	n/a	n/a	n/a	n/a
Other External Financing	5.0	2.3	2.6	8.5	-2.0
IMF	6.1	-		-1.4	-1.0
ECCB	-	0.6	3.3	7.4	0.6
Change in Foreign Asset	-1.2	1.3	-0.9	2.4	-1.6
Other	0.1	0.4	0.2	0.1	
Net Domestic Borrowing	-6.0	4.5	0.1	-2.8	-5.4
Commercial Banks	0.4	3.2	4.2	-2.9	-5.0
National Insurance			-0.2	-0.2	
Other	-6.4	1.3	-3.9	0.3	-0.4
Unidentified	-0.6	1.9	-2.2	1.6	8.1
Memorandum item:					
Debt Service	0.4	0.6	1.4	1.4	1.9
Debt Service/Exp. of Goods & NFS	2.0	1.6	3.4	2.9	3.1

Source: IMF Jan 86 Art IV Doc
* Fiscal year beginning 1 July

TABLE A.24
ST. VINCENT
BALANCE OF PAYMENTS
Million US$

	1980	1981	1982	1983	1984 (prel)
Current Account	-13.3	-8.1	-11.8	-5.9	-3.7
Trade Balance	-36.1	-28.4	-29.3	-28.6	-22.4
Exports FOB	21.1	29.8	34.3	41.8	54.2
Imports CIF	57.2	58.2	63.6	70.4	76.6
Services (Net)	10.6	7.3	3.6	5.3	6.1
Tourism	n/a	9.1	7.2	6.3	8.0
Other (Net)	10.6	-1.8	-3.6	-1.0	-1.9
Private Transfers	12.2	13.0	13.9	17.4	12.6
Capital Account	9.7	6.3	11.8	5.9	4.2
Official Transfers	3.9	3.4	3.6	3.0	2.5
Public Borrowing	4.4	2.7	2.4	2.6	2.2
Disbursement	n/a	3.2	2.9	3.3	3.0
Amortization	n/a	-0.5	-0.5	-0.7	-0.8
Govt. Foreign Assets	-0.2	-1.1	3.7	-0.3	-4.0
Private Capital & errors of omission	2.8	3.3	-0.5	2.0	1.1
Banking System	1.6	-2.0	2.6	-1.4	2.4
Overall Balance	-3.6	-1.8	.0	.0	0.5
Memorandum item:					
GDP at Market Prices	158.1	193.2	225.2	246.3	267.0
	As a Percent of GDP				
Current Balance	-22.7	-11.3	-14.1	-6.5	-3.7
Trade Balance	-61.7	-39.7	-35.1	-31.4	-22.7
Exports	36.0	41.6	41.1	45.8	54.8
Imports	97.7	81.3	76.3	77.2	77.5
Capital Account	16.6	8.8	14.1	6.5	4.2
Overall Balance	-6.1	-2.5	.0	.0	0.5

Source: IMF Jan 86 Art IV Doc

ANNEX B

STRUCTURE OF THE PUBLIC SECTOR IN OECS STATES

ANTIGUA AND BARBUDA

		1984 Revenues
I.	General Government	
	A. Central Government	100.1
	B. Social Security Scheme	13.7
	C. Medical Benefits Scheme	7.0
II.	Consolidated State Enterprises	
	A. Port Authority	6.9
	B. Public Utilities Authority	43.6
	C. Central Marketing Corporation	7.0

DOMINICA

			1984 Revenues
I.	General Government		
	A.	Central Government	74.7
	B.	Social Security Scheme	8.9
	C.	Local Governments	0.9
	D.	Broadcasting Corporation	0.7
	E.	Tourist Board	0.3
II.	Public Enterprises		
	A.	Dominica Banana Marketing Corporation	29.6
	B.	Central Water Authority	2.4
	C.	External Trade Bureau	3.4
	D.	Agricultural Marketing Board	0.3
	E.	Port Authority	3.8

GRENADA

1984 Revenues

/////CANNOT DO THIS ONE/////

ST. KITTS/NEVIS

		1984 Revenues
I.	General Government	
	A. Central Government (including utilities)	51.9
II.	Public Enterprises	
	A. National Agricultural Corporation	14.8
	B. St. Kitts Sugar Manufacturing Corporation	32.5
	C. Central Marketing Corporation	2.9
	D. Frigate Bay Development Corporation	0.8
	E. Port Authority	1.8

ST. LUCIA

		1984 Revenues
I.	General Government	
	A. Central Government	123.1
	B. National Insurance Scheme and Castries City Council	19.7
II.	Public Sector Enterprises	
	A. Air and Sea Ports Authority	)
	B. Banana Growers' Association	)
	C. Central Water Authority	)
	D. Electricity Services Limited	) 109.6
	E. Marketing Board	)
	F. National Development Corporation	)

ST. VINCENT AND THE GRENADINES

		1984 Revenues
I.	General Government	
A.	Central Government	83.9
B.	Kingstown Board	1.2
C.	National Provident Fund	5.3
II.	Public Enterprises	
A.	Arrowroot Industry Association	1.7
B.	Banana Growers' Association	36.3
C.	Central Marketing Corporation	17.1
D.	Central Water and Sewerage Authority	2.2
E.	Development Corporation	1.1
F.	Diamond Dairy	4.1
G.	Housing and Land Development	1.3
H.	Philatelic Services	1.6
I.	Port Authority	2.5
J.	Sugar Industry Limited (now closed)	4.9
K.	St. Vincent Electricity Services Ltd.	13.2

St. Lucia

-- Create master tax file for personal and company income tax administration — 5/86-12/86

— (Government has been very cool on PMPP project, and Mission hopes success in above activity will encourage government's further use of PMPP.)

St. Vincent

-- Customs advisor — 6/86-5/87

— Income tax administration advisor — 8/86-1/87

OECS Economic Affairs Secretariat

-- Customs advisor to assist OECS to move toward a customs union, a move already under serious consideration — 7/86-8/86

-- Advisor to assess current status of statistics in the OECS and to propose a plan for upgrading the collection, dissemination, and analysis of economic data, including national income data and financial and trade statistics — 8/86-9/86

ANNEX C

PUBLIC MANAGEMENT AND POLICY PLANNING PROJECT:

EXISTING AND PROPOSED POLICY-RELATED TECHNICAL ASSISTANCE

Antigua

-- Team developing scope of work for PMPP assessment of GOAB financial management needs	5/86-6/86
-- Yet-undetermined person-months of technical assistance in financial management, including debt monitoring, debt management, program budgeting, public utility rate setting, and financial policy analysis	7/86-12/86

Dominica

-- Income tax administration advisor	1/86-1/87
-- Planning advisor	6/86-5/87
-- Customs advisor	7/86-10/86
-- Advisor to review revenue structure and advise on options for change	8/86-10/86

Grenada

-- Fiscal reform team to propose revenue-side changes, to assist in implementation, and to implement program budgeting	4/85-3/87
-- (no other interventions designed yet)	

St. Kitts

-- Prepare fiscal analysis section of five-year plan for government, as part of a larger team funded by Inter-Agency Resident Mission	2/86-3/86
-- Southeast peninsula "fiscal recovery" analysis team	3/86-5/86
-- Development of comprehensive land use management plan, which in reality will be a major planning exercise for the entire economy	7/86-9/86
-- Seminars and training for government officials in techniques of program budgeting	5/86-10/86